



International SPA Association®
*the mind, body and spirit
of the spa industry*

The International SPA Association's 2002 SPA INDUSTRY STUDY

September 2002

Prepared for ISPA by

PRICEWATERHOUSECOOPERS 



The International SPA Association is recognized worldwide as the professional organization and voice of the spa industry, representing nearly 2,000 health and wellness providers in 55 countries. Members encompass the entire arena of the spa experience, from day, resort/hotel, destination, mineral springs, medical, cruise ship and club spas to service providers such as physicians, wellness instructors, nutritionists, massage therapists and product suppliers. ISPA is committed to forming and maintaining alliances that will educate, set standards, provide resources, influence policy and build coalitions for the industry. ISPA's vision is to revitalize humanity and its mission is to educate the public about the value of the spa experience and engage its participation. ISPA defines the spa experience as "your time to relax, reflect, revitalize and rejoice." For more information on ISPA, call 1.888.651.4772 or 1.859.226.4326, write ISPA, 2365 Harrodsburg Rd., Suite A325, Lexington, KY. 40504, or e-mail ispa@ispastaff.com. You may also visit the ISPA Web site at www.experienceispa.com.

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Disclaimer

Although the information in this report has been obtained from sources that PricewaterhouseCoopers believes to be reliable, its accuracy and completeness cannot be guaranteed. This report is based on survey responses of spa establishments during survey period of June/July 2002. This report is for information purposes only. All opinions and estimates included in this report constitute the survey respondents' and our judgment as of this date and are subject to revision. Forecasts are subject to uncertainty and evolving events: actual results will vary from forecasted results.

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EXECUTIVE SUMMARY

In 2000, the International SPA Association (ISPA) engaged PricewaterhouseCoopers to conduct the inaugural Spa Industry Study. It was the first study to provide a true picture of the industry, particularly industry size and growth.

Recognizing the need for current information, ISPA engaged PricewaterhouseCoopers again to conduct a comprehensive study to update the findings from the 2000 study.

The 2002 study develops a current profile of the spa industry in the U.S. and Canada. This executive summary highlights the key findings from the 2002 study. The report contains more detailed analyses including product/service offerings, employment and compensation and a profile by spa type and geography. The 2002 study includes two new features: compensation levels for four different spa positions and types of compensation offered to management staff.

How Big is the U.S. Spa Industry?

This study looks at several key measures of the size of the spa industry.

- ◆ **Spa Locations.** There are an estimated 9,600 spas throughout the U.S. and 1,300 in Canada. In the U.S., the largest spa category, accounting for over three-quarters of locations, is day spas. Resort/hotel spas are the second largest group, followed by club spas, mineral springs spas, medical spas and destination spas. Geographically, the distribution of spas in the U.S. generally reflects the distribution of the population. In Canada, the distribution of spas is concentrated in Ontario and, to a lesser extent, British Columbia.
- ◆ **Spa Visits.** There were approximately 155.8 million spa visits made in the U.S. in 2001. Sixty-eight percent (68%) of these were to day spas. Resort/hotel spas and club spas received the next largest numbers of spa visits.
- ◆ **Square Footage.** The U.S. spa industry occupies an estimated 97.7 million square feet of indoor space. Forty-six percent (46%) of space in the U.S. and Canada is occupied by treatment rooms and 20% is occupied by beauty salons.
- ◆ **Revenues.** In 2001, the U.S. spa industry achieved approximately \$10.7 billion in revenues. Half (51%) of the spa industry's revenues are derived from treatment rooms. Beauty salons and retail account for 19% and 17% of industry revenue, respectively.
- ◆ **Employment.** An estimated 282,000 people are employed by the U.S. spa industry. Sixty-three percent (63%) of these employees are full time. Employee wages and salaries totaled approximately \$5.1 billion in 2001.

How Fast is the Spa Industry Growing?

Growth continues to be seen in every facet of the spa industry. Following are the key growth areas:

- ◆ **Locations.** The number of spa locations has doubled every four years. This represents an average annual growth of 20% over the last eight years. Between 1999 and 2001, the resort/hotel spa segment expanded faster than any other segment, with the number of resort/hotel spas growing at 143% compared to 69% for the U.S. spa industry as a whole. Mineral springs spas have also grown faster than the industry average.
- ◆ **Square Footage.** Total industry square footage increased by 151% in the past two years. Unlike the results from the previous study, the 2002 study shows growth in square footage coming from *both* an increase in the number of spas and an increase in the average spa size. Treatment rooms, retail and beauty salons continue to be the most common area of expansion among existing spas.
- ◆ **Revenues.** Aggregate industry revenues increased by 114% between 1999 and 2001. However, the growth in the average revenue per spa establishment has slowed from 28% in 1999 to only 15% in 2000 and 8% in 2001.
- ◆ **Employment.** The spa industry saw an 87% increase in the total number of employees in the past two years.
- ◆ **Spa Visits.** Demand continues to be the driving force behind the tremendous growth of the industry. Despite weak economic conditions, the number of spa visits continues to grow rapidly, increasing by 71% between 1999 and 2001.

What are the Key Trends in the Industry?

The report details a number of key industry trends.

- ◆ **Product Trends.** The Eastern/Asian influence continues to be very strong in the industry, influencing products, services and spa design. There is a strong trend towards “medical type” products and services. Food- and plant-based treatments have also gained widespread popularity.
- ◆ **Consumer Trends.** Many people no longer see the spa as “pampering”, but as a requisite to stay healthy and look good. These consumers want simplicity in their spa experiences and are turning back to more traditional spa products. Consumers’ limited free time means they have less time available to spend at the spa, and the industry is designing its offerings around this trend.
- ◆ **Investor Trends.** As evidenced by the decrease in single location operations, consolidation seems to be occurring across most spa categories (particularly in the resort/hotel and day spa categories). There is also a strong trend toward branding and retailing within the spa industry.
- ◆ **Technology Trends.** The industry’s use of technology has advanced in the past two years. Spas have moved beyond the use of the Internet as a simple research or e-mail tool, and now report major investments in database management, integrated channel customer contact systems and marketing products/services online.

Conclusions

- ◆ *The spa industry has solidified itself as a major player in the hospitality and leisure sector. In the past two years, the spa industry has kept pace with, and even surpassed, other major top leisure activities in terms of revenues.*
- ◆ *Despite the economic downturn, the industry has continued to grow at a robust pace. With revenues recording an average growth rate of 46% each year between 1999 and 2001, the spa industry has shown the ability to weather the challenges of a weak economy.*
- ◆ *Day spas continue to dominate the industry in terms of number of establishments; but resort/hotel spas are gaining ground. The resort/hotel spa group was the fastest growing sector, firmly establishing it as the second largest segment, well ahead of club spas.*

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I. INTRODUCTION

Study Background

In 2000, the International SPA Association (ISPA) engaged PricewaterhouseCoopers to conduct the inaugural Spa Industry Study. Until then, the spa industry did not have a measure of the size and recent growth of spa business.

Recognizing the need for current information, ISPA once again engaged PricewaterhouseCoopers to update the findings from the 2000 study. This report highlights the key study findings.

Purpose and Objectives

The goal of this study was to provide an update to the findings from the 2000 Spa Industry Study. Moreover, the main purpose of this study was to obtain spa industry data in order to develop a current profile of the industry. The primary objectives of the research were:

- ◆ To estimate the size of the spa industry in the U.S. and Canada in terms of revenues, number of establishments, square footage and employment;
- ◆ To gauge the growth being experienced by the industry;
- ◆ To develop a profile of the U.S. and Canadian spa industries in terms of regional distribution, spa type, ownership structure, ownership of real estate and equipment, number of visits, and service/product offering;
- ◆ To obtain a basic understanding of the employment and compensation structure;
- ◆ To determine current and future industry trends; and
- ◆ To gather participants' views of the effect of the September 11, 2001 events on the industry.

Research Method

To fully address the objectives of the study, three distinct approaches were undertaken.

- ◆ **Quantitative Survey.** PricewaterhouseCoopers conducted a telephone survey of 760 spa owners and managers in June/July 2002. The telephone survey took approximately 20 minutes to complete. The survey was also made available on the Internet to help boost the number of responses. A total of 60 surveys were completed on the Internet for a total sample of 820 spas. The data in this report have been weighted to more accurately reflect the true distribution of the industry population. Data were weighted by type of spa as defined by ISPA and region. Definitions of spa categories are provided in **Chapter III**.
- ◆ **Qualitative Executive Interviews.** PricewaterhouseCoopers conducted ten executive interviews across the U.S. and Canada to explore views and opinions regarding the state of the spa industry, significant

competitors, trends, the use of technology, new products and services, Internet usage and the impact of September 11th, 2001. The interviews (30 to 45 minutes each in length) were conducted in June 2002.

- ◆ **Extensive Internet and Directory Search.** PricewaterhouseCoopers conducted an extensive search of various Internet sites and directories to develop a comprehensive database of U.S. and Canadian spas. The database was then cleaned to ensure that only those meeting the ISPA spa type definitions were included. During the survey, PricewaterhouseCoopers contacted over 28% of the establishments in the U.S. database and almost 60% of the businesses in the Canadian database to verify working telephone numbers.

The findings for Canada are based on the responses of the 127 spas that participated in this study and are provided for information purposes only. Further study of the Canadian industry with a larger sample size is required to produce more reliable estimates.

Study Limitations

When interpreting results from this study, it is important to keep in mind that there are some limitations to take into consideration. These study limitations are as follows:

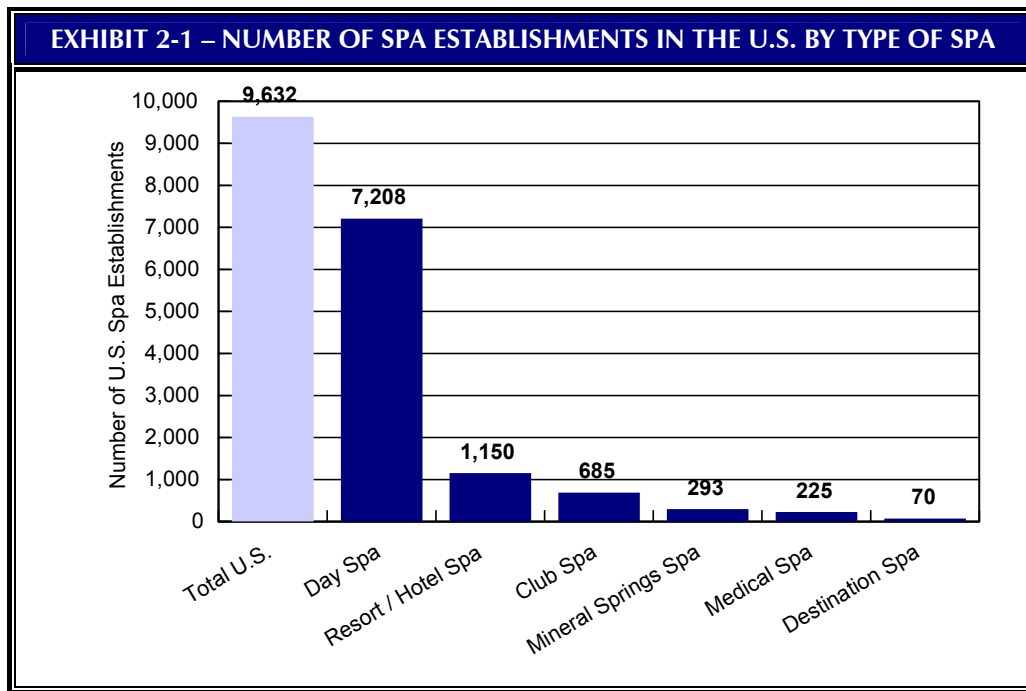
- ◆ Number of spas represent our estimates as of July 2002 and were based on spa listings on the internet and in phone, association and other available directories. Estimates were extrapolated by 3.5% in the U.S. and 10.1% in Canada based on survey results. Industry estimates may not include unlisted spas or spas not classified as spas in listings, nor do they include cruise spas.
- ◆ Industry averages and estimates (including revenue, employment, square footage, spa visits, etc.) as well as other data were based on survey responses and are only as accurate as the data provided by survey respondents.
- ◆ Estimates of growth for results from the 2000 Spa Industry Study were based on year established. Bankruptcies were not accounted for due to a lack of prior data. Closures were assumed to be minimal.
- ◆ While the overall U.S. industry results have a low margin of error, results and estimates for sub-groups (e.g., spa type and region) should be interpreted with caution due to small sample sizes. This is particularly true for destination spas, medical spas, mineral springs spas and cruise spas. Information on spa type is presented in many places throughout the report. This information is only presented where the differences in spa types are statistically significant.
- ◆ The findings for Canada were based on the responses of the 127 spas that participated in this study and are provided for information purposes only. Further study of the Canadian industry with a larger sample size is required to produce more reliable estimates.

II. SIZE OF THE NORTH AMERICAN SPA INDUSTRY

This section provides six key measures of the size of the spa industry: the number of spas, number of spa visits, square footage, industry revenues, employment and the impact on the economy. Most of the industry figures presented in this chapter are for the U.S. only. Industry statistics for Canada are summarized at the end of this chapter.

How Many Spas Are There?

As seen in **Exhibit 2-1**, there were approximately 9,600 spas across the U.S. at the time of this study (June 2002). Results indicate that the 9,600 spas are operated by approximately 7,400 different organizations. The spa industry continues to be dominated by smaller operations; only a handful of large companies operate in the spa industry.



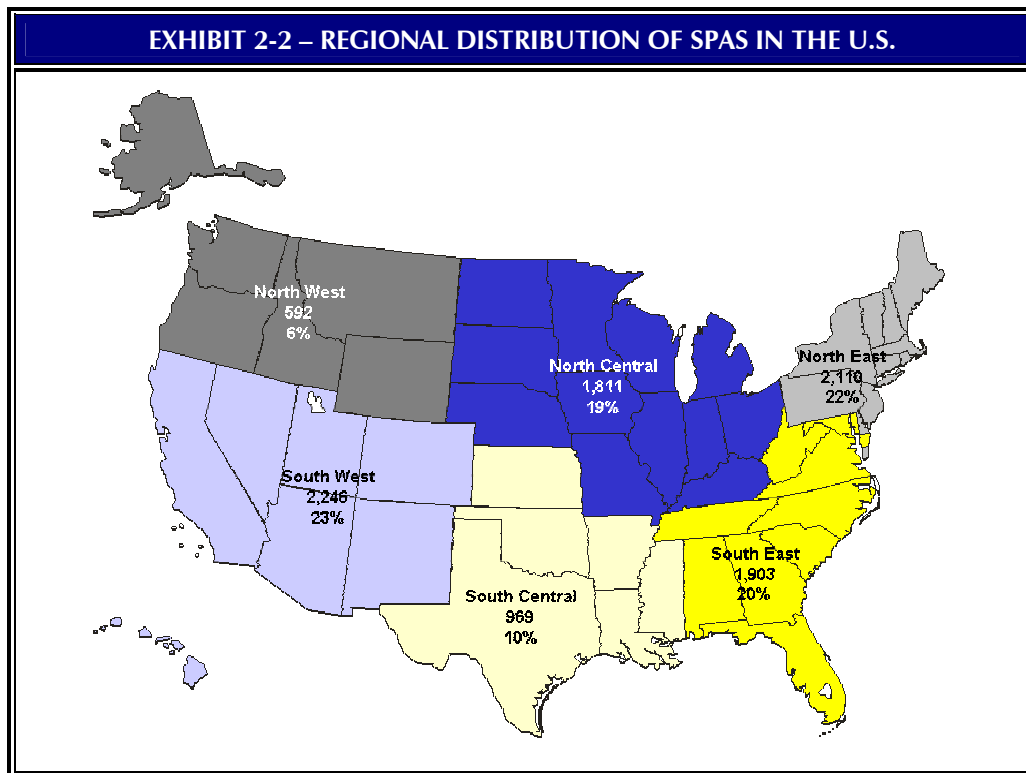
At just over 7,200 locations, day spas continue to account for a major share of spas in the U.S., representing three-quarters (75%) of all spas. Resort/hotel spas are a distant second with 1,150 locations, or approximately 12% of all locations, followed by club spas (685) at 7%. Mineral springs spas (293), medical spas (225), and destination spas (70) represent much smaller segments of the industry.

It should be noted that cruise ship spas are not included in the industry size estimate. For information purposes, it is estimated that there are approximately 143 cruise ships operating out of the U.S. offering spas on approximately 93 ships.

The distribution of spas by type has remained fairly stable over the past two years with one exception. While resort/hotel spas represented only 8% of locations in the 2000 study, they now account for 12% of the industry.

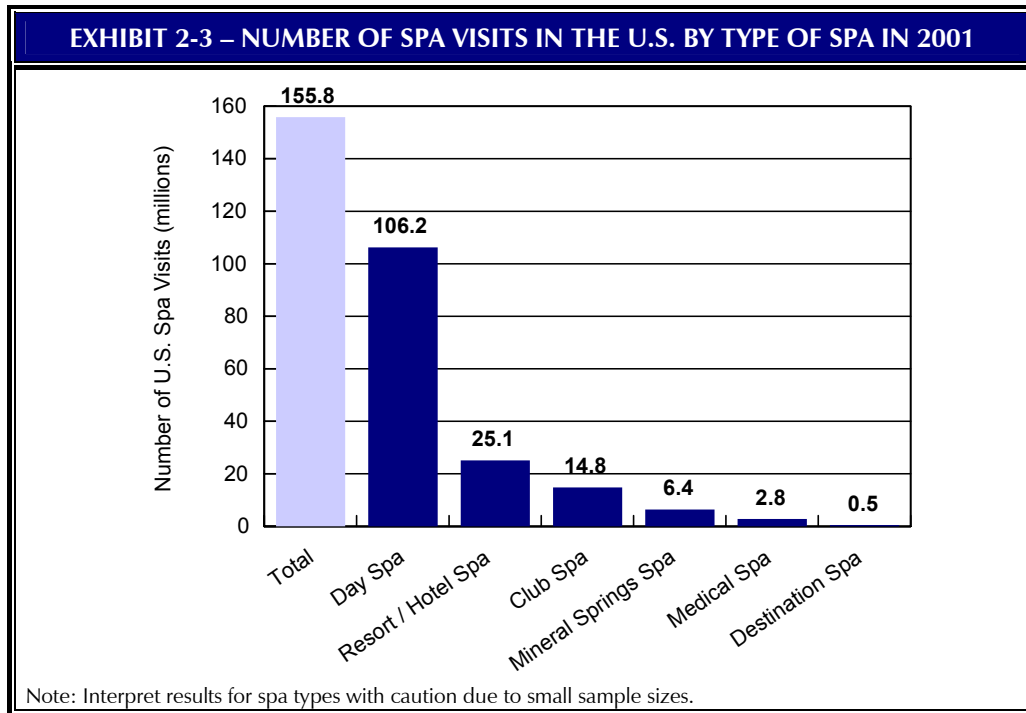
This shift is supported by findings from the executive interviews in both studies that indicated a trend for spas to be a component of most new resort/hotel developments and expansions of many existing properties.

The geographic distribution of the industry in the U.S. is shown in **Exhibit 2-2**. While the largest concentrations of spas continue to be found in the eastern U.S. (both north and south) and in the southwest, the north central region has also surfaced as a fourth major region for spas. In the 2000 study, the north central region represented 15% of spas in the U.S. It now accounts for one fifth (19%), almost equal to the other three major regions. The smallest numbers are in the north west and south central regions. The distribution of spas in the U.S. generally correlates with the distribution of the U.S. population.



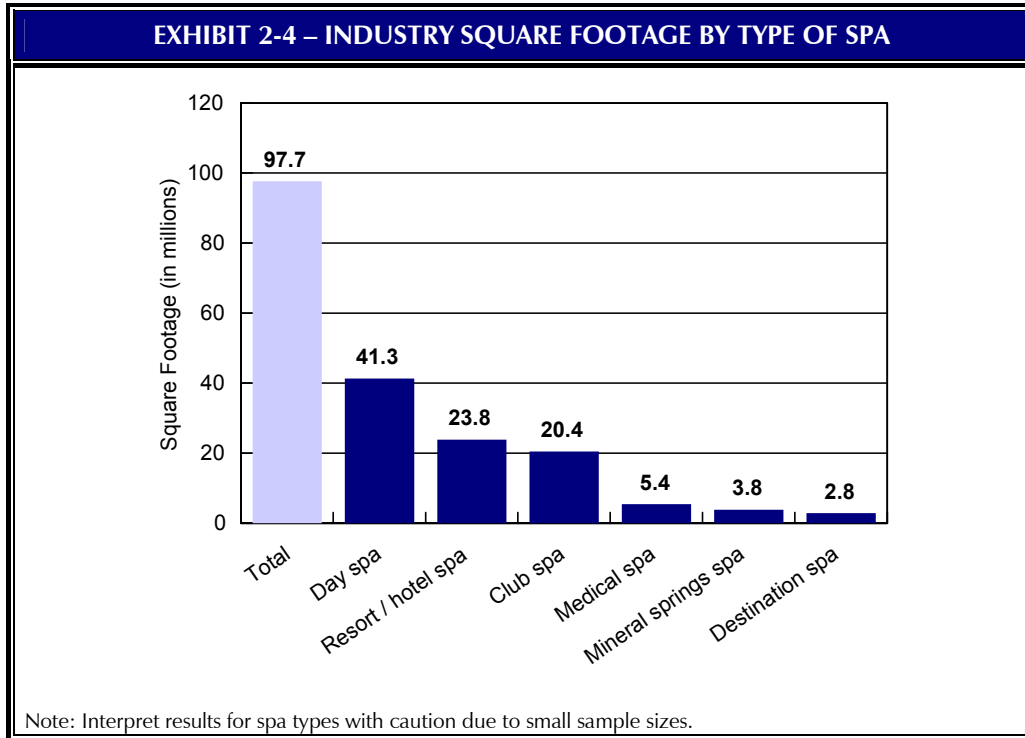
How Many Visits Are Made to U.S. Spas?

In 2001, the U.S. spa industry saw an estimated 155.8 million visits to its establishments. **Exhibit 2-3** illustrates the number of spa visits in the U.S. in 2001 by spa type. Approximately 68% of these visits (106.2 million) were to day spas. Twenty-five million or 16% are made to resort/hotel spas and 14.8 million visits or 9% to club spas.



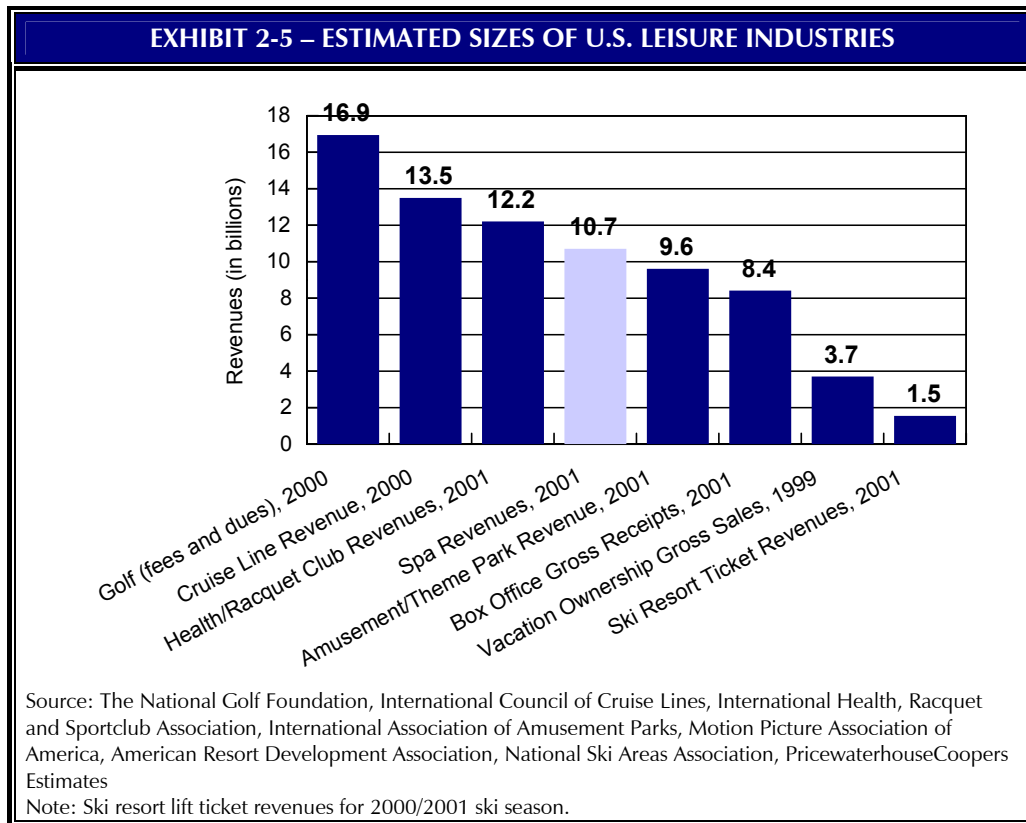
Square Footage

Spas (excluding cruise ship spas) in the U.S. occupy an estimated 97.7 million square feet of indoor space (see **Exhibit 2-4**). Day spas account for the largest portion at 41.3 million square feet, followed by resort/hotel spas at 23.8 million square feet and club spas at 20.4 million square feet. Despite representing over three-quarters of spa locations, day spas account for only 42% of total industry space, a decline from its 54% share in 1999. Conversely, the proportion of square footage represented by resort / hotel spas and medical spas is double the proportion of locations, and for club spas, it is triple.



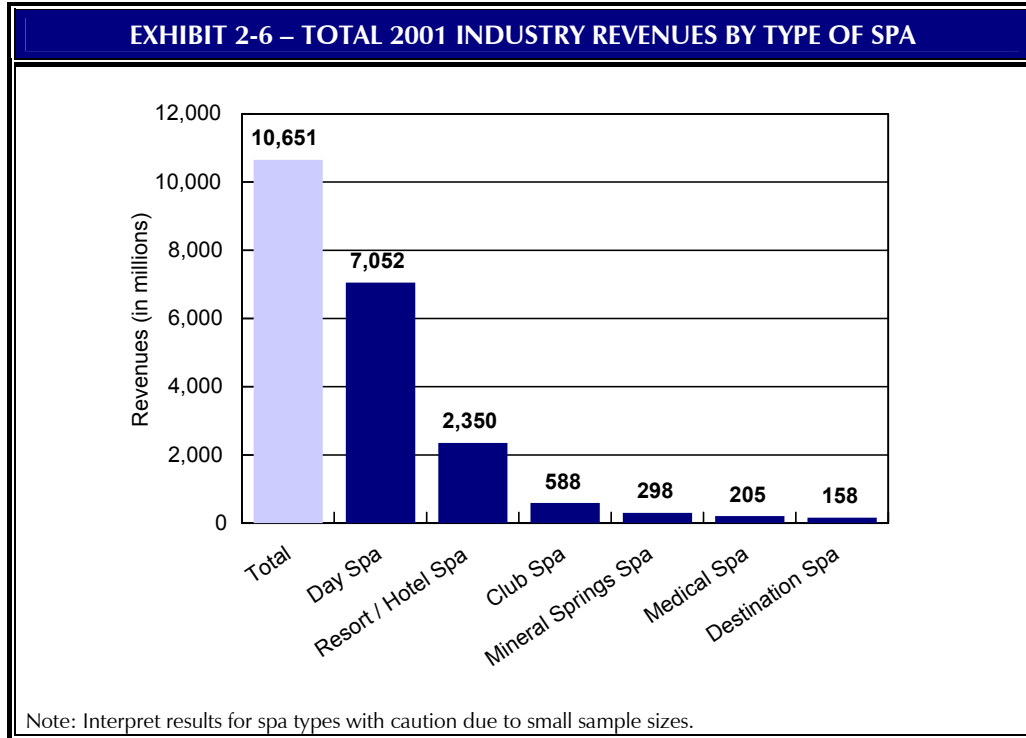
Revenues

In 2001, the U.S. spa industry (excluding cruise ship spas) generated a total of \$10.7 billion in revenues. As seen in **Exhibit 2-5**, the spa industry has gained some ground on the key leisure industries since the 2000 study. In 1999, when the spa industry generated \$5.0 billion, amusement/theme park revenues were \$9.1 billion while box office gross receipts were \$7.5 billion. The industry continues to be strongly positioned among a number of key U.S. leisure industries that compete for the consumer’s disposable income.



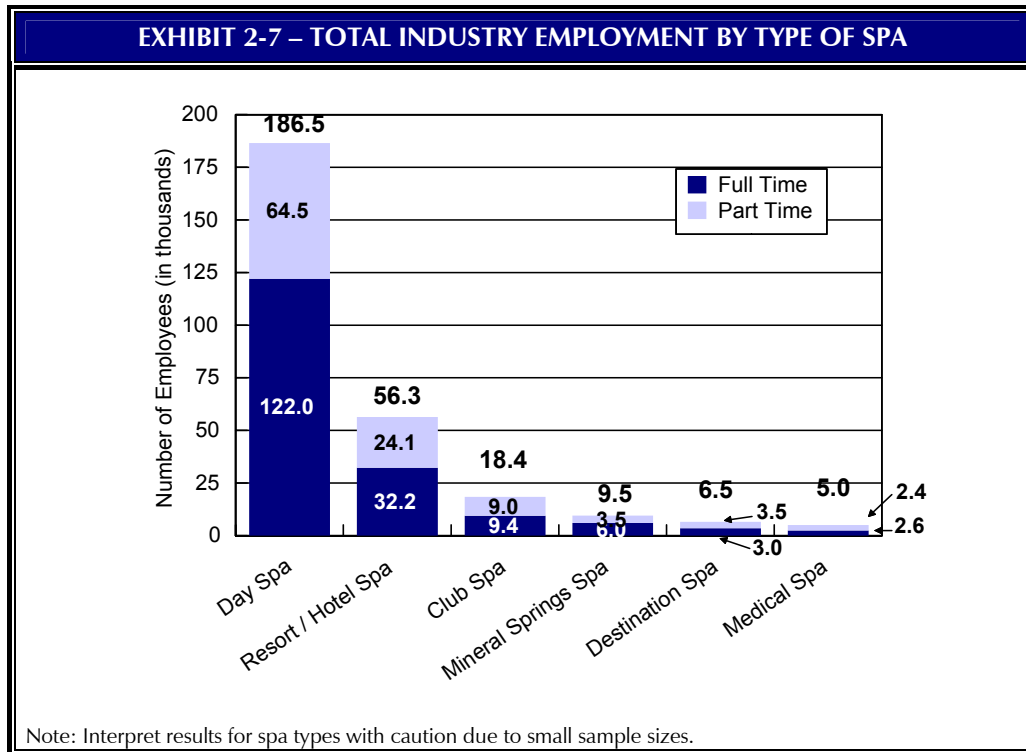
Two-thirds (66%) of the spa industry's \$10.7 billion in revenues in 2001 were generated by the day spa category. At \$2.4 billion (or 22%), resort/hotel spas accounted for the second largest portion of industry revenues. Industry revenue by spa type is summarized in **Exhibit 2-6**.

As the number of resort/hotel spas increased, so did this category's share of revenue. Specifically, the portion of industry revenues coming from resort/hotel spas has almost doubled since the 2000 study from 12% to 22%.



How Many People are Employed by the Spa Industry?

As a whole, the spa industry employs an estimated 176,000 full time employees and 106,000 part time employees. As shown in **Exhibit 2-7**, the distribution of employees by spa category follows a similar pattern to that of spa revenues. Like revenues, there has been a shift in the distribution of employees by spa type, with the proportion of industry employees accounted for by resort/hotel spas increasing significantly since the 2000 study.



What is the Contribution of the U.S. Spa Industry to the Economy?

The economic contribution of the U.S. spa industry goes beyond the direct effects such as revenues generated, workers employed, and wages and salaries paid by the industry. The other ways by which the spa industry affects the overall economy are described below.

- ◆ **Indirect economic impact.** Spas purchase goods and services from other local businesses such as food and beverage supplies, repair and maintenance services, advertising, utilities and rent. This generates an indirect economic impact as businesses in other sectors work to produce goods and services required by the spa industry. For example, the spa industry purchases services from the linen supply industry, which employs additional workers as a result. In turn, businesses supplying products and services to the linen supply industry represent another round of indirect effects, linking the spa industry to many other sectors in the economy.

- ◆ **Induced economic impact.** When spa employees and employees in other sectors supported by the spa industry - such as the workers in the linen supply industry - spend their income, induced economic impact results. For example, spa employees spend a portion of their income on housing, food, transportation, and an array of household product and service needs, supporting additional businesses and jobs in the economy.
- ◆ **External demand to local economies.** Spas that attract visitors from outside the region play a particularly important role in local economies. The spending of such visitors represents new spending that would not have otherwise occurred in the local economy. In addition to goods and services at the spa establishment, this spending typically includes expenditures on other tourist-related activities in the area such as shopping and dining at local restaurants.
- ◆ **Economic impact of construction.** The construction of new spa facilities and the expansion of existing facilities represent additional economic contribution to the local economies. They generate valuable jobs in the construction sector and in related services. The magnitude of this impact may be considerable. As discussed in **Chapter VI**, the number of spa establishments doubled between 1997 and 2001, while total square footage expanded by 254% between 1997 and 2002.

The total economic impact of the U.S. spa industry is the sum of all of the impacts described above. Without a detailed study of the expenditure patterns of spa businesses, however, it is not possible to develop an accurate estimate of this total economic impact.

Nevertheless, the 2002 study provides a starting point for a conservative estimate of the total economic impact. The Bureau of Economic Analysis (BEA) within the U.S. Department of Commerce provides multipliers that can be applied to the estimates of industry employment and wages and salaries from the ISPA 2002 survey. The BEA publishes multipliers for industries tracked under the North American Industrial Classification System. In that system, spa establishments are classified within physical fitness facilities and membership sports and recreation clubs in NAICS code 76.0205.

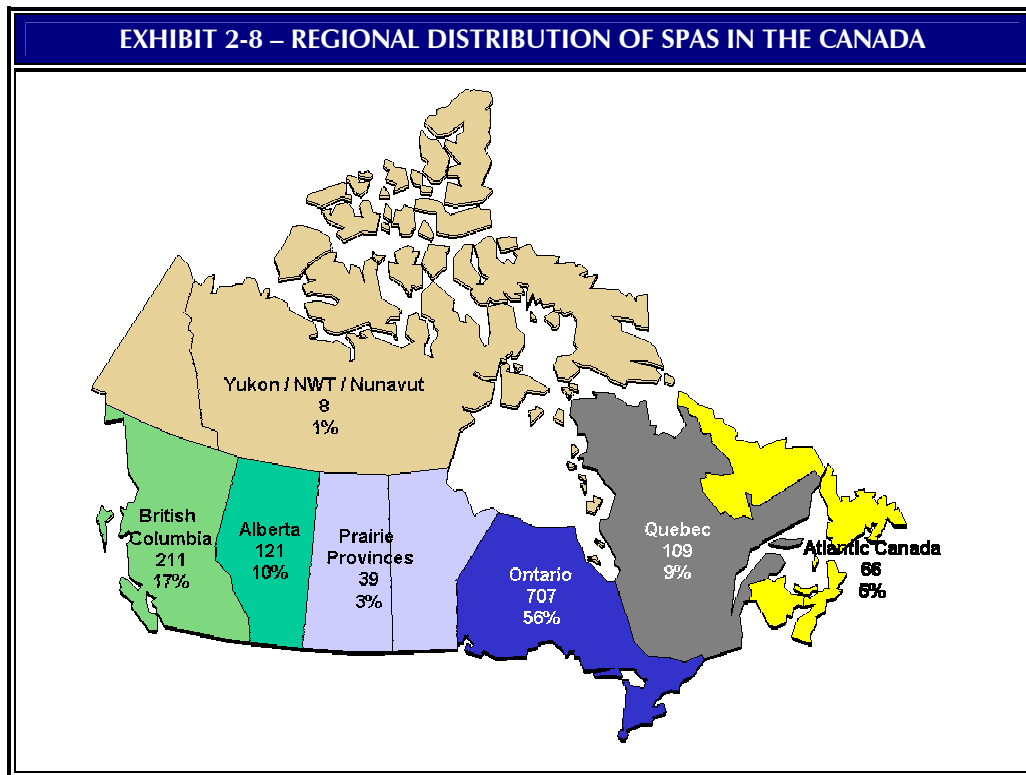
For that industry, the income multiplier is 2.1894, which measures the total dollar change in earnings of households employed by all industries that results from an additional \$1 in earnings paid directly to households employed by the industry. As discussed in **Chapter V**, the U.S. spa industry paid \$5.1 billion in wages and salaries. When the induced effect (described above) is accounted for, the total *earnings* impact of the U.S. spa industry is \$11.2 billion or \$5.1 billion multiplied by 2.1894.

For that industry, the jobs multiplier is 1.5346, which measures the total change in number of jobs in all industries that provide inputs to the industry that results from one additional job in the industry. As discussed in the previous section, the U.S. spa industry employed 176,000 full-time employees and 106,000 part-time employees in 2001. When the total impact is accounted for, the total *jobs* impact of the U.S. spa industry is 351,400 jobs, or 229,000 jobs multiplied by 1.5346, assuming that two part-time jobs are equivalent to one full-time position.

Overview of the Size of the Canadian Spa Industry

At the time of this study, it is estimated that there were approximately 1,300 individual spas in Canada. Results indicate that the 1,300 spas are operated by approximately 1,100 different organizations. Like the U.S. industry, the Canadian industry is also dominated by a large number of small players, with only a few large players.

Exhibit 2-8 illustrates the regional breakdown of spas in Canada. Over half (56%) of Canada’s spas are located in Ontario, which accounts for almost half of Canada’s population. With 17% of the country’s spas, British Columbia is also a key region for the spa industry.



A summary of key Canadian industry statistics is presented in **Exhibit 2-9**. These statistics are based on the findings from the 127 Canadian spas that participated in this study and are provided for information purposes only. Further study of the Canadian industry with a larger sample size is required to produce more reliable estimates.

As seen in **Exhibit 2-9**, the Canadian spa industry generated an estimated \$610 million (in Canadian dollars) in revenue in 2001 from 8.2 million spa visits. The industry occupies approximately 4.5 million square feet of indoor space and employs 16,700 people.

EXHIBIT 2-9 – CANADIAN INDUSTRY STATISTICS	
Total Spas	1,261
Revenues (2001)	\$610 million*
Square Footage	4.5 million
Visits (2001)	8.2 million
<i>Employees:</i>	
Full Time	11,700
Part Time	5,000
Total Employees	16,700

Notes: Interpret results with caution due to small sample sizes, particularly for square footage.

*Revenues are in Canadian dollars.

III. INDUSTRY PROFILE

This chapter provides an overview of the characteristics of the spa industry: franchise affiliation, ownership structure, number of years in business, product offerings, and revenue and visits from male clients.

The first section shows these key characteristics for the U.S. and Canada as a whole and *by U.S. region*. The second section presents the same information for the *different spa types*. It is important to note that the analysis presented in this chapter reflects the typical spa establishment for each subgroup. A profile of the full industry in the U.S. and Canada was provided in **Chapter II**.

Geographic Profile

Total U.S. and Canada

Exhibits 3-1 and **3-2** provides a summary of spa characteristics categorized by geographic location. Following are highlights of the key characteristics of the spa industry in the **U.S.**

- ◆ Day spas dominate the U.S. spa industry, with 75% citing this as their main spa type. Resort/hotel spas are second, accounting for 12% of all establishments, followed closely by club spas (7%).
- ◆ Franchises are still uncommon in the industry. Most U.S. spas are not affiliated with a franchise (96%).
- ◆ Given that the spa industry comprises many small players and few large players, it is not surprising that the most common ownership structures continue to be sole proprietorships (35%) and small corporations (36%). However, it should be noted that there has been an increase in the proportion of large corporations in the industry from 11% in 2000 to 17% in 2002. This is a reflection of the trend toward consolidation within the industry.
- ◆ The strong industry growth is underscored by the finding that half (52%) of spas have been in business for less than five years.
- ◆ As seen in the 2000 study, U.S. spas continue to be more likely to lease their land (54%) and buildings (55%) than to own them. However, almost all establishments (97%) own their own spa equipment.
- ◆ The vast majority of U.S. spas (84%) have a website. This is up considerably from the 58% who had a website in 2000.
- ◆ In terms of the spa product offering, treatment rooms (98%), retail (95%) and beauty salons (66%) continue to be the core products within the industry in the U.S. Self-awareness and self-improvement activities such as educational / nutritional classes (35%) and exercise programs / facilities (34%) are also important product offerings. Roughly one-fifth of the industry have restaurants (23%), offer sports activities (21%) or lodging (19%).
- ◆ The typical spa has 4,000 square feet of space. This is an increase from 3,000 median square feet per establishment reported in the 2000 study. Large establishments pull up the mean square footage to 10,100 square feet.
- ◆ Each spa employs, on average 29.2 persons, the majority (62%) of which are full time employees. The median number of employees is 16.

- ◆ The typical spa has 6,000 visits and \$500,000 in revenues. Several large establishments bring up the average number of visits to 17,000 and average revenue per establishment to \$1.2 million. The average profit margin in the U.S. is 14.9% (interpret with caution due to small sample size).
- ◆ Male patrons account for one-quarter of all spa visits and revenues in the U.S. (both at 24%).
- ◆ On average, U.S. spas earn \$212 per square foot and \$48,000 per treatment room.

Results for the **Canadian** industry should be interpreted with caution due to the small sample size. Further research with a larger sample size is required to produce a true picture of the Canadian industry. Results from responding Canadian spas reveal the following.

- ◆ Among those surveyed, the overwhelming majority (91%) were day spas.
- ◆ Similar to the U.S., the majority of Canadian spas surveyed are not affiliated with a franchise (95%).
- ◆ The most common ownership structure for Canadian spas is sole proprietor (46%), followed by small corporations (33%) and partnerships (19%).
- ◆ Among those surveyed, 23% were new within the past two years, with a further 50% being two to five years old. This is an indication that the Canadian spa industry is also growing rapidly.
- ◆ Those surveyed were more likely to lease their land (66%) and buildings (65%). However, most (99%) own their equipment.
- ◆ Surprisingly, only 43% of those surveyed indicated that their spa has a website.
- ◆ Like the U.S., treatment rooms (96%), retail (90%) and beauty salons (70%) are the core products for those surveyed.
- ◆ On average, each spa has 1.6 locations, with each location being, on average, 3,600 sq. ft.
- ◆ Each spa employs, on average, 13.3 persons. The majority of employees (70%) are full time employees.
- ◆ The average number of visits was 6,500 with average revenues of CDN\$500,000.
- ◆ On average, Canadian spas earn CDN\$167 per square foot and CDN\$25,700 per treatment room.
- ◆ Male patrons account for one-fifth of all spa visits (20%) and revenues (19%) in Canada.

Profile by U.S. Region

This section looks at the spa industry by geographic region. The various regions have been defined as follows:

- ◆ *North East:* Connecticut, Delaware, Massachusetts, Maryland, Maine, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island and Vermont
- ◆ *South East:* Alabama, Washington DC, Florida, Georgia, North Carolina, South Carolina, Tennessee, Virginia and West Virginia
- ◆ *North Central:* Iowa, Illinois, Indiana, Kentucky, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota and Wisconsin
- ◆ *South Central:* Arkansas, Kansas, Louisiana, Mississippi, Oklahoma and Texas
- ◆ *North West:* Alaska, Idaho, Montana, Oregon, Washington and Wyoming
- ◆ *South West:* Arizona, California, Colorado, Hawaii, New Mexico, Nevada and Utah

EXHIBIT 3-1 – PROFILE BY GEOGRAPHY								
	NORTH CENTRAL (n=113)	NORTH EAST (n=137)	NORTH WEST (n=76)	SOUTH CENTRAL (n=79)	SOUTH EAST (n=135)	SOUTH WEST (n=153)	U.S. (n=693)	CANADA (n=127)
SPA CHARACTERISTICS								
TYPE OF SPA:								
Club Spa	3%	8%	19%	8%	6%	7%	7%	2%
Day Spa	84%	81%	73%	81%	72%	61%	75%	91%
Destination Spa	0%	1%	0%	1%	0%	2%	1%	0%
Medical Spa	5%	3%	0%	1%	2%	1%	2%	1%
Mineral Springs Spa	3%	2%	4%	1%	2%	5%	3%	3%
Resort/Hotel Spa	5%	6%	4%	7%	17%	23%	12%	3%
ESTABLISHMENT PROFILE								
FRANCHISE AFFILIATION:								
Franchisor	0%	0%	0%	4%	3%	0%	1%	4%
Franchisee	4%	3%	1%	2%	4%	3%	3%	2%
Non-Franchise	96%	97%	99%	93%	93%	97%	96%	95%
OWNERSHIP STRUCTURE:								
Sole Proprietor	51%	33%	44%	33%	29%	29%	35%	46%
Partnership	7%	15%	10%	16%	11%	9%	11%	19%
Small Corporation	34%	38%	40%	31%	40%	32%	36%	33%
Major Corporation	8%	13%	5%	20%	19%	28%	17%	2%
Other	0%	2%	0%	0%	1%	3%	1%	0%
NUMBER OF YEARS IN BUSINESS:								
Less than 2 years	13%	14%	11%	18%	16%	18%	15%	23%
2 to 5 years	37%	38%	46%	34%	37%	36%	37%	50%
6 to 12 years	31%	27%	31%	25%	28%	24%	27%	14%
More than 12 years	20%	21%	13%	23%	19%	22%	20%	12%
OWNED VS. LEASED:								
<i>Land</i>								
Owned	46%	39%	32%	47%	46%	56%	46%	34%
Leased	54%	61%	68%	54%	54%	45%	54%	66%
<i>Building</i>								
Owned	42%	37%	28%	48%	47%	58%	45%	35%
Leased	58%	63%	72%	52%	53%	42%	55%	65%
<i>Equipment</i>								
Owned	94%	98%	94%	100%	99%	97%	97%	99%
Leased	6%	2%	6%	0%	1%	4%	3%	1%
SPA HAS WEBSITE:								
	74%	90%	62%	82%	83%	94%	84%	43%
PRODUCT OFFERING								
PRODUCT OFFERING:								
Treatment Rooms	99%	99%	88%	99%	98%	99%	98%	96%
Exercise Programs / Facilities	18%	28%	35%	36%	40%	47%	34%	19%
Educational / Nutritional Classes	35%	33%	28%	36%	35%	39%	35%	24%
Lodging	9%	18%	10%	10%	15%	37%	19%	13%
Restaurants	13%	23%	11%	21%	24%	34%	23%	11%
Sports Activities	13%	19%	16%	17%	23%	32%	21%	7%
Retail	97%	91%	90%	94%	98%	95%	95%	90%
Beauty Salon	79%	61%	51%	72%	68%	60%	66%	70%
Other	2%	6%	1%	0%	3%	7%	4%	6%

Note: Interpret regional results with caution due to small sample sizes.

Exhibit 3-2 below summarizes key spa statistics such as average size, revenues, number of employees and number of visits by region.

EXHIBIT 3-2 – KEY STATISTICS BY GEOGRAPHY								
	NORTH CENTRAL (n=113)	NORTH EAST (n=137)	NORTH WEST (n=76)	SOUTH CENTRAL (n=79)	SOUTH EAST (n=135)	SOUTH WEST (n=153)	U.S. (n=693)	CANADA (n=127)
SPA STATISTICS (AVERAGES)*								
Number of Locations - Mean	2.3	3.4	2.1	3.6	3.4	5.3	3.5	1.6
Number of Locations - Median	1	1	1	1	1	1	1	1
Revenue (in millions) - Mean	1.3	1.1	0.4	0.9	0.9	1.7	1.2	0.5
Revenue (in millions) - Median	0.6	0.6	0.3	0.5	0.5	0.8	0.5	0.2
Full Time Positions - Mean	17.5	17.2	8.8	20.1	17.6	22.1	18.2	9.3
Full Time Positions – Median	12	9	6	13	11	13	10	6
Part Time Positions - Mean	8.4	11.1	6.2	5.8	9.4	18.1	11.0	4.0
Part Time Positions - Median	5	6	3	4	5	10	6	2
Total Indoor Sq. Footage -Mean	7,000	9,500	6,800	11,900	8,500	14,900	10,100	3,600
Total Indoor Sq. Footage -Median	4,000	3,500	3,500	4,500	3,600	6,500	4,000	2,200
Annual Spa Visits - Mean*	25,900	11,600	26,900	13,400	13,200	18,500	17,000	6,500
Annual Spa Visits - Median*	5,500	5,000	7,900	4,100	5,000	9,000	6,000	5,000
% of Revenue from male clients	21%	23%	29%	24%	22%	28%	24%	19%
% of Visits from male clients	20%	24%	27%	22%	24%	29%	24%	20%
Revenue per square foot	N/A	N/A	N/A	N/A	N/A	N/A	212	167
Treatment room rev. per treatment room	N/A	N/A	N/A	N/A	N/A	N/A	48,000	25,700

Note: *Means represent the average values for the given item while medians represent the midpoint (i.e., 50% of responses fall below the median and 50% are above the median).

Interpret regional results with caution due to small sample sizes.

Dollar amounts for Canadian spas are in Canadian dollars.

The following summarizes some key differences between the U.S. regions (note that only significant differences are reported):

- ◆ **North Central:** Spas in the north central region are the most likely to have beauty salons (79%) as part of their product offering. Conversely, they are less likely than U.S. spas in general to offer exercise programs / facilities and restaurants. They tend to be more independently owned, with sole proprietorship being the main ownership structure among these spas (51%). On the other hand, they are among the least likely to be owned by a major corporation (8%).
- ◆ **North East:** Spas in the north east region tend to mirror the typical U.S. spa establishment. Moreover, there are no significant differences between the north east region and the industry average.
- ◆ **North West:** Compared to the U.S. as a whole, spas in the north west region are more likely to be club spas (19%) and therefore less likely to offer treatment rooms (88%) as noted in the club spa profile in the next section. They are less likely to own their buildings (28%) and tend to be smaller in size (6,800 sq. ft. on average). They are also less likely to offer restaurants (11%) or beauty salons (51%). In terms of ownership, they are among the least likely to be part of a major corporation. They tend to have fewer employees (15) and lower revenues (\$400,000).
- ◆ **South Central.** Spas in the south central region tend to mirror the typical U.S. spa establishment, with the exception that they are more likely to be a franchisor (4%) than spas in other regions.

- ◆ **South East.** Spas in the south east region also tend to mirror the typical U.S. spa establishment. Like spas in the south central region, they are more likely than spas in other regions to be a franchisor (3%). Like the south west region, spas in the south east region are also more likely to be a resort/hotel spas.
- ◆ **South West.** Compared to the U.S. as a whole, they are less likely to be day spas (61%) and more likely to be resort/hotel spas (23% or double the industry share). Given this, it is not surprising that spas in this region are more likely to offer lodging (37%) and / or food service (34%) than for the U.S. as a whole. They are also more likely to offer exercise programs / facilities (47%) and sports activities (32%). South west spas tend to be on the high side for most industry statistics including number of locations (5.3), employees (40.2), square footage (14,900) and revenues (\$1.7 million).

Profile by Type of Spa

This section looks at the spa industry by type of spa. **Exhibits 3-3** and **3-4** provides a summary of spa characteristics, establishment profile, product offering and spa statistics by the type of spa. For the purpose of the 2002 study, cruise ship spas, destination spas, medical spas and mineral spring spas have all been grouped under “other type of spa” due to the small sample sizes in these categories.

Spa industry segments are defined as follows.

- ◆ **Club Spa.** A facility whose primary purpose is fitness and which offers a variety of professionally administered spa services on a day use basis.
- ◆ **Cruise Ship Spa.** A spa aboard a cruise ship providing professionally administered spa services, fitness and wellness components and spa cuisine menu choices.
- ◆ **Day Spa.** A spa offering a variety of professionally administered spa services to clients on a day use basis.
- ◆ **Destination Spa.** A spa whose sole purpose is to provide guests with lifestyle improvement and health enhancement through professionally administered spa services, physical fitness, education programming and on-site accommodations. Spa cuisine is served exclusively.
- ◆ **Medical Spa.** Individuals, solo practices, groups and institutions comprising medical and spa professionals whose primary purpose is to provide comprehensive medical and wellness care in an environment which integrates spa services, as well as conventional and complementary therapies and treatments.
- ◆ **Mineral Springs Spa.** A spa offering an on-site source of natural mineral, thermal or seawater used in hydrotherapy treatments.
- ◆ **Resort/Hotel Spa.** A spa owned by and located within a resort or hotel providing professionally administered spa services, fitness and wellness components and spa cuisine menu choices.

A brief comparison of the different types of spas follows the exhibit.

EXHIBIT 3-3 – PROFILE BY TYPE OF SPA				
	CLUB SPA* (n=57)	DAY SPA (n=602)	RESORT / HOTEL SPA* (n=105)	OTHER TYPE OF SPA* (n=56)
SPA CHARACTERISTICS				
LOCATION OF MAIN SPA:				
North East	23%	20%	11%	17%
South East	16%	17%	27%	14%
North West	16%	5%	2%	4%
North Central	8%	18%	8%	21%
South West	23%	17%	43%	30%
South Central	11%	10%	6%	5%
Canada	3%	14%	3%	9%
ESTABLISHMENT PROFILE				
FRANCHISE AFFILIATION:				
Franchisor	0%	1%	3%	1%
Franchisee	5%	2%	7%	1%
Non-Franchise	95%	96%	90%	99%
OWNERSHIP STRUCTURE:				
Sole Proprietor	18%	41%	17%	36%
Partnership	13%	12%	10%	12%
Small Corporation	36%	38%	16%	41%
Major Corporation	31%	9%	55%	8%
Other	2%	1%	2%	4%
NUMBER OF YEARS IN BUSINESS:				
Less than 2 years	12%	16%	24%	11%
2 to 5 years	32%	40%	37%	32%
6 to 12 years	28%	27%	23%	17%
More than 12 years	29%	17%	17%	40%
OWNED VS. LEASED:				
<i>Land</i>				
Owned	62%	35%	92%	68%
Leased	39%	65%	8%	32%
<i>Building</i>				
Owned	56%	34%	95%	68%
Leased	44%	66%	5%	32%
<i>Equipment</i>				
Owned	95%	97%	100%	98%
Leased	5%	3%	0%	2%
SPA HAS WEBSITE:				
	78%	76%	96%	94%
PRODUCT OFFERING**				
PRODUCT OFFERING:				
Treatment Rooms	86%	99%	100%	99%
Exercise Programs / Facilities	90%	18%	87%	61%
Educational / Nutritional Classes	54%	29%	46%	56%
Lodging	20%	8%	70%	55%
Restaurants	29%	12%	79%	39%
Sports Activities	62%	8%	68%	38%
Retail	80%	95%	100%	83%
Beauty Salon	43%	69%	77%	40%
Other	0%	3%	14%	5%

Notes: * Results should be interpreted with caution due to the small sample size.

Other type of spa includes medical spas, mineral springs spas, destination spas and cruise ship spas.

**While all resort spas are located at and owned by a resort, the spa itself may not be the operator of the lodging department.

Exhibit 3-4 below summarizes key spa statistics such as average size, revenues, number of employees and number of visits by spa type.

EXHIBIT 3-4 – KEY STATISTICS BY TYPE OF SPA				
	CLUB SPA* (n=57)	DAY SPA (n=602)	RESORT / HOTEL SPA* (n=105)	OTHER TYPE OF SPA* (n=56)
SPA STATISTICS (AVERAGES)**				
Number of Locations - Mean	5.6	2.5	9.5	2.2
Number of Locations - Median	2	1	2	1
Revenue (in millions) – Mean***	0.9	0.9	2.1	1.2
Revenue (in millions) – Median***	0.3	0.4	1.2	0.5
Full Time Positions - Mean	13.6	15.7	28.1	19.7
Full Time Positions – Median	8	9	20	12
Part Time Positions - Mean	13.0	8.1	20.8	14.5
Part Time Positions - Median	9	4	15	8
Total Indoor Square Footage -Mean	30,200	5,600	20,800	21,500
Total Indoor Square Footage -Median	10,000	3,200	15,000	10,000
Annual Spa Visits - Mean*	22,900	14,100	22,700	14,500
Annual Spa Visits - Median*	7,000	5,000	18,000	2,900
% of Revenue from male clients	36%	21%	27%	27%
% of Visits from male clients	39%	21%	29%	29%
Revenue per square foot	N/A	221	139	N/A
Treatment room rev. per treatment room	N/A	40,000	72,800	N/A

Notes: * Results should be interpreted with caution due to the small sample size.
 Other type of spa includes medical spas, mineral springs spas, destination spas and cruise ship spas.
 **Means represent the average values for the given item while medians represent the midpoint (i.e., 50% of responses fall below the median and 50% are above the median).
 ***Canadian revenues were converted to U.S. dollars at the average 2001 exchange rate of 1.5485.

The following summarizes some key differences between the different types of spas (only significant differences are reported):

- ◆ **Club Spa:** Given that their primary purpose is fitness, it is not surprising that they have placed more emphasis, compared to other spa types, on exercise programs (90%) and sports activities (62%), and less emphasis on treatment rooms (only 86% have treatment rooms associated with their spa) and beauty salons (43%). Like resort/hotel spas, club spas are more likely than the average spa to belong to a major corporation (31%). The average and median number of locations is also higher than average. Club spas are the most likely to cater to males with 39% of visits and 36% of revenues derived from them.
- ◆ **Day Spa:** Day spas tend to be independently owned, with 41% being sole proprietorships. Their establishments tend to be smaller (5,600 sq. ft. on average or median of 3,200 square feet) and they are more likely to lease both their land (65%) and building space (66%). In terms of products offered, they are the least likely to offer exercise programs / facilities (18%), educational / nutritional programs (29%), lodging (8%), restaurants (12%) or sports activities (8%). Day spas are the least likely to cater to males with only 21% of visits and revenues derived from them. Day spas have a higher than average revenue per square foot.
- ◆ **Resort/Hotel Spa:** At 43%, resort/hotel spas are the most likely to be located in the south west region. Conversely, they are among the least likely to be located in the north central region (8%). Resort/hotel spas are the most likely to be owned by a major corporation (55%) and are more likely to own both

their land (92%) and buildings (95%). In terms of industry statistics, they lead the industry in terms of average number of locations (9.5), average number of employees (48.9), average revenues (\$2.1 million) and average treatment room revenues per room of \$72,800.

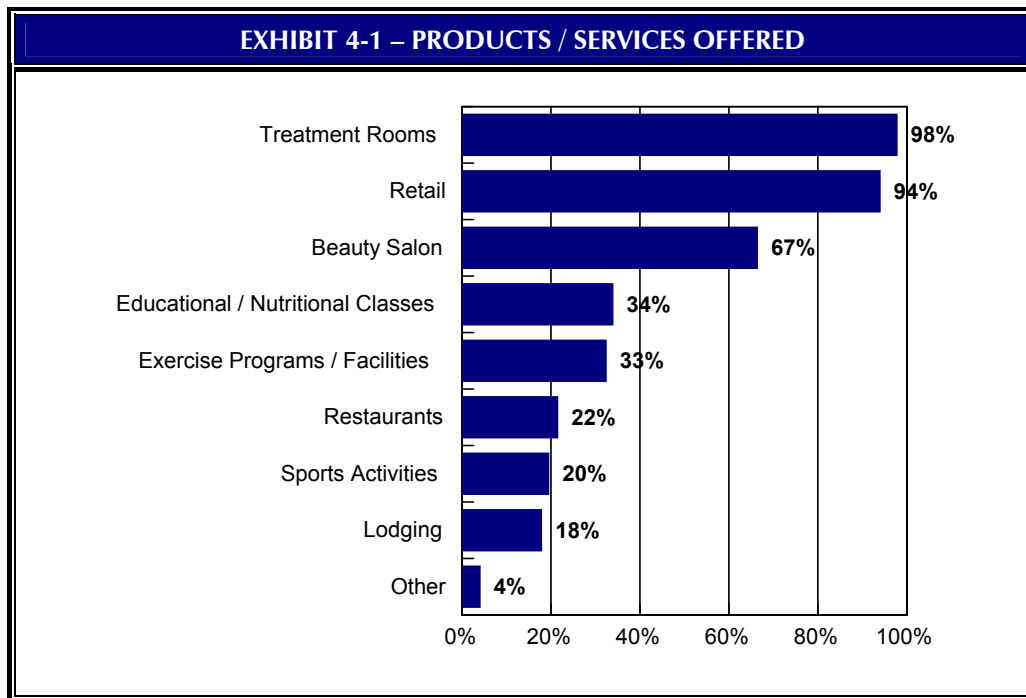
IV. PRODUCT / SERVICE OFFERING

This chapter looks at the product / service offering of spas in the U.S. and Canada. The first section discusses the services offered and key product offerings within each service. The second section presents how space is allocated among different uses in the spa industry. The chapter concludes with how revenues are generated through various offerings in the industry.

What Products/Services are Spas Offering?

Treatment rooms (98%) and retail (94%) continue to top the list of products and services offered by spa establishments in the U.S. and Canada. At 67%, beauty salons also continue to be a core component of industry service. These results are summarized in **Exhibit 4-1**.

A third of spas offer self-awareness and self-improvement activities such as educational / nutritional classes (34%) and exercise programs / facilities (33%). Approximately one-fifth of spas also offer lodging (18%), sports activities (20%) and / or restaurants (22%). There have been no major shifts in the product offering of the industry (in terms of the proportion offering them) in the past two years.



Spas that indicated that they had **treatment rooms** were asked what types of treatments they offered to their clientele. The most popular types of treatments offered include massage (98%), facials (95%) and wet treatments (78%). A considerable portion (18%) of those offering treatment rooms also mentioned aesthetic care/treatment. In analyzing the results, it should be noted that the top three products were listed on the survey while others were mentioned unprompted by respondents.

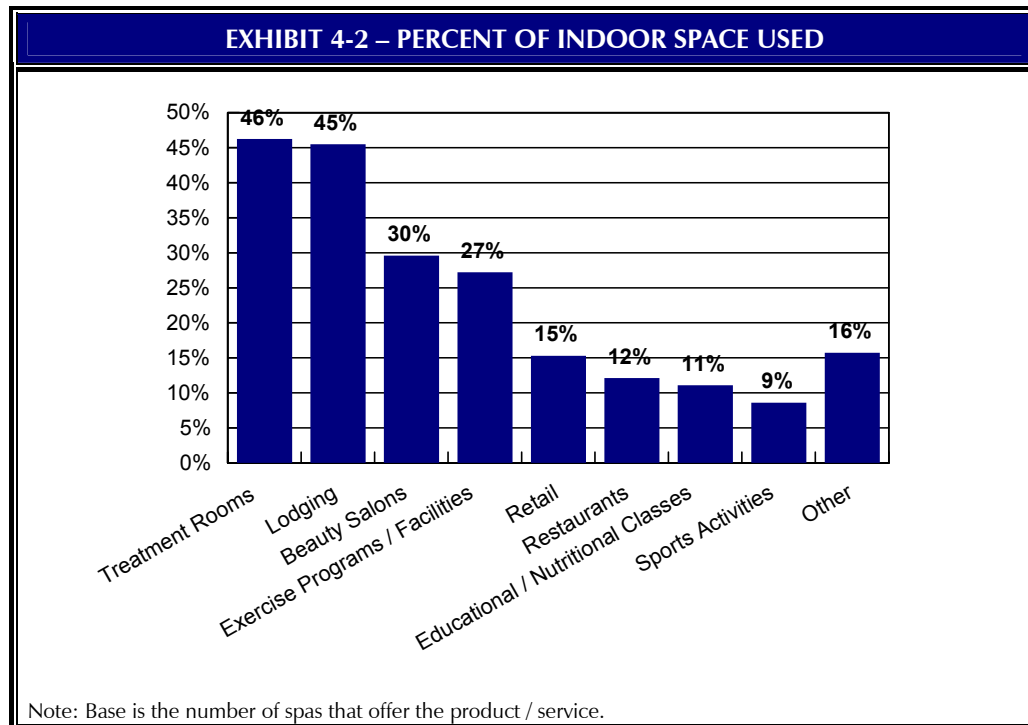
Those who offer **exercise programs and facilities** indicated that their core offerings include fitness rooms (81%), yoga (74%), cardiovascular programs (73%), weight training (72%), spiritual or mind and body programs (e.g., Tai Chi, medical, Chi Gong) (58%) and aerobics (57%). Other programs / facilities offered include outdoor pools (54%), posture and alignment (51%) and indoor pools (33%). The results are similar to those seen in 2000.

The most popular product offerings in the **educational / nutritional classes** department continue to be healthy eating classes (79%), weight loss programs (61%), fitness consultation (58%), body composition (57%), fitness assessment (54%), personal training (49%) and medical supervision (19%). Results are unchanged in the past two years.

The **sports activity product offering** also remains unchanged in the past two years. Specifically, for those who offer sports activities, popular individual activities include walking / jogging (88%), biking (58%), hiking (49%) and horseback riding (19%). Common organized sporting activities offered include tennis (62%), golf (48%), volleyball (37%) and other racquet sports (30%). Other activities include water sports (26%), boating (23%) and cross-country skiing (15%).

How is Indoor Space Used?

Treatment rooms (46%) and lodging (45%) continue to account for the largest amount of indoor spa space among those who offer these services. Beauty salons (30%) and exercise programs/facilities (27%) also continue to account for the next most significant portion of space among those who offer them. These results (see **Exhibit 4-2**) show no significant change since 2000.



Those offering treatment rooms were asked to indicate what portion of their treatment room space was allocated to each of the top three treatments. Treatment room space allocation by treatment is as follows:

- ◆ Massage – 48% of treatment room space among those who offer the treatment
- ◆ Facials – 33% of treatment room space
- ◆ Wet treatments – 18% of treatment room space

Those offering the top three treatments were also asked to indicate how many treatment rooms they had for each.

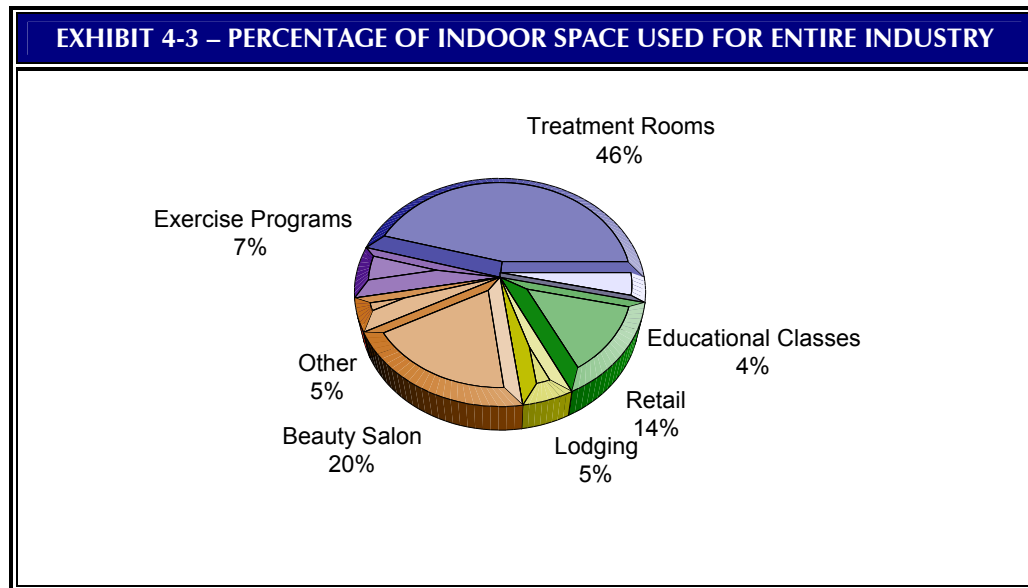
- ◆ Massage – average of 4.9 rooms among those who offer the treatment
- ◆ Facials – average of 3.2 rooms
- ◆ Wet treatments – average of 2.2 rooms

Similarly, those offering beauty salons were asked how many stations they had for specific services. The averages among those offering beauty salons are as follows:

- ◆ Hair – average of 7.7 stations among those offering beauty salons
- ◆ Manicure – average of 3.6 stations
- ◆ Pedicure – average of 2.8 stations

Those offering lodging indicated that on average, they have 179 rooms available.

Exhibit 4-3 examines how space is utilized in the industry as a whole. Treatment rooms account for 46% of space in the spa industry. At 20% of the industry’s space, beauty salons are a distant second, followed closely by retail (14%). The remaining 20% of industry space is divided among the remaining product offerings. As pointed out in the 2000 study, lodging accounts for one of the largest portions of space among those who have it, but accounts for a relatively small portion of space in the overall industry.



The results show that there has been a slight shift in industry space distribution over the past two years. More specifically, space allocation to treatment rooms in the industry has grown by five percentage points suggesting that the industry is getting back to its core product offering. The gain came primarily at the expense of beauty salon space.

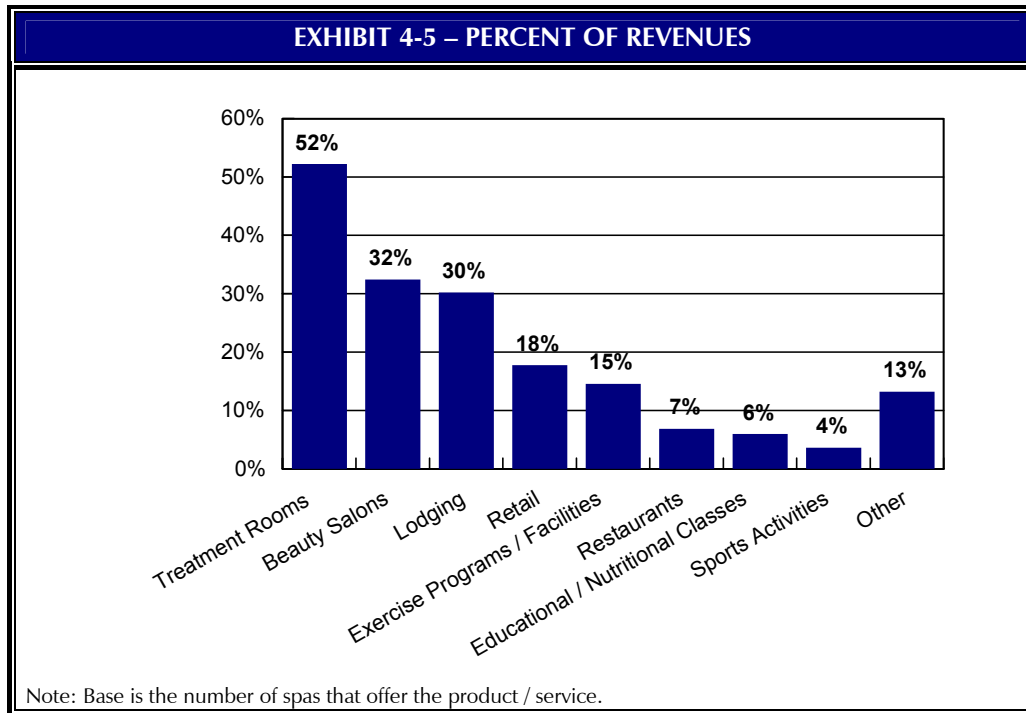
A distribution of industry space for different spa types is presented in **Exhibit 4-4**. As seen in the exhibit, the day spa sector is much more heavily weighted to treatment rooms, beauty salons and retail, while resort spas have a greater portion of space allocated to lodging and exercise programs. Other spa types have a greater space allocation for exercise programs.

	DAY SPA (n=512)	RESORT / HOTEL SPA* (n=66)	OTHER TYPE OF SPA* (n=82)
Treatment Rooms	48%	36%	33%
Exercise Programs	3%	14%	32%
Educational Classes	4%	2%	4%
Lodging	2%	24%	12%
Restaurant	1%	6%	3%
Sports Activities	0%	3%	5%
Retail	16%	7%	7%
Beauty Salon	23%	6%	3%
Other	2%	2%	3%

Notes: * Results should be interpreted with caution due to the small sample size.
Other type of spa includes club spas, medical spas, mineral springs spas, destination spas and cruise ship spas.

Where is the Money Made?

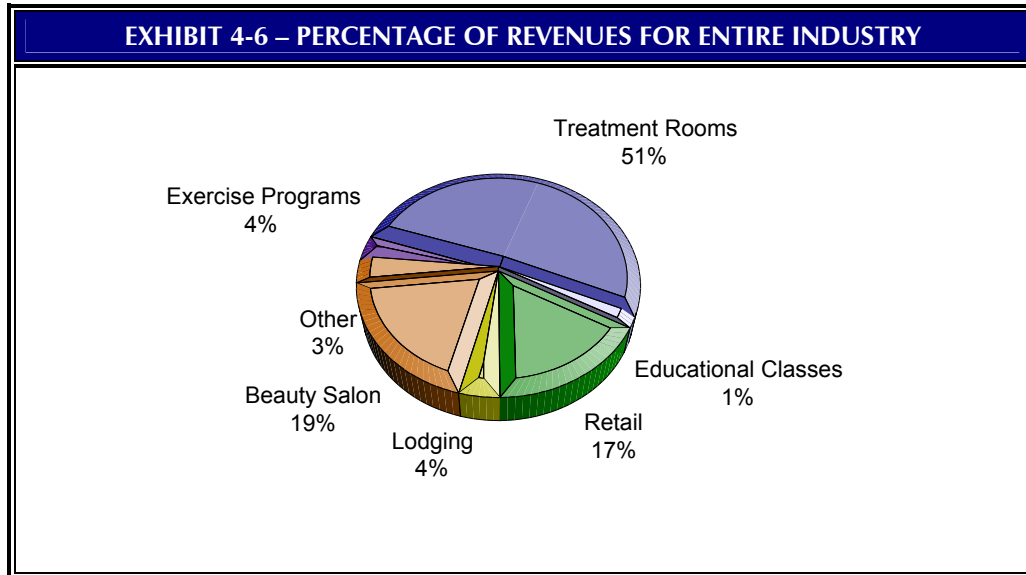
Exhibit 4-5 shows the percentage of revenues allocated to each of the different product offerings among those who offer the product. Treatment rooms are the greatest contributor to revenue, accounting for half (52%) of revenues among those who have treatment rooms (which includes almost all spas). Beauty salons (32%) and lodging (30%) are also significant revenue contributors, as are retail (18%) and exercise programs (15%). There were no significant changes in product revenue contribution at the individual spa level since the 2000 study.



Those offering treatment rooms were asked to indicate what portion of their treatment room revenues were derived from each of the top three treatments. Treatment room revenue allocation by treatment is as follows:

- ◆ Massage – 49% of treatment room revenue (among those who offer the treatment)
- ◆ Facials – 34% of treatment room revenue
- ◆ Wet treatments – 15% of treatment room revenue

Exhibit 4-6 shows how revenues are divided among the different product offerings for the overall industry. Half (51%) of industry revenues are derived from treatment rooms, the industry’s primary product. Beauty salons (19%) and retail (17%) are also key contributors to total industry revenue. The remaining 13% of industry revenues is divided among the remaining product offerings.



Consistent with the results for industry space allocation, the industry has seen a shift in the revenue distribution by product. There was a significant increase from the 2000 study in the proportion of industry revenues derived from treatment rooms (up four percentage points). On the other hand, there has been a significant decline in the proportion of industry revenues that is derived from beauty salons (down five percentage points).

A distribution of industry revenue for different spa types is presented in **Exhibit 4-7**. As seen in the exhibit, the day spa sector receives a greater portion of its revenues from beauty salons and retail than other sectors. As expected, lodging is a key revenue generator for resort/hotel spas.

	DAY SPA (n=366)	RESORT / HOTEL SPA* (n=57)	OTHER TYPE OF SPA* (n=50)
Treatment Rooms	51%	56%	52%
Exercise Programs	2%	6%	18%
Educational Classes	2%	1%	1%
Lodging	2%	14%	10%
Restaurant	1%	3%	2%
Sports Activities	0%	2%	1%
Retail	19%	10%	10%
Beauty Salon	23%	8%	3%
Other	2%	0%	2%

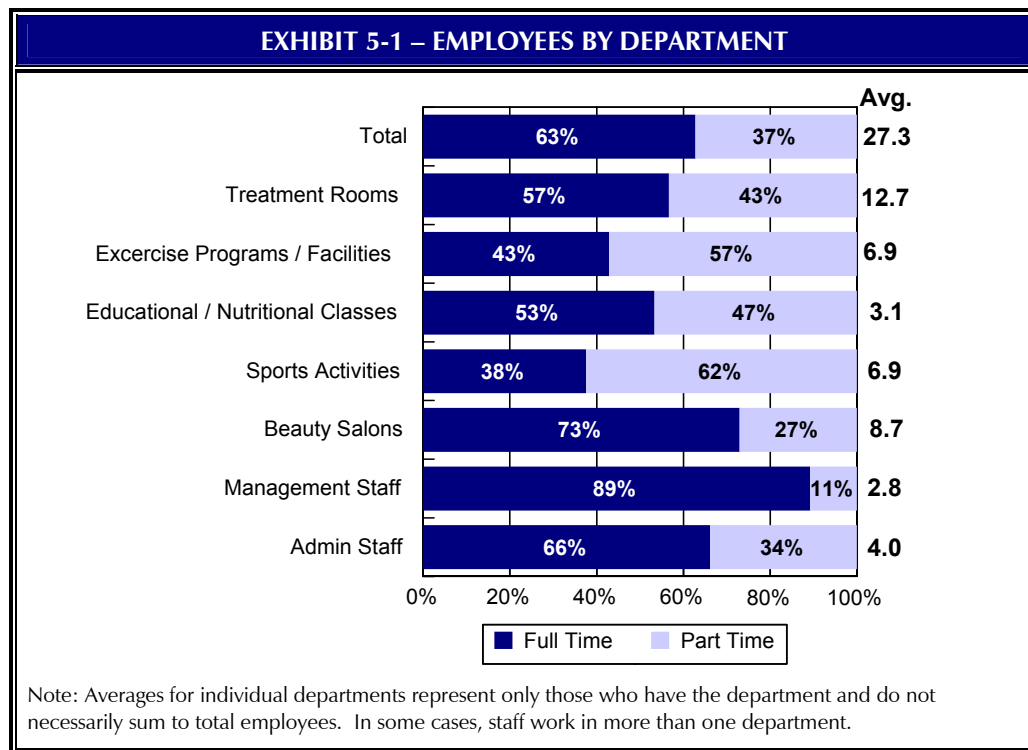
Notes: * Results should be interpreted with caution due to the small sample size.
Other type of spa includes club spas, medical spas, mineral springs spas, destination spas and cruise ship spas.

V. EMPLOYMENT AND COMPENSATION IN THE SPA INDUSTRY

The spa industry is a very labor-intensive industry. This chapter examines the employment structure and compensation and benefits generally offered by spas in the U.S. and Canada.

Employment Structure

On average, spas employ 27 people, of whom 63% are full time and 37% are part time. While the average number of employees is unchanged, it is worth noting that there has been a shift to a greater proportion of part time staff (30% part-time in the 2000 study). These results are presented in **Exhibit 5-1**.



As seen in the exhibit, beauty salons are the most full time intensive departments with 73% full time staff. Treatment rooms (57%) and educational / nutritional class (53%) departments also tend to employ more full time staff than part time. The remaining departments tend to have a greater proportion of part time employees than full time employees.

When it comes to management, the vast majority of management staff (89%) are full time. At 66%, administration staff personnel also have a greater likelihood of being full time.

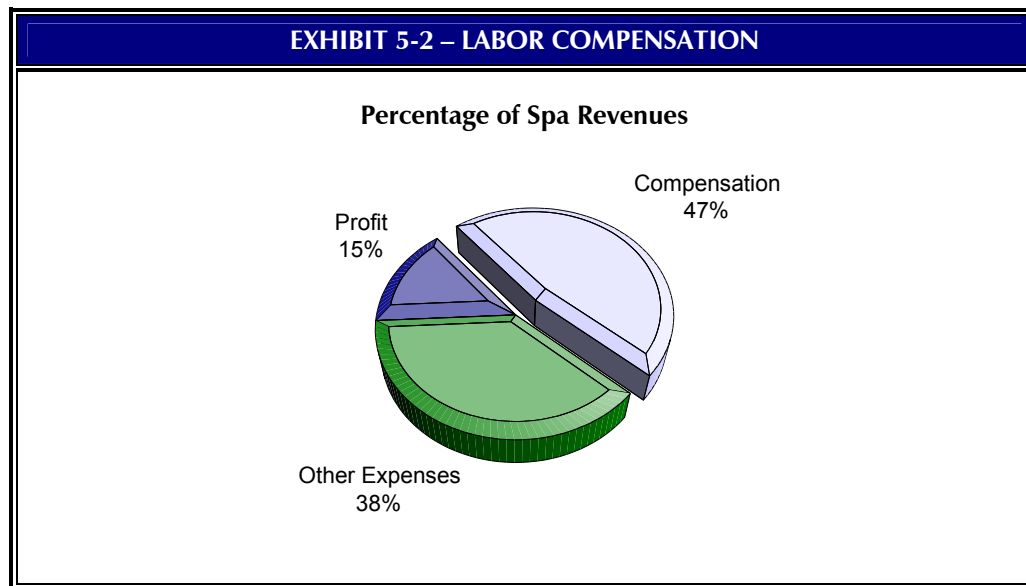
In terms of number of employees, treatment rooms tend to require the most people with an average of 13 employees in the department (among spas who have the department). At an average of nine employees, beauty salons are second, followed closely by sports activities and exercise programs/facilities (both at seven

employees). By far the smallest department is educational/nutritional classes (three employees). Many respondents, particularly in the smaller spas, indicated that staff tend to work in more than one department. Spas employ an average of 3 management staff and 4 administration staff per location.

Compensation and Benefits

Exhibit 5-2 shows that in the labor-intensive spa industry, labor compensation amounts to 47% of revenues, by far the single largest expense. Therefore, this is an important area for spa owners to monitor and ensure they are within industry norms. At the same time, it is important to make sure compensation is competitive in the market to attract new people to the industry. Labor expense shares are similar in both the U.S. (48% of revenues) and Canada (44%). In the U.S., this translates to \$5.1 billion in wages and salaries.

Resort / hotel spas (51%) and day spas (48%) have compensation-to-revenue ratios that are significantly higher than other spa types (40%).



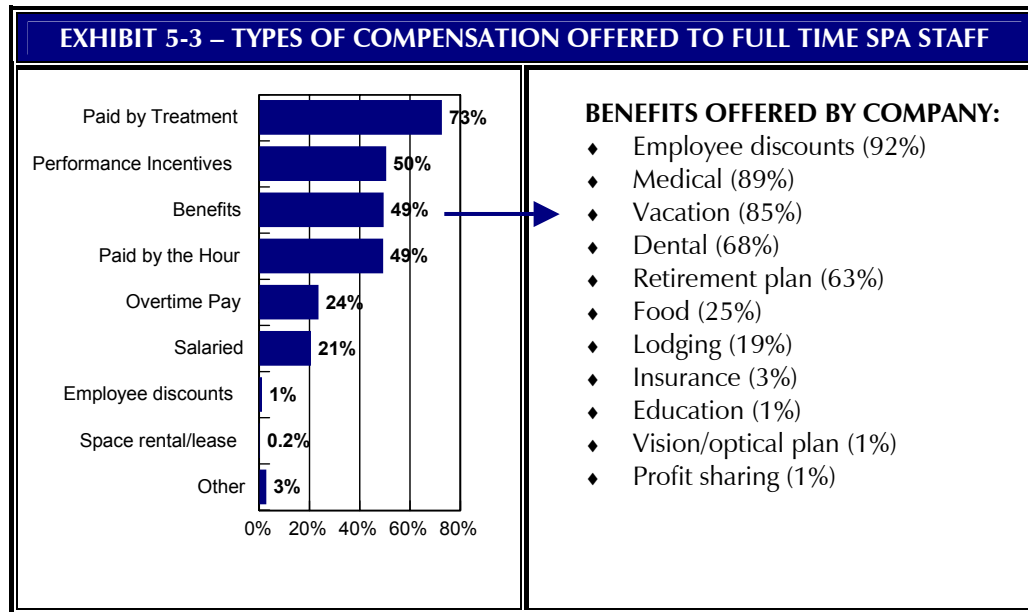
Full Time Spa Staff Compensation

As seen in **Exhibit 5-3**, the most common form of compensation for full time spa staff (excluding management) is payment by the treatment. Seventy-three percent (73%) of spa owners/managers mentioned this as one of the types of compensation they use. Performance incentives (50%) and pay by the hour (49%) are also quite common in the industry. On the other hand, only 24% indicated that they pay overtime to full time employees while only 21% pay them a salary.

Following are some key differences between spa type and country.

- ◆ Resort/hotel spas are the most likely to pay by the hour (86%), by the treatment (83%) or to offer benefits (75%).
- ◆ Day spas also tend to pay full time staff by the treatment (74%).

- ◆ Canadian spas are less likely to pay by the treatment (59%) or to pay overtime (15%).



As seen in the exhibit, 49% of all spas offer their full time spa staff benefits. The most common benefits are employee discounts (92%), medical (89%), vacation (85%), dental (68%) and retirement plans (63%). As seen in the 2000 study, Canadian spas continue to be far less likely than U.S. spas to offer benefits in general (21% vs. 53%).

Since the 2000 study, there have been some notable shifts in the portion of the industry offering the different types of compensation and benefits.

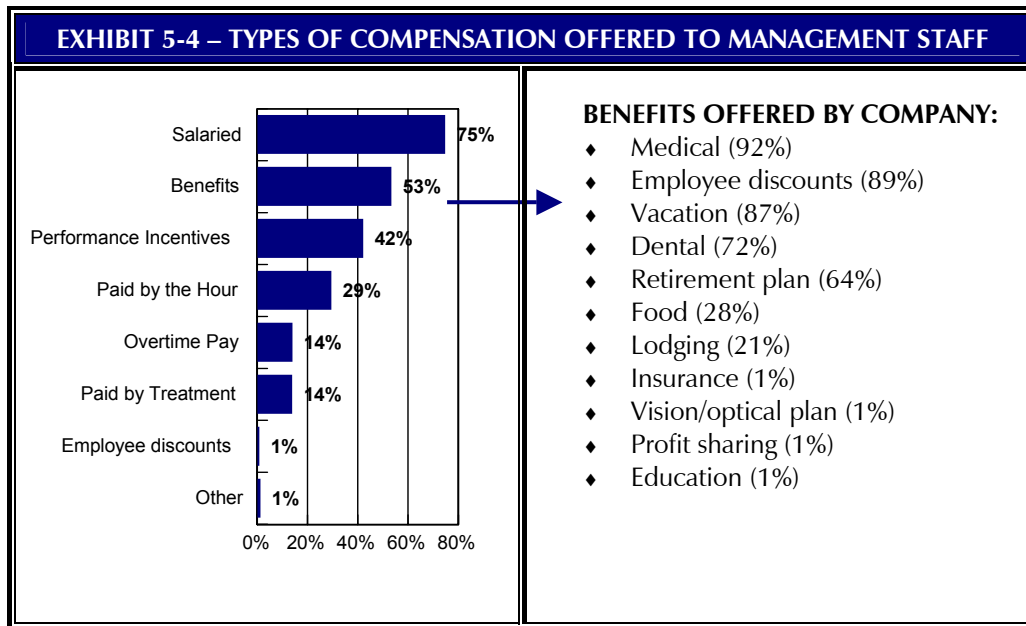
- ◆ The industry is shifting more towards performance-based compensation. This is evidenced by the significant shift in the proportion of spas offering this type of compensation: 50% in 2002 vs. 34% in 2000.
- ◆ The 2002 study also saw a greater portion of spas paying by the hour than in 2000: 49% vs. 42%, respectively.
- ◆ More spas are offering the most desired benefits to spa staff. Specifically, the proportions of spas offering medical, dental, vacation and retirement plan benefits have increased significantly.

Management Staff Compensation

A new feature of the 2002 study is the addition of compensation and benefit questions specific to management staff to provide a more complete picture of compensation in the spa industry. The results (see **Exhibit 5-4**) show that management is paid quite differently than spa staff. In fact, three-quarters (75%) of spas pay management staff a salary compared to only 21% for spa staff. On the other hand, only 29% of spas pay management staff on an hourly basis. At 42%, performance incentives are also a key element of the compensation mix, while pay by the treatment and overtime pay (both at 14%) are not.

Following are some key differences between spa type and country.

- ◆ Resort /hotel spas are the most likely to pay management staff a salary (94%) and to offer benefits (81%).
- ◆ Pay by the treatment (25%) or by the hour (41%) is more common for spa management in Canada than in the U.S. Canadian spa management is less likely to receive a salary (50%).



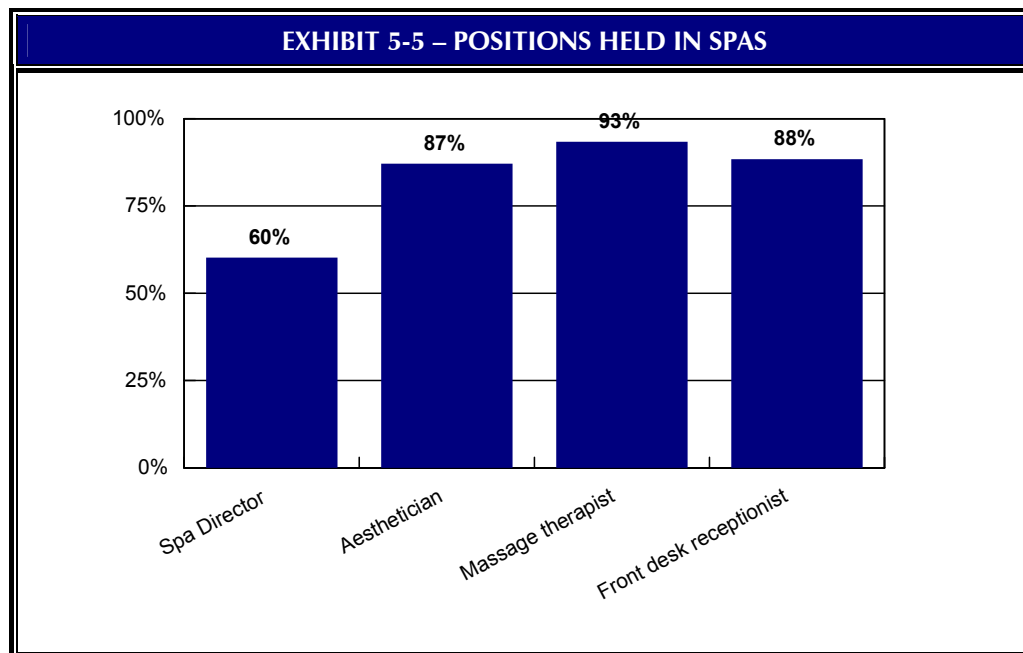
Slightly more than half (53%) of all spas offer their management staff benefits. The most common benefits for management staff are medical (92%), employee discounts (89%), vacation (87%), dental (72%) and retirement plans (64%). Similar to the results for full time spa staff, Canadian spas are far less likely to offer benefits to management staff than U.S. spas (24% vs. 57%).

Compensation by Level

Another new feature of the 2002 study is the addition of compensation levels for four different positions: spa director, aestheticians, massage therapists and front desk receptionists.

The majority of spas have aestheticians (87%), massage therapists (93%) and front desk receptionists (88%). Fewer spas (60%) have a spa director. The lower number of spas with a spa director is likely a function of the industry make up – a few big players with numerous smaller players. A summary of staff positions held in spas is presented in **Exhibit 5-5**.

Ninety-one percent of resort / hotel spas employ a spa director, the highest proportion among spa types. Both resort / hotel spas (94%) and day spas (91%) are significantly more likely to employ aestheticians than club spas (52%) or other spa types (58%).



A summary of compensation ranges by staff level and country are presented in **Exhibit 5-6**. Following is a brief overview of the key findings for each level.

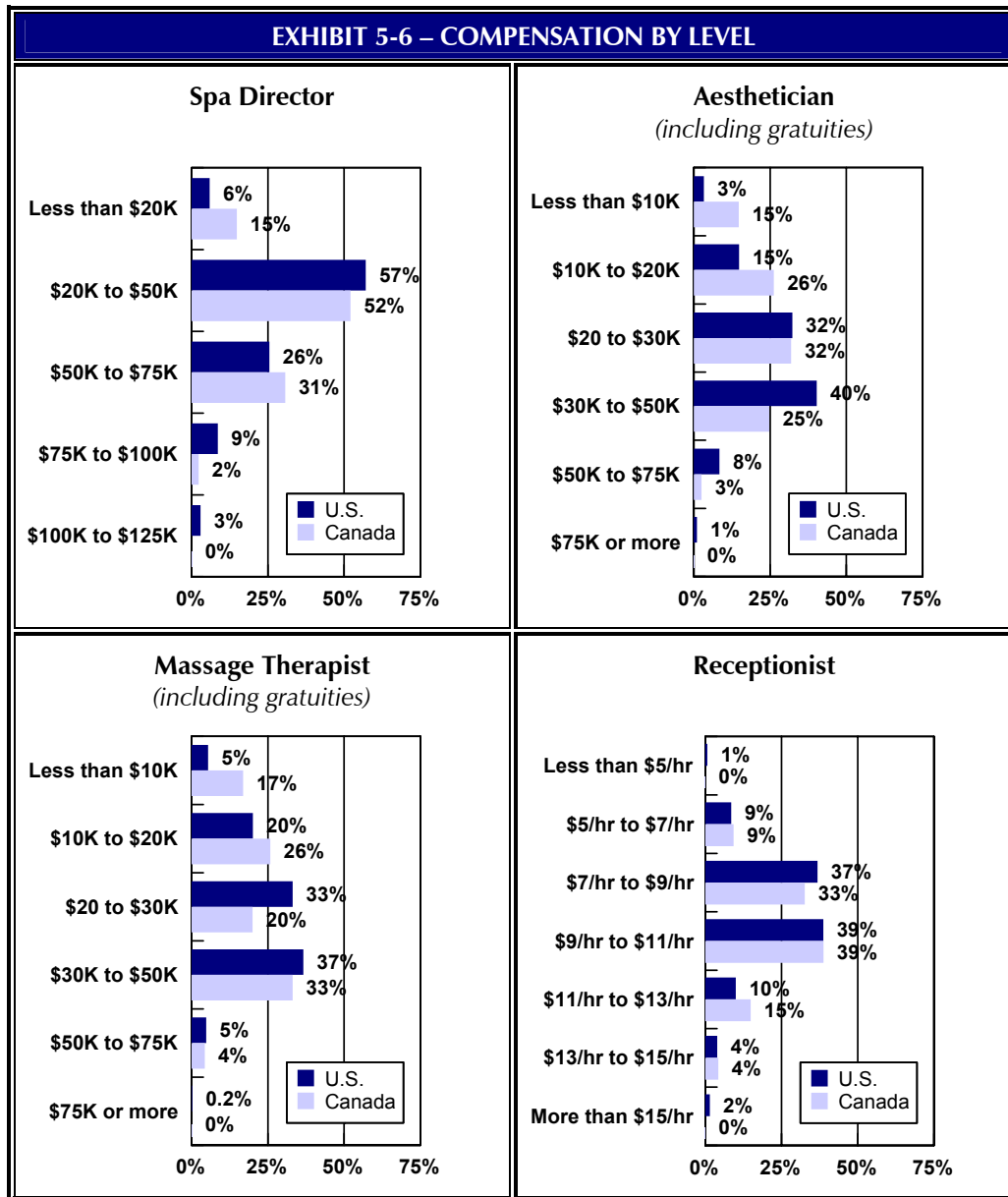
In the U.S.:

- ◆ *Spa Director:* Over half (57%) of spas in the U.S. who have a spa director pay them between \$20,000 and \$50,000 per year. Twenty-six percent (26%) pay their spa directors between \$50,000 and \$75,000.
- ◆ *Aesthetician:* In the U.S., the most common pay range for aestheticians is between \$30,000 and \$50,000 (40%), followed closely by the \$20,000 to \$30,000 range (32%).
- ◆ *Massage Therapist:* Compensation for massage therapists in the U.S. is most likely to fall in the \$30,000 to \$50,000 pay range (37%). Similar to the aestheticians, this is followed closely by the \$20,000 to \$30,000 range (33%).
- ◆ *Receptionist:* The most common hourly wage is between \$9 and \$11 (39%), followed closely by the \$7 to \$9 range (37%).

In Canada (in Canadian dollars):

- ◆ *Spa Director:* Half (52%) of spa directors in Canada are paid between \$20,000 and \$50,000 per year. Thirty-one percent (31%) fall in the \$50,000 and \$75,000 range.
- ◆ *Aesthetician:* Compensation for aestheticians in Canada is most likely to fall in the \$20,000 to \$30,000 (32%). A quarter (25%) of spas pay aestheticians in the \$30,000 to \$50,000 range, and about another quarter (26%) pay them in the \$10,000 to \$20,000 range.

- ◆ *Massage Therapist:* The \$30,000 to \$50,000 pay range is the most common for Canadian massage therapists (33%). A large portion of this level also falls in each of the three lower pay ranges.
- ◆ *Receptionist:* The most common hourly wage is between \$9 and \$11 (39%), followed closely by the \$7 to \$9 range (33%).



Note: Compensation for each country is in local currency (i.e., compensation for Canada has not been converted to USD).

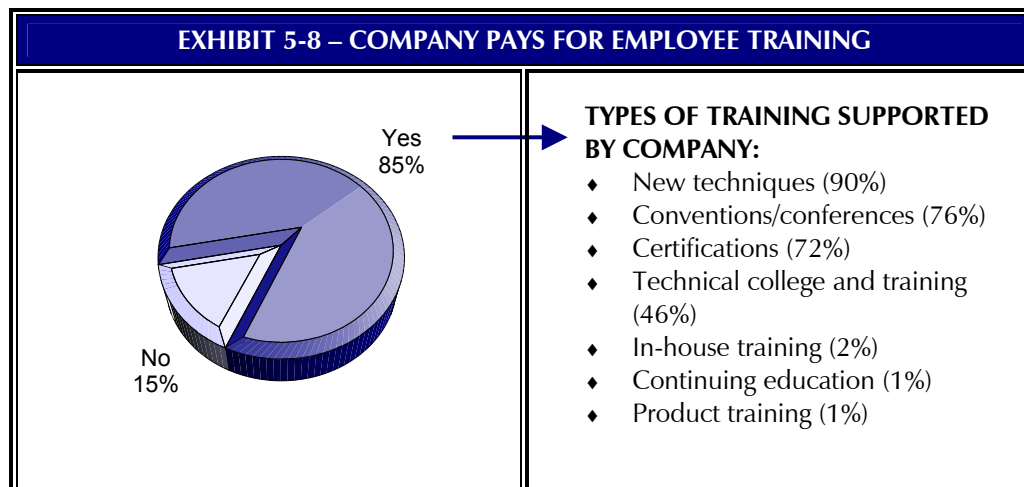
On average, resort / hotel spas are the highest paying at all levels (**Exhibit 5-7**). Day spas tend to pay less for spa directors, aestheticians and massage therapists. Club spas and other spa types tend to pay less for receptionists.

EXHIBIT 5-7 – COMPENSATION BY LEVEL BY SPA TYPE (U.S. ONLY)							
	DAY SPA	RESORT / HOTEL SPA*	OTHER TYPE OF SPA*		DAY SPA	RESORT / HOTEL SPA*	OTHER TYPE OF SPA*
Spa Director:	N=214	N=77	N=52	Massage Therapist:	N=336	N=79	N=60
Less than \$20,000	7%	0%	9%	Less than \$10,000	6%	3%	8%
\$20,000 to \$49,999	68%	25%	49%	\$10,000 to \$19,999	23%	7%	16%
\$50,000 to \$74,999	20%	41%	30%	\$20,000 to \$29,999	35%	18%	40%
\$75,000 to \$99,999	3%	27%	10%	\$30,000 to \$49,999	33%	58%	35%
\$100,000 to \$124,999	2%	7%	2%	\$50,000 to \$74,999	4%	13%	2%
				\$75,000 to \$99,999	0%	1%	0%
Receptionist:	N=347	N=85	N=77	Aesthetician:	N=310	N=76	N=38
Less than \$5/hr	1%	0%	2%	Less than \$10,000	3%	4%	0%
\$5/hr to \$7/hr	9%	0%	15%	\$10,000 to \$19,999	16%	7%	15%
\$7/hr to \$9/hr	36%	37%	38%	\$20,000 to \$29,999	35%	21%	30%
\$9/hr to \$11/hr	38%	47%	32%	\$30,000 to \$49,999	36%	57%	51%
\$11/hr to \$13/hr	11%	6%	8%	\$50,000 to \$74,999	8%	10%	5%
\$13/r to \$15/hr	3%	8%	5%	\$75,000 to \$99,999	1%	1%	0%
More than \$15/hr	2%	1%	0%	\$100,000 or more	0%	0%	0%

Notes: * Results should be interpreted with caution due to the small sample size.
Other type of spa includes club spas, medical spas, mineral springs spas, destination spas and cruise ship spas.

Training and Development

The vast majority of spas (85%) pay for employee training. Specifically, **Exhibit 5-8** shows that, among spas who pay for training, most (90%) pay for their employees to learn new techniques. The majority of spas who pay for training also support education by paying for employees to attend conventions/conferences (76%) and to obtain certifications (72%). Many (46%) also offer employees the opportunity to attend technical college and training. In-house training (2%), continuing education (1%) and product training (1%) are also supported.



A closer look at the results by country reveals that spas in Canada are less likely to pay for training for employees than spas in the U.S. (75% vs. 86%, respectively).

Training was a key area of concern raised by participants in the executive interviews. Executives felt that the issue needs to be addressed at a national level. Moreover, they indicated a need for national standards and the development of education and internship programs.

Human Resource Challenges

In-depth interviews with spa executives revealed a number of human resource challenges facing the rapidly growing spa industry.

- ◆ Most executives indicated that the hiring of qualified technicians is a key challenge. Demand for services seems to outweigh the supply of qualified candidates, and even if you are able to attract and hire the right staff, it is still challenging to train them, compensate them, promote them and retain them.
- ◆ Hiring and retaining qualified management candidates is equally challenging for most spas as many internal hires lack business skills, while many outside hires lack spa industry knowledge. Middle and senior level positions seem to be the most difficult to fill, according to executives. Most admitted that they prefer to hire candidates that have the business and people skills, and then educate them about the spa side.
- ◆ Staff retention is a major issue. Turnover is such that the ability to keep technicians for two years is a significant achievement. Some spas have introduced salary-based competition, bonuses, benefits and other incentives to retain their employees, but they still experience high turnover.

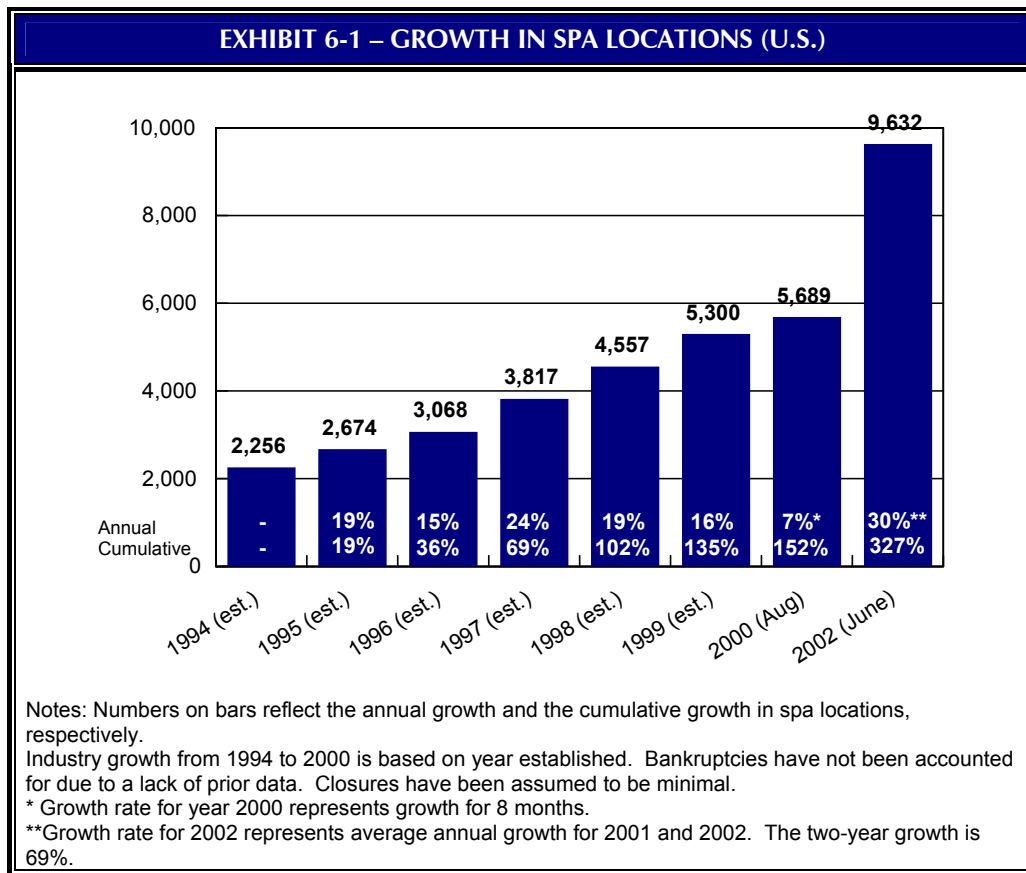
These challenges are a function of the rapid industry growth (discussed in the next chapter) and will likely continue to exist until demand stabilizes. As the industry continues to grow, competition for scarce resources intensifies, which usually leads to higher compensation and turnover.

VI. INDUSTRY GROWTH

Growth continues to be seen in virtually every facet of the spa industry -- in the number of locations, square footage, revenues, employment, and spa visits.

The Number of Locations Continues to Grow Rapidly

Despite the economic downturn, the spa industry continued to experience tremendous growth. As shown in **Exhibit 6-1**, the number of locations has been growing rapidly, doubling in number in the last four years just as it did in the four-year period from 1994 to 1998. The number of locations grew by 69% since the 2000 Spa Industry Study. From 1994 to 2002, the industry experienced an average annual growth rate in the number of locations of 20%. This represents a cumulative growth rate of 327% for the eight-year period to more than 9,600 spas.

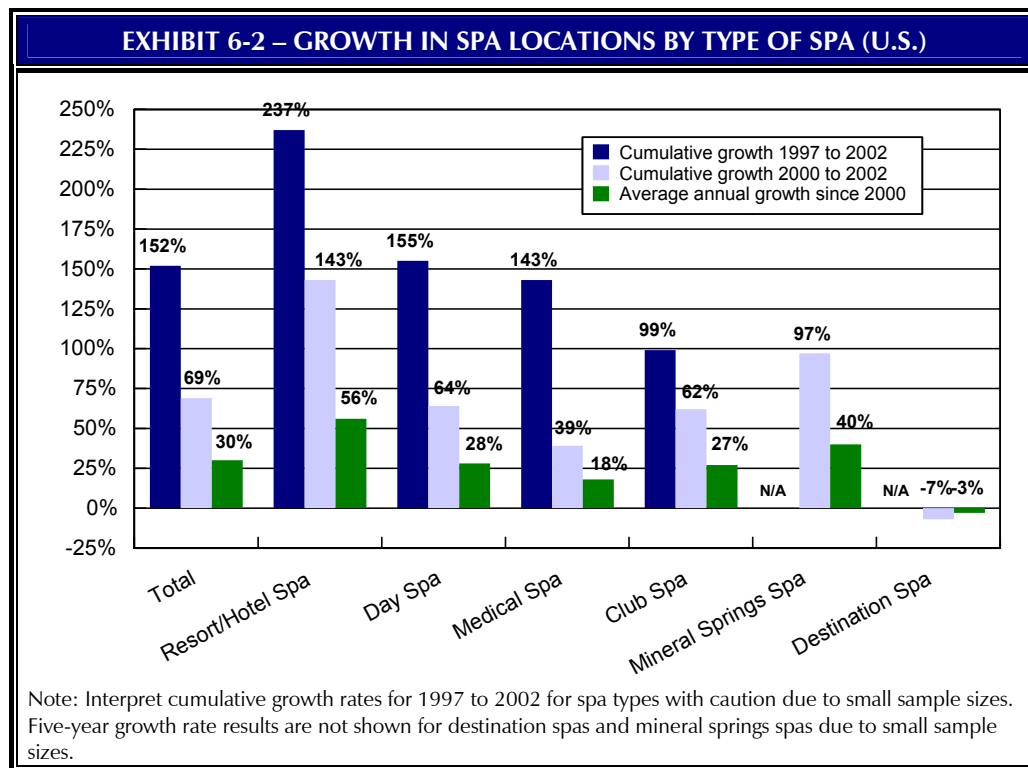


As discussed later in **Chapter VII**, spa executives indicated that consolidation is a key trend in the industry. This trend is confirmed by results that show a significant increase in the proportion of spas owned by organizations that operate five or more spas. In 2000, only 6% of spas were operated by companies that own five or more spas. This percentage increased to 15% in 2002.

Cumulative five-year and two-year growth rates as well as the average annual growth rate from 2000 to 2002 are presented in **Exhibit 6-2** by spa type. The results provide insight into how the industry is growing.

Resort/hotel spas are the fastest growing segment within the industry, particularly in the past two years (143% cumulative two-year growth). Mineral springs spas have also been growing quite rapidly over the last two years (97%).

Growth in the medical spa category continued to be robust, although not as strong as the pace reported previously. Participants in the executive interviews indicated that the medical spa category was well positioned for future growth as they anticipate that certain spa services would soon be covered by insurance.



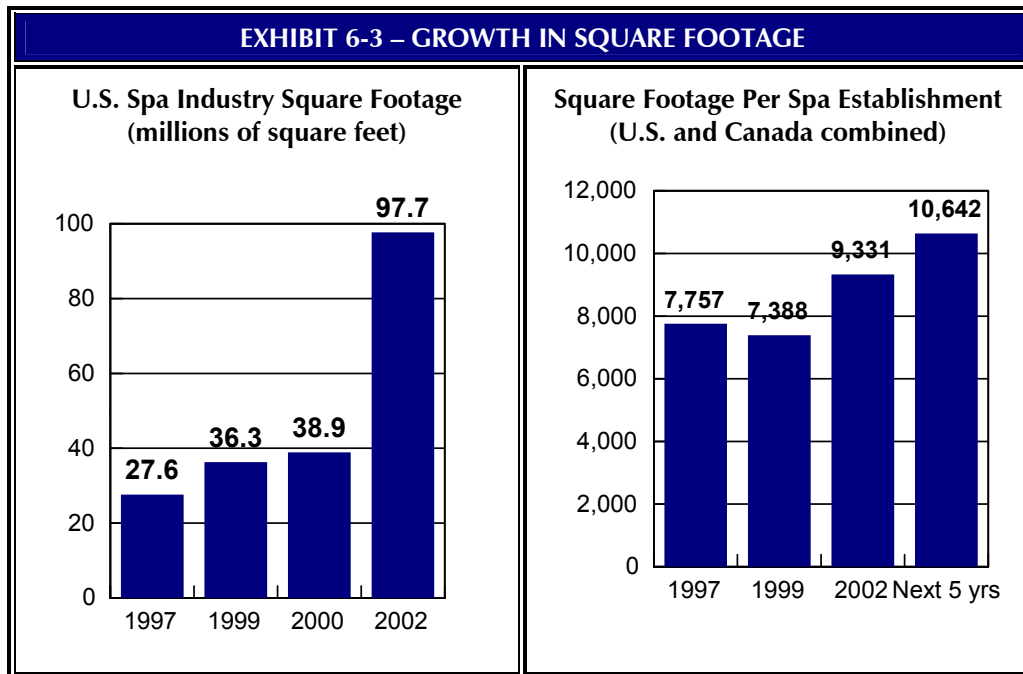
While the growth rate continues to be strong for most segments, executives indicated that they expect growth to moderate in the future. They also expect that as the industry matures, weaker players (in terms of management skills) will not be able to endure the tough competition.

Spas Are Getting Bigger

Whereas the 2000 Spa Industry Study indicated that growth in square footage in the spa industry was driven solely by the increase in the number of locations while the average spa size shrank, the 2002 results show an increase in **both** the number of locations and the average square footage per spa. As seen in **Exhibit 6-3**, total industry square footage increased by 151% from 2000 to 2002 compared to only 41% from 1997 to 2000.

The results suggest that not only are existing spas expanding, but that spas entering the industry are also larger. The average square footage has increased by 26% in two years. The exhibit also shows that if existing spas follow through on their planned expansions in the next five years, the average size for existing spas would jump to just over 10,600 square feet.

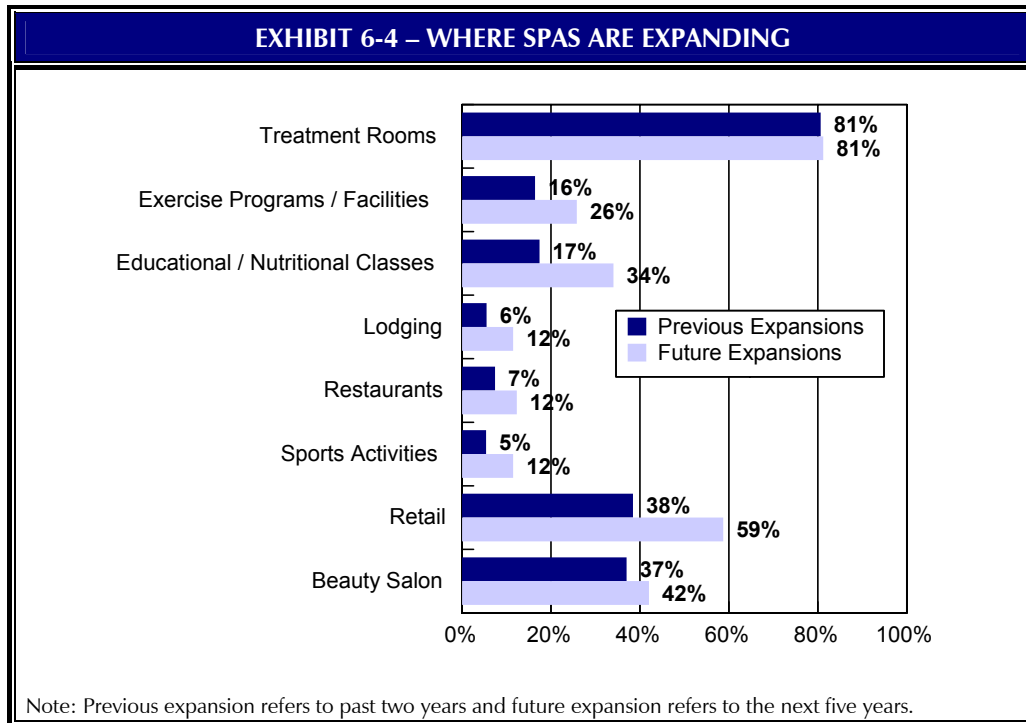
Results show that total industry space is growing rapidly in all sectors except destination spas. Average spa size is growing rapidly for the resort / hotel spa and club spa segments while it has remained relatively stable in the day spa sector.



Among those surveyed, 30% have expanded their facilities in the last two years, and slightly more than half (55%) plan to do so in the next five years. When asked where expansions have/will occur, treatment rooms continue to be the number one area of expansion among existing spas (see **Exhibit 6-4** on the next page). Among those who have recently expanded, 81% added treatment room space. Similarly, 81% of those planning to expand will add treatment rooms. This is not surprising given that treatments are the core offering most closely associated and widely expected from spas. When asked what type of treatment room expansion was/will be made, massage led with 81% of treatment room expansions in the past two years and 86% in the next five years. Facials (70% in the past two years and 81% in the next five years, respectively) and wet treatments (55% and 77%, respectively) were also at the top of the list.

After treatment rooms, the most common areas of expansion in the past two years and for the next five years are retail (38% past and 59% future) and beauty salons (37% past and 42% future). Other key areas where expansions can be expected in the next five years are educational/nutritional classes (34%) and exercise programs/facilities (26%).

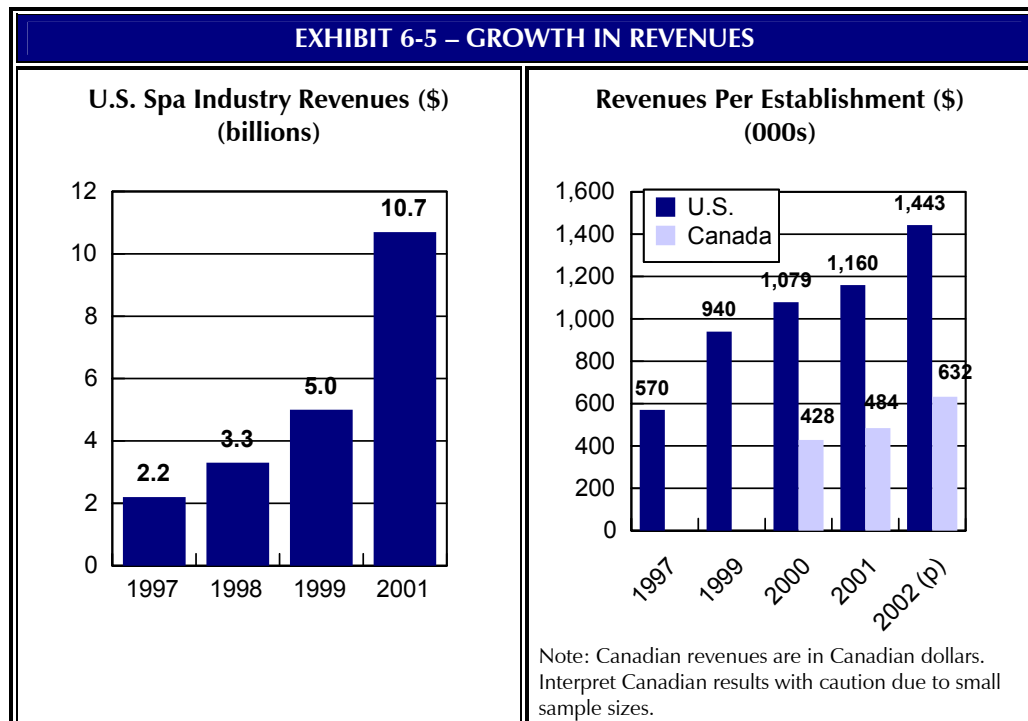
Participants in the executive interviews indicated that retailing in the spa business has taken on higher importance, as spas attempt to increase revenues and their share of the customer’s leisure spending. However, they also expressed concern that spas have yet to tap the retail sales potential, and that spa staff and technicians are not inherently interested in this facet of the spa service.



Revenues Have Doubled

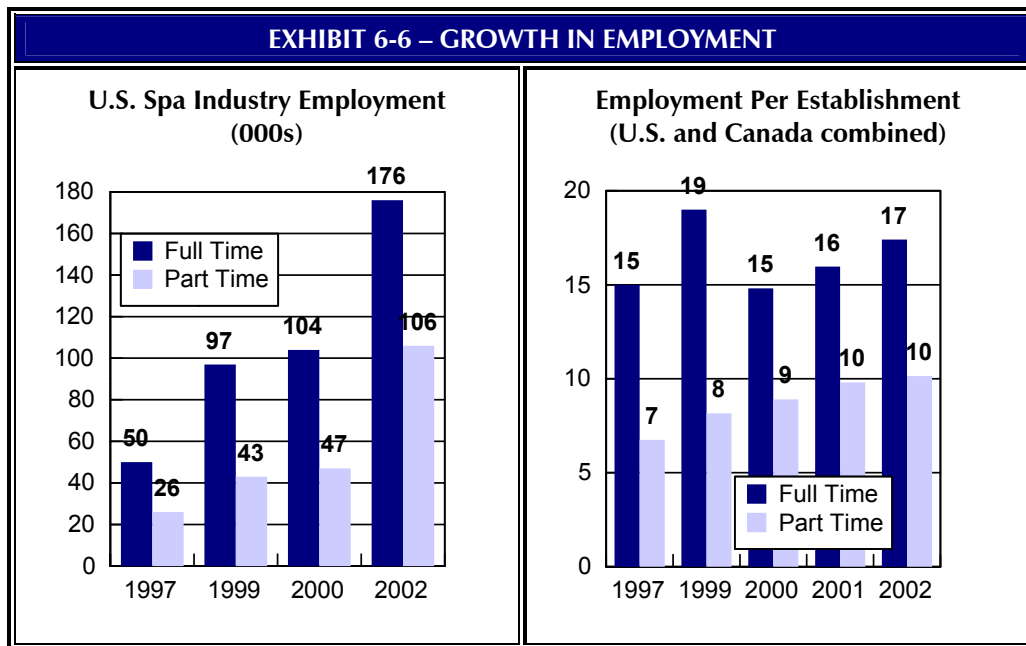
Spa industry revenues continued to increase at a robust pace, doubling in the two years between 1999 and 2001. The growth in industry revenues and location revenues are summarized in **Exhibit 6-5**. Average annual growth in revenues during this period was 46%. Assuming existing spas hit their revenue targets for 2002, industry revenues could reach more than \$14 billion in 2002.

Revenues per establishment have increased at a more moderate pace, from an average annual growth rate of 28.3% between 1997 and 1999 to 15% in 2000 and 8% in 2001. Individual spa revenues in Canada grew by 13% in 2001. For 2002, spa owners/managers in both the U.S. and Canada are predicting significant growth in average revenues per establishment: 24.4% in the U.S. and 30.6% percent in Canada.



Spa Employment Is On the Rise

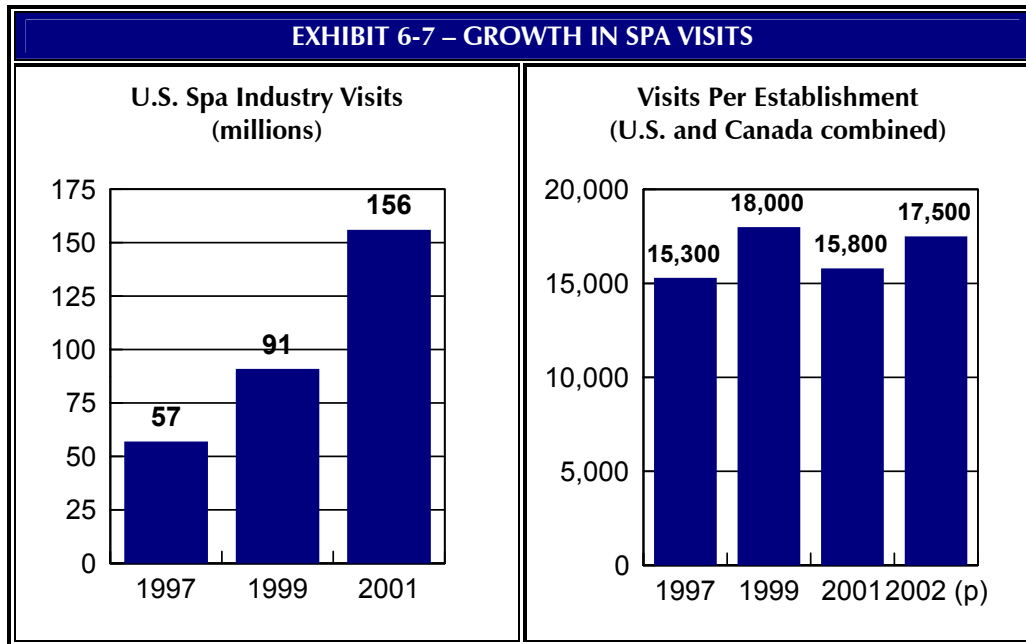
As seen in **Exhibit 6-6**, employment in the spa industry increased by 87% in the two years between studies. This is a similar pace of growth to what was experienced from 1997 to 1999. With the exception of a spike in employment per spa in 1999, the number of employees per location has been growing at a steady pace since 1997.



Given the rapid growth in employment, it is not surprising that there is significant competition among spas for qualified staff in terms of both spa staff and management. Spa executives reiterated concerns that were expressed during the 2000 Spa Industry Study. They emphasized that recruitment and training need to be priorities for the industry. Without the deliberate cultivation of talent through training, the lack of qualified staff will become an increasingly significant constraint on further industry growth.

Consumer Demand Has Fueled Rapid Industry Growth

The driving force behind the tremendous growth of the spa industry is rising consumer demand. As seen in **Exhibit 6-7**, the total number of spa visits continues to grow steeply. Total industry visits grew by 71% between 1999 and 2001. The two-year growth in the 2000 study was 60%. Given the state of the economy over the past two years, the rate of growth suggests that spas can benefit during a slow economy as spas offer an inexpensive leisure alternative.



In 2001, the average number of visits per spa declined to 1997 levels. Given the rapid growth in overall demand, the decline in visits per location is likely a function of the growth of spa locations outpacing that of spa visits. Nevertheless, the exhibit shows an expected return to 1999 visitation levels among existing spas by 2002.

VII. INDUSTRY TRENDS AND ISSUES

This chapter looks at key trends for the spa industry, including emerging product, consumer, investor and technology trends. The chapter also looks at the top industry priorities. The results presented reflect trends identified during the quantitative survey process, as well as those revealed during the qualitative executive interviews.

Product Trends

Within the quantitative survey, spa owners / managers were asked if they currently offered, or planned to offer, any unique therapies, treatments and / or programs in their spa services menu that would differentiate them from other spas in their area. Thirty-two percent (32%) of respondents indicated that they do not currently offer any differentiating products, and 37% indicated that they do not plan to offer any in the near future. Of those that did offer, or planned to offer, unique products, the top mentions are listed in **Exhibit 7-1**.

EXHIBIT 7-1 – UNIQUE THERAPIES / TREATMENTS / PROGRAMS OFFERED	
<p>CURRENT OFFERINGS:</p> <ul style="list-style-type: none"> ◆ Stone therapy / La Stone (15%) ◆ Hydrotherapy/water treatment (13%) ◆ Alternative therapy (13%) ◆ Body treatment (13%) ◆ Massage therapies/body rubs (9%) ◆ Facials (9%) ◆ Aesthetic care/treatment (7%) ◆ Microdermabrasion (7%) ◆ Medical treatment (6%) ◆ Health/fitness/wellness (6%) ◆ Natural treatment/herbal treatment & mud treatment/ organic (6%) ◆ Skincare (5%) ◆ Ayurveda (5%) 	<p>PLANNED OFFERINGS:</p> <ul style="list-style-type: none"> ◆ Body treatment (14%) ◆ Stone therapy/La Stone (13%) ◆ Aesthetic care/treatment (10%) ◆ Alternative therapy (9%) ◆ Massage therapies/body rub (8%) ◆ Hydrotherapy/water treatment (8%) ◆ Health/fitness/wellness (8%) ◆ Facials (6%) ◆ Non-invasive cosmetic procedures (6%) ◆ Natural treatment/herbal treatment & mud treatment/organic (5%) ◆ Microdermabrasion (4%) ◆ Medical treatment (4%)

During the qualitative executive interviews, respondents were asked to describe any new product trends emerging for the spa industry. The key product trends that surfaced include the following:

- ◆ The Eastern/Asian influence continues to be very strong in the industry. It has influenced products (e.g., yoga, movement meditation, reiki, Thai massage, pilates, and ayurveda), services and spa layout for the last few years. Eastern /Asian treatments have been modified to suit the Western customers with great success.
- ◆ There is a strong trend towards “medical type” products and services such as laser treatments, microdermabrasion, chemical peels, light therapy, medical therapy (analyzing blood, urine and saliva), skin products that include glycolics and vitamins, botox and medical acupuncture. The trend also extends to stand-alone medical spas. As in the 2000 study, the respondents viewed the medical spa

category as strongly poised for growth. Some executives anticipate that certain spa services would soon be covered by insurance.

- ◆ Food- and plant-based treatments (e.g., grapeseed, mango, chocolate, coconut, vanilla, sugar, lemongrass, maple sugar, soy and pomegranate) have gained widespread popularity.
- ◆ Other product trends that continue to gain popularity include hot stones and rock massage, body polishing and bronzing, mud baths, detox wraps, scalp treatment and facials for men, pregnancy massage and water massage.

Consumer Trends

Fifty-three percent (53%) of survey respondents indicated that they had seen or experienced new consumer trends over the past 18 months. **Exhibit 7-2** lists their top mentions that fall into two main groups – changing consumer attitudes and increasingly popular products.

EXHIBIT 7-2 – EMERGING CONSUMER TRENDS	
◆	Alternative therapy (aromatherapy, holistic, stone therapy) (12%)
◆	Awareness of health/wellness/nutrition/fitness (11%)
◆	Massage (10%)
◆	More interest in spas/becoming popular (9%)
◆	Increasing male clientele base (8%)
◆	Aesthetic care (8%)
◆	More interest in relaxation/rest/reducing stress (6%)
◆	Facials (6%)
◆	Increase in cosmetic changes in appearance (e.g., plastic surgery) (6%)
◆	People spending less money (5%)
◆	Body treatment (5%)

Key consumer trends identified through the qualitative interviews with spa executives include the following:

- ◆ People no longer see the spa as “pampering”, but as a requisite to stay healthy and look good. Moreover, consumers have become more knowledgeable and are demanding better quality and consistency in the products and services they receive.
- ◆ Several executives interviewed felt that spas will be a major vacation activity and that ‘spa vacations’ will gain widespread usage like ‘ski’ or ‘golf’ vacations.
- ◆ There has been a shift away from the “day of beauty.” Recognizing that consumers now have numerous options for leisure amid many work and family responsibilities, spas are responding by offering more flexibility in their packages to compensate for this shift (e.g., packages of shorter, but more frequent visits).
- ◆ Consumers want simplicity in their spa experiences. It is not necessarily the “hype” products that they want; rather they are looking for spa experiences that yield results, even if it means a more traditional spa experience (i.e., facials, basic massage). Clients are becoming more knowledgeable about the range of spa offerings but returning to basics.

Investor Trends

During the qualitative executive interviews, respondents were also asked to describe any new investor trends emerging for the spa industry. The key investor trends identified include the following:

- ◆ The 2000 study indicated that a trend toward branding was right around the corner. This trend has arrived in three key ways:
 - Dominant spas have been creating branded locations across the U.S.
 - Suppliers are attempting to enter the branded spa business.
 - Spas are promoting branded retail products.
- ◆ Spas are now viewed as trendy to own, by either celebrities or wealthy individuals, just as restaurants were perceived in the 1980s and bars/clubs in the 1990s.
- ◆ Investor financing is coming from both private investors and banking institutions.
- ◆ Consolidation seems to be occurring across most spa categories (particularly hotel/resort and day spa categories), and many executives interviewed felt that the big players or chains were in a more favorable position to reap the benefits of growth than the small players.
- ◆ While investors within the industry are looking for more opportunities for mergers and consolidation, they are cautious. With lower returns on investment and tighter margins, investors are careful to scrutinize the numbers before committing.
- ◆ As suggested in the 2000 study, retailing has become a key component of the industry. Cosmetic companies are buying spas because of the retail sales potential.
- ◆ Spas continue to be a main component of any new resort being built. Hotels and resorts also continue to add spas to their existing properties. In addition, hotels are buying spa hotels and facilities.
- ◆ The trend of day spas opening in malls has also continued since the 2000 study. Spas have become a main component of any new mall development.

Technology Trends

Like most industries, technology continues to play an increasing role in the spa industry. In the qualitative executive interviews, respondents were asked to describe how technology has affected the spa industry and what role the Internet has played to date.

Importantly, most respondents described huge advances in the use of technology compared to two years ago. The major industry participants have moved beyond the use of the Internet as a simple research or e-mail tool and now report major investments in database management, integrated channel customer contact systems and marketing products/services online.

Following are some key technology trends identified during the interviews:

- ◆ Marketing and reservations is one area where technology is playing a key role. Specific areas where technology is being employed are centralized bookings through call centers, the use of technology in training, e-commerce sites, live chat and e-mail distribution using customer databases. Several respondents indicated that they were cautious about on-line reservations, as it is difficult to follow through on requests in this area.
- ◆ Improved back office systems have led to an increase in efficiency (especially in inventory and supplier management) and better understanding of customers because of the use of technology. Moreover, these systems have provided better knowledge of the customer and allowed spas to customize service (i.e., offer more personalized service based on past treatments.)
- ◆ Despite the technological improvements discussed above, there is still a resistance to the use of technology in in-house service delivery. Following are the primary reasons for this resistance:
 - dissatisfaction with products they had tried;
 - view that the return on investment for the equipment is low; or
 - firm belief that the industry is built on the power of human touch and quality service.

Top Issues and Priorities for the Spa Industry

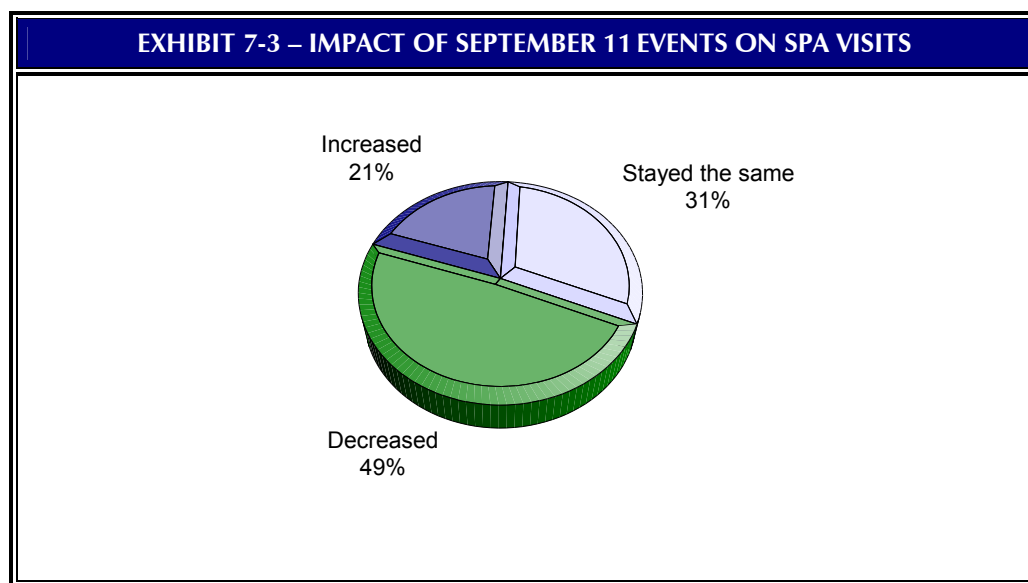
When asked to identify the top issues/priorities facing the spa industry, spa executives identified three chief concerns — the labor market, industry standards and industry identity -- with near unanimity. These issues were also identified in the 2000 study.

- ◆ As discussed in **Chapter V**, the labor market for spas is a key industry concern that requires action. According to executives, the industry as a whole needs to start taking greater interest in dealing with this issue. Many viewed education as vital to solving this challenge, and many felt that training even before graduation would be better.
- ◆ The lack of standards within the industry continues to be a chief concern according to those who participated in the in-depth interviews. This concern was also raised in the 2000 Spa Industry Study. Interviewees felt that industry fragmentation (due to mergers, consolidation, etc.) has fostered poor spa quality and service delivery. The respondents' view is that if standards are not created and enforced through ISPA and industry leaders, then eventually standards will be created for the spa industry because of consumer demand and complaints.
- ◆ The third concern is that there is a lack of identity within the spa industry resulting from the lack of a clear definition of 'spa' in the marketplace. Consumers are becoming savvier about quality and consistency in terms of service, but still face a huge range of establishments in the market place that advertise themselves as a "spa". This concern was raised in the 2000 study. Interviewees in the 2002 study felt that consumer confusion has remained and that more effective public relations and marketing efforts about the spa industry can begin to address consumer expectations.

Impact of September 11 Events

During the quantitative survey, respondents were asked to indicate what if any impact the tragedy had on visits to their spa. As seen in **Exhibit 7-3**, half (49%) saw visits decrease, while 31% saw no impact. Interestingly, one-fifth (21%) actually saw an increase in visits. A comparison of results by spa type and region reveals the following differences:

- ◆ Day spas were the least likely to report a decrease in visits (47%). Interestingly, resort/hotel spas were more likely to report a decrease (55%) or increase (30%) in spa visits and were the least likely to report no change (15%).
- ◆ Spas in the north central region were the least likely to be affected (43% stayed the same).



Spa executives were also asked about the effect of the September 11 events on their business and the industry as a whole. Following is a summary of their responses.

- ◆ The general feeling was that the events affected revenues for the two to three months immediately following the tragedy. However, most indicated that revenues had returned to normal levels since December 2001, and none felt that the events would have a long-term effect on the industry.
- ◆ Most felt that it was hard to measure the effect on the consumer psyche. There was a natural tendency for consumers to act as if nothing had changed “to go about business as usual,” but their behavior and purchasing may have indeed changed.
- ◆ Some felt that day spas benefited after the events, as people avoided traveling and were more comfortable visiting a local day spa.

VIII. CONCLUSIONS

A number of conclusions and industry implications can be drawn from the study findings. The following is a summary of key conclusions and implications for the U.S. and Canadian spa industry.

- ◆ *The spa industry has solidified itself as a major player in the hospitality and leisure sector.* In the past two years, the spa industry kept pace with other major leisure activities. Spa industry revenues even surpassed box office gross receipts and amusement/theme parks revenues.
- ◆ *Despite the economic downturn, the industry has continued to grow at a robust pace.* Every type of aggregate industry measure – number of locations, revenues, square footage, employment, and visits – has shown rapid growth in the past four years. In 2001, the spa industry weathered the challenges of a weak economy. The double-digit growth of the industry is a reflection of accelerated consumer acceptance and rapid business formation.
- ◆ *Day spas continue to dominate the industry in terms of number of establishments; but resort/hotel spas are gaining ground.* While the growth in the day spa category has allowed it to maintain its 75% share of the industry in terms of locations, the resort/hotel spa group was the fastest growing sector, firmly establishing it as the second largest segment, well ahead of club spas.
- ◆ *There is incipient consolidation in the industry.* While few large industry players and numerous small players continue to comprise the industry, there is a nascent trend toward larger operations. The proportion of spas operated by organizations with five or more spas has risen in the last two years by a significant 9 percentage points.
- ◆ *Spas are returning to basics.* While beauty salons and retail continue to be important, spas are re-focusing on the core product — treatment rooms. Treatment rooms have accounted for an increased share of both industry revenues and space in the past two years. This shift appears to reflect consumers' desire to simplify their spa experiences.
- ◆ *The spa industry needs to recruit qualified resources.* The rapid growth of the industry has created significant competition for scarce qualified resources at all levels. The spa industry needs to recruit more people into the industry. However, as mentioned in the previous study, it is critical that these resources be properly trained and developed into qualified professionals to uphold a sterling image for the industry.
- ◆ *The development of standards needs to be a priority for the industry.* Qualitative interviews revealed the lack of standards within the industry as a chief concern. Without standards, it is difficult for the industry to ensure quality and consistency in the spa experience, especially with so many new entrants and industry consolidation. If the industry does not address this issue pro-actively, it may find itself having to react to consumer demands and complaints or having standards imposed upon it externally.
- ◆ *The spa industry lacks identity.* Consumers are faced with a wide range of establishments in the marketplace that advertise themselves as a "spa". The industry needs to establish a clear definition of 'spa' in the marketplace to reinforce a good reputation and image among consumers.