



**IMPROVING PROFITABILITY OF
THE ROYAL SPA**
**Development Plan for the Royal Spa Department –
Corinthia Grand Hotel Royal**

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Abstract <p>The Royal Spa is a luxury hotel spa operating in the facilities of the Corinthia Grand Hotel Royal in Budapest, Hungary. Since its opening in 2005, the Royal Spa has not been able to meet the desired levels of profitability. The means of the Royal Spa to generate more profits as an independent business unit are discussed in this study through an analysis of the external- and internal environments of the Royal Spa.</p> <p>A considerable amount of information was collected from different sources, including libraries, the World Wide Web, Corinthia Grand Hotel Royal and Royal Spa business reports as well as personal observation and interviews, to receive a reliable and unbiased picture of the situation of the Royal Spa. Since the Royal Spa is a luxury facility aiming at excellent service, superior quality and customer responsiveness are used as a base for the analysis to increase profitability. In addition, a business analysis framework is used to create a systematic approach to the provided information. Finally, the information is summarised in a SWOT-analysis, which is further used to point out the problem areas to be developed.</p> <p>The solutions focus on the problem areas and aim to provide ways for increasing profitability through applying entrance fee from the hotel guests, applying yield management, using the facilities efficiently, developing products- and treatments as well as focusing on the management style and improving customer service.</p> <p>The given solution suggestions provide tools for increasing the profitability of the Royal Spa as an independent unit with minimal additional costs. Moreover, they focus on providing solutions on an operational level for increasing profitability.</p>		
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Tiivistelmä <p>Royal Spa on laadukas hotellikylpylä Corinthia Grand Hotel Royalin yhteydessä Budapestissa, Unkarissa. Avautumisensa, vuoden 2005 jälkeen, Royal Spa ei ole kyennyt tuottamaan voittoa odotusten mukaisesti. Tämä opinnäytetyö paneutuu Royal Span ulkoisen ja sisäisen toimintaympäristön analyysin kautta löytämään tuottavuuteen vaikuttavat ongelmakohdat sekä esittämään keinoja kannattavuuden parantamiseksi.</p> <p>Materiaalia kerättiin kirjastotietokannoista, internetistä, Corinthia Grand Hotel Royalin ja Royal Span liiketoimintaraporteista sekä itse observoimalla ja haastattelemalla henkilökuntaa mahdollisimman luotettavan ja kattavan kuvan saamiseksi Royal Span tilanteesta. Koska Royal Spa noudattaa korkean laadun periaatetta, korkeaa laatua ja asiakaslähtöisyyttä käytettiin analyysin pohjana keinoina lisäämässä tuottavuutta. Yritysanalyysiä käytettiin tiedon systemaattisen lähestymistavan apuna, ja lopulta tieto tiivistettiin SWOT-analyysiin, jota käytettiin myös kehitystä vaativien ongelmakohtien esille nostamiseen.</p> <p>Ratkaisumallit tarjoavat keinoja kannattavuuden lisäämiseen. Näitä keinoja ovat kannattavuuden lisääminen veloittamalla sisäänpääsymaksu myös hotellin asiakkailta, ”yield managementin” soveltaminen, tilojen kustannustehokkuuden lisääminen, tuote- ja palvelutarjonnan kehittäminen sekä johtamistyylin muuttaminen ja asiakaspalvelun parantaminen.</p> <p>Ehdotetut keinot tarjoavat ratkaisuja Royal Span tuottavuuden lisäämiseen tulosvastuullisena yksikkönä mahdollisimman pienin lisäkustannuksin. Lisäksi nämä keinot ovat operationaalisen tason ratkaisuja tuottavuuden lisäämiseksi.</p>		
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1 INTRODUCTION

The Royal Spa is a luxury hotel spa located in the facilities of its owner the Corinthia Grand Hotel Royal in Budapest, Hungary. The Royal Spa is a historical facility that currently reaches an area over 1000 m² offering a wide range of wellness treatments and facilities for relaxation. The entrance to the Royal Spa is complimentary for the Corinthia Grand Hotel Royal guests, and non-hotel guests can use the facilities of the Royal Spa by paying an entrance fee.

The Royal Spa was opened in its current form in 2005, and since then it has not been able to generate desired profits. Although the costs of the Royal Spa have remained within the budgeted limits, the revenue levels have failed to meet expectations set by the Board of Directors of the Corinthia Grand Hotel Royal.

In this thesis the Royal Spa is studied as an independent business unit as appointed by Mr. Adrian Ellis, the General Manager of the hotel. The purpose of this thesis is to study the external and internal environments of the Royal Spa in order to detect the problem areas affecting profitability in a negative way. Furthermore, the purpose is to find the most appropriate solutions that would require minimal investments and other costs as well as focus on providing development ideas for operational level aspects to increase the profitability.

A considerable amount of written and verbal information was collected from various sources in addition to personal observation and experiences in order to analyse the current situation of the Royal Spa. If consistently implemented, the given solutions could benefit both the short-term and long-term profitability of the Royal Spa and satisfy the needs of both; the customers expecting high quality services as well as the Board of Directors expecting desired profits.

The structure of the thesis can be roughly divided into four parts. Firstly the research topic is introduced more closely and a statement of the main- and sub-research questions is made. Moreover, the theory base that provides the framework for analysing the information related to the Royal Spa is studied.

Secondly, the research topic and theoretical framework are followed by an introduction to the external and internal environment of the Royal Spa. In addition, the Royal Spa as an independent business unit is defined more precisely.

Thirdly, a SWOT-analysis is conducted to indicate the strengths and weaknesses as well as the opportunities and threats of the Royal Spa in order to be able to specify the problem areas affecting negatively the profitability of the Royal Spa. In the development plan, suitable analysis will be continued to propose solutions on how to increase the profitability of the Royal Spa. Finally, the thesis is concluded with a discussion over the thesis process and the validity of the suggested solutions.

2 RESEARCH PURPOSE AND SIGNIFICANCE

The initial idea for this thesis was born during the spring and summer of 2007, when we were completing our internships at the Corinthia Grand Hotel Royal, Budapest. Based on our observations during the periods spent in different departments of the hotel, including the Royal Spa, it seemed that Royal Spa as a business unit was not operating up to its full potential. The possible research topic was discussed over lunch with Mr. Ellis on 14 August, 2008. During that meeting our interest towards analysing the situation of the Royal Spa was expressed. Mr. Ellis pointed out that the Board of Directors of the Corinthia Grand Hotel Royal demanded that the Royal Spa should generate more profit as an independent unit that it currently does. Therefore, it was agreed that the purpose of this thesis would be to analyse the external and internal environments of the Royal Spa, identify grounds for increasing the profitability and generate ideas for possible solutions for increasing the profitability of the Royal Spa as an independent business unit.

The value and significance of this study lies on the foundations of improved financial and operational performance of the Royal Spa. Therefore, this thesis is a beneficial material for both the Royal Spa and the Corinthia Grand Hotel Royal.

2.1 Main Research Questions

The main question

The main question was formulated based on the question “What do we want to know?”. Thus, the following core question was constructed:

What can be done to increase the profitability of the Royal Spa as an independent business unit?

The necessary sub-questions

Following sub-questions were created to help to define the information needed for finding ways to increase profitability of the Royal Spa and answer the main question:

What are the areas of operations of the Royal Spa affecting profitability in a negative way?

What are the opportunities the Royal Spa could take advantage of in order to increase profitability?

By appropriately offering answers to the main and the sub-questions, the purpose of the thesis is entirely fulfilled.

2.2 Research Process

This chapter defines the research process by naming the used research approach, research methods and methods for collecting data.

2.2.1 Research Approach

A research approach can be defined as a series of similar research methods (Järvinen 2001, 14). The nature of this study was to analyse existing information and make development suggestions based on that analysis. The research approach used in this thesis was mainly a constructive research, because it answers the question “What ought to be?”. Since the aim of this thesis was to find out what could be done to increase profitability of the Royal Spa, the question was “What ought to be done?” to achieve more profits or what the situation ought to be to have a higher profitability.

Constructive research approach is divided into two phases: basic and applied research. Basic research defines what the current reality is, and applied research aims to create improvement solutions based on the results of basic research. In other words, constructive research approach aims to develop and create something new based on the existing situation and information, and the solutions are evaluated and analysed. (Järvinen 2001, 88.)

2.2.2 Research Method

A research method is the tools and sets of steps used to reach an answer to a question (Järvinen 2001, 14). Since the present study was a real life development case, it can be characterised as an applied action research. According to Oquist (1978), action research produces ideas and knowledge for operational aspects. In other words, as Rapoport (1970) notes, action research aims to provide solutions to practical problems and according to Susman and Evered (1978), it gives an answer to how to improve something. (Järvinen 2001, 115.)

2.2.3 Data Collection Methods

Data collection methods or techniques are ways of retrieving relevant information (Järvinen 2001, 15). A variety of different data collection methods were used in this study to find relevant information in order to conduct a proper analysis and find an answer to the main question.

Written material was collected from library databases as well as from the World Wide Web. E-mail correspondence between the authors of this study and the Royal Spa and the Corinthia Grand Hotel Royal management and frontline personnel was used for sending and receiving questions, discussions, exchange of ideas as well as business reports and statistics. Therefore, the majority of the written information used in this study was secondary data.

Especially for action research, observation is an important data collection method since it studies behaviour and problems in particular situations (Walliman 2005, 121). The time spent at the Royal Spa during our internships was partly used for observing the behaviour of the Royal Spa guests and employees. Observation was done both as an employee and as a customer of the Royal Spa and notes were taken consistently for later analysis.

Informal and mostly unformulated interviews with the employees of the Royal Spa and the Corinthia Grand Hotel Royal were conducted to cross-educate and receive development ideas for improving profitability (Järvinen 2001, 131). The interviewees were selected based on assumptions of their level of knowledge and involvement in the Royal Spa operations.

It was also felt essential to have a customer perspective included in the thesis in some way. Thus, in addition to the main data acquisition methods, secondary data from a previously conducted customer satisfaction questionnaire was used to achieve an understanding concerning customer opinions.

All of the Royal Spa employees, excluding the Royal Spa Manager Mrs. Heurtel whose name is used with her permission, are referred as anonymous Royal Spa employees. This was done because all of the conversations conducted and e-mails written were done in confidential manner in order to receive truthful information. Therefore, this confidentiality is not broken by identifying the employees.

2.3 Clarification of the Royal Spa as an Independent Business Unit

The Royal Spa is a business unit supporting the core accommodation business of the Corinthia Grand Hotel Royal. However, the Royal Spa should be treated in this thesis as an independent financial unit according to the wishes of Mr. Ellis, the General Manager of the Corinthia Grand Hotel Royal. At times there is a controversy between the functions of the Royal Spa operating as an independent unit and supporting the business of the hotel at the same time. Thus, the definition of an independent unit in this case can be seen as a mixture of both: a supportive department and a profit-generating, accountable independent business unit.

The Royal Spa currently shares the marketing, maintenance and other supportive functions of its operations with the hotel. This saves significant amount of labour and other operating costs for the spa and can therefore be seen as an appropriate strategy. On the other hand, these strategic measurements also bind the Royal Spa closer to the

hotel decreasing the level of independence. However, as the goal of any business is to generate as much profit as possible and one way to achieve this is to cut unnecessary costs, the close ties and sharing some of the functions between the Royal Spa and the Corinthia Grand Hotel Royal cannot be seen as a weakness but rather as a rational decision. Close relations between the hotel and the spa are very natural especially because of the ownership structure (the Royal Spa is owned by the Corinthia Grand Hotel Royal) and the nature of the business; hotels tend to have several different units operating more or less independently under the organisation of the hotel.

3 THEORY FRAMEWORK

A business analysis helps organizations to evaluate and improve their operations. A systematic analysis approach to the processes enables companies to control costs, optimize the usage of resources, secure revenue potential and ensure that the business purpose is reached with appropriate measures. Moreover, the purpose of business analysis is to analyze to which extent all operations add value to the overall product or service. (Process Analysis 2007.) A considerable amount of different frameworks are built to help in evaluating business operations or processes, and the approaches differ from one method to the other.

In this thesis, a business analysis framework provided by the UK Department of Trade and Industry and is4profit.com was used as a base for developing the most suitable business analysis list for the Royal Spa. The aim was to focus on operational level processes and focus only on the Royal Spa as much as reasonably possible. Therefore, the following framework was created to provide a consistent tool for analysing the external and internal environment of the Royal Spa:

- Markets
- Business Concept (Internal information and analysis)
- Competition
- Financial Issues
- Facilities
- Demand Patterns
- People and Customer Service

The information is later analysed and summarised in a SWOT-analysis. A SWOT-analysis summarises the potential strengths, weaknesses, opportunities and threats (SWOT) of a particular company (Kotler, Armstrong, Saunders & Wong 1999, 94). Analysing the information related to the external and internal environments will be based on detecting the potential for improving profitability. Furthermore, the analysis will focus on superior quality and superior customer responsiveness, as ways to create

distinctive competencies, add value to all of the operations and increase profitability of the Royal Spa. (Hill, Jones & Galvin 2004, 150.)

Superior quality

Since the Royal Spa is a business unit of a five-star hotel, the service concept is based on superior quality. According to Hill, Jones and Galvin (2004), superior quality gives companies two advantages: the improved reputation allows the company to charge premium price for its services and low number of defects will drive efficiency. The following causal chain can be achieved through superior quality: superior quality → low number of defects → improved customer satisfaction → better reputation among the customers → customer loyalty → ability to charge higher prices → enhanced financial performance. (Hill et al. 2004, 165.)

Value can be added to the product with quality at all stages of the service production. Quality focus encourages leadership, quality measurements, goal setting and incentives, co-operation among functions and strong focus on the customer. In addition, in order to achieve superior quality, companies need to develop efficient systems for detecting and tracing defects. (Op. cit. 168.)

Superior responsiveness to customers

Since customer satisfaction is a major factor affecting the profitability, customer responsiveness can be seen as the other determinant factor for the service concept of the Royal Spa. Moreover, superior responsiveness to customers is so closely related to superior quality that it seems inappropriate to leave it out when considering the service concept.

Superior responsiveness to customers translates in the form of value for the customers' money. This also includes superior quality as a value-adding aspect of superior responsiveness to customers. (Hill et al. 2004, 180.) Superior responsiveness to fulfil the customers' needs and demands may be achieved through superior quality and added value for customers' money. However, when the company is able to deliver service that is preferred by the customers, the reputation is likely to rise which tends to attract more customers with higher level of loyalty which consequently enables premium prices for the company and seems to reach higher financial results.

The steps included in the process of creating superior customer responsiveness include leading by example to create a shared commitment to customer responsiveness, knowing the customer needs, wants and expectations as well as involving customers in the product design through product personalisation. In addition, companies pursuing superior customer responsiveness need to secure that customers are the focus in all activities of all employees. (Hill et al. 2004, 183.)

4 EXTERNAL BUSINESS ENVIRONMENT OF THE ROYAL SPA

In order to fully understand the nature of a certain business, the external environment in which the company operates must be analysed. The purpose of this chapter is to provide information concerning the current situation and possible future of the marketplace the Royal Spa operates in.

4.1 Introduction to Wellness and Spa Industry

Wellness represents the new global approach to wellbeing. Wellness tourism aims to gain beneficial results for overall well being of the human body including mind, body and soul. Therefore it can be said that the Royal Spa as a service concept is part of the wellness industry and by attracting customers from around the world, it is part of the wellness tourism. (Suontausta & Tyni 2005, 39-48.)

Wellness tourism is often combined with cultural experiences and it differs from health tourism with requirements of higher quality and better service and facility design to reach the goal of providing experiences for all senses. The Austrian Travel Organisation, ANTO, conducted a research that showed that consumers affiliate term “wellness” with luxury, champagne and recreational light exercise. (Op. cit. 40.)

Merriam-Webster’s Online Dictionary defines Spa as “a commercial establishment providing facilities devoted especially to health, fitness, weight loss, beauty, and relaxation” (Definition of “Spa” 2008). The spa industry is nowadays the third-largest leisure category in most parts of the world and it has been able to maintain its popularity through times of economical turbulence (Minton 2005). Spa treatments rose over golf as the most popular attendee activity of corporate meetings and events in 2006, and the trend is expected to grow in the future (Dosh 2006). According to Mandelbaum (2006), spa treatments are popular among meeting and conference clients due to the fact that anyone can join in and it takes a far less time than playing golf (Bruce 2006).

The wellness approach is increasing globally because the population is getting older and therefore people are becoming increasingly interested in health and wellness. The nature of work has changed during the past few years towards more mentally challenging and stressful, and this combined with more experienced and educated travellers knowing what to demand place challenges and opportunities for the wellness industry in general in the future. Although wellness tourism in Europe already forms 15 % of the total tourism, the complexity and potentials of wellness-tourism are still rather unexplored. (Suontausta & Tyni 2005, 49-68.)

4.2 Spa Industry Markets

Hungary is ranked as the 15th most popular tourism destination in the world. In 2006, hotels in Hungary had 13.4 million guest nights. 35 % of these guest nights were spent in Budapest and in the Central Danube Region.

Hungary has around 1300 thermal springs around the country, totalling the 5th largest thermal water supply in the world. Health- and wellness tourism build an important part of Hungary's image as a tourist destination. According to the statistics, a visit to thermal baths is one of the most popular activities by tourists visiting Hungary. (Niklai 2007.)

Hungary accommodates 38 facilities with qualified medical baths, 13 health resorts, 55 wellness hotels and 56 spa hotels, therefore it can be said that wellness and health play an important role also in the Hungarian accommodation industry. Spas and wellness hotels show the largest growth in guest nights among all hotel categories in Hungary. (Niklai 2007.) The Hungarian National Tourist Office is focusing on strongly on four main products in 2008: Spa & Wellness, Meetings/Incentive/Conferences/Events (MICE), Budapest and Lake Balaton. (Niklai 2007.)

According to Nancy Laforest (2008), a general trend in Hungary is that the younger generation has started to show an interest towards relaxation. The reasons she mentions include more stressful working environment and increased financial freedom raising an increased demand for recreation. More money is spent on personal wellness

in order to achieve physical, mental and spiritual balance and furthermore top performance at the workplace. (Laforest 2008.)

The European Travel Commission (2006) states that the population in Europe is ageing and they are doing so with the reasonably high pensions and relatively early retirement schemes. The spa culture represents a healthy lifestyle which, according to the same institution, is an increasingly important concern amongst elderly people and thus gaining popularity. (European Travel Commission 2006, 1-3.)

In addition to the USA and Germany, the Corinthia Grand Hotel Royal is focusing on the booming economical powers in Far East and Russia. In these areas people have started to spend more money on travelling and pampering themselves, providing opportunities for both the hotel and the Royal Spa. (Corinthia Grand Hotel Royal Business Plan 2008, 7.)

Hotel spas are becoming an increasingly requested facility and also existing business hotels are now building spas in their facilities in order to keep their competitive position and gain additional revenue from spa services (Bruce 2006). The demand for hotel spas is faced by the international hotel industry, and spa facilities are included in almost 40 % of the new luxury and upper-scale hospitality projects (Dosh 2006). This number comes as an addition to the spa facilities that already exist in around 20.1 % of luxury hotels excluding resorts (Bruce 2006).

Hotel spas can usually enjoy a readily established customer base with clear segments and finding out what these customers want and then offering that is the key to a successful hotel spa (Minton 2005). An independent survey conducted by a four-star hotel showed that 93 % of the hotel guests choose their hotel based on the spa facilities when only 34 % actually use the spa facilities. (Spas Are All the Rage!!! 2006, 1-4.)

The political environment may cause certain problems for Hungary and Budapest as tourism destination and thus to the hotels operating in the area. For instance, several demonstrations that led to violent conflicts between the police and the demonstrators were organised in the autumn of 2006 and spring of 2007. Based on experience, hotel

guests felt uncomfortable and unsafe when, for instance, teargas leaked into the hotel from the streets outside during those demonstrations. If political unrest continues, it will most likely affect the number of guests arriving in the hotel and furthermore the profitability of the Royal Spa, since the majority of its commercially important customers are hotel guests.

After the USA lifted its sanctions, which were set because of Libyan investments, sales trips and positive press coverage have positively contributed to the demand of the Royal Spa. Moreover, high paying groups are coming in from the United States and generating higher profits for the Royal Spa. According to Mr. Ellis (2008), the hotel is actively advertising the Royal Spa in the USA, which is one of its major new market segments (Ellis 2008).

Adrian Gray (2007), the General Manager of Le Meridien Budapest, suggests that the recent problems Budapest as a destination has suffered are related to the poor marketing efforts by the City of Budapest. The same view is shared by Adrian Ellis, the General Manager of the Corinthia Grand Hotel Royal, who also hopes that the airport will be developed with more routes and carriers to boost the volumes. The problems are not minor ones since declining revenue per available room and higher payroll costs caused a significant decrease of 30.5 % in profits comparing to the same period in 2006. (Marshall 2007.)

4.3 Competitive Environment

Product competition can be defined as a competition among all companies offering similar products or class of products. Budapest has a lot of product competition among wellness- and spa facilities and services. A product category competition includes all companies offering similar products for similar customers with similar prices. (Kotler et al.1999, 507.) Although the product competition in Budapest is strong, the product category competition narrows down the number of actual competitors of the Royal Spa.

The most famous baths in Hungary include the Rudas Baths, the Széchenyi Thermal Baths and the Király Baths in Budapest. The most famous thermal bath hotels include

the Helia Thermal Hotel, the Gellert Hotel & Bath, the Hotel Aquincum and the Thermal Hotel Margitsziget. In addition to the thermal baths and thermal spa hotels, Budapest provides several five-star luxury hotel spas, one of which is the Royal Spa. Since these hotel spas do not use thermal water and their main concept is to provide luxury wellness services to selected groups of high paying customers, they form their own competitive group.

Market segmentation can be defined as a method to gain competitive advantage through grouping customers based on a certain criteria. A company may choose to provide services for the average customer, provide separate products for different customer groups or choose to serve only one market segment, in other words niche. (Hill et al. 2001, 192-193.)

Firstly, the Royal Spa has chosen to focus on high paying customers that seek and appreciate high quality products and services. Therefore it could be said that the target segment of the Royal Spa differs from the target segment of the thermal spas in Budapest, since most of the thermal spas are mainly serving the average customer with their standard products. The Royal Spa is a luxury spa with limited facilities, whereas most of the thermal spas rely on volumes and can accommodate a large number of guests at all times.

People using thermal spas are not usually looking for the same quality level of the services than the Royal Spa guests, and even if they are, they will not find it in the thermal baths. The thermal baths in Budapest cannot provide the same level of quality as the Royal Spa simply because the number of daily users is too high to keep the facilities clean and in a superior condition without intolerably high costs. Moreover, service cannot be as personalised as in the Royal Spa. Due to the rather limited size of the facilities, the Royal Spa simply cannot compete with the thermal baths in terms of volumes, but instead has chosen to focus on higher quality and seeks to reach the target group searching for it.

Secondly, the majority of the Royal Spa guests are hotel guests. The original purpose of the Royal Spa was to offer additional services to the hotel guests and the hotel guests have welcomed the services due to ease of use and high quality. Therefore it

could be said that the Royal Spa should not be worried about losing their customers to the day spas operating in Budapest, because it would not seem logical for the hotel guests to travel to another similar spa facility when one equipped with additional water elements is located just an elevator ride away. At this point it should be mentioned that the Royal Spa is competing over non-hotel guests with the day spas, but with much more extensive facilities and similar price level, the competitive advantage is definitely with the Royal Spa.

The third group of product competitors includes the other hotel spas in the city. The majority of these spas are located in two to four star hotels and only three other five star hotels accommodate a spa with similar facilities as the Royal Spa. The Royal Spa is the largest five-star hotel spa, but services are quite similar in all of the spas. The other luxury hotel spas are targeting the same customer segments with their services and therefore it can be said that the main product category competitors of the Royal Spa are the other similar five-star hotel spas in Budapest.

According to Heurtel (2008), despite the other existing five-star hotel spas, the competition is not significant between these facilities in Budapest (Heurtel 2008). Out of the primary competitors of the Corinthia Grand Hotel Royal, only the Kempinski, the Four Seasons and the Boscolo accommodate similar spa facilities as the Royal Spa. (Corinthia Grand Hotel Royal Business Statistics 2006.)

The spa of the Hotel Kempinski is clearly themed as an Asian spa with Asian treatments and ambience (General Information, Membership & Prices 2008). The spa at Four Seasons is open only for the Four Seasons hotel guests and therefore no competition over memberships with Four Seasons is created (Heurtel 2008). The Boscolo Spa is inspired by an alpine ice-tunnel, and therefore the ambience is again very different from that of the Royal Spa (Spa and Wellness 2008).

Hotel spas are used to attract customers to the hotel, and according to Bruce Baltin (2006), the Senior Vice President of PKF Consulting, hotel spas are becoming more strongly the determinant factor for choosing a hotel. Since having spa facilities within hotels is increasing at a rapid scale, having these facilities is no longer seen so much as a competitive advantage for the hotel, but merely as a way to keep up with the

competition. (Bruce 2006.) With the increasing trend of having a spa presence in upscale and luxury hotels, the presence of a spa, profitable or not, might actually even become a matter of competitive necessity. (White 2008.)

When it comes to the competition in the hotel destination market, Budapest was not performing at the same level with Vienna, which is one of the rival destinations of Budapest, in terms of revenue per available room (RevPar) and occupancy in the second quarter of 2007. Because of the earlier balanced situation against Vienna, the situation is worrying.

It is especially so for the Corinthia Grand Hotel Royal, because according to Michael Koth, the General Manager of Intercontinental Budapest, it is expected that Vienna will benefit even more for catering international conferences in the future. (Marshall 2007.) Almost half (45 %) of the business of the Corinthia Grand Hotel Royal is generated through MICE (meetings, incentives, conferences and events), and therefore this issue might affect the demand levels of the hotel and furthermore of the Royal Spa, given that the Royal Spa's main customer base is the hotel guests. (Corinthia Grand Hotel Royal Business Plan 2008, 3.)

4.4 Financial Characteristics of the Spa Industry

An increasing number of hotel spas will be treated as independent profit centres along the development of the spa industry. This means that hotel spas will be increasingly responsible for providing solid financial information and justifying their existence to the hotel management. (White 2008.)

The main expenses of hotel spa operations include cost of sales with 20 % on the average spa revenue and payroll costs with 50 % of the average spa revenue. Therefore it can be said that the spa industry is a very labour intense industry. In an average spa, beauty treatments create 80 % of the total revenue while retail sales account for 20 % of the revenue. (Spas Are All the Rage!!! 2006, 1-4.)

According to a survey conducted by BDO MG Hôtels & Tourisme, the closer the spa operations are integrated to the hotel operations in terms of organisation, marketing and management, the higher the potential for the profitability of the hotel spa is. (Spas

Are All the Rage!!! 2006, 1-4.) Also McCall Wilson, the General Manager of Fairmont Hotels & Resorts' Fairmont Spas, Toronto, says that the key for improving hotel spa profitability is to integrate spa into the hotel as much as possible by different means (Scoviak 2006).

According to an analysis of hotel spa department operating statements by PKF Hospitality Research (2008), the hotel spa departments in the USA saw a 9.7 % increase in revenues in 2006. The main contributor to this increase was the popularity of traditional spa treatments, such as massages and facials. Also the demand for membership fees, fitness lessons, personal training and sales of merchandise contributed to the positive development. (Hotel Spa Profits Increase 2008.)

Analysing spa profitability is a complex process. The spa industry is highly seasonal by nature and the investment costs to create efficient spa operations are high. A number of hoteliers believe that the importance of a hotel spa is not actually its departmental profitability, but the influence it has on the hotel image, reputation and increasing room rates. On the other hand, major hotel chains such as the Four Seasons and the Kempinski have informed that the profitability of their spa operations is actually exceeding the profits from the Food and Beverage operations. (Spas Are All the Rage!!! 2006.)

The Hungarian government's decision to increase tax per cents in order to decrease the Hungary's debt has a direct influence to the revenue of the Royal Spa (Corinthia Grand Hotel Royal Business Plan 2008, 4-5). Moreover, high taxes have an effect to the general economical slowdown and the number of foreign investments may decline because of the unfavourable business climate. Consequently, business travelling may suffer, which means fewer customers to the hotel and the Royal Spa. However, it should be noted that the competitors of the Royal Spa face the similar economical conditions and thus have no competitive advantage over the Royal Spa.

4.5 Spa Facility Considerations

Foster and Wohlberg (2006) have presented an analysis based on the database of PKF Hospitality Research's for Trends in the Hotel Industry, which explains the connection

between spa facilities and profitability. They claim that spas with more treatment rooms are able to generate higher revenues if demand is present due to the cyclical nature and high fixed costs of the spa industry. During the peak-seasons, the spas with higher number of treatment rooms are able to accommodate more treatments and implement yield management during the low-seasons. Since the fixed costs in the spa industry are high, the ability to provide more treatments and generating more revenue during the peak-times overruns the negative aspects of keeping non-profitable space during lower demand periods. (Foster & Wohlberg 2006.)

Lynne Walker McNeas (2008), the Executive Director of International SPA Association, claims that spa customers are increasingly looking for one-stop shops, describing facilities that can offer everything to their customers from fitness and health to relaxing spa treatments. This trend can be explained through the fact that people nowadays seem to have less time and they want to use it as efficiently as possible and get all the services they want related to fitness and health from one point. Also according to Francis Acunzo of Sage Spa (2008), one of the fastest growing areas within the spa industry is combining actual spa services with fitness facilities. (Beeh 2008, 1, 3.)

4.6 Spa Product and Service Trends

Scoviak (2006) points out the importance of spa retail sales as one of the issues to focus on in the future as well as treatment personalization and increase in basic treatments. (Scoviak 2006.) Moreover, Minton (2008) notes that spa retail sales can reach an average of 20 % of the entire spa revenue. (Minton 2005.) Vanessa Main (2006), the General Manager of Per Aquum Spa Collection, Maldives, says that 40 % of their spa revenue is generated by treatments using local ingredients. Also Trent Munday (2006), the Managing Director of Mandara Spa, agrees that offering indigenous aspects to treatments, the sales have increase up to 15 %. (Scoviak 2006.)

The potential of product sales is met by most day spas, but hotel spas are not utilizing the possibilities in building revenue through retail sales. While day spas may receive similar amount from both treatments and retail sales per customer, hotel spas reach only an average of 5 % per treatment dollar. (Minton 2005.)

Some spas offer an extensive range of exotic treatments, but having a lot of different techniques to be used, the spa staff may not be able to keep up. In order to meet the expectations of customers wanting to experience a high quality treatment, spas should focus on a selected number of treatments and then do them with the highest quality possible. This leads to the goal of creating the spa concept around its users as well as superior responsiveness to customers. (Minton 2005.)

In other words, hotel spas should not offer everything for everyone, but should focus on a certain concept and selected number of treatments and then be the best at them. This pays off in terms of enhanced reputation when spa-goers become even more educated and start increasingly to appreciate the quality of service and treatments over the design of facilities. (Minton 2005.)

The president of PKF Hospitality Research, Mark Woodworth (2008), has stated that especially guests trying spa treatments for the first time tend to play it safe and opt for the traditional treatments. Also the increase in male spa-goers has an influence on the demand of traditional massages. Woodworth also states that spa guests want increasingly to incorporate the spa experience in their everyday life and the increasing demand of spa merchandise, such as candles and music, is a clear consequence of this trend. (Hotel Spa Profits Increase 2008.)

Spa Finder is a media company operating within the global spa industry. In December 2007, the Spa Finder announced their fifth annual spa trends report with the title of "10 Spa trends to watch in 2008". This report listed the trends, ideas and innovation that will shape the spa industry in 2008. The report is based on the information gathered from the leading spas of the world, activity on Spa Finder.com, and Spa Finder staff visits in spas around the world. The Spa Finder's ten spa trends to watch in 2008 include trends such as highly skilled therapists, wellness, quality sleep, customizing connectivity, services to expecting- and new mothers as well as hydro- and thermal experiences. (SpaFinder Issues 5th Annual Spa Trends Report 2007.)

4.7 Nature of Demand in Spa Industry

The spa industry is characterised by its highly seasonal nature. The seasonality of the destination determines the demand for the spa and demand varies strongly during different times of the day. According to Andrew Jacka (2006), Director of Horwath Spa Consulting, most people want to visit hotel spas within a short time frame in the late afternoon and early evening. Scoviak (2006) states that applying yield management will be one of the major trends that the spa industry will use in lowering the effects of the highly seasonal nature of the demand in the future. (Scoviak 2006.)

4.8 Requirements for Customer Service in Spa Industry

The International SPA Association's 2000 Spa Industry Study by PriceWaterhouseCoopers points out that the spa industry has to be careful in the future in order to retain the customer focus in all activities. As spa industry expands and competition increases, the temptation to focus merely on running a hard business grows and the human factors may become secondary in spa operations. (Beeh 2008, 1.)

Due to an increased competition in the industry and the growing popularity of spa services among business travellers, especially urban business hotel spas have to offer superior service and treatments every time. If this cannot be done, business travellers can easily find another spa that can deliver the service they are expecting to get. The hotel may be able to keep the customer in such case, but if the alternative spa is located in a similar level hotel, even the hotel may lose the customer to the competition. (Minton 2005.)

5 INTERNAL CHARACTERISTICS OF THE ROYAL SPA

In this chapter the internal environment of the Royal Spa and the Corinthia Grand Hotel Royal are introduced.

5.1 History of the Corinthia Grand Hotel Royal

The Corinthia Grand Hotel Royal has a long history of providing accommodation and the building was originally developed for that purpose. The roots of the hotel date back to the year of 1896 when the hotel was first opened as the Royal Hotel. (Corinthia Grand Hotel Royal Business Plan 2008, 3.) The hotel was the centre of Budapest's social and cultural life over a few decades from 1896 to the 1930's (Corinthia Grand Hotel Royal 2002).

According to the exhibition in the lobby area of the hotel (2008), the Royal has also served as a quarter for the soldiers of the Nazi Germany during the World War II. After the war, hotel operations were restored but during the time of the Hungarian uprising in 1956 against the Soviet Union, which had a control over Eastern-Europe, the hotel was bombed down by the Soviet Union tanks. Nine persons of the hotel's staff were found dead after the bombing was finished. There has also been a period of time when the hotel's Grand Ballroom served as a movie theatre. (Exhibition in Corinthia Grand Hotel Royal 2008.)

The hotel was extensively renovated and reopened its doors as a five-star Corinthia Grand Hotel Royal in 2003. Today the hotel boasts 414 bedrooms, the highest number amongst 5-star hotels in Budapest, 26 fully equipped service apartments, five food and beverages outlets, Executive lounge and the Royal Spa. Comprehensive conference facilities have also helped to diversify the mix of business and balance the demand patterns. (Corinthia Grand Hotel Royal Business Plan 2008, 3.)

5.2 History of the Royal Spa

The history of the property that nowadays accommodates the Royal Spa extends its roots all the way to the 19th century. In 1886-1888, an architect called Vilmos Freund built a facility called the Fortuna Spa to the location. The spa featured steam baths, shower baths, electric baths, a pneumatic chamber and a medical room with cold water treatments. In 1896, the Hotel Royal opened its doors right next to the spa and the hotel was soon declared as the most modern and luxurious hotel of Budapest. (Budapest Sun HotelFocus 2006, 1-3.)

In 1903, a direct access to the spa for hotel guests was created. After the World War I in 1923, the spa was sold due to Freund's bankruptcy to the Royal Nagyszálló Rt (Royal Grand Hotel Ltd.). The spa continued to operate until 1944 and after that it was closed permanently, or so it was thought. The obsolete spa was rediscovered in 1983, but this time the plan was to convert it into a car parking facility. However, the man in charge of planning the car park, János Dianóczki, decided to abandon the original plan with a full support from the media and the public.

The International Hotel Investments, the owner of the Corinthia Grand Hotel Royal, acquired the property and began planning the project to restore the glory of the historic spa facility. In April 2006, the Royal Spa finally opened after an extensive €4 million renovation process to offer superior spa services in exclusive facilities. (Budapest Sun HotelFocus 2006, 1-3.)

5.3 Business Concept of the Royal Spa

The main idea behind building and opening the Royal Spa was to attract more business in every sector by adding a spa to the list of facilities provided by the hotel. The opening of the Royal Spa was also an answer to the growth of spa tourism and maintaining the competitive position of the hotel. The business idea of the Royal Spa is to offer a luxury wellness facility with premium service and premium price. The Royal Spa was designed to be strictly a wellness spa and not a health spa, explaining the choice not to use thermal water in the pools. (Heurtel 2008.)

The age limit to Royal Spa is 16, because the Royal Spa is an adult spa. Guests under 16 wanting to use spa facilities will be transported free of charge to use the spa facilities of the partner hotel Ramada Plaza Budapest on the other side of Budapest. (Services 2008.)

5.4 Customer Base

The main focus group of the Royal Spa is the hotel guests, but a number of external members are also sought after to secure the demand during low seasons. Roughly 85 % of the Royal Spa guests are hotel guests and 15 % of the number of the total users is non-hotel guests. (Heurtel 2008.) By studying the customer base information of the Corinthia Grand Hotel Royal, the main customer groups of the Royal Spa can be found.

According to the Business Plan of the Corinthia Grand Hotel Royal (2008), the hotel's customer base is a mix of business including 45 % MICE, 18 % corporate, 20 % leisure and groups and roughly 10 % of airline related business. The rest 7 % includes ad-hoc groups and tour series. (Corinthia Grand Hotel Royal Business Plan 2008, 3.) When comparing these numbers to the business mix in 2005, the number of MICE-customers has significantly increased its share as in 2005 MICE had a percentage of 34.3 % whereas the tour operators share has dropped from 14.3 % to approximately 7 %. The percentage of corporate and leisure guests has remained around the same with 1 % increase in corporate and 2.5 % decline in leisure and groups numbers. (Corinthia Grand Hotel Royal Business Mix 2005.)

5.5 Financial Statistics of the Royal Spa

The average monthly revenue of the Royal Spa is generated from sales of products, treatments, entries and memberships. The average percentage share of product sales from the total monthly revenue varies between 1 % and 4 %. Treatment sales contribute between 62 % and 86 % of the total monthly revenue and memberships and single entries reach a percentage between 12 % and 36 % each month. (Spa Reports 2007.)

The Royal Spa operates within the facilities of the Corinthia Grand Hotel Royal as mentioned earlier. The majority of the organisational functions are shared, and therefore the spa is able to use the combined resources of the hotel enabling cost savings through joined operations. However the financial profitability is not achieved.

According to the Corinthia Grand Hotel Royal Grand Prix Report, Full Year Forecast – Royal Spa, 2007, the Royal Spa generated approximately €380 468 of revenue in 2007, €166 617 less than budgeted. Although the costs remained €78 510 below the budgeted costs in 2007, the financial year 2007 was closed with a loss of €62 220, €88 106 less than the budgeted result. (Corinthia Grand Hotel Royal Grand Prix Report, Full Year Forecast – Royal Spa 2007.)

Although the entrance to the Royal Spa is free for the hotel guests, the Royal Spa does not receive any money for each entering hotel guest from the hotel. Therefore, the Royal Spa faces costs for each hotel guest only using the spa facilities without having any treatments. Moreover, even though the Board of Directors of the Corinthia Grand Hotel Royal wants to address the Royal Spa as an independent business unit, numerous complimentary treatments are given monthly for special guests by the hotel. (Heurtel 2007.)

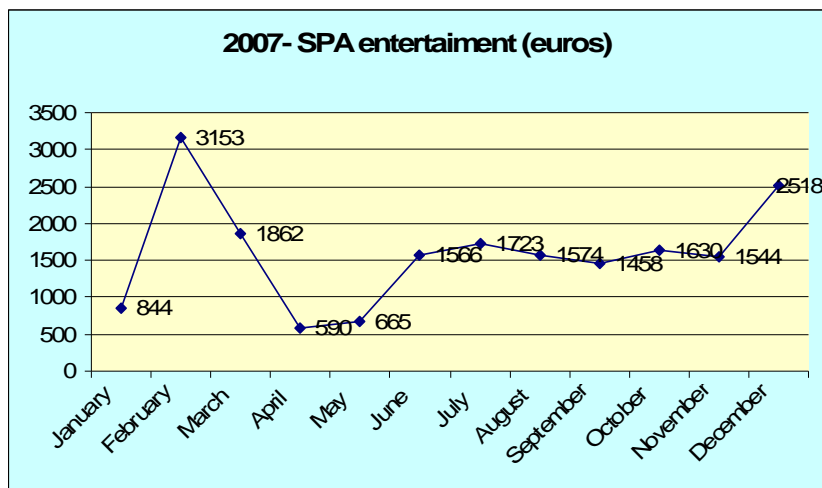


FIGURE 1. Cost of Spa Entertainment in 2007 in Euros. (Spa Report – December 2007)

As can be seen in figure 1, considerable amounts of costs are caused every month due to the spa entertainment treatments since the Royal Spa does not receive any money for these services from the hotel (Heurtel 2008). This, unavoidably, means a loss in revenue for the Royal Spa.

5.6 Facilities of the Royal Spa

The Royal Spa can be accessed directly from the Erzsébet Boulevard with a separate entrance for non-hotel guests. The Corinthia Grand Hotel Royal guests can access the Spa via a connecting corridor from the hotel or with a dedicated lift from all guest floors. Due to the latter possibility, the hotel guests may conveniently dress in bathrobes and slippers found in all guestrooms and come down to the Royal Spa without passing through the common guest areas of the hotel. The Royal Spa has dedicated locker rooms for both male and female guests.

The Spa reception welcomes all guests with a small seating area and a complimentary juice bar with a selection of refreshments. A variety of spa merchandise for sale is on display in the reception area. In the interior design of the spa, the historical nature of the Royal Spa has been restored in the architectural structures and quality materials have been used throughout the facility. A soothing colour scheme, calming music, fresh flowers and candles are used to mellow the atmosphere.

The Royal Spa extends to over 1000 m² in two floors. The upper floor accommodates a reception area, locker rooms and seven massage- and treatment rooms, including a couple's suite that is equipped with two massage tables, a shower and two relaxing dry floating beds. Also all the other massage rooms are equipped with showers so that guests can take a shower before or after their massage. The treatment rooms of the Royal Spa are separated by their function. Massage rooms have beds suitable for massages and beautician rooms have beds suitable for facials and waxing. There is also a small, very rarely used area with two relaxing beds upstairs. (Anonymous Royal Spa employee 2008.)

Downstairs of the Royal Spa one can find a 15-metre pool, two whirlpools, a steam bath, two Finnish saunas, an ice fountain, a tropical rain shower and a relaxing area with 14 adjustable beds. One can also find downstairs a special treatment room for a Vichy shower, two Algospa rooms with Algospa dry floating beds and two rooms with private hydro massage whirlpools. The maximum number of guests at the Royal Spa at each moment is 25 (legally 30 is allowed). (Anonymous Royal Spa employee 2008.)

The Algospa rooms are only used for the popular Algospa treatments, but for several months, from spring 2007 until early 2008, the other Algospa bed was out of order and the entire room was not used at all (Anonymous Royal Spa employee 2008). According to Heurtel (2007) the bed was not fixed due to problems with the supplier and maintenance company (Heurtel 2007).

According to experience, the Vichy shower is rarely used, but it has a strong value in attracting attention towards the other treatments of the Royal Spa. The hydro massage baths are used rather rarely as well, but they do not hold the same interest value as the Vichy shower.

A small but fully equipped gym with approximately 30 square meters and state of the art fitness equipment is found next to the spa reception area. The gym is open 24-hours for the hotel guests and non-hotel guests may use the gym during the opening hours of the Royal Spa. (Anonymous Royal Spa employee 2008.)

5.7 Product Selection and Services of the Royal Spa

The Royal Spa is open seven days per week from 6.30 a.m. to 10 p.m. Treatments are available from 8 a.m. and the last treatment time is given at 8 p.m. Until January 2009, the usage of the spa facilities is included in the room rate for the Corinthia Grand Hotel Royal guests.

For non-hotel guests the Royal Spa offers a variety of entrance possibilities. Guests can choose either one day entrance, a 10- or 20-session membership or longer memberships for one, three or six months or for one year. Longer memberships can

also be bought as a package of two memberships at a discounted rate. In addition, the Royal Spa offers gift vouchers which can be customized according to guest preferences. (Tariff Sheet 2008.)

Royal Spa offers a large variety of face treatments, body treatments, massages, Algotharm treatments, make-up and waxing, all with superior pricing. The treatment themes vary to rather large extent from French body wraps to Spa Tapas and Bora Bora massages. Manicure and pedicure are excluded from the Royal Spa treatment selection, although they are frequently requested. (Tariff Sheet 2008.)

The Royal Spa was opened in association with Algotharm and Algotharm was in charge of determining the offered products and treatments. In June 2007 the management contract with Algotharm was terminated, and the Royal Spa made minor changes to the offered treatments but kept Algotharm as the product line due to the favourable price-quality-ratio of the brand. (Heurtel 2008). Nevertheless, according to the Royal Spa employees (2007), the treatment products of Algotharm are not experienced as exceptionally good. (Anonymous Royal Spa employee 2007.)

The most popular treatments of the Royal Spa include three massages (Deep Blue, Deep Tissue and Initiatic), an Absolute Algospa treatment and a Marine body scrub. These treatments usually form over 60 % of all the done treatments given in the Royal Spa on a monthly basis. (Heurtel 2007.)

In addition to separate treatments, the Royal Spa offers a range of treatment packages which include for instance different half or full day packages with selected treatments, relaxation packages and slimming packages. The Royal Spa does not have special packages for specific customer groups, such as the aged, bridal parties or sightseeing enthusiasts, except for a honeymoon weekend package in association with other departments of the hotel.

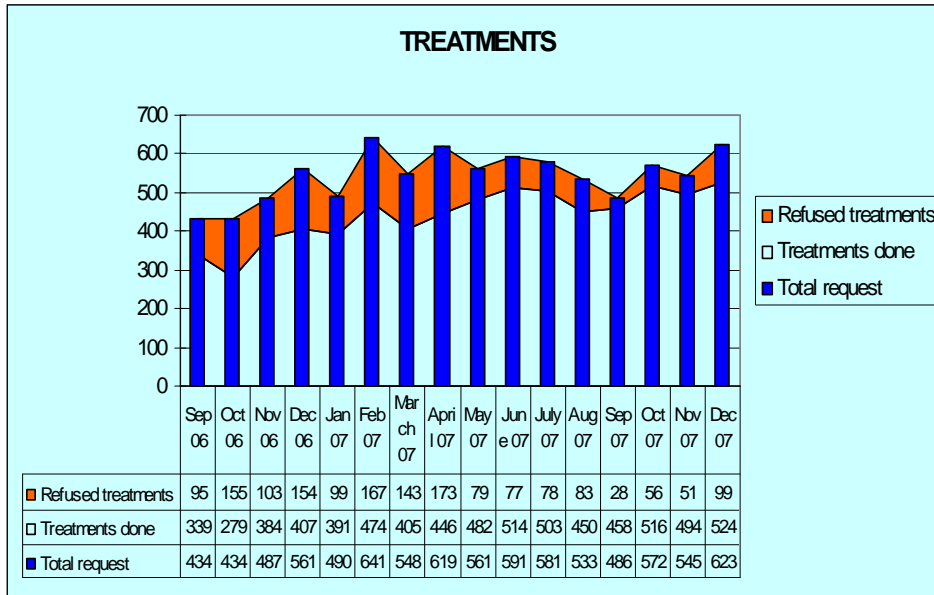


FIGURE 2. Treatment Statistics from September 2006 until December 2007. (Spa Report – December 2007)

The number of treatments requested, given and refused between August 2006 and December 2007 can be seen in Figure 2. The lack of therapists and the rapid increase in treatment demand in the Royal Spa during the first year of operation shows clearly in this figure. From September 2006 till April 2007, the number of refused treatments was very high although the number of treatments conducted was not very high. It could be said that with experience the refused treatments decreased since the spa management was better able to meet the relation between the staff and demand. Although the number of refused treatments has decreased, the goal should be to avoid refusals altogether.

Figure 2 also shows that the number of treatments carried out has steadily increased while the number of requested treatments has remained quite stable during the year 2007, indicating that the planning of staff-allocation is getting more efficient. The peak in total requests in February 2007 can be explained by the high number of gift vouchers bought for Valentine’s Day (Heurtel, 2008).

5.8 Characteristics of the Demand

According to the Royal Spa personnel, the peak hours are usually around 9-11 a.m. and 4-8 p.m. on weekdays but when there are conferences or other meetings, the peak hours also seem to occur in the morning from 6.30 to 8 a.m., which usually is a very quiet time. Weekends are also peak times regardless of the time of the day. (Anonymous Royal Spa employee 2008.) The Royal Spa does not use specific yield management techniques to affect the demand patterns and maximise the revenue.

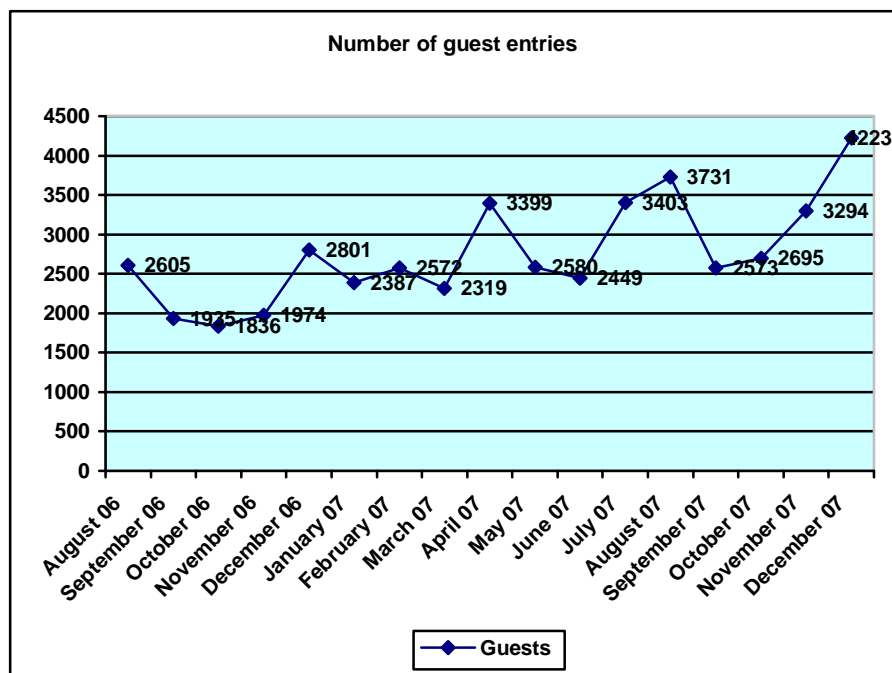


FIGURE 3. Number of Guest Entries to the Royal Spa between August 2006 and December 2007. (Spa Report – December 2007)

Figure 3 shows the number of guest entries to the Royal Spa from August 2006 to December 2007. In 2006 the peak-season was December and in 2007 the peak-seasons were placed in April, July, August and December. In the figure it can be seen that the number of users has been steadily increasing and the number of guest entries is highest during the months that accommodate holiday seasons.

Figure 3 also indicates that the number of average volume of guest entries per day is 90. The average, however, does not indicate the situation during high-demand periods, when the limitations of the facility are clearly seen. As stated before, the facility of the

Royal Spa can hold 25-30 persons at each moment. The spa has a total of 16 relaxing beds, so also this limits the optimal number of users at each time since based on experience most of the spa guests want to use the relaxing beds during their spa visit.

If it is calculated that for instance in December 2007, an average of 141 guests used the spa each day, and the demand is highly related to certain time-periods during the day, the spa facility threshold was most likely exceeded considerably during the busy afternoon hours. According to experience, in such situations the quality and customer responsiveness levels of the Royal Spa were decreased to a large extent. Since the spa was filled over its capacity, customers were complaining for the lack of space, excessive noise, inadequate cleaning services and failing to receive the relaxing experience promised by the marketing material.

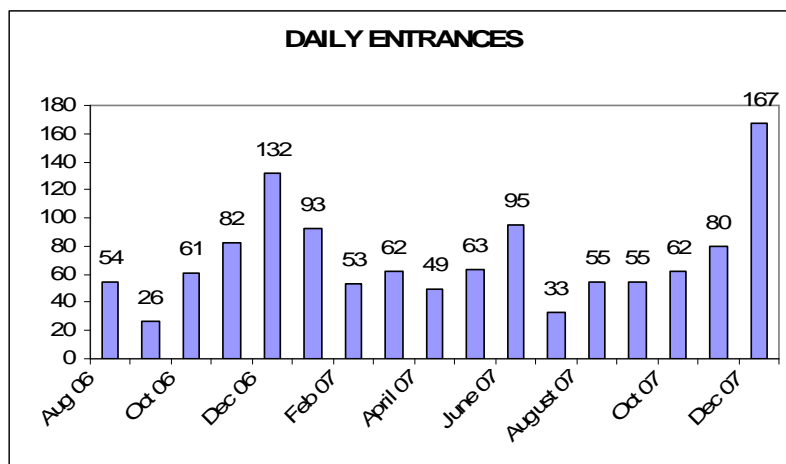


FIGURE 4. Daily Ticket Purchases between August 2006 and December 2007. (Spa Report – December 2007)

Figure 4 indicates the number of purchased daily tickets from August 2006 to December 2007. In other words, the figure displays the number of non-hotel guests and non-member users entering the Royal Spa during that time. As can be seen, the peak month for daily ticket purchases is December. This can be explained with the fact that a lot of customers bought daily tickets as Christmas presents. In other words, the entrances were mainly only bought in December but not necessarily used then. (Anonymous Royal Spa employee 2008.)

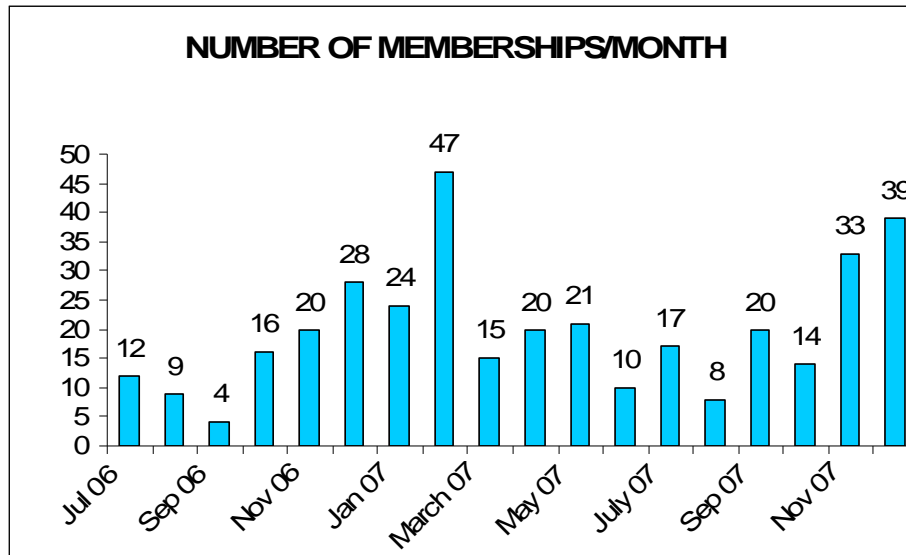


FIGURE 5. Number of purchased Memberhips per month between July 2006 and December 2007. (Spa Report – December 2007)

Figure 5 indicates the number of bought memberships per month from July 2006 till December 2007. This figure includes all the different types of memberships from 10-session tickets to yearly memberships. In December the three most requested memberships were 10-session memberships with 26 purchases, 20-session memberships with four purchases and one year memberships with three purchases. Again, the popularity of the 10-session memberships can be explained by people buying memberships for Christmas presents. (Anonymous Royal Spa employee 2008.)

5.9 Employees, Management Style and Customer Service of the Royal Spa

In average, the Royal Spa has one spa manager, one to two full-time receptionists, one to two part-time receptionists, five full-time therapists and a varied number of part-time therapists. One of the full-time therapists works also as a supervisor, but a limited level of supervision is usually conducted. The majority of full-time therapists are female, and the majority of part-time therapists tend to be male.

The roles of the Royal Spa employees are defined only by the function of offering the services customers request for. In other words, employees are not encouraged to involve customers in a spa experience and no greater goals on service quality are set.

The training of the new employees on the products and treatments is extremely narrow, and very little attention is paid to front-line marketing of products. In addition, the number of service employees especially at peak times tends to be inadequate, affecting the levels of customer service in a negative way and restricting providing personalised services.

According to experience, the management style of the Royal Spa manager could be described as rather autocratic. Although weekly meetings with the Royal Spa employees take place and employees are allowed to conduct their operations quite independently, the majority of information related to the vision and objectives of the Royal Spa remain unshared. The decisions made were rarely justified or explained and a minimal amount of leadership was present in the management style. Therefore, the goals are not communicated and shared and leading by example is rarely present.

The employees of the Royal Spa are not empowered to a great extent. The employees are for instance not allowed to write purchased gift vouchers, but the process has to be taken through several employees around the hotel creating inconvenience for the customers.

As mentioned before, the Royal Spa shares a number of organisational functions with the Corinthia Grand Hotel Royal. These include functions such as human resources, marketing, security, maintenance and financial accounting. During the summer of 2007, the Royal Spa had problems with the marketing department of the Corinthia Grand Hotel Royal in terms of internal communication. The promotions were not fully communicated for all of the Royal Spa employees, leading to confusions and misunderstandings over the products and services of the Royal Spa. In addition, price information expired at the end of 2006 was still present on the homepage of the Royal Spa in February 2008 and during the summer of 2007, a number of guestrooms of the Corinthia Grand Hotel Royal had old Royal Spa tariff sheets with a false price information.

The Royal Spa does not apply extensive service standards or a system for downtime utilisation. Customer feedback is not actively collected and there are no common procedures to process customer complaints. The quality assurance system of the

Royal Spa consists of both internal and external audits as well as occasional mystery shoppers.

According to the Spa Satisfaction Survey conducted at the Royal Spa during 2007, 84 % of the respondents were overall very satisfied with the Royal Spa and 16 % stated to be satisfied. 91 % of the respondents agreed very much with the statement that the staff of the Royal Spa was friendly and professional, and 9 % agreed with this statement. 7 % of the respondents agreed and 93 % agreed very much with the statement that the reception and reservation services were accurate.

When stating the level of the treatments given, 84 % of the respondents agreed very much with this statement and 16 % of the respondents agreed. In relation to the satisfaction towards the spa facilities, 72 % agreed very much, 26 % agreed and 2 % agreed to some extent. The satisfaction towards the facilities is important to notice since this was the part in the questionnaire with the lowest number of points scored. 80 % agree very much that they were satisfied with the atmosphere and ambiance of the Royal Spa, and 20 % agree with this statement. (Royal Spa customer satisfaction survey August 2007.)

The Spa Satisfaction Survey was conducted by the Royal Spa during 2007 by handing out questionnaires to guests willing to answer the questions. 45 guests participated in the survey. When asked whether the guest would recommend the Royal Spa to others, a clear 100 % of the respondents said yes. (Royal Spa customer satisfaction survey August 2007.)

6 SWOT-ANALYSIS

After introducing the external and internal environments of the Royal Spa, an analysis is conducted in order to point out the strengths, weaknesses, opportunities and threats of the Royal Spa. This chapter analyses the previously presented information against the theoretical framework of adding value through superior quality and superior customer service. Moreover, the areas for development are pointed out.

6.1 Business Concept, Markets and Competition

The opening of the Royal Spa can be seen as increasing customer responsiveness. By opening a spa facility, the Corinthia Grand Hotel Royal faced the competitive necessity of the future to have such facilities in luxury hotels. Since the Corinthia Grand Hotel Royal is a five-star hotel providing superior service, it seems logical that also the concept of the Royal Spa was to follow this idea, given the fact that the majority of the Royal Spa customers are guests of the hotel.

The Royal Spa is following the concept of wellness by offering luxury and possibility for light exercise. The decision to build a wellness spa instead of a health spa also seems rather justified, since the competition within health spas is fiercer than with wellness spas and better in line with the superior quality. On the other hand, Budapest is famous for its health spas, but since the decision has already been made and changing the entire concept would require extensive investments and further research, the issue is not further analysed in this thesis. Overall, the Royal Spa is facing a low competition, which gives it more room to make operational changes.

Due to the chosen strategy of the Royal Spa, the importance of creating distinctive competencies and competitive advantage through superior quality and responsiveness to customers are further supported. Since the Royal Spa operates at low volumes, it has to achieve superior quality and customer responsiveness to increase loyalty through superior service.

The Royal Spa as a facility is rather small, providing a sense of exclusivity. Furthermore, the superior pricing supports the concept of luxury, and is justified due to the nature of the customer base of the Corinthia Grand Hotel Royal. Moreover, the rather high age limit supports the concept of superior quality by maintaining the facility purely as an adult spa. By rejecting the entrance from persons below 16, some level of excessive noise can be avoided. At the same time the Royal Spa is providing superior customer responsiveness by offering free transportation to a spa where also children are allowed.

Both the Corinthia Grand Hotel Royal and the Royal Spa are facing challenges placed by the political instability in Hungary. Moreover, the implications of poor marketing efforts by the Hungarian Tourism Board may have caused the negative impact on competition against Vienna.

With the current improved relations with the USA and the Hungarian Tourism Board's focus on MICE, wellness and Budapest, the hotel is challenged with great marketing opportunities. Also the emerging markets of Russia and Far East offer potential for focused marketing efforts. The current demographical trend of the ageing population in Europe consequently provides the Royal Spa a positive outlook for a future growth in terms of financial performance. With the correct strategic decisions, it is possible to take the advantage of a rise of wellness awareness amongst the ageing people and increase the level of revenue.

As mentioned earlier, the majority of the Royal Spa guests are hotel guests. Therefore, MICE-customers offer an increased revenue potential also for the Royal Spa in the future. In addition, the large number of international members suggests targets for future marketing efforts.

6.2 Financial Issues

Even if maintaining the entrance to the Royal Spa complimentary for hotel guests would fully support the concept of customer responsiveness, the situation has to be changed in order to improve the financial situation of the Royal Spa. With all hotel

guests entering the spa and not purchasing treatments or products, the Royal Spa has only costs and no income.

The fact that the majority of the organisational operations are shared with the hotel, allow costs savings through more efficient operations. According to the presented information, the Royal Spa has been able to keep the costs within the budgeted limits, but nevertheless, desired revenue and profit levels have not been achieved. One major issue the Royal Spa seems to be facing is that the definition of the Royal Spa as an independent business unit seems to be quite unclear. Although the Board of Directors wants to address the Royal Spa as an independent unit, this is not supported by the fact that the Royal Spa provides a free entrance for hotel guests as well as free services for specific guests in the form of spa entertainment.

The spa industry is characterised by high investment and payroll costs, creating challenges for finding revenue possibilities through less labour intense services and with low investment costs. Although integrating spa products into the hotel facilities and services provide several opportunities for increasing revenues and profitability, the Royal Spa is not utilising these possibilities.

Currently the product sales of the Royal Spa reach a rather poor monthly share of one to four per cent of the total revenue (Spa Reports 2007). According to Minton (2005), the spa retail revenue could reach an average of 20 % of the entire spa revenue (Minton 2005). Therefore it could be said that the Royal Spa has a considerable potential to increase revenue and profitability through product sales. Since product sales is a less labour intensive way of increasing revenue than for instance treatments, it is also rather a cost-efficient method to improve profitability. By not providing quality service through offering products for spa guests, also the customer responsiveness is decreased.

One of the major threats of both the Royal Spa and the Corinthia Grand Hotel Royal will be the increased taxation level and economical slowdown of Hungary. This, however, is an issue that is faced also by the competitors in Budapest.

6.3 Facilities

The spa design and service concept support the aspects of quality and customer responsiveness. The facts that using the facilities has been made very convenient for the hotel guests, and the spa design offers experiences for all senses, support both superior quality and superior customer responsiveness. Moreover, the overall concept and extensive facilities, including the gym, support the trends of providing “one-stop-shops” for the customers.

The usage of facilities should support the framework of superior quality and customer responsiveness. If all facilities add value and increase the spa experience, a higher amount of quality can be achieved related to the fees. This goes also with customer responsiveness, since offering as much as possible for all customers, implies that customers were thought of at each point and customers can get all they need and want in one point.

Although the number of treatment rooms is adequate in the Royal Spa, the rooms are not as user-friendly as they could be. Since the treatment rooms of the Royal Spa are separated by their functions, facials cannot be performed in massage rooms and massages cannot be comfortably performed in beautician rooms. Therefore, treatments have to be occasionally refused because suitable rooms are unavailable. This decreases the number of customer focus and customer responsiveness, since naturally customers do not want to be refused a treatment.

The usage aspects of Algospa and Hydro massage baths are related to an ineffective use of the facilities, and therefore add to the problems in providing quality service by adding value and meeting customer expectations. The usage levels of the hydro bath-facilities could also be improved to meet the increasing trend of thermal experiences.

6.4 Products and Services

The Royal Spa offers a wide range of different treatments, but it has to be questioned whether the superior quality level can be maintained in all of the treatments. As Minton (2005) notes, a large variety in treatments may lead to a situation where

therapists are not able to learn all the different techniques as well as they are expected to and therefore the quality level of treatments decreases (Minton 2005.). Since highly qualified therapists are also one of the trends in 2008, focusing on treatment quality could provide potential for increased profitability (SpaFinder Issues 5th Annual Spa Trends Report 2007).

By offering something for everyone, the Royal Spa might also compromise its positioning in the customers' eyes. If customers cannot define the theme and core concept of the Royal Spa immediately from the tariff sheets and marketing material, the focus strategy is neglected.

The variety of treatment names may lead some customers to expect something else than they will actually receive. Moreover, the lack of the frequently requested manicure and pedicure can also be seen as a weakness of the Royal Spa, since a rather clear potential for increased revenues and profitability is turned down.

Scoviak (2006) mentions, that treatment personalisation will be one of the major trends of the spa industry in the future and developing spa treatment packages to offer personalised treatment combinations for special occasions could be used to face this trend (Scoviak 2006). The current amount and nature of the treatment packages of the Royal Spa do not strike as highly personalised and customer responsive. Product personalisation is rather poor, causing a situation where customers are not included in the service or product design and therefore they can receive only service instead of experiences. This decreases also the level of achieved customer responsiveness.

The spa industry is experiencing an increasing demand in traditional treatments. The most popular treatments of the Royal Spa in 2007 included relaxing and energising massages as well as body scrub and Algospa treatment (Heurtel 2007). This information supports the statement made by Woodworth, since all of the most popular treatments of the Royal Spa, excluding Algospa treatment, can be categorised to the more traditional treatments. The other spa trends in 2008, such as local products and spa merchandise could also be taken into consideration much more at the Royal Spa to increase customer responsiveness and profitability.

6.5 Demand Patterns

The spa industry is in general highly seasonal. Especially holiday seasons, weekends and the afternoon hours of weekdays are facing the highest demand levels. During peak-demand periods, the Royal Spa is suffering from excessive demand, and the limited resources cannot support the requirements of superior quality and customer responsiveness during these times. Moreover, due to the number of refused treatments, it could be said that the Royal Spa is using insufficient methods to predict demand. For each refused treatment, income is lost and therefore this issue should be further addressed.

The Royal spa is not applying specific revenue management strategies. Since the nature of demand in the Royal Spa is highly seasonal and one of the main opportunities for increased revenue within the spa industry is yield management, it would seem natural to implement some level of revenue management to lower the effects of seasonality and increase profitability.

6.6 People and Customer Service

The purpose of customer service will only increase within the spa industry. As the spa industry grows, also the knowledge level of the spa customers increase. Due to the increased competition in the industry and the growing popularity of spa services among business travellers, especially urban business hotel spas have to offer superior service and treatments every time. (Beeh 2008, 1.) As the competition grows, amazing spa facilities cannot be used as a sole source of competitive advantage, but an increasing amount of attention has to be put on delivering superior service that keeps customers coming back and spread positive word of mouth. Therefore superior customer service can be seen as a competitive necessity in the future.

Although the results of the customer satisfaction survey indicate that the customer satisfaction levels of the Royal Spa are high, it has to be mentioned that very often unsatisfied customers do not fill out the satisfaction surveys, but rather complain to their friends and family. This point can be supported by the fact that according to

experience, unsatisfied spa guests very rarely filled any feedback forms. The feedback forms in the Royal Spa were actually not always available for customers, increasing the suspicion on the validity of the survey results. Therefore, it can be said that the Royal Spa has rather inadequate customer feedback system and defects are hard, even impossible, to detect and trace. This further indicates that the superior quality and customer responsiveness levels are not fully met.

According to experience, the customer service levels of the Royal Spa varied considerably from time to time. The front-line service personnel were not equipped with any service standards and no system for downtime utilisation was created. In addition, the applied common procedures for improving sales efforts, approaching customers and handling customer complaints were non-existent. Service standards are not used at the Royal Spa and although a number of both internal and external audits are performed, the validity of these results could be questioned. Based on experience, during a specific audit issued by the Corinthia Corporation, the audit schedule was given out and all details were corrected before the audit to support the image of superior quality. In addition, the general atmosphere during the audit was to hide as much negative information concerning quality levels as possible, furthermore indicating that the results of such audits might not be fully reliable.

The management style of the Royal Spa does not support the goal of achieving superior quality and customer responsiveness, since a very limited amount of leadership and management by example is present. Due to the management style, the vision and objectives are not clearly shared with all employees, leading to a situation where commitment to superior quality and customer responsiveness is not shared. Moreover, the management style may increase the threat of focusing more on business than on people in the future.

At times the Royal Spa was operating with an inadequate amount of personnel. Moreover, the employees are only given a very limited amount of training and these facts combined decreased the level of customer service. Inadequate training also contributes to the fact that the attitude of the spa personnel towards product sales is reluctant, since no-one really knows what the products consist of and how they are used.

The employees of the Royal Spa are operating with unclear tasks and are given very limited goals. Therefore it is impossible to reward employees for achieving steps towards increased quality and customer responsiveness. Furthermore, there seems to be clear problems within the internal communication between the different departments of the Corinthia Grand Hotel Royal.

The employees of the Royal Spa are not empowered to provide the best possible service at each occasion. The lack in empowerment can be seen for instance with the sales of gift vouchers. Since the Royal Spa employees are not allowed to write gift vouchers, inconvenience is caused for customers since they have to be taken from the spa reception, the natural place for enquiries, to the hotel reception where they are charged for the gift certificates.

The Personal Assistant for the General Manager actually prints the gift certificates, causing more inconvenience for the customers since they usually have to wait for the printed gift certificate quite some time. If the personal assistant would be unavailable, which happens quite often, the customers might not get the certificates even during the day of purchase, but the certificates are later sent to the customers. Based on experience, the arrangement with gift vouchers caused a lot of inconvenience for both the Royal Spa personnel and the customers, since the process of taking customers around the hotel requires a member of the spa personnel to leave the spa area with the guest and a lot of the customers' time is taken to complete the process.

6.7 Summary

From the information, based on the external and internal environment in which the Royal Spa operates in, examined in this chapter, a summary was created to point out the strengths, weaknesses, opportunities and threats of the Royal Spa as follows from the next page on. In addition, as mentioned in the beginning of this chapter an analysis was carried out against the theoretical framework of adding value through superior quality and superior customer service introduced in more detail in chapter 3.

TABLE 1. Strengths of the Royal Spa

Area	Strengths
Business Concept, Markets and Competition	<ul style="list-style-type: none"> • Weak competition • Follows the concept of the hotel • Competitive positioning of the hotel • Concept supports high quality and luxury
Financial Issues	<ul style="list-style-type: none"> • Shared organisation • Costs within budgeted limits
Facilities	<ul style="list-style-type: none"> • Variety of facilities • Experiences for all senses • High-quality facility • Number of treatment rooms • “one-stop-shop”
Products and Services	<ul style="list-style-type: none"> • Variety of treatments
People and Customer Service	<ul style="list-style-type: none"> • Customer satisfaction survey results

TABLE 2. Weaknesses of the Royal Spa

Area	Weaknesses
Financial Issues	<ul style="list-style-type: none"> • High investment and payroll costs • Spa entertainment costs • Low product revenue (merchandise) • Free entrance for the hotel guests
Facilities	<ul style="list-style-type: none"> • Inefficient use of facilities
Products and Services	<ul style="list-style-type: none"> • Low rate of product personalisation • Quality may suffer due to the large variety of treatments • Inconsistency with strategy • Lack of manicure and pedicure
Demand Patterns	<ul style="list-style-type: none"> • Refused treatments

	<ul style="list-style-type: none"> • Highly seasonal demand • Excessive demand during the peak-periods
People and Customer Service	<ul style="list-style-type: none"> • Lack of service standards • Lack of proper feedback system and reliable quality measuring • Inadequate amount of personnel • Inadequate training • Unclear task division • Lack of empowerment • Management style

TABLE 3. Opportunities of the Royal Spa

Area	Opportunities
Business Concept, Markets and Competition	<ul style="list-style-type: none"> • Globally increasing wellness approach • USA, Russia, Far East • Hungarian Tourism Board focusing on MICE, wellness and Budapest • Spa is the most popular attendee activity of MICE • Increase of MICE-customers
Financial Issues	<ul style="list-style-type: none"> • Entrance fee for the hotel guests • Retail sales
Products and Services	<ul style="list-style-type: none"> • Services with low investment- and labour costs • Spa trends • Local products • Traditional treatments • High quality treatments
Demand Patterns	<ul style="list-style-type: none"> • Yield management
People and Customer Service	<ul style="list-style-type: none"> • Superior customer service

TABLE 4. Threats of the Royal Spa

Area	Threats
Business Concept, Markets and Competition	<ul style="list-style-type: none">• Political instability
Financial Issues	<ul style="list-style-type: none">• Economical slowdown

7 DEVELOPMENT PLAN FOR INCREASING PROFITABILITY OF THE ROYAL SPA

7.1 Selected Areas for Development Plan

Based on the SWOT-analysis, several problem areas affecting the profitability of the Royal Spa were detected. Since the presented threats are a result of complex situations and cannot be avoided through the strategic decisions of the Royal Spa alone, they will be left unaddressed in this thesis. Analysing the strengths of the Royal Spa would presumably not give the sought ground for increasing profitability through development solutions, and therefore also the strengths are left with no further analysis.

The decision was made to focus mainly on analysing the weakness areas in more detail in order to find the causes to the problems and give development suggestions by optimising opportunities as much as possible. Since the Royal Spa is suffering from a wide number of problems and it is extremely hard to determine what problem is caused by what factor, a decision was also made to offer solution suggestions to several issues instead of focusing only on one or two problems.

One important factor in the selection criteria was to study the possibilities of improving the profitability of the Royal Spa as an independent business unit as far as possible, and take an operational approach. Furthermore, the decision was made to focus on development targets that would also allow short-term improvements on profitability with minimal costs. Therefore, the following issues were selected for further analysis:

Financial Issues and Demand Patterns:

- Solving the controversy in the complimentary hotel guest entrance and spa entertainment costs in order to improve quality during the peak-seasons and increase revenue

- Application of yield management to lower down seasonality, avoid refused treatments, optimise revenue and increase customer responsiveness

Facilities:

- Development of facilities to add value, increase quality and optimise revenue

Products and Services:

- Development of product sales and treatment selection in order to increase revenues and customer responsiveness

People and Customer Service:

- Increasing leadership and communication over shared goals to improve motivation and service quality
- Improving customer service in order to increase profitability through quality, customer responsiveness and customer satisfaction

7.2 Financial Developments and Adjusting the Demand

7.2.1 Entrance Fee

The role of the Royal Spa as an independent business unit seems to be insufficiently defined. Although the Royal Spa should be addressed as an independent business unit, it does not charge entrance fees from the hotel guests or receive any money for each hotel guest using the facilities of the Royal Spa and creating costs.

The demand for the complimentary spa services exceeds the capacity limits of the facility during the high-demand periods. In addition, the quality levels of the Royal Spa suffer when the capacity limits of the facility are exceeded during the high-demand periods. The excessive demand during a certain period leads to problems in reception services, treatment and product sales, cleaning services and safety control, because the facility and personnel planning are not calculated to handle this number of guests at the same time. This, based on experience, leads to a situation where guests feel disappointed due to the gap between the quality levels promised and received and leave the facility with the possibility of never coming back.

The Royal Spa should be either seen as supportive business unit of the hotel when money for each hotel guest should be received from the hotel or as an independent business unit when also the hotel guests are charged an entrance fee. By charging an entrance fee also from the hotel guests, the level of demand is presumed to decrease, increasing the amount of available resources to maintain superior quality levels as well as superior responsiveness to customers. Moreover, charging an entrance fee from the hotel guests would be solid profit (costs per guest not having a treatment are limited to laundry and cleaning) compared to the current situation.

With a maximum of 16-25 guests using the spa at each time, the employees of the Royal Spa are able to focus completely on their guests and provide superior service and quality. Treatment and product sales can be emphasised and the needed time for efficient sales can be dedicated without pressure from checking-in guests only using the facilities. The gap between the promised and experienced level of quality can be closed with limiting the number of users and therefore providing more properly maintained space and relaxing atmosphere for each guest.

Therefore, although charging an entrance fee from the hotel guests might not seem as improving customer responsiveness if studied only from the perspective of costs for the customers, the likely consequences of it would still support customer responsiveness in numerous ways. Since the global demand for wellness services as well as the number of users of the Royal Spa has been steadily increasing, it can be assumed that the demand is expected to continue.

Pricing the entrance fee

The entrance fee for non-hotel guests could be remained as it is for now, since the amount of work and costs related with non-hotel guests are usually slightly higher than with the hotel guests. For the hotel guests, a feeling should be created that they are rewarded for choosing the hotel and therefore the entrance fee for the hotel guests should be less than for non-hotel guests. In order to find out what the suitable amount of entrance fee for the hotel guests should be, a study on the related costs needs to be conducted. According to Heurtel (2008), this is currently being done and the decided fee will be taken into use starting on January 1st, 2009 (Heurtel 2008).

As mentioned before, the entrance fee to the Royal Spa for non-hotel guests is HUF 10000. The spa of Hotel Kempinski in Budapest, Kempinski Spa, has an entrance fee of HUF 4900 per person for all of their guests (General information, Membership & Prices 2008). The approach of charging hotel guests similarly to Kempinski Spa would serve both the price competition and the feeling of being rewarded. Therefore it is suggested that the entrance fee for the hotel guests would be placed around HUF 5000. Nevertheless, it is highly recommended that spa services would be kept complimentary in higher room rates, such as with suites, in order to maintain the image of exclusivity of these rooms.

Implications

Implementing of an entrance fee has several effects on the reception procedures. First of all, checking guests in and out will take more time, suggesting that more personnel would be needed. On the other hand, the demand may decrease in such amount that the new process can be completed with quality with a fewer number of guests. Secondly, new information systems should be introduced to make billing more efficient. One possibility would be to use room card readers that would reliably charge the specific amount to the room bill of each spa guest.

Entrance fee and treatments

A suggestion is made that treatments could be used as incentives to buy the entrance fee. Since the treatments are currently the main source of revenue, additional revenue and profits could be achieved by connecting the entrance fee with the treatments. For a guest purchasing a treatment, the main costs, excluding products used during the treatment, are the same that would be caused by the guest only using the spa facilities. Therefore using the spa facilities in addition to having a treatment is in theory cost-free. An additional benefit with making such connections would be the added value experienced by the customer by extending the experience. At this point it is also important to note, that based on observations and experience, a large number of the guests having treatments do not use the spa facilities before or after their treatment even when it is included in the price.

The possibility of combining the entrance fee with the treatments could be implemented in several ways. One solution would be to include the entrance fee to the treatments with prices over a certain amount. Naturally it would not be logical to include the entrance fee amount of HUF 5000 to a treatment worth of HUF 1400, but in cases of treatment worth over HUF 12000, the benefits for both customers and the spa would be clearer. Guests would feel that by purchasing a treatment of for instance HUF 15000, they would actually pay only HUF 10000 for the treatment. This would make it also easier for the spa employees to sell these treatments with a considerable added value.

7.2.2 Yield Management

Yield management is seen as a method to manage and maximize capacity profitability. Yield management has also been referred as a management approach allocating the right capacity to the right customer at the right place at the right time. (Ingold, McMahon-Beattie & Yeoman 2002, 3-4.)

Because the majority of the customers tend to use the spa facilities during the late afternoon- and early evening hours, the Royal Spa is faced with highly seasonal and time-specific demand. Therefore all the requested treatments cannot be offered and quality levels cannot be maintained similar at all times. If the Royal Spa would be able to spread the demand for off-peak times which are not generating revenue at the moment, the overall revenue would consequently increase. This would be somewhat certain if the overbooking during the peak times could be transformed into bookings during discounted time yet with the fully booked peak times. Customers would most likely be comfortable also with this since they would have an opportunity to choose the discounted price while those without that option could have their treatments during the peak times due the decreased level of overbooking and more equally spread demand patterns.

In order to implement yield management, an entrance fee should be applied first also for the hotel guests. By applying entrance fees and yield management, the highly seasonal demand could be divided better to cover all times of operation. This would help to increase the quality levels during peak-times by encouraging customers to use

the facilities outside the peak hours. In addition, revenues and therefore profits could be increased with more predictable and manageable demand.

The Royal Spa has all the basic characteristics when application of yield management is suggested. These five different characteristics include relatively fixed capacity, predictable demand, perishable inventory, time-variable demand and adequate cost and pricing structure (Ingold et al. 2002, 4-5.).

Fixed Capacity

The Royal Spa certainly has fixed physical capacity as it has a certain number of treatment rooms which can be used for treatments. The other resources such as the pool, showers and locker rooms understandably also remain physically the same day-in day-out. Non-physical capacity is usually based on time and describes the concept of a physical capacity used for particular periods of time (Ingold et al. 2002, 4). Thus, it is clear that the facilities in the Royal Spa can conveniently only be used for certain extent over the certain period of time reflecting the fact that also non-physical capacity is surely fixed.

Fixed capacity provides a good opportunity to employ yield management system since no extra rooms or other spaces can be created just for the peak times. However, the current resources are adequate to gain more revenue comparing to the current situation if appropriate yield management approach would be introduced. Through yield management system, which allows different pricing solutions, existing facilities could be used more efficiently and without downtime while still maximising the revenue during the peak-times (higher prices) and quiet times (lower prices).

Predictable Demand

It would be important for the Royal Spa to know to what extent the demand is predictable (reservations) and how much unpredictable demand exists (walk-ins). This will ease the forecast of the demand and the revenue this demand generates. (Ingold et al. 2002, 4.) The demand of the Royal Spa is predictable to some extent as certain number of the customers who have treatments are so-called walk-ins whereas others make reservations beforehand. Even though the reservation pattern tends to be with a rather short notice time, in other words customers reserve their treatments maximum

of one or two days in advance, the experience has proved when to expect a higher number of customers (for instance when there is a big leisure group of elder people or weekends).

However, the Royal Spa is currently facing problems with the demand predictability concerning customer segments which potential has not yet been optimised to its full extent; businessmen attending to a conference for example. The Corinthia Grand Hotel Royal hosts large conferences and events and based on personal experience, demand prediction during these gatherings was not utilised properly. In most cases it was known how many persons approximately were attending these events, but no specific schedule was presented to the Royal Spa, or at least to the Royal Spa front line personnel. This clearly indicates that the demand is predictable but it is just not employed with the needed level.

Sometimes a vast majority of the Royal Spa employees were called to work to meet the potential peak in demand during these events, but in many cases the peak never occurred and the majority of the spa personnel were suffering from the lack of work. The reasons for these false predictions were later understood, when it was revealed that in the majority of MICE-schedules, only a limited amount of time was reserved for relaxation and usually also the evening programs had been predetermined leaving an extremely limited time for MICE-participants to visit the spa or enjoy a treatment. Therefore in many cases the false causal prediction was made between hotel occupancy during a big conference and spa services demand.

In order to avoid false predictions of demand in future, the Royal Spa has to agree with common rules for changing information with departments operating with MICE. Any breaks in the MICE schedules should be known also by the Royal Spa management in order to be able to plan staffing better. If the schedule is made very tight with arranged evening program, it could be presumed that no need for additional staffing appears, but if the schedules include breaks of several hours, it can be presumed that the participants might have time to visit the spa. Because MICE provide a noteworthy and increasing amount of business to the hotel, it should be better optimised by the Royal Spa to take the advantage of this growing and potential market segment.

As a conclusion the demand predictability seems to be at the adequate level to fulfil the prerequisite why yield management approach should be introduced and utilised in the Royal Spa. Demand is already predicted appropriately with some customer segments and periods (leisure guest and weekends) whereas some segments (mostly MICE-customers) still need more accurate prediction to be conducted.

Perishable Inventory

Perishable inventory does not have to be anything physical but rather something related to time - a unit that is only available for a certain period of time and after that particular period that unit is gone forever, unutilised forever. Thus, it is suggested that managers should concentrate on increasing the revenue per available time-based inventory unit instead of calculating average sales per customer. In spite of the fact that the concept of average sales per customer offers essential information of the general sales level, it lacks information concerning yield generation. (Ingold et al. 2002, 5.) In terms of yield management the average sales per customer can be misleading.

If the Royal Spa only concentrated on the average sales per customer, it would be comparable to a hotel only focusing on average daily rate and ignoring the occupancy completely. It would not generate more profit per day if the Royal Spa had ten time-based inventory units (treatments) available per day and it would achieve the average sales per customer up to 500 € but only have one customer per day than if the average sales per customer would be 100 € and there would be five customers per day (five time-based inventory units consumed). However, by reaching the sale of four time-based inventory units out of ten with the average price of 200 € the revenue would be significantly higher.

Table 5 (on the next page) shows calculations that can be drawn to demonstrate the interrelation between the overall earnings (revenue), revenue per available time-based inventory unit (price) and occupancy and the better revenue optimization in comparison to the average sales per customer.

TABLE 5. Revenue calculations

10 available time-based inventory units	1 customer
10 % occupancy	Price 500 €
Average sales per customer 500 €	Revenue 500 €
10 Available time-based inventory units	4 customers
40 % occupancy	Price 200 €
Average sales per customer 200 €	Revenue 800 €

The comparison in Table 5 clearly indicates the reason why the Royal Spa should strongly focus on the maximization of the revenue by driving up revenue per available time-based inventory unit with the optimal balance in occupancy rather than the average sales per customer.

Time-variable Demand

It is crucial to be able to forecast the demand in order to make the correct pricing decisions to maximize the yields. (Ingold et al. 2002, 5.) Because of the fact that demand is variable based on time the Royal Spa should also use yield management and different pricing strategies as tools to revenue optimisation on a given period of time. When time-variable demand is combined with other factors such as perishable inventory it comes even more obvious that yield management system should be utilised in the Royal Spa.

Adequate Cost and Pricing Structure

The last factor that supports the proposed application of yield management approach is the fact that the Royal Spa has relatively high fixed costs and reasonably low variable costs like many companies in hotel and airline industries. This has been said to be one of the prerequisites of implementation of yield management as low variable costs enable the flexibility to reduce the price to some extent when the volumes are low. (Ingold et al. 2002, 5.) In turn the prices can be set higher when the demand is increasing to generate higher yield and profit.

Because of the relatively high fixed costs which do not vary as a consequent of production changes, the revenue of the Royal Spa would not be harmed significantly if the prices are decreased reasonably during the times of low-demand to boost volumes up. Fixed costs remain the same regardless of the number of sold time-based inventory units unlike the variable costs which are related to the produced time-based inventory units by their nature.

Even if the yield management would not be applied into action Foster and Wohlberg (2006) state that a high-fixed cost structure helps in generation of profit when adequate number of treatments can be given the during peak times since disadvantages of having non-profitable facilities during the lower demand periods are outperformed by benefits of peak times (Foster & Wohlberg 2006). Thus, it seems logical that when yield management approach is used the monetary benefits will be even higher due to a more equally spread demand and fewer low demand periods.

Conclusion

With yield management, profits should increase since fixed costs are high and not dependant on the level of production, in other words the overall costs are not significantly affected by changes in productivity. Moreover, lower revenue is still better than no revenue at all and especially so when the overall costs are rather stable due to the high fixed costs.

Due to the fact that certain patterns of demand seem to exist, yields could be boosted by applying different pricing techniques into action. It can be suggested that the prices during the weekends and peak hours (9-11 a.m. and 4-8 p.m.) of the weekdays are not changed but remained the same. There seems to be a period of time, 11 a.m. to 4 p.m., on the weekdays that is rather quiet and by introducing lower or discounted prices, for example -10 %, during this particular period of time, the revenue could be increased. The actual percentage or sum of discounted price requires further research and cost analysis, thus, it is a topic of its own and not determined as an exact number in this thesis.

Using the approach of decreasing the prices during low demand times is considerably safer than setting prices higher during the peak times as people would feel that they are punished for their chosen time to have a treatment yet the product would be same. When the discounted price is offered during silent time, people feel encouraged choosing that time and gaining additional financial benefit from it. This also gives the customers who now choose to have the treatment during the peak time a fair opportunity to book it during off-peak and discounted time. Those customers who only have a chance to book during the peak time would most likely also welcome the less crowded treatment schedule to choose since some customers who have the option to select off-peak and discounted time did that.

7.2.3 Spa Entertainment

As mentioned before, the Royal Spa performs numerous free services each month as requested by the management of the Corinthia Grand Hotel Royal. The Royal Spa has to provide these complimentary services, and although these services drive costs, the Royal Spa does not receive any monetary compensation for these treatments.

In order to receive realistic financial information on the situation of the Royal Spa, compensation for the performed “spa entertainment” treatments should be agreed on or the treatments should be terminated. Furthermore, the meaning of the Royal Spa as an independent business unit should be clearly defined in order to avoid similar problems in the future.

7.3 Efficient Use of Facilities

It is a financially accepted fact that the facilities should be used efficiently which means that facilities without any function in value creation should be eliminated. The efficient use of facilities creates optimal amount of profitable space. In other words, all space within the Royal Spa should be used for increasing revenue generation or adding value to the overall experience.

7.3.1 Treatment rooms

As noted before, the treatment rooms of the Royal Spa are separated by their function, creating problems for using the facilities for multiple purposes. According to experience, the occasional situation at the Royal Spa was that even though guests were offered available times and therapists, the treatment could not be performed because the bed in the treatment room could not support the requested treatment.

The possibilities to develop most of the treatment rooms into multifunctional spaces by taking advantage of available equipment amenities should be realised. For instance with removable arm rests and neck supports, massage tables could be transformed into facial tables and vice versa. These transformations could be used especially for facial treatments that can be done in any room without moving equipment. With these kinds of adjustments, the rooms could support more treatments and therefore increase customer responsiveness and optimise the revenue potential.

7.3.2 Algospa-treatment room

The situation with the one Algospa-treatment room should be addressed in order to increase the profitability of the space. Either transforming the space into something else or repairing the Algospa bed immediately after malfunction should be carried out. Moreover, negotiations over new maintenance contracts with the supplier in order to minimise the amount of unused space and to maximise added value and revenue generation should be conducted.

7.3.3 Hydro-massage rooms

With small adjustments the occupancy levels of the hydro-massage rooms could be improved. Since these rooms are suitable for water treatments and they already have the equipment needed for baths, a number of additional water treatments, such as different baths, could be developed to increase the usage of these rooms. The increase in demand for treatments using these rooms would be very cost-efficient for the Royal Spa because for water treatments and baths the presence of a therapist is not needed. The reception personnel can perform the tasks needed to provide these treatments, releasing the actual therapists for other treatments.

Since the hydro massage baths are built to support only one kind of a treatment type, it might be that the existing bath equipment cannot support other kind of hydro treatments. Therefore it should also be considered if the equipment could be changed into multi-usable equipment to secure the efficient use of these facilities. Moreover, the trend of hydro treatments would be supported by adding these treatments and therefore customer responsiveness as well as profitability could be increased.

7.3.4 Upstairs relaxing area

The relaxing area upstairs of the Royal Spa is currently rarely used and could be seen as an unprofitable space that does not add value. Therefore the two relaxing beds should be removed and the space should be designed to add value or directly drive profitability. Since the purpose of all the solutions is to drive profitability with reasonable costs and downtime, the aim is to avoid excessive construction when developing the space. The area where the beds are located is a rather narrow open space and structural transformations would need a considerable amount of construction work.

Hence, the easiest way to transform this space would be to remain it open and redefine the purpose of the space. Because of this and the fact that the Royal Spa has already a rather large number of treatment rooms, it could be logical to transform the space into a value adding facility rather than to a directly revenue generating space.

In order to add value to the Royal Spa experience, the new space should provide the Royal Spa guests something special and interesting. At the same time using this space should not cost any extra for the Royal Spa guests or for the Royal Spa, so certain limitations must be recognised for the design of the space. One solution could be to keep the space as a relaxing area but to redefine the way of relaxation.

Some spas around the world are using sound and light as a method of relaxation and these aspects could be used also at the Royal Spa. By turning the old space into a more intimate relaxing area with sound and light therapy, a clear added value could be gained while still keeping the additional costs to a minimum. In other words, the space could be equipped with comfortable relaxing chairs with personal headphones for

music therapy. This form of relaxation could be then enhanced with synchronised light therapy using a range of colours and patterns to be reflected inside the space.

The space could also be used for taking the concept of the complementary spa bar a bit further by offering small snacks, fruits, juices and water as a self service in a relaxing environment. Currently spa guests can enjoy the complementary juice bar mainly before entering or/and after leaving the spa, since the bar is located next to the reception area. By creating a soothing area to enjoy small refreshments during the spa stay, superior customer responsiveness achieved would make the guests feeling more appreciated and taken care of and therefore customer satisfaction, one of the means to better profitability, would be increased.

7.3.5 The Gym

The gym located close to the reception area is rather small and has suffered from defects in air-conditioning. Although, according to experience, the value of a quality gym facility cannot be denied in demand for memberships, further analysis on expanding the gym area is not conducted since the expansion would require rather large investments and downtime. In addition, the gym has superior equipment and attracts a number of members and therefore, extensive construction works are not recommended. Thus, special attention has to be paid in maintaining the quality of the existing facility by investing to avoidance of any problems in, for instance, air-conditioning.

7.4 Developing the Products and Treatments of the Royal Spa

7.4.1 Product Trends

Based on experience, a number of the Royal Spa guests requested products to be purchased and taken home to simulate the experience they had enjoyed at the Royal Spa. In such cases, the customers were offered the normal creams and lotions available, since Algotharm does not have such products in their selection.

Woodworth suggests that one way to increase the sales of spa merchandise is to provide products enabling customers to incorporate the spa experience in their everyday life (Hotel Spa Profits Increase 2008). This can be done by offering

merchandise that allows customers partially repeat the spa experience at home. Such products could include for instance small, beautifully designed packages with scented massage oil, body lotion and a facial mask. Small bottles of such products put together and prompted as “home-spa experience” could fulfil this demand and allow higher pricing compared with the actual value of these products. These packages could also meet the demand for more souvenir-type of products that according to experience are regularly requested.

The Royal Spa could also add value to the spa merchandise by offering a range of products with the Royal Spa label, such as music, candles and the Royal Spa bathrobes, making these products instantly unique and more suitable for home-spa experience and souvenirs. Since the majority of the guests requesting such products were looking forward to buying “home spa-products” as souvenirs, offering such spa merchandise would most likely not affect negatively to spa treatment demand but would instead increase positive word of mouth and interest towards the Royal Spa.

7.4.2 Hungarian Products

As mentioned before, the Royal Spa is using Algotharm for both spa merchandise and treatments. Based on experience, the majority of spa guests enquired the origins of the product line used, and a number of spa guests requested whether there were any Hungarian specialities incorporated in the Royal Spa service concept. In addition, since local products have shown to increase sales and the product line of Algotharm is not perceived to be especially good by the therapists of Royal Spa, suggestions on changing the product line could be made.

The observations indicate that there could be interest towards Hungarian products and treatments. Therefore two Hungarian product lines are shortly presented to indicate that high quality Hungarian product lines exist.

Éminence Organic Skin Care is an international beauty brand offering premium organic products using herbs, fruits and flower buds (Welcome 2008). Éminence has won two Professional Choice Awards for American Spa, and the title for “Best Body Line” from Skin Inc. Magazine in 2006. The product line is being used all around the

world and it has been praised in numerous international publications as well as by several celebrities, such as Sarah Michelle Gellar and Alicia Silverstone. (Èminence in the News 2008.)

Ilcsi Beautifying Herbs is another Hungarian beauty product line used by many spas around the world. Ilcsi products were created by a Hungarian woman called Ilcsi Molnár with the vision of creating premium beauty products using fruits, herbs, vegetables and spring water. The Ilcsi products do not contain any animal based ingredients or synthetic colouring agents. Ilcsi products received an ISO 9001:2001-standard in 2005 and it has also been awarded the title of a “Superbrand”. (About Us 2008.)

By giving up Algotharm products and introducing either one of the Hungarian product lines introduced above, more interest towards the services of the Royal Spa could be achieved. Supporting Hungarian products would also support the place of both the hotel and the spa in the history of Budapest and combining these selling points would allow creating more effective promotion messages. Moreover, by adapting a Hungarian product line, customer responsiveness and profitability could be increased.

According to the American Express Platinum Luxury Survey, the priorities among luxury travellers include relaxation and cultural experiences (Danzinger 2005, 152). Since relaxation and cultural and experiences are important for luxury travellers, combining both of the elements by providing spa treatments with local ingredients and introducing spa guests to the Hungarian natural elements through relaxing experiences is suggested.

7.4.3 Improving Sales Efforts

Whatever the product line used, the sales of spa products could be greatly improved. A proper training plan on product knowledge and sales should be implemented. With extensive training, the personnel of the Royal Spa could actively offer products most suitable for each guest and provide quality service through professional expertise.

Minton (2005) states that spa guests want to know what is going to happen during their treatment and how they can prolong the results using home-care products

(Minton 2005). Therefore continuous training on both the treatments and products is necessary for all personnel in order to meet the customer expectations and generate more revenue. In addition, clear goals for increased product sales should be placed and reaching the goals should be awarded.

Minton (2005) also notes that hotel facilities provide excellent marketing opportunities for hotel spas (Op. cit. 2005). The hotel restaurants could be used to create spa packages combining spa treatments and culinary experiences. The hotel restaurants could also offer separate “spa-menus” with selected dishes aimed at creating sensations and promote wellness. Spa products could be sold in the hotel souvenir shop to increase presence and guest room amenities could be partially replaced with spa product samples to increase awareness and interest towards the Royal Spa and the treatments and products offered.

7.4.4 Treatment Selection

According to experience, the two most requested treatments that the Royal Spa does not offer are manicure and pedicure. According to experience, these treatments were requested several times each day, and the guests requesting them were guided to another salon doing them. In other words, every time these two treatments were requested, the Royal Spa denied additional revenue and gave it to another company operating within the hotel. When asked, the Royal Spa personnel said that it might not be hygienic enough if the same person did both facials and pedicures, and also that beauticians in Hungary need a separate training for performing manicures and pedicures (Anonymous Royal Spa employee 2008).

Manicure and pedicure could be offered in the same treatment rooms as facials with minor changes to the equipment. This would also support the idea mentioned earlier of turning treatment rooms into multifunctional rooms where several treatments can be done, decreasing overlapping in conduction of treatments and furthermore increasing the occupancy levels and profitability of these spaces. The Royal Spa should seriously consider to either hiring personnel with skills to perform both facials and manicure and pedicure, or put existing beauticians through training to gain the necessary skills to perform these treatments. Naturally implementing the training would cost time and money, but the benefits gained through being able to provide repeatedly requested

treatments could outperform the investments in both monetary terms as well as in customer satisfaction levels.

Beauticians around the world perform both facials and pedicures and manicures without any concerns related to hygienic issues. Pedicures and manicures can be performed using plastic gloves and a range of disinfectant liquids exist that can be used to secure the hygiene of the therapist after pedicures. Therefore the given reason of not performing pedicures and manicures due to hygienic reasons cannot be solidly defended.

The question whether to decrease the number of offered treatments remains dependant on the amount and level of training provided for the Royal Spa therapists and receptionists. Based on experience, the amount of training was not supporting the vast selection and therefore it could be suggested that the Royal Spa would conduct a study on treatment demand and decrease the number of offered treatments with the less requested treatments. Through this, focusing on a selected number of traditional- as well as more modern treatments could pay off in terms of increased quality. This notion is also supported by the fact that SpaFinder listed highly skilled therapists as one of the ten spa trends to watch in 2008 (SpaFinder Issues 5th Annual Spa Trends Report 2007).

It is also suggested that the Royal Spa could focus on specific types of treatments and at least name them using consistent name patterns in order to avoid confusion over the theme of the Royal Spa. Finding a suitable treatment takes a lot of time since the Royal Spa personnel have to be asked all the details. For instance, massage *Á la Carte*, Spa Tapas, Facial Alliance and Ino Sensi High Performance Care are all attracting names but do not tell the customer anything about the content of the treatments (Tariff Sheet 2008).

Thus, naming the treatments should be done with special care to deliver as much information as possible in an attractive form to inform the guests about the content of the treatments. Special attention should be paid to what the names of the treatments might promise, since for instance Spa Tapas might create false image on food based on the origins of the name, and as such does not give correct information for the spa guests.

In such cases where MICE participants have reasonable breaks in schedules, a suggestion is made that the Royal Spa could change the “Spa Tapas” into personalised “Management Treatments” that are designed to relax these busy participants in a relatively short time. In addition to creating these treatments, aggressive promotion should be done to increase the awareness of the participants of such possibilities and to make them feel like the Royal Spa has thought of them and created something special just for this group of people. Although the idea of these treatments is already being implemented, the name of the treatment should be changed to provide instant, correct messages over the content of the treatment.

Offering management treatments would meet the needs of these customers by offering them a relaxing break suitable for their tight schedule and therefore would create added value for these packages as well as superior responsiveness to customers’ needs. A possibility to cooperate with other departments, mainly Sales and Banqueting, to include the Royal Spa treatments also to the conference packages sold to the companies could also be worthwhile to consider.

7.4.5 Developing Treatment Packages

The Royal Spa has a limited number of treatment packages. The existing treatment packages are minimally focused on certain customer groups or occasions and the packages cannot be personalised in any way.

The treatments included in the treatment packages should be versatile and aim for a total relaxation experience. Currently the Royal Spa offers packages that include both body scrub and Algospa treatment. These packages sound good, but confusion is inevitable when it is explained to the guest that also Algospa treatment includes a body scrub. Therefore the Royal Spa is offering a treatment package with two body scrubs. This fact does not only decrease the credibility of professional package design, but also costs the Royal Spa a potential treatment purchase, since the packages are often divided between two persons instead of both them purchasing their own packages.

The hotel hosts numerous weddings every year and based on experience the services of the Royal Spa are often used by the members of the wedding party. Packages focused to attract wedding guests by offering special treatments for the bride, groom,

mothers and fathers would indicate that the Royal Spa is happy to take care of them during their special time and special attention has been paid just to offer them unique experiences. Offering these packages would make pre-booking easier since the package themes might already attract enough attention and interest.

Since at least leisure guests tend to include sightseeing in their holidays, special sightseeing packages with, for instance, foot massage and relaxing baths could be created to save the guests the trouble of choosing the most suitable treatment for tired legs and body. The number of themes that packages could be created around is numerous and offering packages with good price-value ratio would encourage the spa guests to purchase more treatments at a time. Specific treatment packages and special offers could also be focused on optimising the high demand during holiday seasons and other peak-times.

SpaFinder included services to expecting- and new mothers in the ten spa trends to watch in 2008, and packages created around these themes would support these trends and add value to the selection of readily created spa treatment packages (SpaFinder Issues 5th Annual Spa Trends Report 2007). Moreover a new potential group of customers might be achieved.

Selling packages would also save some time from the reception personnel, since checking in and out as well as billing is done only once for several treatments. One possible solution on increasing product sales while increasing the value of treatment packages would be to include small product samples to products as a complimentary gift for a larger purchase. This would not cause excessive costs to the Royal Spa but the perceived value of the packages could be increased while potentially increasing interest towards the products.

Treatment packages could be further personalised by offering a menu of treatments where customers can choose the preferred treatments at a fixed price. In addition, services, such as a glass of champagne or sweets/flowers/products samples waiting in guest rooms after treatment, would add value to such treatment packages.

7.5 Managing the Employees and Improving Customer Service

7.5.1 Management Style

Theodore Hesburg (2007), the President of the University of Notre Dame, has said that “the very essence of leadership is that you have a vision. It’s got to be a vision you articulate clearly and forcefully on every occasion.” (Clark 2007.)

The current management style of the Royal Spa does not support the concepts of superior quality and superior customer responsiveness. The vision of the Royal Spa is not shared, specific operative goals are not placed and the employees are not encouraged or motivated to improve the profitability of the Royal Spa with their own actions. The cause for lack of leadership may lie in the personal skills of the Royal Spa manager, or more likely, in the fact that the Royal Spa manager has not had enough training and guiding on how to take a stronger leadership approach. It is also felt that with the current employee structure of the Royal Spa, the Royal Spa manager has to focus mostly on administrative tasks, leaving the role of leadership without attention.

In order to support the concepts of superior quality and superior customer responsiveness, a strong focus on leadership and management by example should be applied. This would most likely require training programs for both the spa manager as well as for the supervisor to educate them on the purpose and importance of leadership. By employing one dedicated person for supervisory and administrative tasks, the Royal Spa manager would be given more time to focus on communicating and sharing the vision of the Royal Spa as well as for leading by example.

Clark (2007) points out the two most important keys for reaching employee satisfaction through leadership. Firstly, trust and confidence towards the management allow effective leadership. Secondly, effective communication helps employees to understand the vision and objectives of the company. In addition, proper communication will give employees the tools to achieve the set goals and understand the situation of the business at all times. By effective communication and trust, employees would be involved more in the business by sharing the vision and

objectives. Therefore, also motivation could be improved. (Clark 2007.) Improved motivation is likely to lead better responsiveness to customers and better quality in terms of service.

As a conclusion it could be said that the management style of the Royal Spa should be changed towards a stronger focus on leadership through trust and effective communication. The means to achieve these goals would most likely require management training and a dedicated employee to help the spa manager with the administrative work. (Op. cit. 2007.)

7.5.2 Customer Service

In service industry, superior quality and customer responsiveness are the heart of customer service. Service quality can be defined as consistently meeting or exceeding customer expectations. Service quality leads to customer satisfaction which again is a major factor in profitability. As mentioned before, the service level of the Royal Spa could be considerably improved. Lovelock and Wirtz (2007) offer a service gap-model that is based on Zeithaml, Berrys and Parasuramans (1990) service gap-model. Lovelock and Wirtz have identified seven gaps of service quality that may appear during service performance and these gaps will be introduced and analysed based on the current situation of the Royal Spa. Based on the analysis, reasons for existing gaps are identified and suggestions will be given how to close the gaps and deliver superior customer service. (Lovelock & Wirtz 2007, 424-427.)

The Knowledge Gap

The knowledge gap is born when what companies believe customers need and expect is not consistent with what customers really need and expect. In other words, this gap is created when companies are unable to precisely analyse their target markets and their needs.

Based on the low level of revenues, it could be assumed that the Royal Spa is unaware to some extent of the expectations of its customers. Although several spa trends have been identified to give direction of the changing expectations of customers and the Royal Spa is able to take advantage of the marketing research efforts conducted by the

Corinthia Grand Hotel Royal, these tools are not optimally utilised. The core reason for this could be connected with the fact that the role of the Royal Spa within the Corinthia Grand Hotel Royal organisation seems rather unclear and the concept of the Royal Spa is not focused enough towards the specific customer segments to benefit from the marketing research efforts.

In order to avoid or close this gap, the Royal Spa should know its customers as well as possible. Therefore implementing customer surveys, obtaining customer feedback and conducting specific market research with each separate customer group within the target market is highly important.

The Royal Spa should develop a solid system for convenient customer feedback. Customer feedback forms should be available at all times and customer should be encouraged to fill out the forms to reach potential rewards. The endless potential of the World Wide Web should be used to create multiple channels for customer feedback. In addition, obtaining feedback from all customers should be integrated in the customer service approach of all of the Royal Spa employees in order to find what customer really want and expect from the Royal Spa. The customer expectations may also be predicted with following what the commonly accepted spa industry trends indicate customers to expect.

In general the resources of the Corinthia Grand Hotel Royal should be used to gain the relevant information with reasonable costs and schedule. Close co-operation with the hotel could also assist in finding proper solution to optimise the increased MICE-demand. By properly analysing the expectations of the MICE-customers, the Royal Spa would benefit from this information by being able to provide suitable products and services targeted towards the special needs of the MICE-customers.

The Standards Gap

The standards gap is the difference between what companies assume customers to expect and the level of quality standards created to support this assumption. Creating solid service standards and making sure they are communicated and accepted is an effective tool to avoid this gap.

The Royal Spa should develop a comprehensive range of service standards for different service situations to secure the consistency of excellent service, in other words superior quality and responsiveness to customers. These standards would also make it easier for the Royal Spa personnel to handle complaints and negative feedback.

The service standards of the Royal Spa could include points about addressing all guests with their names if possible and how to make guests feel welcome and special through communication and appearance. Also product and treatment sales could be improved with the use of standards by consistently offering products and treatments in a suitable manner for all guests.

In general, the standards would secure receiving customer feedback through communication, enhance product and treatment sales and promote additional services such as memberships and gift certificates. The service standards could be created with the help of cross-functional teams, in other words using the knowledge and experience of all levels of the Royal Spa personnel to develop valid standards throughout the service process.

The Delivery Gap

This gap is caused by the difference between the established quality standards and the actual implementation of these standards. In other words, in order to avoid creating the delivery gap, the existing service standards have to be used to their full extent.

The Royal Spa has to make sure that after developing service standards, these standards are also used and they support the goal of achieving superior service. There are different ways to secure the consistent usage of service standards, one of the most important of them being motivation. After developing service standards, the standards should be clearly communicated to all of the Royal Spa employees and an explanation reasoning their importance should be given. In order to have efficient standards that contribute to service quality, all employees need to understand and accept the purpose of the standards.

The Royal Spa personnel should be assessed and trained continuously to maximise the positive outcome of all service situations. All roles within the service process should be clearly defined, to communicate the division of responsibilities and how individual actions affect the service process. DiJulius (2002) mentions that a clear definition of roles for all situations helps to utilise of downtime efficiently (DiJulius 2002, 60-61). For instance, a system can be created to define the tasks of each member of the Royal Spa personnel during lower demand periods. These tasks could include functions that are not prioritised during the high demand periods, such as confirming pre-booked appointments, arranging promotional materials, cleaning service areas and providing added services, such as offering refreshments, for the spa guests inside the facilities.

The empowerment of employees could help simplifying the process of writing gift vouchers. The Royal Spa employees could be empowered to sell, charge and print the gift certificates all at once in the Royal Spa. This would save a lot of time from both the Royal Spa employees and more importantly from the Royal Spa guests, increasing customer responsiveness.

Reichhelds and Sasser's study presented in a work of Barons and Harris, indicate that customer defections play an important role in the service industry profitability. Successfully processing customer feedback and complaints has potential to develop customer loyalty and satisfaction. According to the study, customer loyalty reduces operation costs, allows price increases and provides important word of mouth advertising. (Baron & Harris, 2003, 181-182.) Therefore, providing standards for processing customer feedback and empowering employees to take action in cases of customer complaint might be critical tools not only for guaranteeing customer satisfaction but to also increase profitability.

In order to communicate the efforts made to deliver superior service, customers could be made aware of the standards used. This would allow customers to expect certain level of customer service, to recognise it and to evaluate it in order to be able to give instant feedback whether this level was achieved or not. This could be used as one tool to continuously control the use and effectiveness of the standards and corrective measures should be taken if needed to fit the standards better to the actual customer needs and expectations.

Reliable quality assurance systems should be developed in order to secure the consistent level of the desired quality. Although the current mystery shopper- and audit methods can be effective, they have to be conducted unannounced so that as realistic picture of the quality levels as possible can be obtained at all times.

In order to avoid robotic interaction with customers, every employee should be encouraged to be natural and add a bit of their own personality into the service process, but the standards would provide a safe framework to work within and guarantee consistent level of service throughout all employees. In addition, focusing on increasing leadership and leading by example would further secure the success of superior quality and customer responsiveness.

The Internal Communications Gap

The internal communications gap is the gap between the promises made by the sales and marketing personnel and the actual delivered service. In other words, this gap is created if the message of the service content gets altered somewhere along the way from the service line to the marketing personnel.

Providing even small amounts of false information, for instance in tariff sheets, might decrease the reliability of the Royal Spa and harm the desired quality and customer responsiveness levels. Problems in internal communication cause a lot of unnecessary confusion. The customers are not served efficiently, the professionalism of the service employees is risked and the employees are left like they were completely neglected by the management.

The real reasons behind a poor internal communication are rather hard to determine. However, assumptions could be made that the roots of such problems lie in failure to understand the importance of co-operation and the lack of professional management.

The Royal Spa management should communicate the knowledge and experience for all employees of sales and marketing department to create a realistic message and make sure it is transferred as such to the marketing material. The information needs to be updated constantly and refined to create as truthful picture as possible that is also

suitable for marketing materials. The marketing material should also be checked before printing and distribution to avoid providing false or unrealistic messages.

Although the aim of this thesis is to analyse the Royal Spa as an independent business unit, the Royal Spa operates within the Corinthia Grand Hotel Royal and is connected to the hotel also in the minds of the hotel personnel. Therefore, the role of all of the employees of the Corinthia Grand Hotel Royal is important when delivering constant and realistic messages concerning the Royal Spa to the hotel- and spa guests. This could be achieved through consistent information updating and open communication with all employees about the desired image and role of the Royal Spa within the hotel.

One major point in closing the internal communications gap at the Royal Spa is to focus on the information given to customer through brochures and tariff sheets. All information in paper brochures as well as in the internet should be frequently checked and updated to provide reliable and correct information.

The Perceptions Gap

The perceptions gap is born when customers perceive to experience something else than what was actually delivered. The actual received service might be of very high quality, but the value of it is diminished by the fact that customers do not experience what was intended by the company. This gap can be closed or avoided by communicating the delivered service for customers. Since service in general is intangible, it is hard to measure. Therefore, the delivered service should be made tangible as much as possible through informing and communicating the delivered service.

When a spa guest is having a facial, he/she may perceive that he/she received only facial cleaning, moisturizing and massage, while what he/she actually received was a long lasting range of beneficial effects created by the combination of the products and techniques used during the facial. The lack in service communication is again caused due to the lack of service standards, since employees are not given instructions and training how to make services more tangible and partially lead to providing only services instead of experiences.

Communication is in a key position to make service tangible. By carefully explaining the phases of the facial, the reasons behind them and the effects caused by them, the customers are given the tools for turning the service into a more concrete concept. Furthermore, by involving the customers in the process through communication, the experience factors can be increased.

The Interpretation Gap

This gap is the difference of promises made by the company and the interpretation of these promises by the customer. This gap is a continuum from the internal communications gap, since that gap has to be closed first in order to close the interpretation gap. In interpretation gap, the customers falsely interpret the marketing material provided by the company and get a false image of the company.

Pre-testing all marketing material is a highly important function to prevent false information reaching potential customers. If despite all efforts promised services or service level cannot be provided, the customers should be given concrete reasons and explanations for the service failure. In general, in order to close the interpretation gap, companies should communicate clearly what can be expected from its service and give reliable reasons as soon as possible if that service cannot be delivered.

The Service Gap

The service gap is caused by the difference in customer expectations and the delivered service. In other words, the service gap is the outcome of all the other gaps and can be closed only by closing all the other gaps first.

Continuous measuring of the situation in all possible gaps is extremely important to determine the current service level and the needed measures to be taken to improve the situation. Therefore, closing the service gaps is a consistent and continuous process to secure superior customer service at all times. Analysing and measuring the gap situation and overall service quality level can be done with the help of internal- and external audits as well as with using mystery shoppers. Communicating the achieved high level of customer service can be done by implementing service quality awards and certificates to provide effective marketing advantages and allow customer to expect a certain level of service.

At this point it should be mentioned that although the Royal Spa would implement finely tuned service standards and quality measures, without a strong focus on leadership, commitment and motivation from management and the Royal Spa employees, none of the strategies can reach the optimal results. Therefore, it is important for the management to lead by example, be highly committed and motivate employees through appraisals, compensations and other means to reach the desired solutions and increase profitability.

Implications of Superior Customer Service

After analysing the steps to be taken to bring the Royal Spa closer to excellent customer service on a theoretical basis, it should be discussed whether focusing on service quality could improve profitability in reality. Providing high quality customer service with a strong focus from personnel towards all guests requires time and effort, and the relation between optimal service and the amount of employees is a commonly discussed topic.

A research project commissioned by the Institute of Customer Service in the UK aimed to find answers to three main questions related to service and profitability (Tax, S. (ed.) 2003, 217). These questions are important also in the case of the Royal Spa in order to determine how much effort and resources, also in terms of employees, should be allocated to delivering quality service. The questions were:

- Can smaller organisations provide customer service that is similar to that in larger organisations?
- Do organisations with high-quality customer service reach higher revenue or profit per employee than organisations with poor customer service?
- Are organisations with high-level customer service able to generate higher levels of return of investment?

According to the results, smaller and bigger companies have an equal potential of providing excellent or poor service quality. It seems, however, that high-level service quality is in many cases a condition for business growth. (Op. cit. 217.)

In terms of productivity and revenue/profit, the key is an educated and efficient staff because of high labour costs. The results suggest that investing in the number of employees to reach superior service seems to be financially justifiable. Better service through a higher number of employees justifies charging premium prices, which again increases the profit per employee. (Op. cit. 217.)

When analysing whether better service delivers higher return on investment (ROI), the results seem to indicate that superior service can be linked with higher ROI and return on total assets (ROTA). Although delivering a higher level of service may require higher personnel and asset investments that usually drive lower asset utilization and turnover per employee than with poor service, the total benefits in terms of ROI and ROTA seem to be noticeably higher. In other words, organisations with a high customer service level appear to generate more returns for shareholders. (Op. cit. 217.)

In general the study suggests that better customer service leads to financial benefits. Although providing superior service may require a higher number of employees, the gains in forms of improved profitability and ROTA through reputation and increased demand overrun the initial costs. (Op. cit. 217.) Therefore, it can be highly recommended for the Royal Spa to focus on providing superior customer service even if it would require hiring more front line employees.

7.6 Development Plan Summary

Through implementing suggested solutions, increases in quality, customer responsiveness and profitability can be achieved. The following action plan was made summarising the points discussed in the development plan:

Financial Developments and Adjusting the Demand

- Introduce an entrance fee for the hotel guest
- Apply yield management techniques
- Develop a system to properly predict the demand of the MICE-customers
- Eliminate the Royal Spa entertainment costs

Efficient Use of Facilities

- Develop multi-usage treatment rooms
- Avoid excessive downtime of Algospa-treatment rooms
- Increase the usage of Hydromassage treatment rooms through additional treatments
- Remove upstairs relaxing beds and develop a value adding space
- Secure the quality level of the gym

Developing the Products and Treatments of the Royal Spa

- Develop and increase a spa merchandise selection
- Change Algotharm into a Hungarian product line
- Increase training
- Integrate spa products into the hotel facilities and services
- Provide manicure and pedicure
- Focus on selected treatments to provide superior quality
- Pay attention to treatment names
- Focus on suitable treatments for MICE-customers
- Develop focused and personalised treatment packages

Managing the Employees and Improving Customer Service

- Increase leadership
- Employ a dedicated person for administrative tasks
- Provide excellent customer service through:
 - Constant market research
 - Obtaining customer feedback through valid customer surveys
 - Developing standards for service and internal communication
 - Providing constant training
 - Defining tasks and empowering employees
 - Communication
 - Reliable quality assurance systems
 - Securing realistic and reliable marketing messages
 - Making service more tangible
 - Hiring more service employees

8 DISCUSSION

The thesis project started during the spring and summer of 2007 when we conducted our internships at the Corinthia Grand Hotel Royal, Budapest. During that time it was observed that several matters could have been done better at the Royal Spa to deliver better customer service and increase revenues. The reason why these issues appeared in such a fascinating way to us was that by correcting them and applying new improved measures, the performance of the Royal Spa could be increased while the means to do that seemed rather obvious, logical and relatively easy to implement.

The idea of writing our thesis about the situation of the Royal Spa was suggested to the General Manager of the Corinthia Grand Hotel Royal, Mr. Ellis, who agreed that analysing the situation of the Royal Spa and suggesting ways to increase profitability would be very beneficial for the hotel and the spa. The required restriction for profitability of the Royal Spa was that the spa should be addressed as an independent business unit. In practise this meant that although the Royal Spa is complimentary for the hotel guests, the Board of Directors were unwilling to shift the money received from the room rates for the Royal Spa per each guest, as is commonly done for instance with the Food and Beverages department with breakfasts included in room rates.

An increasing number of hotel spas will be treated as independent profit centres along the development of the spa industry. This means that hotel spas will be increasingly responsible for providing solid financial information and justifying their existence to the hotel management. Nevertheless, a question should be raised whether the value of hotel spas are based on the pure profitability or in providing additional sales points and increasing the room rates of the hotels. Therefore, as White (2008) mentions, achieving high spa profits may not be the primary goal, but to add value to the overall product and therefore increase hotel occupancy and drive up room rates and revenue per available room (White 2008).

It is a topic of its own to study whether it would be more profitable to integrate the Royal Spa to the hotel operations more closely. Furthermore, the question of how the entrance fee also for the hotel guests would affect the demand and positioning of the hotel would need a significant amount of further research.

The actual writing process of the thesis started after Christmas holiday in January 2008, when we also started to gather the most recent information concerning the Royal Spa and sending E-mails containing all possible aspects and questions related to the thesis area. The writing process was moved forward rather fast and we reached the point where the final touches were to be made one month ahead of our schedule.

The strength of this thesis and the given solution suggestions lie in the fact that the situation of the Royal Spa was personally observed for six months during our internships in Budapest. Therefore a realistic picture was formed based on what was actually happening in the Royal Spa. In other words, we were able to see the real situation disregard what the marketing materials promised and management wanted to appraise. We also received a great number of assistance and information from several Royal Spa employees with years of experience, increasing the validity of our observations.

The potential weaknesses of this thesis have to be linked with the theoretical approach of the solution suggestions. Although the aim was to give practical guidelines for improving profitability, these actions have not been tested in the environment of the Royal Spa and therefore it is hard to say how big of an effect they would have. On the other hand, no development plan can be tested before hand since each development plan is an individual process of improvement with the company specific characteristics. Moreover, due to the nature of development plans, their success cannot be fully evaluated before the actual implementation.

The results given in this thesis arise from our pursue for solving the obvious problem areas of the Royal Spa. For instance, product sales could be rather easily increased with proper training and motivation. By implementing yield management approach revenue generation could be optimized in relation to the characteristics of this particular service industry, such as perishable demand and high fixed costs, which

furthermore enable the profitable use of the method. In addition, taking small steps towards increasing the level of customer service requires only a relatively small effort from the Royal Spa employees compared to the beneficial effects these efforts might have to the overall success of the Royal Spa.

During the thesis process, it became rather obvious that the problems behind the low profits of the Royal Spa are complex and it would be very hard to determine the original reasons for all of the problems. Since the Royal Spa operates in a close co-operation with several other departments of the Corinthia Grand Hotel Royal, it would need a deeper company-wide analysis to properly analyse the causal relationships behind all the problems at the Royal Spa. Nevertheless, well established means for securing effective internal communications and a solid system for optimising all the strengths of each department to achieve the goals of each department should be put into practice.

It is crucial to point out that in addition to the development plan, the Royal Spa should implement meaningful tools to measure the success of the development plan. These tools could include both; short-term and long-terms measurements. Quarter fiscal results, full year financial results and customer satisfaction surveys can all be used in order to determine how successful the different solutions of the development plan are. As the purpose of the thesis was to provide a plan to improve the financial results, long-term monetary enhancements must be preferred when evaluating the success of the development plan. If the Royal Spa wants to keep up with the competition, it cannot neglect the changes in trends in this turbulent field of business. Thus, the operations and the development plan require constant revising in the future.

Even though the hotel spas are already remarkably noticeable departments, the future seems to offer even more opportunities to achieve higher monetary performance. The hotel spas provide excellent getaways being the oases for physical balance, harmony and peace of mind. Therefore, the future for the hotel spas is bright and the challenges are related to the ability to meet the future demand and grow with the industry without losing the focus on customers.

All in all, it has to be said that the thesis process proceeded as expected and it posed manageable challenges along the way. Although some unnecessary work was done and unpublished text was written, none of the work was useless since it helped us to refine our work and get closer to our goal. All issues that were discovered during our internships in Budapest were addressed in this thesis and analysing them gave us further professional knowledge on the small factors that determine the success of larger entities. We would not make major changes to our research process if we had to do it all over again, since the process seemed to feed itself by using mistakes as a tool for refining the final outcome of the process.

9 CONCLUSION

The aim of the suggested solutions was to improve the profitability of the Royal Spa as an independent business unit through quality improvements rather than with cutting costs. This decision was made because of all the costs already meet the budgeted limits (Corinthia Grand Hotel Royal Grand Prix Report, Full Year Forecast – Royal Spa 2007). Furthermore, it is believed that the possibility to cut costs will eventually bottom-out itself, creating a situation when other solutions than cost-cutting must be introduced anyway

In addition, the suggested solutions were based on the approach of improving profitability through superior quality and customer responsiveness. The solutions were also selected based on the conditions of keeping additional costs as low as reasonably possible and focusing on operational level developments. The introduced solutions included the following suggestions:

- Introduction of entrance fee to gain revenue also from the major customer segment, hotel guests, who choose not to have any treatments. Charging an entrance fee from the hotel guests could also ease the pressure faced by the facility during peak-demand times.
- Application of yield management in order to efficiently maximise the revenue generation during the different time-based demand patterns and increase quality aspects through more evenly spread demand.
- Efficient use of facilities to make sure all the facilities in Royal Spa add value to the customers and thus increase customer satisfaction.
- Improvements in product and treatment selection to increase sales and add customer responsiveness.
- Increasing the role of leadership in order to motivate the employees to reach the set goals.
- Customer service enhancements to create favourable experiences to the customers and increase customer satisfaction and profitability.

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