

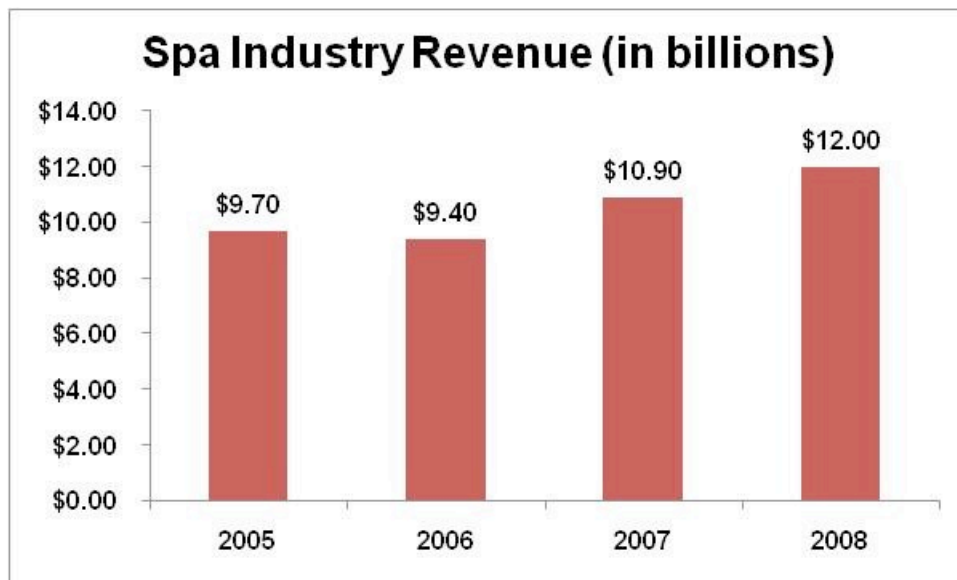


The Spa Industry Outlook

SIC Codes: 7991

NAICS Codes: 713940

I. INDUSTRY LANDSCAPE



Data Source: Hospitality Net: www.hospitalitynet.org

The spa industry made \$12 billion dollars in revenue in 2008 – a 10% increase from 2007. The spa industry remains highly fragmented: most spa services companies operate a single facility with less than \$1 million in annual revenue. The profitability of individual companies depends on efficient resource use and effective marketing.

The spa industry is labor-intensive: average annual revenue per employee is less than \$80,000.¹ The increase in spas and consumer demand has led to an increase in overall spa employment of 31%.²

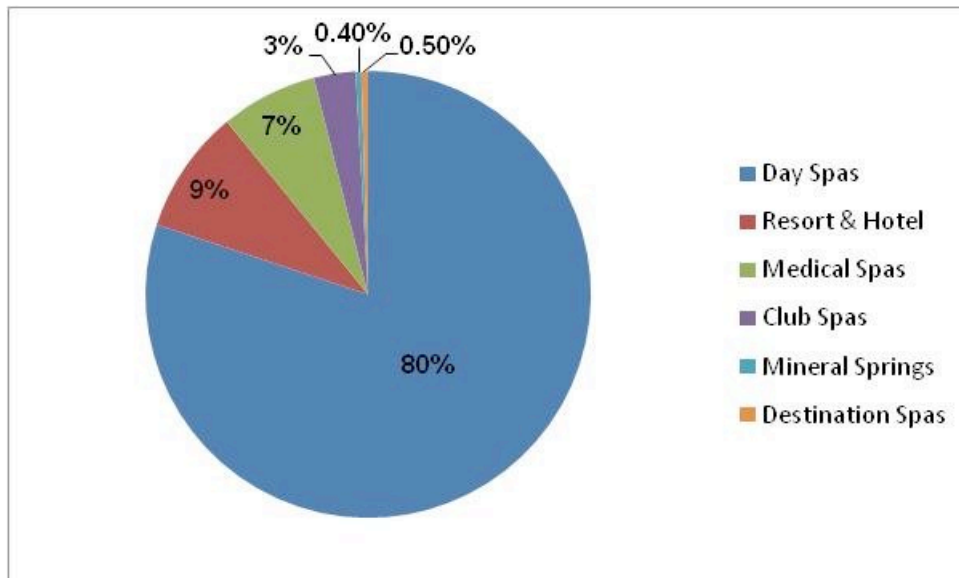
¹ First Research: www.firstresearch.com

² Discover Spas: www.discoverspas.com



The major providers of spa services include Day Spas (80% of industry), followed by Resort & Hotel Spas which represent 9% of the industry. Medical Spas represent 7% of the market and by many indications, tend to be the sector experiencing the most growth; especially in face of the 2008/2009 receding economy (Please see Spa services as Preventative Medicine in Section II.)

Spa Industry Breakdown



Data Source: Spa Marketing Tools www.spamarketingtools.com

Small spa companies reveal they remain competitive by utilizing three main principles:

- Offering unique services
- Serving a local market
- Delivering a superior customer experience.



II. CONSUMER BEHAVIOR

- **Spa Services for Recreation**

The International Spa Association (ISPA) reported that 71.2 million Americans visited a spa in 2008.³ The number of spa locations in the US has grown an average of 20% in the last eight years. The top reasons people cited for visiting a spa were to reduce and relieve stress, soothe sore muscles and joints, and to feel better about themselves.⁴

The most commonly requested service, by far, is a full body massage, according to the ISPA. Other popular services include manicure/pedicure, facials, movement classes, body scrubs and wraps, aromatherapy and lifestyle classes, such as stress management. While females have traditionally been considered the spa-seeking gender, nearly one-third of those visiting spas today are men.

- **Spa Services as Preventative Medicine**

A new nationwide government survey reveals that 36% of U.S. adults aged 18 years and over use some form of complementary and alternative medicine (CAM). CAM is defined as a group of diverse medical and health care systems, practices and products that are not presently considered to be part of conventional medicine.

A 2002 survey conducted by the Center of Disease Control and Prevention was administered to over 31,000 representatives who responded to questions on 27

³ <http://www.discoverspas.com>

⁴ <http://sexualhealth.e-healthsource.com>



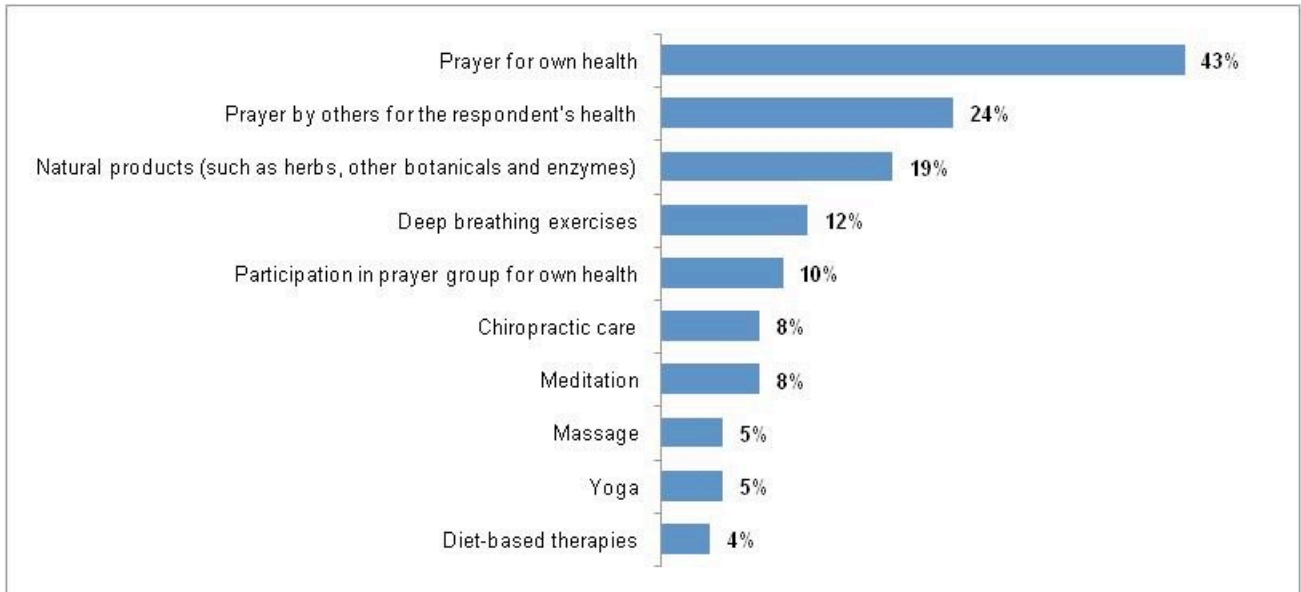
types of CAM therapies, including acupuncture and chiropractic, and herbs or botanical products, special diets, and megavitamin therapy.

U.S. adults revealed that CAM use was **higher** among a variety of subgroups including:

- Females
- Those with higher education
- Those who had been hospitalized within the past year
- Former smokers.

The most commonly used CAM therapies include prayer, natural products and deep breathing exercises. Massage therapies include 5% of total CAM therapies used as alternative medicine practices.

Most Popular CAM Therapies Used



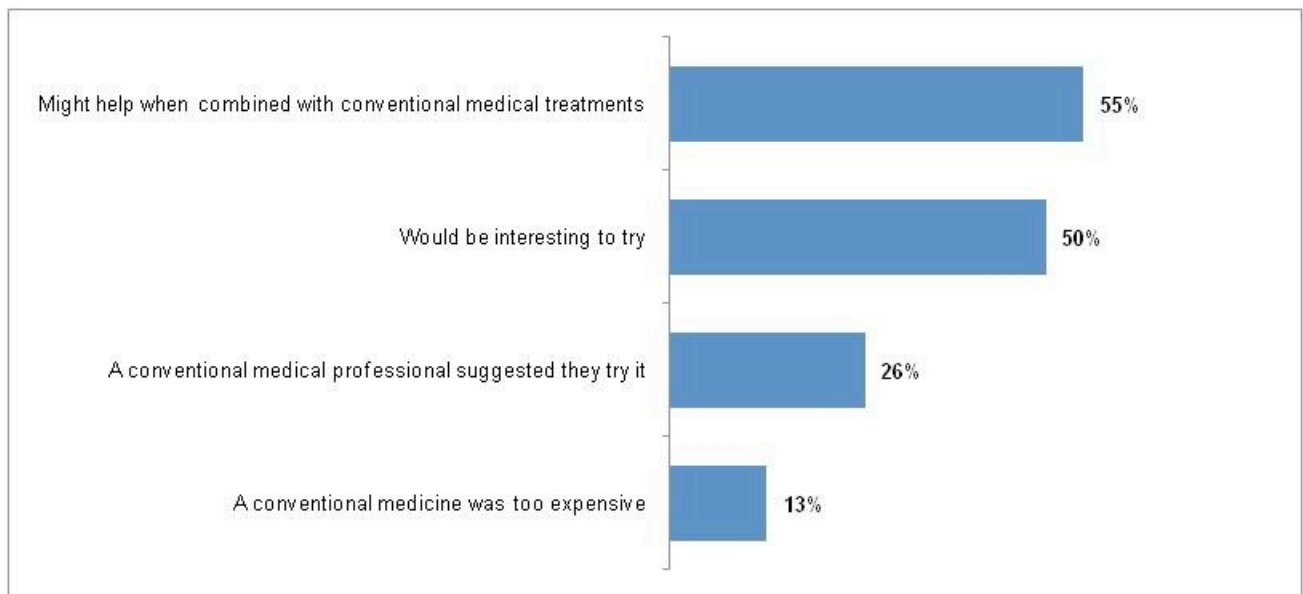
Source: 2002 Center of Disease Control and Prevention Survey



Dr. Pakpilai Thavisin, president of the medical rejuvenation spa, Papanan, said medical spas had enjoyed growth as “baby boomers” are searching for optimal health in a pleasant environment. Consumers are looking for a more personal and attractive alternative to injections and surgery. They are also looking for one-stop-shopping medical procedures and a relaxing spa treatment in one place and at one time.

Consumers shared that their primary reason for trying CAM treatments include using a combined approach of conventional medicine and alternative methods, and an interest in trying a new treatment approach.

Primary Reasons for Trying CAM Treatments



Source: 2002 Center of Disease Control and Prevention Survey



III. INDUSRTY TRENDS⁵

According to research conducted by the International Spa Association through communication with over 3,000 of its members, the following 2008/2009 industry trends include:

- **Combining Food Services with Spa Services:** Spas are responding to restaurant industry reports that the gastro-travel phenomenon has taken off with more families organizing vacations around food. In fact, 19 percent of U.S. spas offer cooking experiences from week-long schools with celebrity chefs to private lessons with tips on taking the healthy cooking experience home.
- **Spa Lifestyles Equal Healthy Lifestyles:** Eating nutritious food, exercising and relieving stress are critical in leading a healthy lifestyle, and spas are championing this effort by teaching these basic principles. In fact, 51 percent of U.S. spas offer educational programs and nutritional consultations, 40 percent offer healthy eating classes, 26 percent have educational offerings on obesity or weight gain issues and 17 percent offer exercise programs for children and teens.
- **Teens - The Next Generation of Spa Consumers:** Nearly 4 million teenagers have been to a spa where they learn how to deal with stress, eat nutritiously and care for their skin. With 16 percent of spas offering teen programs, 34 percent offering teen packages and 17 percent offering packages for children.
- **Corporate Wellness:** Google was selected as Fortune's No. 1 company to work for in 2007. Google is also a member of ISPA and offers on-site massages to its

⁵ Debra Locker of International SPA Association Via Reuters Spa Industry Trend Watch
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employees. According to the American Journal of Health Promotions, for every \$1 spent on wellness programs, employers can expect a return of up to \$10 through lower medical claims, reduced absenteeism, improved productivity and other factors.

- **Incorporating Technology:** In our constantly-connected society, spas are incorporating technology such as Wi-Fi in relaxation rooms, cyber treatments that combine biofeedback technology with guidance from wellness professionals and light therapy to help those suffering from depression, Seasonal Affective Disorder and insomnia.
- **Customized Relaxation:** Consumers are highly responsive to products and services they can customize to meet their own needs. Spas are creating unique experiences for their guests with 24 percent indicating that clients can book blocks of time instead of specific services. This time block allows them to create a treatment that is all their own from the music to the products to the room temperature.
- **Luxury Brands Opening Luxury Spas:** Brands that are known for their chic designs are opening over-the-top spas around the world. Some of the well-known brands include the first Armani-branded spa in Tokyo, Versace Group's spa at its Australian resort, spas at Bulgari's hotels in Milan and Bali, and Prada Beauty's line exclusively at Ritz-Carlton properties.
- **Environmental Consciousness:** As 76 percent of U.S. spas apply environmentally sustainable practices, the spa community's commitment to the environment is not a passing phase. On-site organic gardens; products made from locally-grown fruits, vegetables, herbs and plants; mineral makeup; and



green building tactics are just a few of the ways that spa professionals are showing their commitment to the earth.

IV. RECOMMENDATIONS

The current economic climate presents many opportunities to the spa industry since reports indicate consumers are utilizing spa services as their primary methods of preventative health care. Lost health insurance coverage as result of job losses and spending cuts has driven consumers to seek alternative methods of staying healthy. The growing use of complementary and alternative medicine services and current trends of a “spa lifestyle” have both greatly contributed to this growing and lucrative industry. Spa companies can work with the current economic recession to provide value-added services that combine the consumer’s need for a relaxing experience and preventative care. There is potential to make spa-going a part of the client’s long term health plan by offering new valuable services that encompass their total health. It is also important to understand the spa-goer’s experience level and expectation level when attending a spa facility.

- **Make Spa-Going an Integral Part of Client’s Long Term Health**

According to the International Spa Association, while many American consumers are yet to view of spa-going as a long-term form of healing or therapy, they do find a segment of “Core” spa goers who typically believe that spas are an integral part of health and wellness (physical, mental, emotional and spiritual). It may be beneficial for spa companies to shift their message to consumers which encompass the “whole health” benefits of spa-going instead of simply stating its recreational benefits. This may be achieved by:

Combining Food Services with Spa Services: Consumers’ growing health consciousness which has impacted the food sector can be a key factor



incorporated in the spa industry. Only 19 percent of U.S. spas currently offer cooking experiences for their clients but the healthy foods seems to be a natural association with the “spa lifestyle” and may be an idea of consideration for new or current spa businesses.

Spa Lifestyles Equal Healthy Lifestyles: Offering educational programs, nutritional consultations, and healthy eating classes may be some new offerings spa facilities can additionally provide to clients which blend seamlessly into their current realm of offerings but are still cost effective to the business.

- **Value is still Key**

People people want what spas offer, but it has to be financially feasible. "Many spas have been their own worst enemy by getting caught up in the greed factor (very high treatment prices)," writes spa consultant, Judy Singer, in an article for www.hotelexecutive.com. "This has caused consumers to re-evaluate the genuine need and ability for them to visit the spa."⁶

- **Consumer Trends to Monitor⁷**

The following are primarily aspects of the spa experience which the International Spa Association believes spa facilities should focus on based on current, social and cultural factors:

- Higher Expectations Among First-Timers
- Men are Warming Up to Manicures and Facials - The Re-Awakening of Male Grooming
- Children Introducing Parents to the Spa Experience
- Teen-Agers Are Entering the Spa World for Cosmetic Spa Services

⁶ <http://spas.about.com/>



- Consumers Want Series Pricing (as opposed to one time pricing)
 - Treatment before the Treatment
 - Gender-Neutral Interior Designs
 - Keeping it Simple
 - Consumers Experiment with Treatments featuring Local and Indigenous Elements
 - Hydrotherapy as Alternative Touch
 - Core Experimentation with Ancient Massage
 - Chair Massage as Gateway to Spa Interest
 - Back to the Basics at the Day Spa
 - Mother-Daughter Bonding
 - Gender-Neutral Interior Design
 - Minimizing Retail Product Choice, Maximizing User Experience
 - Food at Spas as a Bridge Between the Inside and Out
 - Customization
- **Assessing Spa-Experience Level of Consumer**

Identifying the experience level of spa going consumers (i.e. Core, Mid-Level or Periphery) is critical in delivering the most appropriate and relevant information, interaction and services. Most spas do not have a "system" for gauging experience levels and expectations from an attitudinal and behavioral context. Core consumers tend to be most catered to in terms of communications, menu designs and available spa treatments, but they represent the smallest percentage of the overall spa population. Instead, most spa goers are still infrequent day spa users interested in Indulgence, an Escape, and perhaps specific benefits associated with Work (i.e., relieve a headache, soften tight shoulders, de-stress, etc.). They are thinking about the near term benefits of spa services. These benefits are usually defined on their terms, which means that



they are most likely to approach spas with a 'get-in, get-my-pampering, get-out' perspective as opposed to a long-term, holistic approach to overall health and well-being. ⁸ When the consumer level is known, it is easier to create communications and offerings that serve the client most effectively.

If you have any questions and/or comments about this report or would like to customize your own research study in this industry or any other please contact Inscite Research at Sasheec@insciteresearch.com

⁸ International Spa Association: <http://www.experienceispa.com>