



International SPA Association

2004 Spa Industry Study

September 2004

Prepared for ISPA by



About the International SPA Association

ISPA is recognized worldwide as the leading professional organization and voice of the spa industry. Founded in 1991, ISPA's membership is comprised of more than 2,000 health and wellness facilities and providers from 63 countries. ISPA strives to advance the professionalism of the spa industry by providing invaluable educational and networking opportunities, to promote the value of the spa experience to society, and to be the authoritative voice of the spa industry.

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About the Association Resource Center Inc.

The Association Resource Centre Inc. is a full service management consulting firm that specializes in meeting the diverse needs of the not-for-profit sector. Through its Research and Strategy Division, the firm provides a broad range of research services to associations and to the members they serve. The Association Resource Centre's extensive background in governance, strategic planning and association research enables it to interpret the data it receives and to provide insightful analysis as to what the data means.

Disclaimer

Although the information in this report has been obtained from sources that the Association Resource Centre Inc. believes to be reliable, its accuracy and completeness cannot be guaranteed. This report is based on survey responses of spa establishments during the survey period of June 2004. This report is for information purposes only.

All opinions and estimates included in this report constitute the views of survey respondents combined with our judgment as of this date and are subject to revision.

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EXECUTIVE SUMMARY

In its role as an industry leader, ISPA commissioned the first ever comprehensive study of the spa industry in 2000. This study was the first of its kind to address key issues such as industry size, revenue, employment and growth. It also provided a basic profile of the industry. An update of this study was conducted in 2002. These numbers (and the associated industry statistics such as revenue and employment) are more than just interesting facts; these statistics show the relative health of the industry and provide ISPA and industry members with a powerful tool when trying to influence key decision makers such as the government and financial lenders. With this in mind, it is critical that there be up-to-date estimates and ISPA engaged the Association Resource Center Inc. to update the findings from its 2002 study.

This executive summary highlights the key findings from the 2004 study. The report contains more detailed analysis including product/service offerings, employment and a profile by spa type, geography and ISPA membership status. The 2004 study includes three new features: retailing, medical treatments and branding.

How Big is the North American Spa Industry?

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

- **Spa Locations:** There are an estimated 12,100 spas throughout the U.S and 2,100 in Canada. In the U.S., the largest spa category, accounting for seven of every ten spas, is day spa. Resort/hotel spas are the second largest group, followed by club spas, medical spas, mineral springs spas and destination spas. Geographically, the distribution of spas in the U.S. generally reflects the distribution of the population with the North East being the largest region. In Canada, the distribution of spas is concentrated in Ontario, British Columbia and Quebec.
- **Spa Visits:** There were approximately 136 million spa visits made in the U.S. in 2003. Sixty-percent (60%) of these were to day spas while 27% were to resort/hotel spas. The remaining 13% are spread across the other four spa types.
- **Square Footage:** The U.S. spa industry occupies an estimated 86.7 million square feet of indoor space. Despite accounting for only 14% of locations, resort/hotel spas account for an overwhelming 37% of industry space. On average, 39% of space in the U.S. and Canadian spas is occupied by treatment rooms.
- **Revenues:** The U.S. spa industry generated an estimated \$11.2 billion in revenues in 2003. On average, half (52%) of a spa's revenue is derived from treatment rooms. Resort/hotel spas, despite the size of the segment, account for an impressive 41% of industry revenue while the largest segment, day spas, accounts for just under half (49%).

- *Employment:* An estimated 280,700 people are employed by the U.S. spa industry. Fifty-one percent (51%) of these employees are full-time, 34% are part-time and 15% are on contract. Employee wages and salaries totaled approximately \$4.9 billion in 2003.

How Fast is the Spa Industry Growing?

Growth has continued in some areas of the spa industry; but not in all areas. Following are the key growth areas:

- *Locations:* The number of spa locations continued to grow between the 2002 and 2004 studies at an average annual rate of 12%. Interestingly, the growth rate in the number of spas has gradually moderated since its peak at 51% in 2000. Between 2002 and 2004, the medical spa segment expanded faster than any other segment, with the number of medical spas growing by 109% compared to 26% for the U.S. spa industry as a whole. Resort/hotel spas have also grown faster than the industry average.
- *Revenues:* Aggregate industry revenue growth has moderated over the last couple of years. Between 1997 and 2001, aggregate revenue was doubling every two years. However, in 2002 the industry saw a more moderate growth rate of 6.5% bringing industry revenue to \$11.4 billion. This growth rate is more in line with what other key leisure industries experienced in 2002 and is more sustainable over the long term. In 2003, the spa industry's \$11.2 billion in revenue represents a slight decline of 1.8%.
- *Employment:* Employment in the spa industry has remained relatively stable since 2001, fluctuating between 254,000 and 282,000 employees.
- *Spa Visits:* As in any industry, demand is the driving force that determines how well the industry performs. Between 2001 and 2003, the industry saw a drop in visits of approximately 13%.

Spa Pricing and Productivity

Following are a number of other key benchmarks for the spa industry:

- The average price of a spa treatment in the U.S. is \$75. The average cost per massage is \$76, while the average cost per facial is \$80.
- U.S. spas earn an average of \$172 per square foot, \$52,163 per treatment room, (only treatment room revenue is included), \$143 per spa visit and \$277 per client.

What are the Key Trends in the Industry?

The report details a number of key industry trends.

- *Product Trends:* Industry executives indicated that there is a “revolution” in cosmetic procedures and consumers can “look better without the need for cosmetic surgery”. The Eastern/Asian influence continues to be very strong in the industry and there is a desire for natural as opposed to artificial products. The trend towards medically-based products has also continued. A newer trend in the industry is spa influenced products such as clothing, home-spas, spa-like tubs and home massage tables.
- *Consumer Trends:* Spas continue to lose the “pampering” image as the industry continues to broaden its consumer appeal. A key driver in this trend is that people want to reward themselves for working hard. Another key trend is the continued increase in the number of men visiting spas.
- *Investor Trends:* While the industry continues to have difficulty finding funding, it appears to be easier to find than it was several years ago. Branding and retailing within the spa industry, particularly among resort/hotel spas, continue to be a key trend in the industry and is expected to continue for some time. While the results of the study do not suggest that there has been extensive consolidation, the feeling is that the industry is ripe for it.

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 industries.

- *The spa industry has proven that it is more than just a trendy fad; it is a major player in the hospitality and leisure arena.* Over the past two years, the spa industry has maintained its ranking against other key U.S. leisure industries despite a slower rate of growth. The spa industry has proven that its positioning is sustainable. The spa industry has arrived.
- *Industry growth has moderated over the past two years.* For nearly a decade, the spa industry saw tremendous growth in every facet of the industry. The last two years has seen this growth level out. While the number of locations continues to grow, other aggregate industry measures have tapered off or even decreased in the past two years.
- *Day spas continue to be the largest industry segment in terms of number of establishments; but resort/hotel spas are quickly becoming the dominant player.* The resort/hotel segment represents only 14% of spa locations, but it accounts for a disproportionately high share of the total industry revenue (41%), spa visits (27%) and employees (26%).
- *Medical treatments and spas represent a key growth area.* Over the past two years, the medical spa segment has been the fastest growing (in terms of locations) in the industry. In addition, many spas in other segments have been adding these types of treatments.

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I. INTRODUCTION

Study Background

The International Spa Association (ISPA) is a recognized leader in the spa industry in North America and around the world. Since 1991, the association has gained a reputation as the voice of the spa industry. In its role as an industry leader, ISPA commissioned the first ever comprehensive study of the spa industry in 2000. This study was the first of its kind to address key issues such as industry size, revenue, employment and growth. It also provided a basic profile of the industry. An update of this study was conducted in 2002.

In 2000, the size of the industry was estimated at 5,689 spas operating throughout the U.S., a number far greater than what had previously been anticipated before the study was implemented. Moreover, the results showed that the industry was growing at a staggering pace, one that many thought to be unsustainable. However, by the time the 2002 study had been completed, the industry in the U.S. alone had grown by 69% to almost 9,600 and the Canadian industry was estimated at 1,300 spas. The question on everybody's mind was whether or not the industry could continue to sustain such explosive growth rates into the future. That was one of the key questions the current 2004 study sought to answer.

Recognizing the need for current information and given the dynamic nature of the industry, ISPA engaged the Association Resource Center Inc. to update the findings from its 2002 study. These numbers (and the associated industry statistics such as revenue and employment) are more than just interesting facts; these statistics show the relative health of the industry and provide ISPA and industry members with a powerful tool when trying to influence key decision makers such as the government and financial lenders. With this in mind, it is critical that there be up-to-date estimates. This report provides this up-to-date information by highlighting the key findings from the 2004 Spa Industry Study.

Purpose and Objectives

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 visits, number of establishments, square footage and employment;
- Gauge the growth rate of the industry;
- Develop a profile of the U.S. and Canadian spa industries using criteria such as regional distribution, spa type, ownership structure, ownership of real estate and equipment, number of visits, and service/product offerings;
- Obtain a basic understanding of branding within the industry; and

- Determine current and future industry trends and challenges.

Research Method

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

- *Qualitative Executive Interviews:* The Association Resource Centre Inc. conducted eleven in-depth executive interviews across the U.S. and Canada to explore views and opinions regarding the state of the spa industry, determine the current competitive landscape, identify important industry trends and challenges (including legal and regulatory challenges) and to identify new products and services. The interviews (30 to 45 minutes each in length) were conducted in May 2004.
- *Determining the Spa Inventory:* An extensive search was conducted to develop a comprehensive inventory of U.S. and Canadian spas. Once compiled, the inventory was cleaned to ensure that only those meeting the ISPA spa-type definitions (see Chapter IV for spa definitions) were included. During the survey period, attempts were made to contact 43% of the suspected spa establishments in the U.S. and Canadian inventory to verify at a minimum that the contact was valid (i.e., in business, working phone number).
- *Quantitative Survey:* The Association Resource Centre Inc. conducted a telephone survey of 512 spa owners and managers in June 2004. Each telephone survey took approximately 18 minutes to complete. The survey was also made available on the Internet to help boost the number of responses. An additional 458 surveys were completed on the Internet for a total sample of 970 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 by region. Definitions of spa categories are provided in Chapter IV.

Study Limitations

When interpreting results from this study, it is important to keep in mind the following limitations:

- The number of spas represents our estimate as of June 2004 and was based on our spa search. Estimates were extrapolated by 12% in the U.S. and 15% in Canada based on survey results. Industry estimates do not include cruise spas unless otherwise noted.
- 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 club spas, destination spas, medical spas and mineral springs spas.
- The findings for Canada were based on the responses of the 147 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

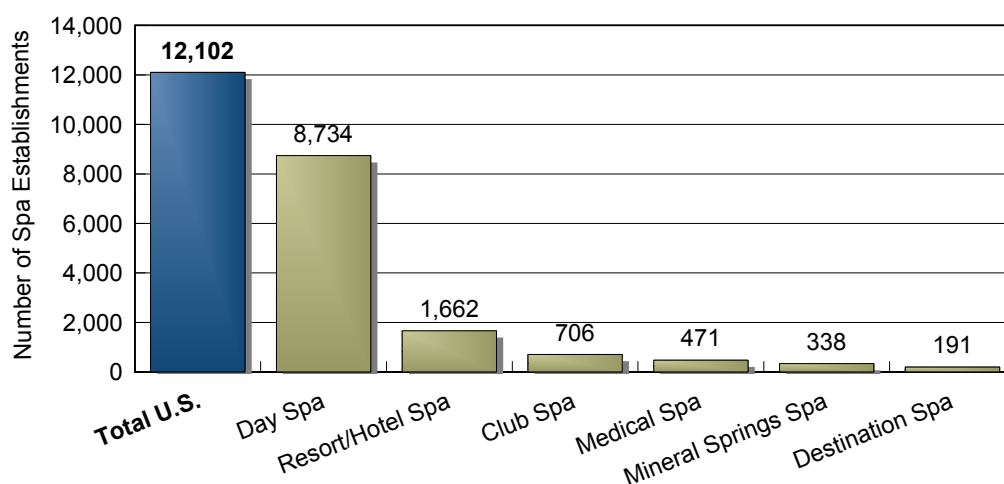
This section provides six key measures of the size of the spa industry: the number of spas, number of spa visits, square footage, industry revenues, employment and the industry's contribution to the economy. Most of the industry figures presented in this chapter are for the U.S. only. Industry statistics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

NOTE: The data in this chapter represents a snap shot of the industry size at the time of the study. For changes in industry size, readers should refer to Chapter III.

How Many Spas Are There?

At the time of this study (June 2004), there were an estimated 12,100 spa locations across the U.S. The number of spa locations by spa type is illustrated in **Exhibit 2-1**. The spa industry continues to be dominated by smaller operations; only a handful of large companies operate in the spa industry. Moreover, there are an estimated 10,300 organizations operating the 12,100 U.S. spas.

EXHIBIT 2-1 — NUMBER OF SPA ESTABLISHMENTS IN THE U.S. BY TYPE OF SPA



The largest segment in the spa industry continues to be the day spa, which accounts for just over 8,700 spas or 72% of all spas in the U.S. At 14% of the industry (1,662 locations), resort/hotel is the second largest segment in the spa industry, followed by club spas at 6% (706 locations) of the industry and medical spas (471 locations) at 4% of the industry. Mineral springs spas (338 locations) and destination spas (191 locations) represent the smallest 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 184 cruise ships operating out of North America¹, the majority of which offer spas.

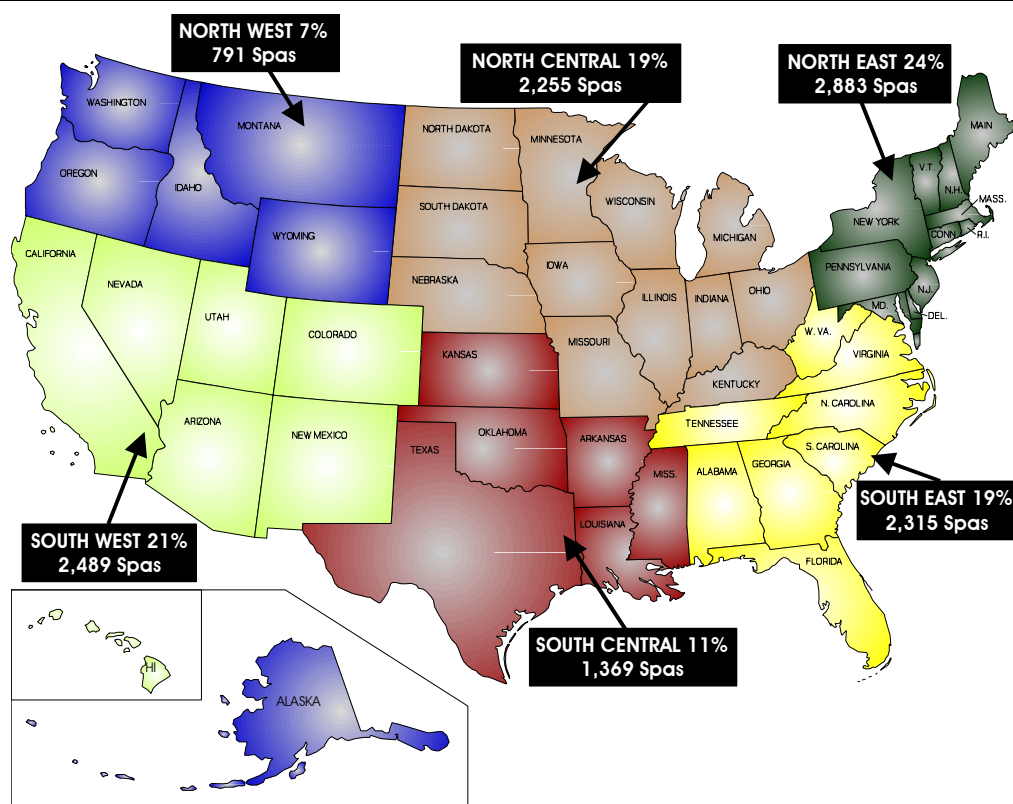
¹ Source: Cruise Line International and Business Research & Economic Advisors. Estimate as at year-end 2003.

The make-up of the industry in terms of spa type has remained relatively unchanged since the 2002 study. In fact, the distribution by spa type has not changed dramatically since the inaugural study in 2000. There is, however, one notable trend. Although day spas continue to dominate the industry, their percentage share of locations has gradually declined from 77% in 2000 to the current 72%. This trend has led some industry executives to conclude that growth in the day spa segment – at least in some parts of the country – has peaked. At the same time, the resort/hotel spa segment has increased its share from 8% of the industry in 2000 to 14% of the industry in 2004.

There are several possible explanations for this. One of the more plausible explanations is that resort/hotel spas are benefiting from a loosening of the purse strings and the return of the American traveler as the economy remains buoyant. At the same time, the anticipated weeding out of the day spa sector may now be underway as increased competition cuts into profit margins.

The geographic distribution of the industry in the U.S. is shown in **Exhibit 2-2**.

EXHIBIT 2-2 — REGIONAL DISTRIBUTION OF SPAS IN THE U.S.



The North East region of the U.S. has overtaken the South West as home to the largest concentration of spas. In fact, the North East region now accounts for almost one-quarter (24%) of all spas in the U.S. Conversely, the North West region continues to be the smallest with only 7% of all spas while the South Central region accounts for 11% of the country's spas. The remaining three regions each

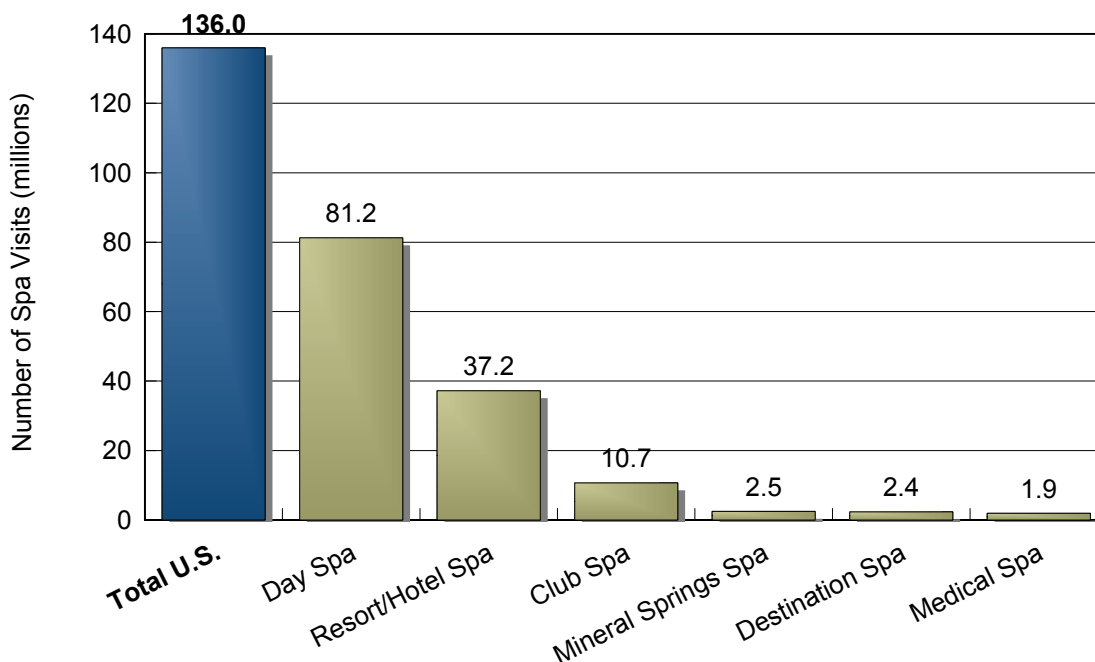
account for one-fifth of the country's spas. The distribution of spas in the U.S. continues to correlate generally with the distribution of the U.S. population. The only difference in distribution is that the North East is slightly over-represented and the North Central is under-represented.

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

There were approximately 136 million visits made to spa establishments in the U.S. in 2003 (see **Exhibit 2-3**). Not surprisingly, day spas continue to account for the lion's share of visits in the industry at 81.2 million or just under 60% of all visits. However, given that day spas account for 72% of all spas in the U.S., one might have expected this number to be higher. Clearly, the "production rate" at resort/hotel spas is significantly higher than that of day spas, accounting for 27% of all spa visits (37.2 million visits) with only 14% of the locations. Some industry executives contend that once consumers have visited a day spa, they become interested in new types of spa experiences and start incorporating them into their hotel and resort travel plans.

The remaining four spa types account for considerably fewer visits and the portion of spa visits they represent is closer to their proportion of spa locations. **Exhibit 2-3** also shows the confidence interval (or degree of error) associated with the overall industry estimate.

EXHIBIT 2-3 — NUMBER OF SPA VISITS IN THE U.S. BY TYPE OF SPA IN 2003



Spa Visit Confidence Interval*

	Low	Estimate	High
Spa Visit Confidence Interval	117,022,201	135,956,998	154,891,795

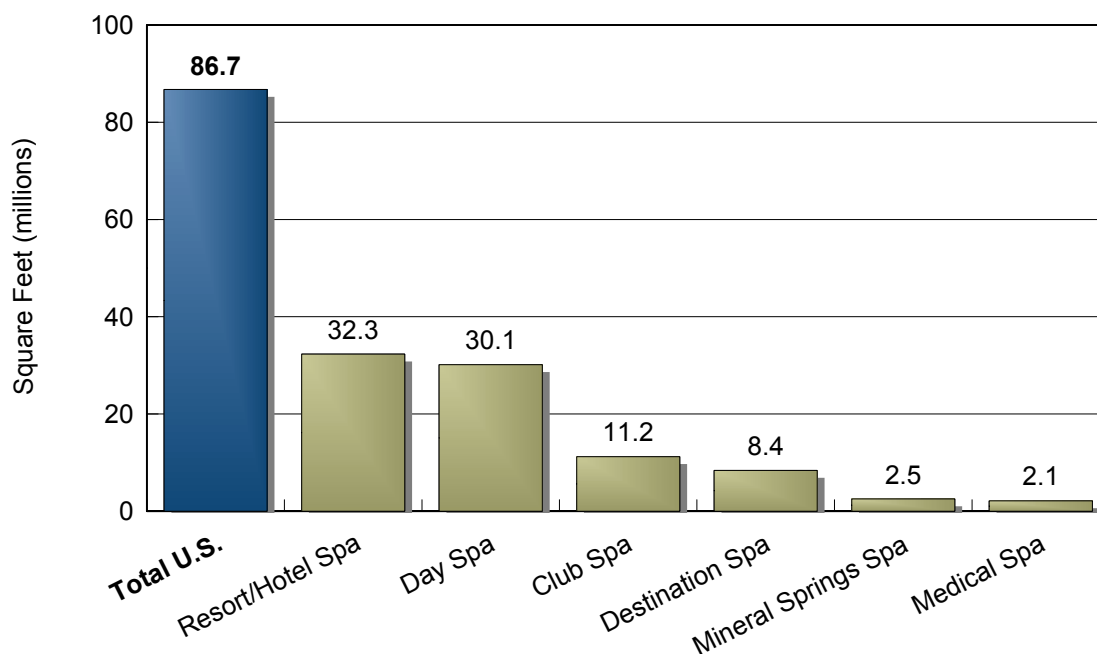
Note: Interpret results for spa types with caution due to small sample sizes.

* Estimates are, by nature, subject to error. The confidence interval represents the range in which the true spa visit volume falls. The level of confidence used was 95%.

Indoor Square Footage

Spas (excluding cruise ship spas) in the U.S. occupy an estimated 86.7 million square feet of indoor space (see **Exhibit 2-4**). Interestingly, resort/hotel spas (32.3 million sq. ft.) and day spas (30.1 million sq. ft.) account for an almost equal share of industry square footage despite the significant difference in the number of spas. Each segment accounts for approximately one-third of total industry square footage. *NOTE: Readers can refer to Chapter V, Exhibits 5-3 and 5-4 for an allocation of indoor square footage.*

EXHIBIT 2-4 — INDUSTRY INDOOR SQUARE FOOTAGE IN THE U.S. BY TYPE OF SPA



Spa Square Footage Confidence Interval*

	Low	Estimate	High
Square Footage Confidence Interval	75,930,049	86,728,086	97,526,122

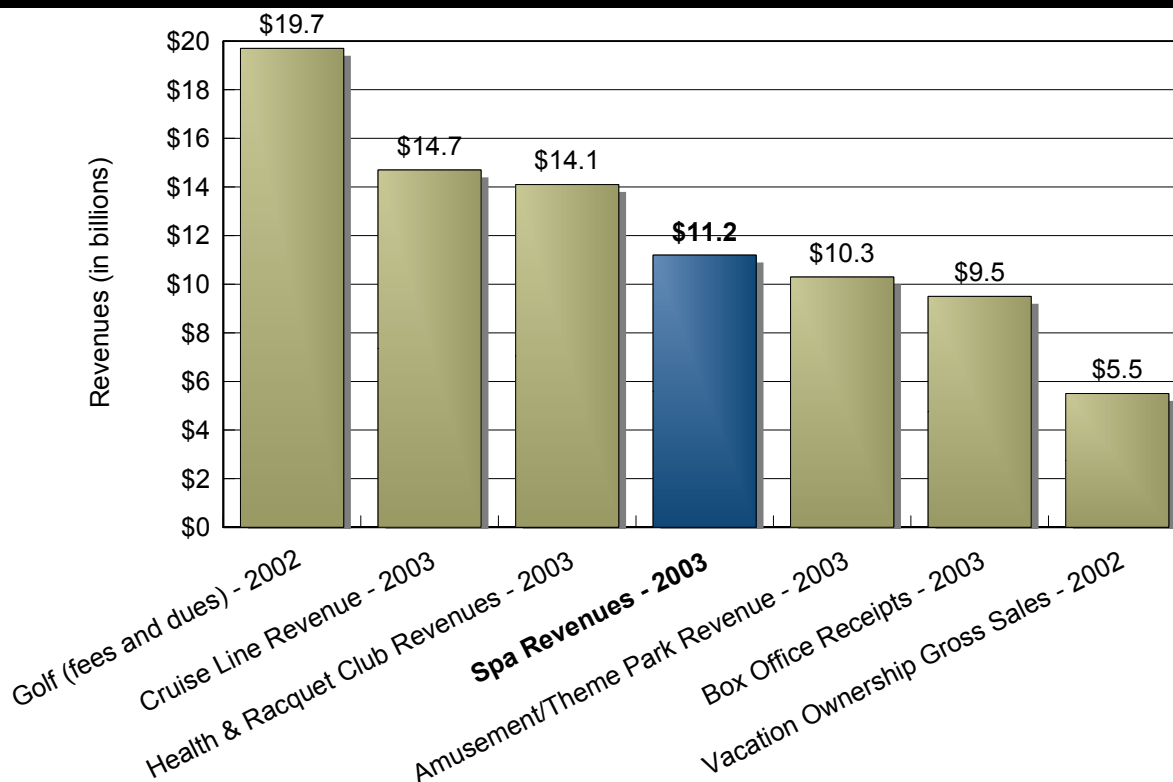
Note: Interpret results for spa types with caution due to small sample sizes.

* Estimates are, by nature, subject to error. The confidence interval represents the range in which the true industry square footage falls. The level of confidence used was 95%.

Industry Revenues

The spa industry has kept pace with a number of key leisure industries in the U.S. In 2003, the U.S. spa industry (excluding cruise ship spas) amassed a total of \$11.2 billion in revenues. As seen in **Exhibit 2-5**, the spa industry continues to be strongly positioned among key U.S. leisure industries that compete for the consumer's disposable income. It continues to sit in fourth place among the industries tracked, slightly ahead of amusement/theme parks and box office receipts.

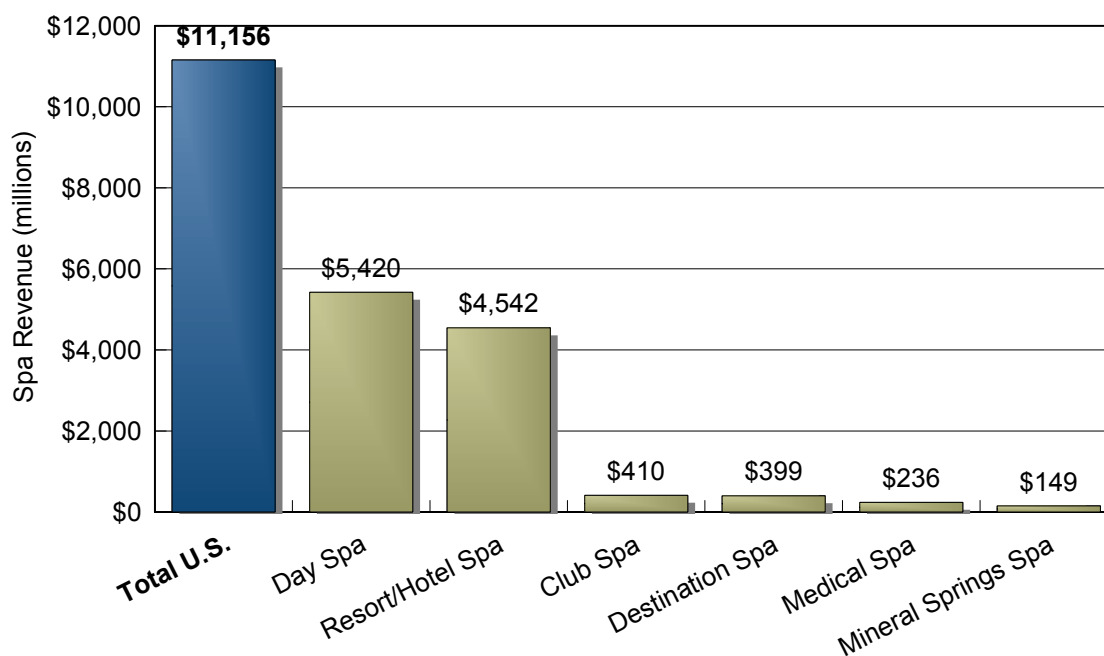
EXHIBIT 2-5 — ESTIMATED REVENUES OF U.S. LEISURE INDUSTRIES



Source: The National Golf Foundation, International Council of Cruise Lines, International Health, Racquet and Sportclub Association, International Association of Amusement Parks, Motion Picture Association of America, American Resort Development Association, Association Resource Centre Inc. Estimates

Industry revenue by spa type is summarized in **Exhibit 2-6**. Ninety percent (90%) of spa industry revenues are generated by the two largest segments - day spas and resort/hotel spas. While still trailing day spas, resort/hotel spas are emerging as the dominant segment in the spa industry. Despite accounting for only 14% of establishments, 2003 saw resort/hotel spas generate a staggering 41% of total industry revenue or \$4.5 billion. By comparison, the day spa segment which accounts for seven out of every ten spas, only generated \$5.4 billion in 2003, less than half (49%) of the industry's total take.

EXHIBIT 2-6 — TOTAL 2003 INDUSTRY REVENUES IN THE U.S. BY TYPE OF SPA



Spa Revenue Confidence Interval*

	Low	Estimate	High
Revenue Confidence Interval	\$9,285,544,530	\$11,155,924,293	\$13,026,304,056

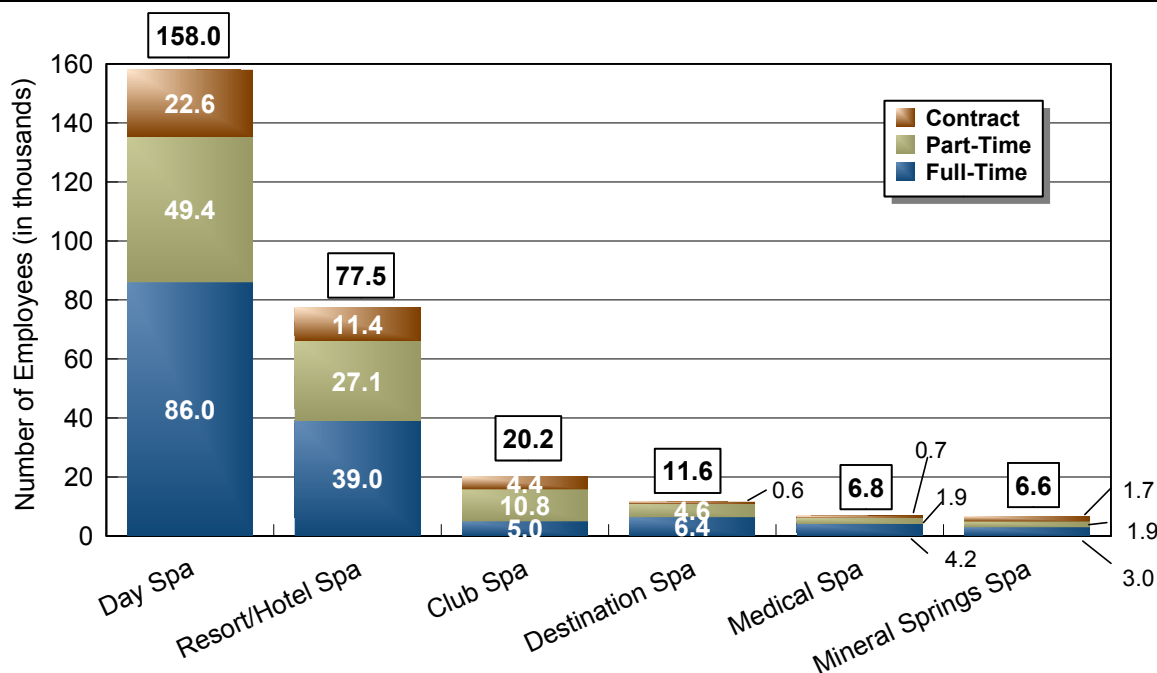
Note: Interpret results for spa types with caution due to small sample sizes.

* Estimates are, by nature, subject to error. The confidence interval represents the range in which the true industry revenue falls. The level of confidence used was 95%.

How Many People are Employed by the Spa Industry?

As a whole, the spa industry employs an estimated 280,700 people - 143,600 full-time employees, 95,700 part-time employees and 41,400 contract workers. Accounting for 158,000 of all employees, day spas are the largest spa employer with over half (56%) of all industry employees. Resort/hotel spas account for a disproportionately high share of the industry's employees at 28% (77,500 employees) relative to their share of destinations. This is a continuing trend from the 2002 study. Club spas account for approximately 7% of industry employees. **Exhibit 2-7** shows the distribution of employees by spa category.

EXHIBIT 2-7 — TOTAL INDUSTRY EMPLOYMENT IN THE U.S. BY TYPE OF SPA



Spa Revenue Confidence Interval*

	Low	Estimate	High
Total Spa Employment Confidence Interval	249,075	280,757	312,438
Full-time employment confidence interval	129,379	143,646	157,912
Part-time employment confidence interval	84,596	95,724	106,851
Contract employment confidence interval	35,100	41,387	47,675

Note: Interpret results for spa types with caution due to small sample sizes.

* Estimates are, by nature, subject to error. The confidence interval represents the range in which the true industry employment falls. The level of confidence used was 95%.

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 in which the spa industry affects the overall economy are:

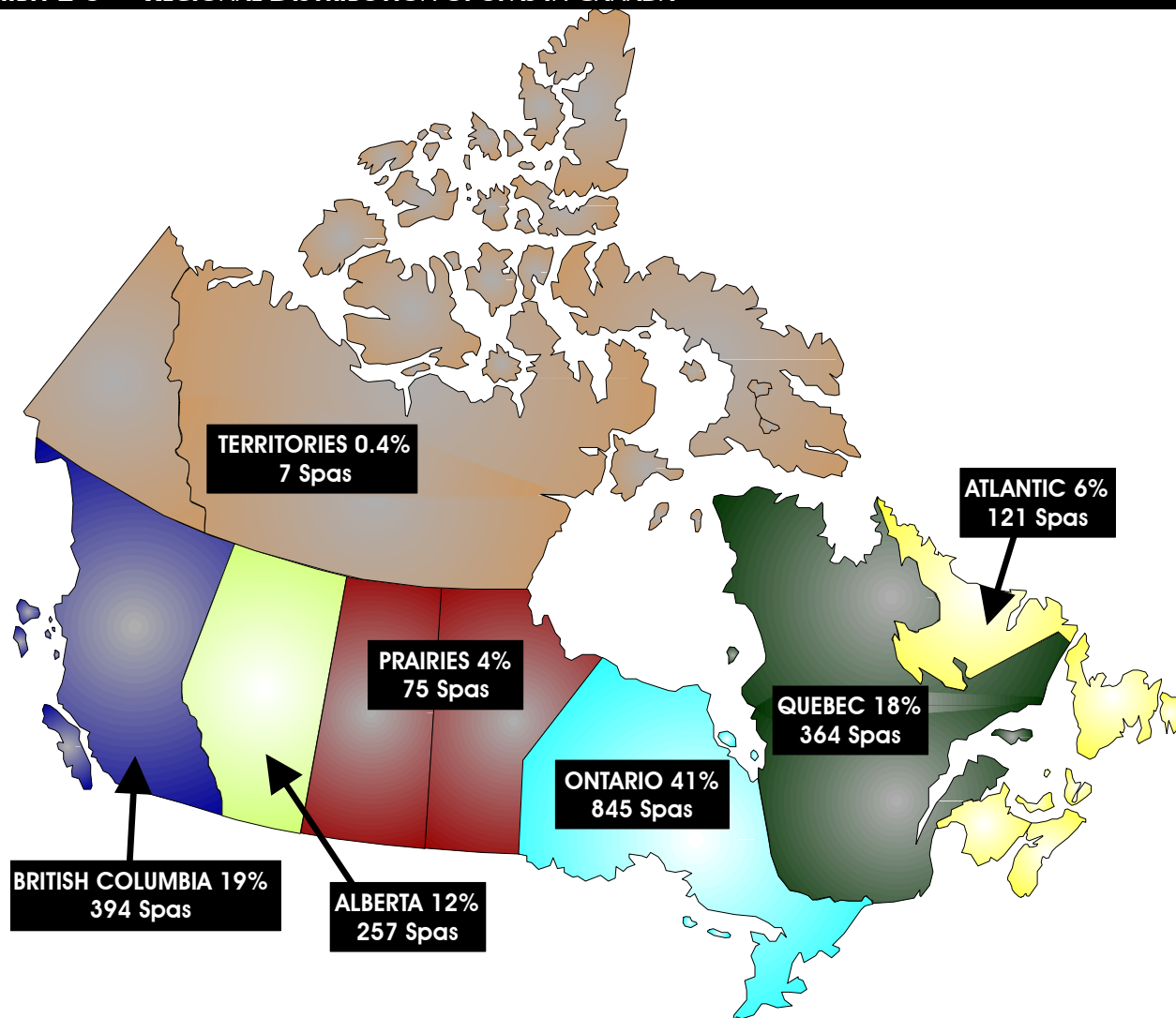
- *Indirect economic impact.* Spas purchase goods and services from other local businesses such as food and beverage suppliers, repair and maintenance services, advertising, utilities and rent. This generates an indirect economic impact as businesses in other sectors work to produce goods and services 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 (e.g., linen supply industry workers) spend their income, an induced economic impact is the result. 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. Visitors' spending 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 local tourist-related activities 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 III*, the number of spa establishments doubled between 1995 and 1999 and again between 1999 and 2003.

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, it is not possible to develop an accurate estimate of the total economic impact.

Overview of the Size of the Canadian Spa Industry

At the time of this study, there were an estimated 2,100 spa establishments in Canada being operated by approximately 1,800 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.

EXHIBIT 2-8 — REGIONAL DISTRIBUTION OF SPAS IN CANADA



The results suggest that there has been a shift in the distribution of spas in Canada. Specifically, Quebec has gone from representing 9% of the spas in Canada in 2002 to representing 18% in 2003. Conversely, while Ontario is still the largest region, its share of spas has dropped from 56% in 2002 to only 41% in 2004. This shift brings the distribution of spas in Canada more in line with the distribution of the population. British Columbia (19%) and Alberta (12%) are also key regions for the spa industry in Canada.

A summary of key Canadian industry statistics is presented in **Exhibit 2-9**. These statistics are based on the findings from the 147 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. The exhibit also shows the confidence interval (or degree of error) associated with the overall industry estimates.

As seen in **Exhibit 2-9**, the Canadian spa industry generated an estimated CDN \$1.5 billion (approximately \$1.1 billion US) in revenue in 2003 from 20.2 million spa visits. The industry occupies approximately 12.5 million square feet of indoor space and employs 33,200 people.

EXHIBIT 2-9 — CANADIAN SPA INDUSTRY STATISTICS

	Estimate	Confidence Interval**	
		Low	High
Total Spas Establishments	2,063	N/A	N/A
Revenues (2003)	\$1,508 million*	\$997 million*	\$2,019 million*
Square Footage	12.5 million	8.8 million	16.3 million
Spa Visits (2003)	20.2 million	11.7 million	28.8 million
Employees			
Full-time	20,442	14,599	26,284
Part-time	7,075	5,161	8,989
Contract	5,673	3,978	7,367
Total Employees	33,189	23,739	42,640

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

*Revenues are in Canadian dollars.

** Estimates are, by nature, subject to error. The confidence interval represents the range in which the true industry numbers fall. The level of confidence used was 95%.

III. INDUSTRY GROWTH

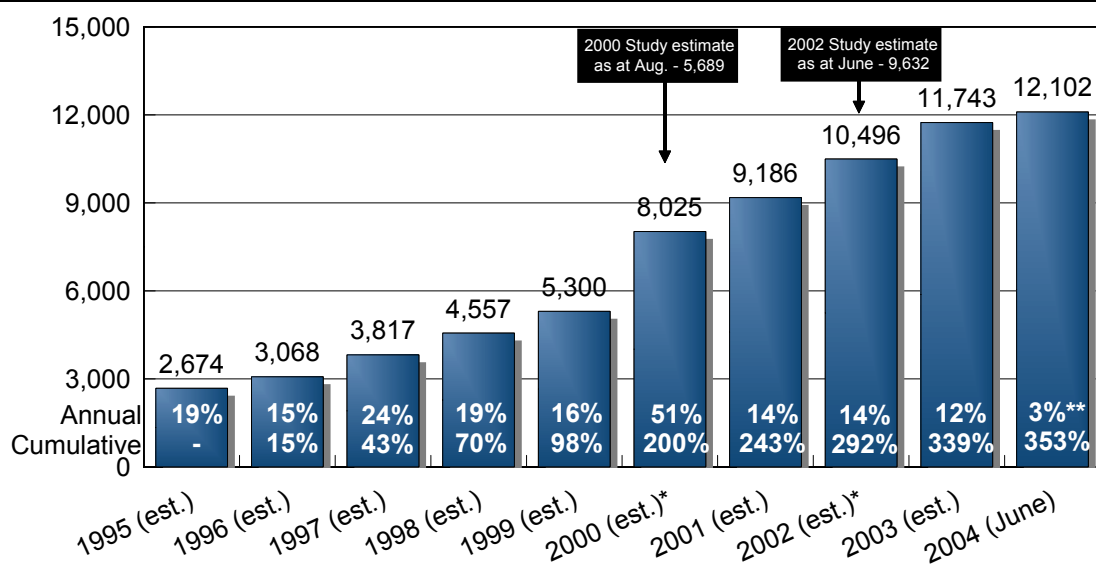
The spa industry is still growing in some areas, but not in all of them. The following sections discuss the changes that have occurred in the size of the industry over the past few years. Changes are analyzed in each of the five key areas — number of locations, square footage, revenues, employment, and number of spa visits.

NOTE: The data in this chapter illustrates the change in industry size. For a more detailed picture of current industry size, readers should refer to Chapter II.

Growth in the Number of Locations Continues to be Strong

Since the 2002 Spa Industry Study, the number of spa locations has grown by 26%, increasing from 9,632 establishments in June 2002 to 12,102 in June 2004. While the number of spas in the U.S. has continued to grow rapidly, the pace has slowed from what was experienced in the previous two studies. As shown in **Exhibit 3-1**, the annual growth rate for the number of spas peaked at 51% in the year 2000. Since then, the growth rate has gradually decreased from 18% in 2001 to 12% in 2003. Despite the shrinking growth, it is important to note that the industry has grown by an amount ranging between 1,161 to 1,310 spas each year since 2000. In other words, the growth in the number of locations is still strong, but somewhat more manageable than in the past.

EXHIBIT 3-1 — GROWTH IN SPA LOCATIONS (U.S.)



Note: Numbers on bars reflect the annual growth and the cumulative growth in spa locations, respectively.

Industry growth from 1995 to 2000 is based on year established. Bankruptcies have not been accounted for due to a lack of prior data. Closures have been assumed to be minimal.

*Estimates for 2000 and 2002 differ from what was reported in the respective studies. The values in the chart have been adjusted to reflect year-end industry sizes whereas the values reported in previous studies represent the size of the industry at the time of the study.

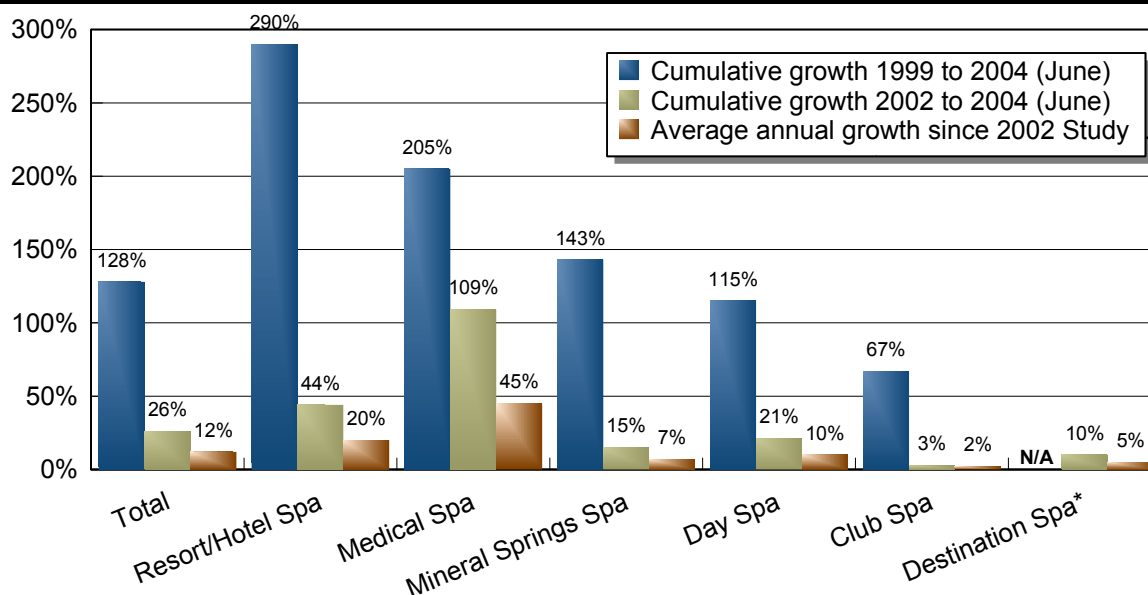
** Growth rate for year 2004 represents growth for 6 months.

From 1995 to 2004, the industry experienced an average annual growth rate in the number of locations of 21%. This represents a cumulative growth rate of 353% for the nine-year period which saw the number of spas in the U.S. more than quadruple.

Cumulative five-year and two-year growth rates as well as the average annual growth rate from the 2002 study to the 2004 study are presented in **Exhibit 3-2** by spa type. Overall, the number of locations in the industry has grown by 128% in the past five years. However, the results presented in the exhibit show that the growth has not been evenly distributed across all spa types. In fact, resort/hotel spas have outpaced all other segments, increasing by an astounding 290% over five years, more than double the growth rate of the overall industry. At 205%, medical spas have also experienced considerable growth as have mineral springs spas at 143%.

Two-year growth rates provide a better picture of what is currently taking place in the industry. Over the past two years, medical spas have been the fastest growing segment by far. In fact, the 109% growth in medical spas over the past two years is more than double the rate of any other segment. This shift confirms information from executive interviews in the previous study that suggested that the medical spa category was well positioned for growth. The resort/hotel spa segment also continues to grow rapidly at 44% over two years.

EXHIBIT 3-2 — GROWTH IN SPA LOCATIONS BY TYPE OF SPA (U.S.)



Note: Interpret cumulative growth rates for spa types with caution due to small sample sizes.

*Five-year growth rate not shown for destination spas due to small sample size.

Interestingly, two general predictions that were made by spa executives in the previous study appear to be coming true. Following is an excerpt from the 2002 Spa Industry Study:

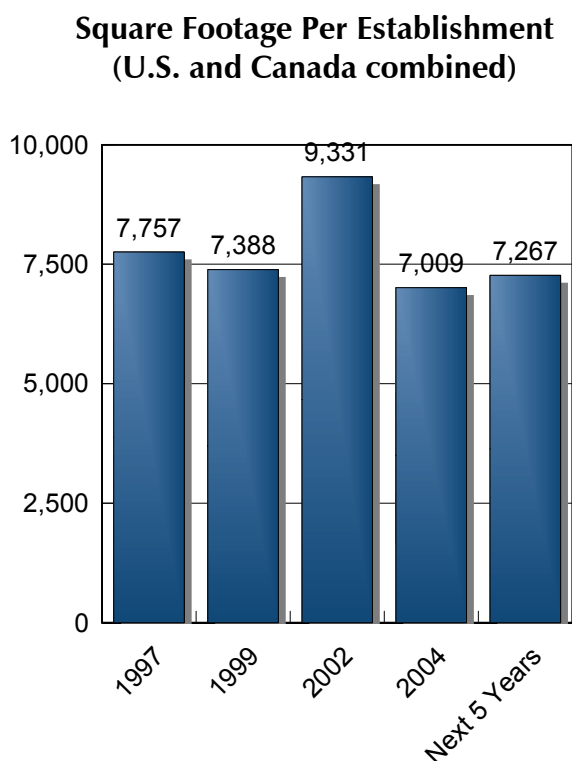
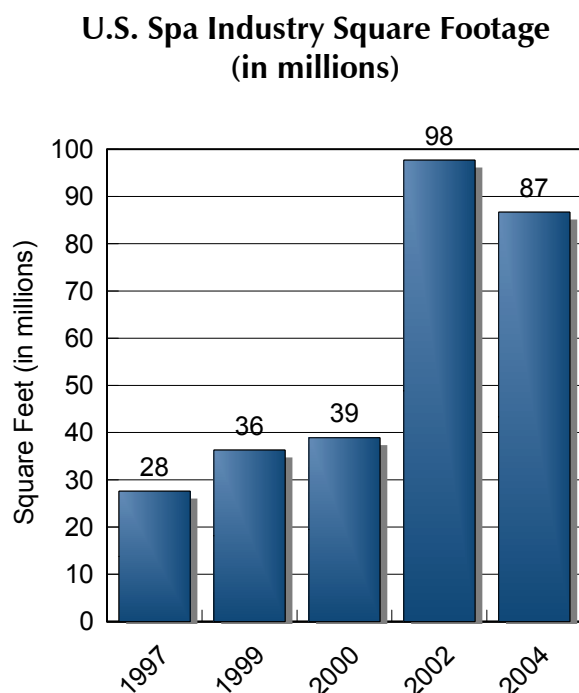
"While the growth rate continues to be strong for most segments, executives indicated that they expect growth to moderate in the future. They also expect that as the industry matures, weaker players (in terms of management skills) will not be able to endure the tough competition."

Clearly, the first part of this statement has come true with the growth rate in the spa industry tapering off to a more manageable level. Results are not specifically tracked to measure closures in the industry; however, the process of determining the size of the industry revealed that there appears to be a high degree of turnover in the industry. This turnover comes in two forms: the first is businesses ceasing to exist and the second is changes in ownership. This apparent high turnover suggests the "weeding out" process has begun.

Changes in Industry Square Footage

The results suggest that despite a growing number of spa locations, the overall square footage has contracted from 98 million square feet to 87 million square feet (see **Exhibit 3-3**). However, it should be noted that the industry estimates from the 2002 and 2004 studies are not statistically different, as the confidence intervals overlap suggesting that industry space is relatively unchanged. That said, the spike in per establishment square footage in 2002 from an otherwise stable average suggests that respondents may have overstated their square footage in the 2002 study, resulting in an inflated industry estimate.

EXHIBIT 3-3 — GROWTH IN INDUSTRY SQUARE FOOTAGE



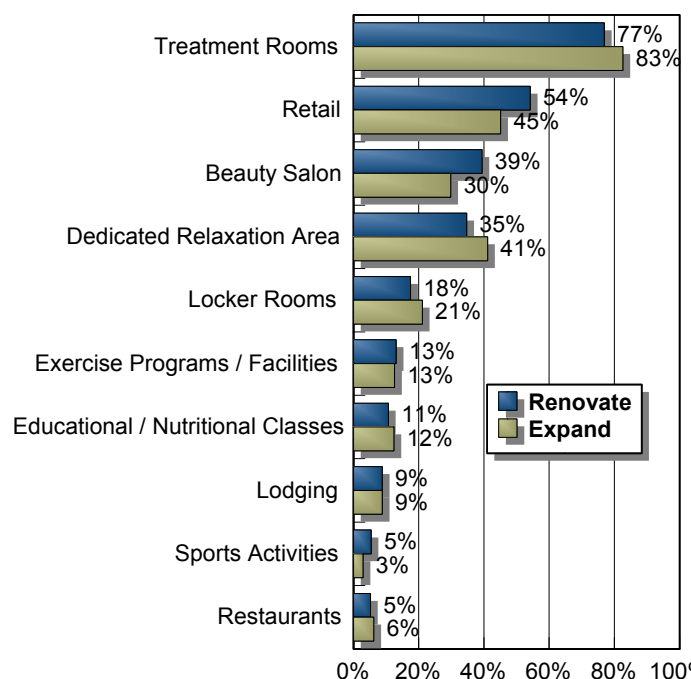
Among those surveyed, 25% have renovated their facilities in the last two years, 5% have expanded and 16% have both renovated and expanded. Looking ahead, 18% plan to renovate in the next five years while 19% plan to expand and 22% plan to do both.

When asked where changes have or will occur, treatment rooms continue to be the number one area of expansion among existing spas (see **Exhibit 3-4**). Among those who have recently expanded, 83% added treatment room space while 77% have renovated their treatment rooms. Similarly, 82% of those planning to expand will add treatment rooms while 70% plan to renovate them. This is not surprising given that treatments are the core product that spas offer.

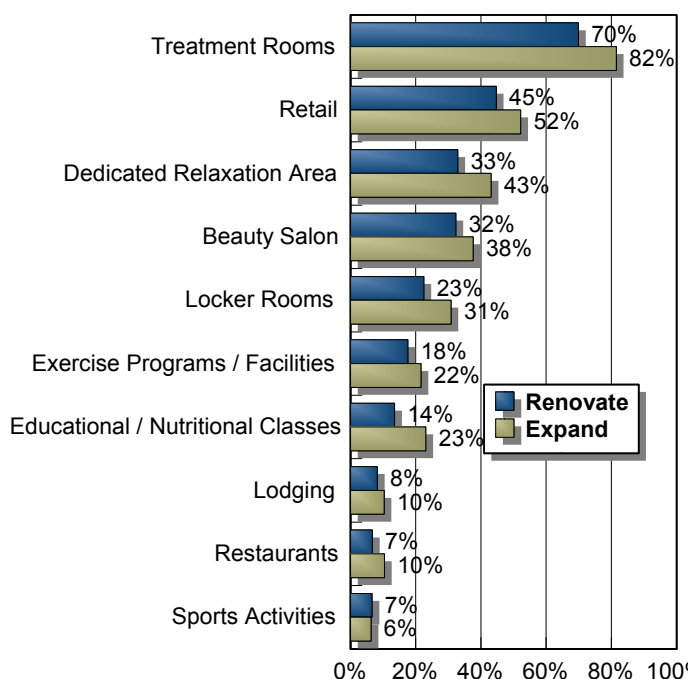
When asked what type of treatment room changes were or will be made, massage led the way with 69% of treatment room renovations/expansions in the past two years and 72% of planned renovations/expansions over the next five years. Facials (64% in the past two years and 63% in the next five years, respectively), combined-use rooms (44% and 59%, respectively) and wet treatments (35% and 50%, respectively) were also at the top of the list.

EXHIBIT 3-4 — RENOVATIONS AND EXPANSIONS IN THE SPA INDUSTRY

Past Renovations and Expansions (Past Two Years)



Future Renovations and Expansions (Next Five Years)



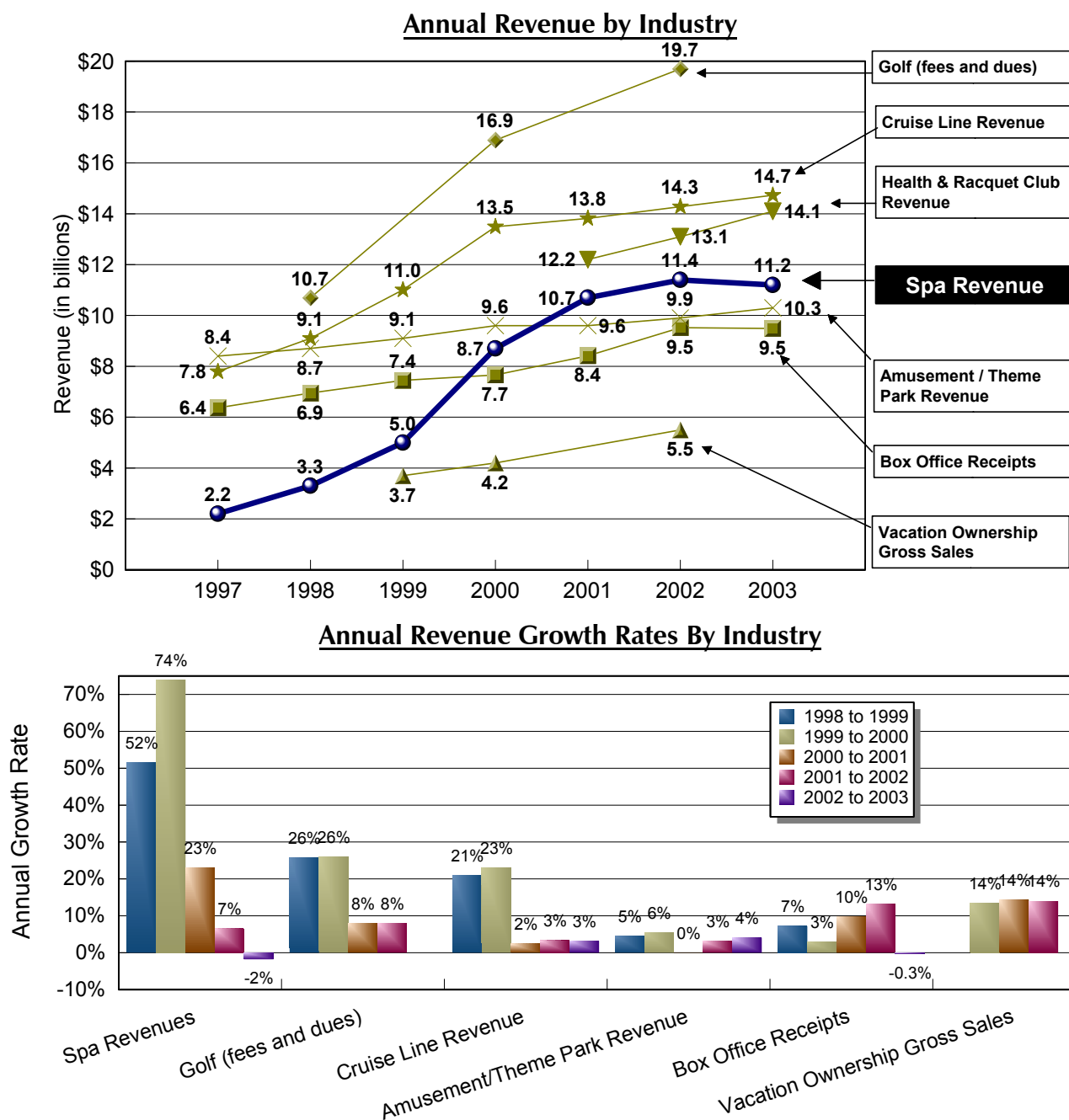
Note: Base is those who have expanded/renovated for past two years or plan to during the next five years.

After treatment rooms, the most common areas of expansion/renovation in the past two years and for the next five years are retail, beauty salons and dedicated relaxation areas. Other key areas where expansions/renovations can be expected in the next five years are locker rooms, exercise programs/facilities and educational/nutritional classes. Given the growing importance of retail in the spa industry, it is worth noting that the results translate into an estimated 2,400 spas that will expand their retail operation in the next five years and just over 2,000 that will renovate it.

Growth in Spa Revenue Has Moderated

Revenues in the spa industry have leveled off. Between 1997 and 2001, revenues in the U.S. spa industry were doubling every two years. However, in 2002 the industry saw a more moderate growth rate of 6.5%, bringing industry revenue to \$11.4 billion. This growth rate is more in line with what other key leisure industries experienced in 2002 and is more sustainable over the long term. In 2003, the spa industry's \$11.2 billion in revenue represents a slight decline of 1.8%. Interestingly, 2003 saw low growth rates in several key leisure industries such as cruise lines (3.2% growth), amusement/theme parks (4%) and box office receipts (-0.3%). Revenue growth from 1997 to 2003 is depicted for key leisure industries in **Exhibit 3-5** on the next page.

The growth pattern in the spa industry is quite similar to two other leisure industries. Most notably, in the golf industry, average annual revenue growth from 1998 to 2000 was a significant 26%. However, between 2000 and 2002, the rate was more moderate at an average of only 8%. The second industry with a similar trend to the spa industry is cruise lines where the industry saw strong revenue growth ranging from 17% in 1998 to 23% in 2000. From 2000 to 2003, the growth rates were significantly lower at 2.4% in 2001, 3.3% in 2002 and 3.2% in 2003. Only time will tell if spa industry revenue has peaked or if we are witnessing a temporary lull in revenue growth.

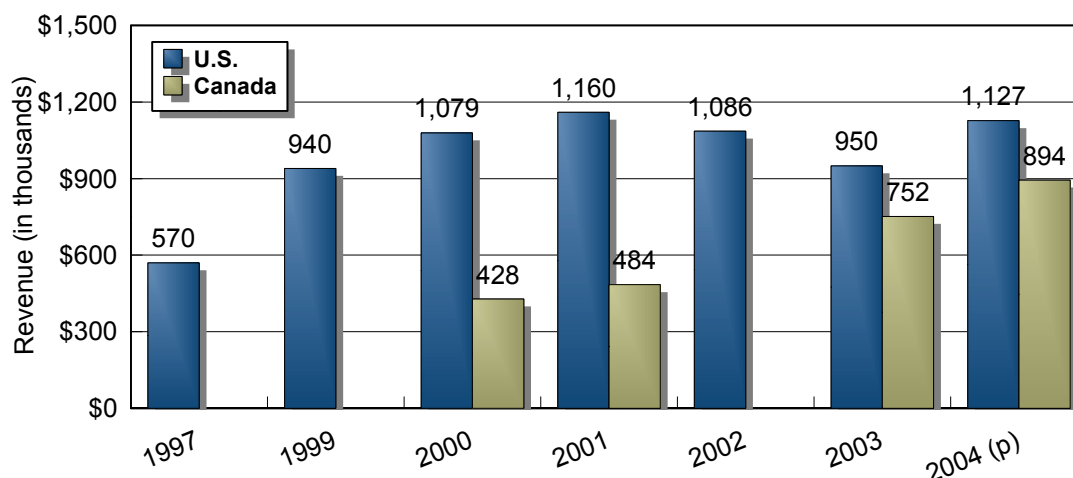
EXHIBIT 3-5 — GROWTH IN INDUSTRY REVENUE (U.S.)

Source: The National Golf Foundation, International Council of Cruise Lines, International Health, Racquet and Sportclub Association, International Association of Amusement Parks, Motion Picture Association of America, American Resort Development Association, 2002 ISPA Spa Industry Study and Association Resource Centre Inc. Estimates

The revenue growth rate raises an important question. If the number of locations is still growing rapidly, why aren't revenues? The answer is that the money is simply being spread across more spa locations. As seen in **Exhibit 3-6**, U.S. spa establishment revenues have gradually decreased from an average of \$1.16 million per spa in 2001 to \$950,000 per spa in 2003. Clearly, 2002 was a turning point for the industry. In the 2002 study, respondents had predicted that their revenue for the year would be \$1.44 million per spa, 33% more than the \$1.09 million that was actually achieved. Conversely, the results show that spa establishment revenue in Canada is on the rise increasing by 55% from 2001 to 2003.

Looking ahead, spas in both the U.S. and Canada are anticipating a 19% increase in revenue for 2004. Should U.S. spas achieve their anticipated revenue in 2004 of \$1.1 million per spa, total industry revenue could hit between \$13.6 billion and \$14 billion, assuming a total growth of 6% in the number of spas in 2004.

EXHIBIT 3-6 — CHANGES IN REVENUE PER SPA ESTABLISHMENT



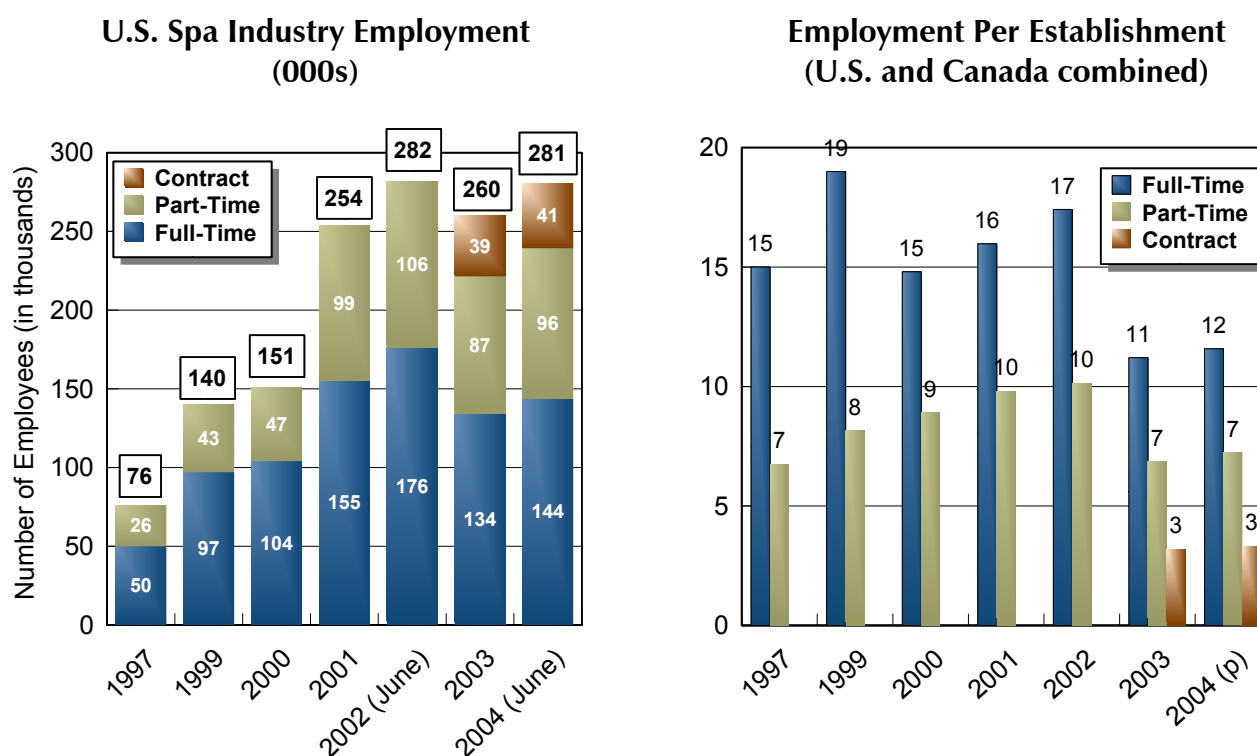
Note: Canadian revenues are in Canadian dollars. Interpret Canadian results with caution due to small sample sizes.

Spa Employment Is Stable

As seen in **Exhibit 3-7**, total employment in the spa industry remains unchanged since the 2002 study. Like revenues, employment grew rapidly from 1997 to 2001 and then stabilized. Since 2001, the number of employees has ranged between 254,000 and 282,000. It is important to note that the 2004 study saw a slight change in the employment question to include contract employees. It is assumed that these employees were included in the part-time and full-time categories in previous studies.

The exhibit also shows the number of employees per spa by year. Not surprisingly, with location revenues dropping, spa owners reduced their staff from an average of 27 per spa in 2002 to 21 per spa in 2003. Interestingly, even though this study separately breaks out contract employees, the ratio of part-time to full-time employees has been fairly stable since 2000.

EXHIBIT 3-7 — GROWTH IN EMPLOYMENT

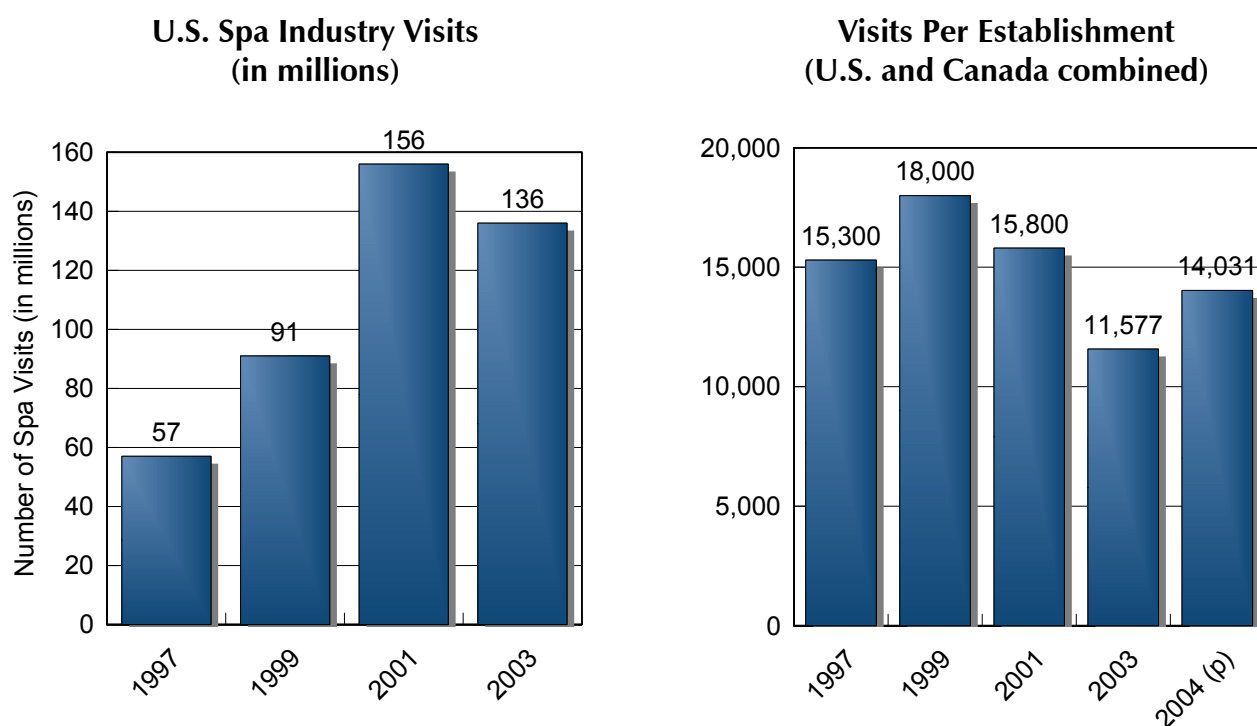


NOTE: For a breakdown of employment by spa type, readers can refer to Exhibit 2-7 on page 10.

Consumer Demand Has Dictated Growth Changes in the Industry

The driving force behind the tremendous growth of the spa industry between 1997 and 2001 was rising consumer demand. However, 2003 has seen demand fall off somewhat. As seen in **Exhibit 3-8**, total industry visits grew by an overwhelming 71% between 1999 and 2001 before dropping by 13% between 2001 and 2003. The fact that visits are down and revenues are up suggests that those who are visiting spas are making the most out of their visits, spending more time and money when they do go. This is evidenced by the shift in revenue share by segment (presented earlier) that now has resort/hotel spas generating 41% of the industry's revenue.

EXHIBIT 3-8 — GROWTH IN CONSUMER DEMAND



As seen in other aspects of the industry, the number of visits per spa has dropped off significantly as more spas share fewer visits. The average number of visits per spa fell by 27% between 2001 and 2003.

IV. 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, revenue, visits from male clients, etc.

The first section presents 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* followed by the differences between ISPA members and non-members. It is important to note that the analysis presented in this chapter reflects the typical spa establishment for each sub-group. A profile of the full industry in the U.S. and Canada was provided in **Chapter II**.

Geographic Profile

Exhibit 4-1 on the next page provides a summary of spa characteristics categorized by geographic location.

EXHIBIT 4-1 — SPA PROFILE BY GEOGRAPHY

	Total North America	North East	South East	North Central	South Central	North West	South West	United States	Canada
ESTABLISHMENT PROFILE									
SPA TYPE:									
Club Spa	5%	4%	6%	6%	6%	4%	8%	6%	2%
Day Spa	73%	79%	68%	77%	82%	77%	59%	72%	75%
Destination Spa	2%	4%	0%	2%	1%	0%	2%	2%	4%
Medical Spa	4%	4%	2%	5%	2%	8%	4%	4%	6%
Mineral Springs Spa	2%	1%	3%	3%	3%	2%	4%	3%	1%
Resort/Hotel Spa	13%	8%	21%	7%	6%	9%	23%	14%	12%
FRANCHISE AFFILIATION:									
Franchisor	2%	2%	1%	2%	4%	0%	2%	2%	3%
Franchisee	2%	2%	1%	1%	3%	2%	1%	2%	2%
Not Affiliated With a Franchise	96%	96%	98%	97%	93%	98%	97%	97%	95%
OWNERSHIP STRUCTURE:									
Sole Proprietor	34%	35%	27%	35%	35%	44%	30%	33%	42%
Partnership	10%	10%	9%	9%	13%	4%	12%	10%	9%
Small Corporation	41%	43%	45%	44%	42%	42%	34%	42%	41%
Major Corporation	11%	8%	19%	10%	7%	5%	18%	12%	6%
Limited Liability Company (LLC)	2%	4%	0%	3%	2%	2%	3%	2%	0%
Other	1%	1%	1%	1%	0%	2%	3%	1%	2%
NUMBER OF YEARS IN BUSINESS:									
Less than 2 years	14%	15%	15%	13%	14%	6%	12%	13%	19%
2 to 5 years	30%	32%	24%	28%	31%	35%	32%	30%	29%
6 to 9 years	25%	23%	26%	27%	23%	39%	22%	25%	28%
10 to 15 years	12%	13%	17%	12%	6%	6%	10%	12%	10%
More than 15 years	19%	17%	18%	20%	26%	15%	24%	20%	14%
Years in Business - Mean	8.7	7.6	8.6	9.3	10.2	7.4	10.6	9.0	6.9
Years in Business - Median	5	5	6	6	6	5	5	6	5
OWNED VS. LEASED:									
<i>Land</i>									
Owned	38%	37%	43%	37%	34%	28%	46%	39%	33%
Leased	62%	63%	57%	63%	66%	73%	54%	61%	67%
<i>Equipment</i>									
Owned	96%	92%	95%	99%	98%	98%	95%	96%	99%
Leased	4%	8%	6%	1%	2%	2%	5%	5%	1%
PRODUCT OFFERING									
PRODUCTS OFFERED:									
Treatment Rooms	98%	98%	98%	97%	97%	97%	98%	98%	100%
Exercise Programs/Facilities	27%	23%	32%	19%	27%	16%	43%	28%	24%
Educational/Nutritional Classes	29%	33%	25%	29%	27%	27%	36%	30%	20%
Lodging	14%	10%	13%	10%	7%	10%	26%	13%	18%
Restaurants	15%	10%	22%	8%	7%	8%	26%	15%	14%
Sports Activities	13%	12%	16%	6%	8%	8%	22%	13%	14%
Retail	93%	94%	95%	91%	93%	96%	95%	94%	91%
Beauty Salon	58%	57%	64%	63%	59%	50%	49%	58%	61%
Dedicated Relaxation Area	65%	64%	67%	58%	60%	58%	71%	64%	71%
Locker Rooms	44%	38%	53%	37%	43%	29%	59%	45%	37%
Other	4%	2%	4%	4%	2%	8%	5%	4%	7%
MEDICAL TREATMENTS OFFERED	15%	14%	17%	10%	14%	15%	16%	15%	15%

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

Exhibit 4-2 below summarizes key spa statistics such as average size, revenues, number of employees and number of visits by region.

EXHIBIT 4-2 — KEY SPA STATISTICS BY GEOGRAPHY

	Total North America	North East	South East	North Central	South Central	North West	South West	United States	Canada
Locations - Mean	2.0	2.2	2.5	1.8	1.4	1.6	2.6	2.1	1.5
Locations - Median	1	1	1	1	1	1	1	1	1
Indoor Square Footage – Mean	7,009	4,949	8,617	6,588	6,102	4,399	10,178	7,167	6,081
Indoor Square Footage – Median	3,000	2,700	3,300	3,200	3,100	2,000	3,700	3,000	2,500
Revenue in Thousands – Mean*	\$895	\$701	\$1,041	\$720	\$642	\$974	\$1,499	\$950	\$752
Revenue in Thousands – Median*	\$350	\$300	\$500	\$400	\$275	\$300	\$500	\$375	\$250
Annual Spa Visits – Mean	11,370	9,021	11,950	10,356	9,787	11,673	15,615	11,577	10,090
Annual Spa Visits – Median	5,000	3,000	6,000	6,000	4,000	3,000	7,300	5,000	3,000
Number of Clients – Mean	5,820	4,560	6,129	6,263	4,506	4,340	8,018	5,976	4,757
Number of Clients – Median	2,500	1,800	3,000	2,800	2,500	1,500	3,000	2,500	1,500
% Visits by New Clients – Mean	43.5%	41.8%	43.4%	39.4%	42.5%	40.8%	48.4%	43.0%	46.1%
% Visits by Male Clients – Mean	22.4%	22.2%	24.0%	21.4%	20.8%	21.2%	25.8%	22.9%	19.2%
Full-time Employees – Mean	11.6	9.8	13.2	12.0	11.1	9.4	14.2	11.9	9.9
Full-time Employees – Median	6	5	7	8	7	4	7	6	5
Part-time Employees – Mean	7.2	6.8	7.4	7.9	4.0	5.0	12.8	7.9	3.4
Part-time Employees – Median	3	3	3	4	2	2	5	3	2
Contract Employees – Mean	3.3	2.7	4.8	1.6	2.5	2.9	5.2	3.4	2.8
Contract Employees – Median	0	0	0	0	0	0	1	0	1
Profit Margin – Mean	7.6%	6.8%	11.1%	3.9%	2.4%	9.3%	11.8%	8.0%	4.9%
% of Revenue to Payroll – Mean	43.4%	43.5%	44.0%	43.0%	46.2%	39.7%	43.8%	43.7%	41.7%
Average Price/Service – Mean*	\$72	\$78	\$73	\$65	\$71	\$69	\$88	\$75	\$70
Average Price/Massage – Mean*	\$73	\$76	\$76	\$72	\$68	\$71	\$87	\$76	\$76
Average Price/Facial – Mean*	\$77	\$82	\$77	\$75	\$74	\$73	\$91	\$80	\$80
Revenue/Sq. Ft. – Mean*	\$165	\$177	\$167	\$169	\$158	\$168	\$185	\$172	\$148
Revenue/Treatment Rm [†] – Mean*	\$48,785	\$46,952	\$55,572	\$49,515	\$42,341	\$44,571	\$64,026	\$52,163	\$38,528
Revenue/Visit – Mean*	\$142	\$199	\$130	\$96	\$121	\$126	\$162	\$143	\$192
Revenue/Client – Mean*	\$276	\$333	\$258	\$207	\$243	\$308	\$321	\$277	\$376

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. Dollar amounts for Canadian spas included in the "Total" column have been converted to U.S. dollars at a rate of 1.4015.

[†]Revenue per treatment is based on treatment room revenue only. Other spa revenues were not included in the calculation.

Overview of Spas in the U.S. and Canada

Following are highlights of the key characteristics of the spa industry in the **U.S.**

- Day spas continue to dominate the U.S. spa industry, with 72% indicating this as their spa type. Resort/hotel spas are the second largest, accounting for 14% of all establishments, followed by club spas (6%).
- With 97% of spas not having a franchise affiliation, franchises continue to be a rarity in the industry.

- Sole proprietorships (33%) and small corporations (42%) dominate the industry. The significant portion of the industry that is operated under “small” ownership structures is confirmation that the spa industry comprises many small players and few large players. Only 12% of spa locations are operated by large corporations.
- On average, individual spa establishments in the U.S. have been in business for nine years. As evidence of the strong growth in the industry in the late 1990s through 2002, over half (55%) of all current spas have been in business for between two and nine years. In fact, 30% were established between 1999 and 2002.
- The vast majority of spas (96%) own their equipment as opposed to leasing it. Conversely, just under two-thirds (61%) lease their land. This is consistent with the results from the 2002 study.
- Treatment rooms (98%) and retail (94%) continue to be staple product offerings for the industry with almost all spas offering them. Approximately two-thirds (64%) of spas have a dedicated relaxation area making it a core part of the offering. While still a core product, beauty salons are not as common as they were in 2002 (58% in 2004 vs. 66% in 2002). Locker rooms are available in just under half (45%) of all U.S. spas. Self-awareness and self-improvement activities such as educational/nutritional classes (30%) and exercise programs/facilities (28%) are also important product offerings, but are not core products.
- Fifteen percent (15%) of all spas in the U.S. offer some form of medical treatment.
- The average (or mean) square footage of spas in the U.S. is just under 7,200 square feet of indoor space. This average is somewhat inflated because of the handful of larger spas (in terms of square footage) in the industry. Moreover, the median spa size is 3,000 square feet, meaning that half of all spas have a square footage of 3,000 square feet or less.
- U.S. spas employ an average of 23.2 persons, approximately half (51%) of which are full-time employees. Fifteen percent (15%) or 3.4 of these employees work on a contract basis. The median number of employees is nine. The average spa spends 44% of its revenue on staff salaries and wages.
- The typical spa experienced 5,000 visits in 2003 from 2,500 clients. The larger spas bring the average to 11,600 visits made by almost 6,000 clients. Regardless of which set of numbers is used, clients make an average of two visits per year to a particular spa (note: they may still make trips to other spas).
- The average revenue per spa in the U.S. is \$950,000. While the average is quite high, half of all spas generate less than the median revenue of \$375,000. The average profit margin (before tax) in the U.S. is 8.0%.
- Male patrons account for just under one-quarter (23%) of all spa visits in the U.S.

- Interestingly, spas report that, on average, 43% of visits to their spa are made by new clients (not necessarily new spa-goers). While there appears to be a high degree of loyalty, spas are doing a good job of getting new faces through the door.
- The average price of a spa treatment in the U.S. is \$75. The average cost per massage is \$76, while the average cost per facial is \$80.
- U.S. spas earn an average of \$172 per square foot, \$52,163 per treatment room, (only treatment room revenue is included), \$143 per spa visit and \$277 per client.

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:

- The distribution of spa types in Canada is similar to that of the U.S. with 75% being day spas and 12% being resort/hotel spas.
- Ninety-five percent (95%) of spas in Canada do not have a franchise affiliation.
- Similar to the U.S., the vast majority of spas are owned by smaller companies with 42% being sole proprietorships and 41% being small corporations. Only 6% of spas in Canada are owned by large corporations.
- Among those surveyed, the average age of the business is almost seven years. In fact, 48% are less than five years old, a sign of a rapidly growing industry.
- Almost all Canadian spas own their equipment while only one-third own their land.
- All Canadian spas surveyed reported that they have treatment rooms while 91% reported that they have retail. Like the U.S., these are staple products in the Canadian industry. With 71% offering dedicated relaxation areas, this type of space is clearly critical to the overall spa experience. Beauty salons are important to the spa industry but are not necessarily a core product with only 61% offering them.
- Fifteen percent (15%) of Canadian spas report that they offer at least some medical treatments.
- The average Canadian spa has 6,100 square feet of indoor space. The median size is 2,500 square feet.
- Canadian spas employ an average of 16.1 persons, 61% of whom are full-time. Canadian spas pay out an average of 42% of their revenue by way of employee compensation.
- The average number of visits was 10,100 from an average of 4,800 clients. The median visits are 3,000 and 1,500 clients. Like the U.S., the typical spa sees its clients an average of two times per year.

- Half of all Canadian spas generated less than \$250,000 (in Canadian dollars) in 2003. Larger spas bring the industry average up to \$752,000. Profit margins (before tax) in Canada sit at only 4.9%.
- Nominally, the average price of services in Canadian dollars is similar to those in the U.S. However, with the exchange rate differential, the prices are quite a bit lower. The average price per service in Canada is \$70 (in Canadian dollars). The average cost of a massage in Canada is \$76 while the average price of a facial is \$80.
- Canadian spas report that 46% of spa visits are made by new clients and that male patrons account for one-fifth of all spa visits (19%).
- On average, Canadian spas earn CDN\$148 per square foot, CDN\$38,500 per treatment room (only treatment room revenue is included), CDN\$192 per spa visit and CDN\$376 per client.

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

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

- *North East:* The North East region has a greater proportion of day spas (79%) than some other regions. Spas in the North East region tend to be “younger” than spas in other regions, smaller and generate fewer visits and less revenue.
- *South East:* Compared to other regions, spas in the South East region are more likely to be resort/hotel spas and less likely to be day spas. They are more likely to offer restaurants (22%) and locker rooms (53%) and tend to be at the higher end of the scale when it comes to square footage, revenues and employees. This is likely a function of the greater portion that is comprised of resort/hotel spas.
- *North Central:* Spas in this region are among the least likely to offer restaurants (8%) and exercise programs/facilities (19%). North Central region spas are also at the lower end of the revenue spectrum and tend to have lower-than-average profit margins.
- *South Central:* The South Central region has the highest percentage of day spas at 82%. Spas in the region tend to have been in business longer than spas in other regions (10.2 years); but have the lowest average revenue (\$642,000). The average price of massage in this region also tends to be lower than in other regions and they are among the least likely to offer restaurants.
- *North West:* Spas in the North West region are amongst the youngest spas in the country (7.4 years). In terms of service offerings, they are among the least likely to offer exercise programs/facilities (16%), restaurants (8%), beauty salons (50%) and locker rooms (29%). They are also the least likely to own their land.
- *South West:* Spas in the South West region are the most likely to offer lodging (26%) and restaurants (26%). This is not surprising given that the region has the highest concentration of resort/hotel spas (23%) and the lowest proportion of day spas (59%). Spas in this region are more likely to offer exercise programs/facilities (43%); but are one of the least likely to offer beauty salons (49%). South West spas tend to be older (10.6 years) and generate the highest revenue (\$1.5 million), have the most visits (15,600), the most clients (8,000) and the most employees (32.2). They also tend to be bigger than spas in other regions. The average profit margin is among the highest in the country. Interestingly, the average price per service (\$88), massage (\$87) and facial (\$91) is also the highest of any region.

Profile by Type of Spa

This section looks at the spa industry by type of spa. **Exhibits 3-3** and **3-4** provide a summary of spa characteristics, establishment profiles, product offerings and spa statistics by the type of spa and ISPA membership status. For the purpose of the 2004 study, destination spas and mineral spring spas have 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 4-3 — SPA PROFILE BY TYPE AND ISPA MEMBERSHIP STATUS

	<i>Total North America</i>	<i>Club Spa**</i>	<i>Day Spa</i>	<i>Medical Spa**</i>	<i>Resort/ Hotel Spa</i>	<i>Other**</i>	<i>ISPA Member</i>	<i>Non- Member</i>
ESTABLISHMENT PROFILE								
Region of Main Spa:								
North East	20%	16%	22%	21%	12%	19%	16%	21%
South East	16%	19%	15%	7%	27%	11%	24%	15%
North Central	16%	18%	17%	20%	8%	18%	8%	17%
South Central	10%	11%	11%	5%	5%	9%	10%	10%
North West	6%	5%	6%	10%	4%	3%	2%	6%
South West	18%	25%	14%	16%	31%	25%	36%	15%
Canada	15%	6%	15%	22%	14%	15%	3%	16%
FRANCHISE AFFILIATION:								
Franchisor	2%	6%	2%	2%	1%	3%	1%	2%
Franchisee	2%	5%	1%	5%	5%	0%	2%	2%
Not Affiliated With a Franchise	96%	89%	97%	93%	94%	97%	97%	96%
OWNERSHIP STRUCTURE:								
Sole Proprietor	34%	32%	38%	27%	15%	36%	14%	37%
Partnership	10%	7%	9%	15%	10%	13%	10%	10%
Small Corporation	41%	33%	44%	51%	24%	42%	33%	43%
Major Corporation	11%	25%	5%	7%	48%	2%	39%	7%
Limited Liability Company (LLC)	2%	0%	3%	0%	0%	3%	2%	2%
Other	1%	3%	1%	0%	3%	4%	2%	1%
NUMBER OF YEARS IN BUSINESS:								
Less than 2 years	14%	6%	12%	33%	19%	17%	13%	14%
2 to 5 years	30%	33%	30%	25%	35%	17%	32%	29%
6 to 9 years	25%	16%	29%	23%	16%	7%	19%	26%
10 to 15 years	12%	8%	12%	11%	11%	8%	14%	11%
More than 15 years	19%	38%	17%	8%	20%	51%	22%	19%
<i>Years in Business - Mean</i>	<i>8.7</i>	<i>11.5</i>	<i>7.9</i>	<i>5.3</i>	<i>9.1</i>	<i>20.5</i>	<i>9.0</i>	<i>8.7</i>
<i>Years in Business - Median</i>	<i>5</i>	<i>6</i>	<i>6</i>	<i>4</i>	<i>4</i>	<i>15</i>	<i>5</i>	<i>5</i>
OWNED VS. LEASED:								
<i>Land</i>								
Owned	38%	64%	26%	24%	90%	72%	64%	34%
Leased	62%	36%	74%	76%	10%	28%	36%	66%
<i>Equipment</i>								
Owned	96%	96%	96%	90%	99%	96%	97%	96%
Leased	4%	4%	4%	10%	2%	4%	3%	4%
PRODUCT OFFERING								
PRODUCTS OFFERED:								
Treatment Rooms	98%	84%	99%	98%	99%	97%	100%	98%
Exercise Programs/Facilities	27%	88%	11%	29%	82%	67%	63%	22%
Educational/Nutritional Classes	29%	57%	23%	51%	36%	46%	44%	27%
Lodging	14%	7%	2%	9%	65%	65%	42%	10%
Restaurants	15%	20%	4%	9%	67%	41%	51%	9%
Sports Activities	13%	54%	4%	2%	46%	33%	37%	10%
Retail	93%	82%	95%	92%	96%	82%	99%	93%
Beauty Salon	58%	28%	63%	15%	61%	45%	59%	58%
Dedicated Relaxation Area	65%	41%	64%	53%	80%	69%	77%	63%
Locker Rooms	44%	83%	33%	38%	88%	52%	84%	38%
Other	4%	4%	2%	23%	9%	6%	5%	4%
MEDICAL TREATMENTS OFFERED	15%	8%	14%	79%	7%	5%	12%	15%

Notes:**Interpret results with caution due to small sample sizes.

Other type of spa includes mineral springs spas and destination spas.

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

EXHIBIT 4-4 — KEY SPA STATISTICS BY TYPE AND ISPA MEMBERSHIP STATUS

	<i>Total North America</i>	<i>Club Spa**</i>	<i>Day Spa</i>	<i>Medical Spa**</i>	<i>Resort/ Hotel Spa</i>	<i>Other**</i>	<i>ISPA Member</i>	<i>Non- Member</i>
Locations - Mean	2.0	4.7	1.5	1.7	4.7	1.3	4.0	1.7
Locations - Median	1	1	1	1	1	1	1	1
Indoor Square Footage - Mean	7,009	16,993	3,523	4,657	20,107	20,473	17,667	5,366
Indoor Square Footage - Median	3,000	7,000	2,500	2,400	14,000	10,000	12,000	2,800
Revenue in Thousands – Mean*	\$895	\$595	\$611	\$486	\$2,548	\$1,157	\$2,506	\$655
Revenue in Thousands – Median*	\$350	\$300	\$300	\$219	\$1,296	\$500	\$1,500	\$300
Annual Spa Visits - Mean	11,370	14,591	9,473	4,336	21,054	12,415	23,187	9,262
Annual Spa Visits - Median	5,000	6,000	4,650	2,500	11,000	3,500	13,500	4,000
Number of Clients - Mean	5,820	N/A	4,943	N/A	10,818	N/A	12,038	4,659
Number of Clients - Median	2,500		2,000		7,500		8,000	2,000
% Visits by New Clients - Mean	43.5%	N/A	40.6%	N/A	57.3%	N/A	54.8%	41.9%
% Visits by Male Clients - Mean	22.4%		20.2%		28.6%		24.1%	22.1%
Full-time Employees - Mean	11.6	7.0	9.8	8.2	22.1	18.6	28.4	9.2
Full-time Employees - Median	6	4	6	5	12	7	20	5
Part-time Employees - Mean	7.2	14.5	5.2	3.9	14.5	13.3	17.6	5.8
Part-time Employees - Median	3	6	3	1	6	7	12	3
Contract Employees - Mean	3.3	6.3	2.5	2.3	6.4	5.3	3.7	3.3
Contract Employees - Median	0	1	0	1	1	2	0	0
Profit Margin - Mean	7.6%	N/A	4.6%	N/A	20.9%	N/A	15.5%	6.0%
% of Revenue to Payroll - Mean	43.4%		44.0%		47.9%		47.3%	42.7%
Average Price/Service – Mean*	\$72		\$66		\$92		\$89	\$67
Average Price/Massage – Mean*	\$73	N/A	\$68	N/A	\$96	N/A	\$88	\$69
Average Price/Facial – Mean*	\$77		\$72		\$98		\$93	\$73
Revenue/Sq. Ft. – Mean*	\$165		\$178		\$147		\$213	\$158
Revenue/Treatment Rm [†] - Mean*	\$48,785	N/A	\$43,961	N/A	\$74,750	N/A	\$85,565	\$43,027
Revenue/Visit – Mean*	\$142		\$114		\$212		\$192	\$134
Revenue/Client – Mean*	\$276		\$233		\$345		\$296	\$272

Notes: 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 results with caution due to small sample sizes.

*Dollar amounts for Canadian spas have been converted to U.S. dollars at a rate of 1.4015.

[†]Revenue per treatment is based on treatment room revenue only. Other spa revenues were not included in the calculation.

Other type of spa includes mineral springs spas and destination spas.

The following summarizes the 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 club spas have placed more emphasis, compared to other spa types, on exercise programs (88%), educational/nutritional classes (57%) and sports activities (54%), and less emphasis on treatment rooms (only 84% have treatment rooms associated with their spa), beauty salons (28%), retail (82%) and dedicated relaxation areas (41%). It is also no surprise that they are more likely to offer locker rooms (83%) than other spa types. Like resort/hotel spas, club spas are more likely than the average spa to belong to a major corporation (25%). Interestingly,

they are also more likely to have a franchise affiliation (11%). Compared to the industry average, club spas are more likely to own their land (64%). While they tend to be larger, club spas generate lower than average revenues (\$595,000).

- *Day Spa:* Given that day spas represent almost three-quarters of the industry, it is not surprising that they typify the industry in many ways. There are, however, a few areas where they are different. Day spas are less likely than other spa types to offer exercise programs/facilities (11%), lodging (2%), restaurants (4%) and sports activities (4%). Day spas are the smallest in terms of average square footage (3,500) and tend to be among the lower revenue generators in the industry (\$611,000).
- *Medical:* With medical spas being the fastest growing sector in the past two years, it is not surprising that they have the lowest average years in business at 5.3 years. Medical spas are more likely to offer educational/nutritional classes (51%) and less likely to offer sports activities (2%) or beauty salons (15%). Interestingly, while medical spas are far and away the most likely to offer medical treatments (79%), not all of them do. The probable reason is that some of these spas are located in a medical practice, but do not administer the medical treatments themselves. Medical spas tend to be smaller (4,700 sq. ft.), generate less revenue (\$486,000) and employ fewer people (14.4) than other spas.
- *Resort/Hotel Spa:* Resort/hotel spas are the most likely to be located in the South West region (31%) or the South East region (27%). Conversely, they are among the least likely to be located in the North East (12%) or North Central regions (8%). Resort/hotel spas are the most likely to be owned by a major corporation (48%) and are more likely to own their land (90%). Resort/hotel spas can be generally characterized as being bigger with a larger service offering than other segments. More specifically, the resort/hotel spa segment has the highest average revenue (\$2.5 million), the most visits (21,100), the most clients (10,800) and the most employees (43). They are also among the biggest physically (average of 20,100 sq. ft.) and are more likely than other spa types to offer exercise programs/facilities (82%), lodging (65%), restaurants (67%), sports activities (46%), dedicated relaxation areas (80%) and locker rooms (88%). Interestingly, the segment is the highest priced for treatments in general (\$92) and for massages (\$96) and facials (\$98). This may be a key explanation as to why it is also the most profitable segment at 21%. Given the nature of resort/hotel spas, it is not surprising that they also claim the highest ratio of “new” clients (57%).

V. PRODUCT AND SERVICE OFFERINGS

This chapter looks at the product/service offerings of spas in the U.S. and Canada. The first section provides an overview of the services offered and how space and revenue are allocated among different services in the spa industry. The remainder of the chapter examines each key service in greater detail.

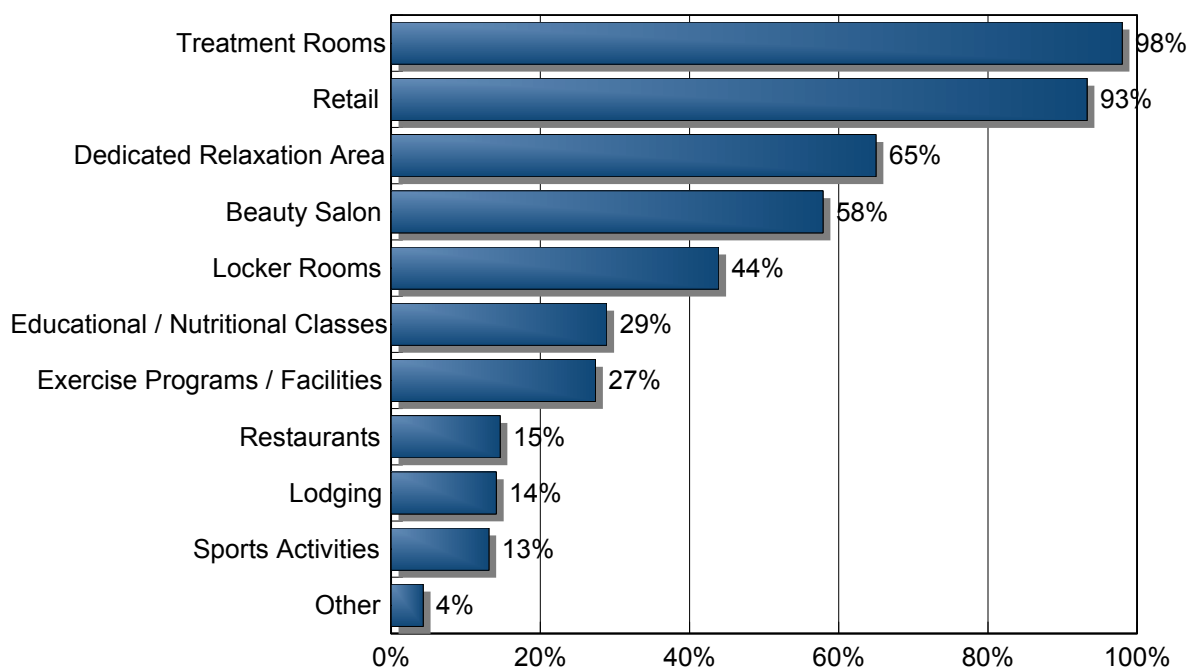
Product and Service Offerings Overview

What Products/Services are Spas Offering?

As seen in the previous two studies, treatment rooms (98%) and retail (93%) are the mainstay products/services. The vast majority of spas in the U.S. and Canada offer them. With 58% of spas offering beauty salon services, it too continues to be a core service offering. A summary of products and services offered in the spa industry is presented in **Exhibit 5-1**.

Self-improvement activities such as educational/nutritional classes (29%) and exercise programs/facilities (27%) also continue to be offered by a significant portion of spas. Restaurants (15%), lodging (14%) and sports activities (13%) are the least common services in the industry with only a handful of spas offering them.

EXHIBIT 5-1 — PRODUCTS/SERVICES OFFERED

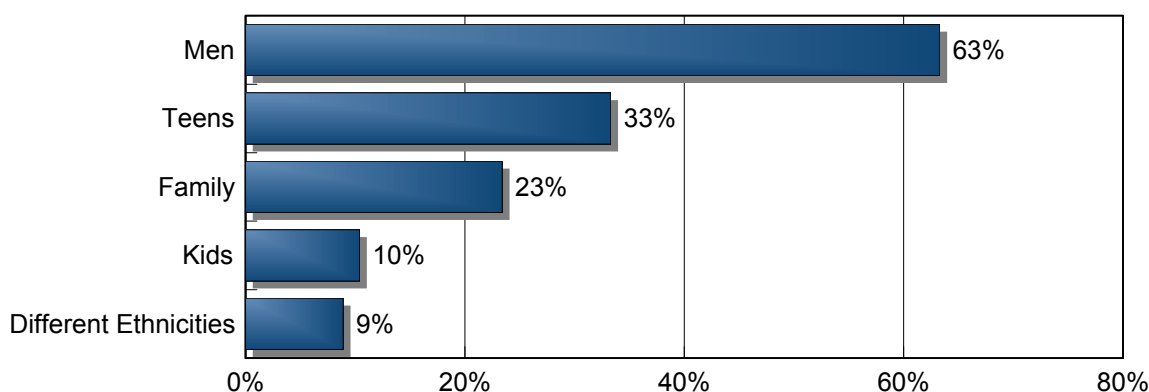


Interestingly, there has been a notable decline since the 2002 study in the portion of spas that offer beauty salons (67% in 2002 to 58% in 2004), exercise programs/facilities (33% to 27%), restaurants (22% to 15%) and sports activities (20% to 13%). This shift suggests that many of the spas entering the industry are not incorporating these products/services into their facilities. Rather, they are focusing on the bread and butter of the industry — treatment rooms.

New to this year's study, respondents were asked about two key components of their non-revenue generating space – relaxation areas and locker rooms. With two-thirds (65%) of spas offering a dedicated relaxation area, this type of space is clearly a key element in creating the calming atmosphere for which spas are known. While offered by 44% of spas, locker rooms are far from being a fixture in the industry.

Another new question in the 2004 edition of the Spa Industry Study was what specialized packages spas offer. **Exhibit 5-2** shows the portion of spas offering each type of package. Sixty-nine percent (69%) of spas indicated that they offered at least one of the five package types surveyed. With the current trend of more men visiting spas, it is not surprising that the most common packages for spas to offer are those that cater to men. In fact, almost two-thirds (63%) of spas offer such a package, almost double the percentage offering of any other package type. With one-third (33%) of spas offering packages for teens and 23% for families, these are also key package themes in the industry. Packages for kids (10%) and different ethnic groups (9%) are not very common in the industry even though these groups often have different needs.

EXHIBIT 5-2 — PACKAGES OFFERED

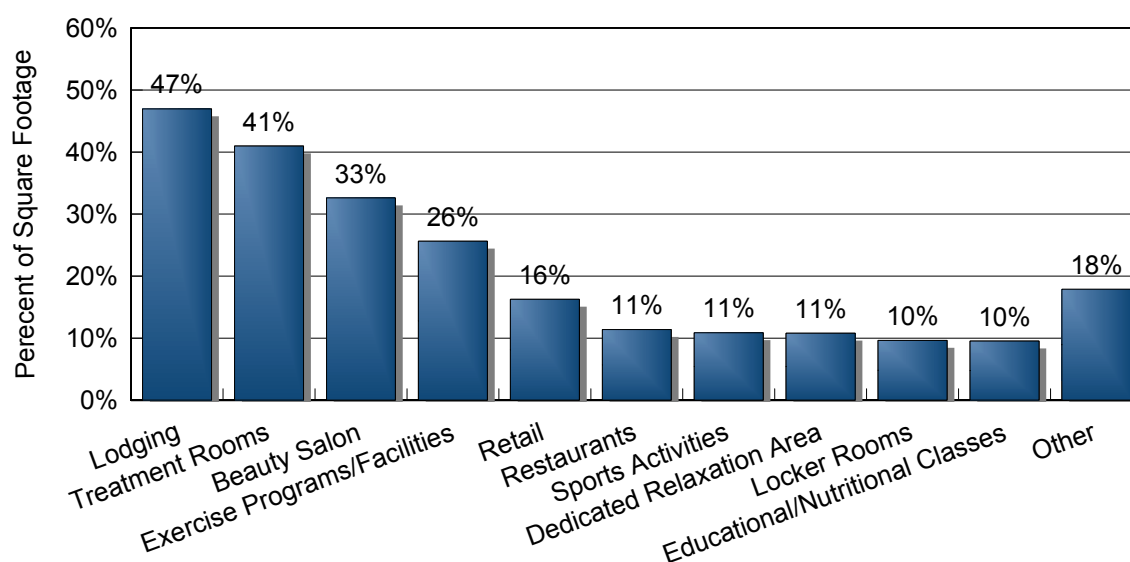


Note: Question asked only to Internet respondents.

How is Indoor Space Used?

Exhibit 5-3 shows the percentage of square footage allocated to each of the different product offerings among those who offer the product. The results show that among those who offer the services, lodging (47% of square footage) and treatment rooms (41%) account for the largest amount of indoor spa space. Beauty salons (33%) and exercise programs/facilities (26%) continue to account for the next most significant portion of space among those who offer them, with retail ranking fifth at an average of 16% of square footage. The remaining products each account for an average of one-tenth of spa space among those who offer them including the new services added to this year's survey – dedicated relaxation area and locker rooms. There are no significant changes from the 2002 study.

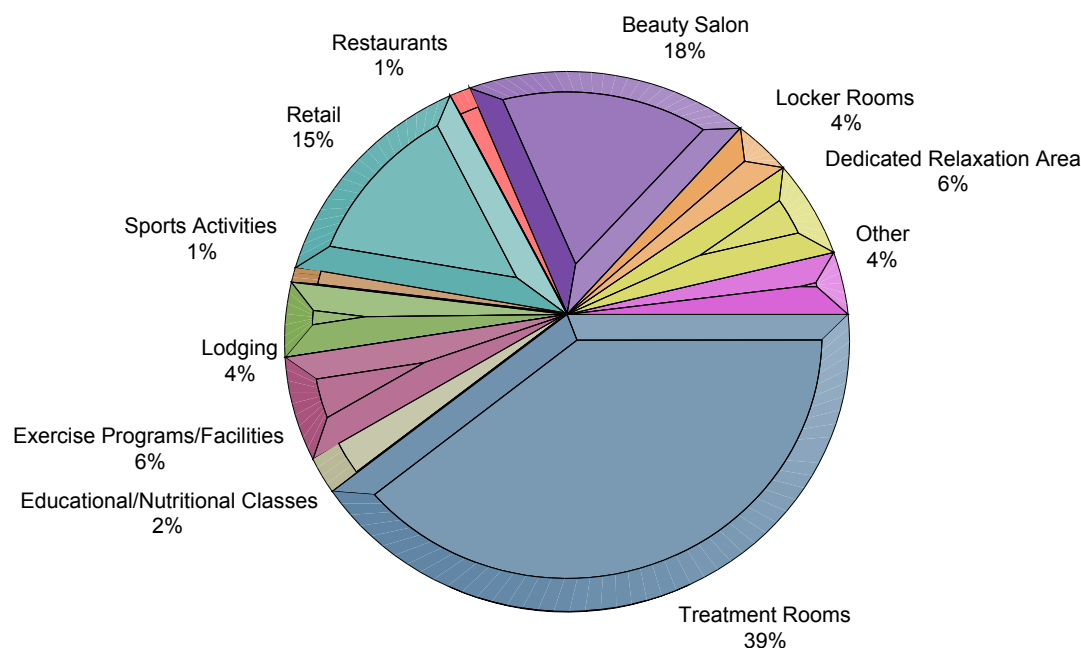
EXHIBIT 5-3 — PERCENTAGE OF INDOOR SPACE USED BY SERVICE OFFERING



Note: Base is those who offer each product/service.

Exhibit 5-4 examines, on average, how space is utilized in the industry as a whole. Given that it is the bread and butter of the industry, it is not surprising that treatment rooms (39% of industry square footage utilization) dominate space utilization in the spa industry. At 18% of the industry's space, beauty salons are a distant second, followed closely by retail (15%). Interestingly, 10% of total industry square footage is used for non-revenue generating space. Specifically, 6% is used for dedicated relaxation areas and 4% for locker rooms. As pointed out in the previous two studies, lodging accounts for the largest portion of space among those who have it, but accounts for a relatively small portion of space (4%) in the overall industry.

EXHIBIT 5-4 — AVERAGE PERCENTAGE OF INDOOR SPACE USED FOR ENTIRE INDUSTRY



Space Allocation by Spa Type

	Club Spa*	Day Spa	Medical Spa*	Resort/Hotel Spa	Other*†
Treatment Rooms	18%	43%	45%	28%	26%
Exercise Programs/Facilities	46%	2%	3%	11%	12%
Educational/Nutritional Classes	5%	2%	6%	1%	2%
Lodging	1%	0%	1%	21%	28%
Restaurants	3%	0%	1%	5%	3%
Sports Activities	6%	0%	0%	2%	2%
Retail	9%	16%	22%	11%	7%
Beauty Salon	5%	23%	1%	4%	6%
Dedicated Relaxation Area	2%	7%	5%	5%	5%
Locker Rooms	6%	3%	3%	8%	5%
Other	0%	3%	13%	4%	5%

Note: * Interpret results with caution due to small sample sizes

† Other types of spas include mineral springs spas and destination spas.

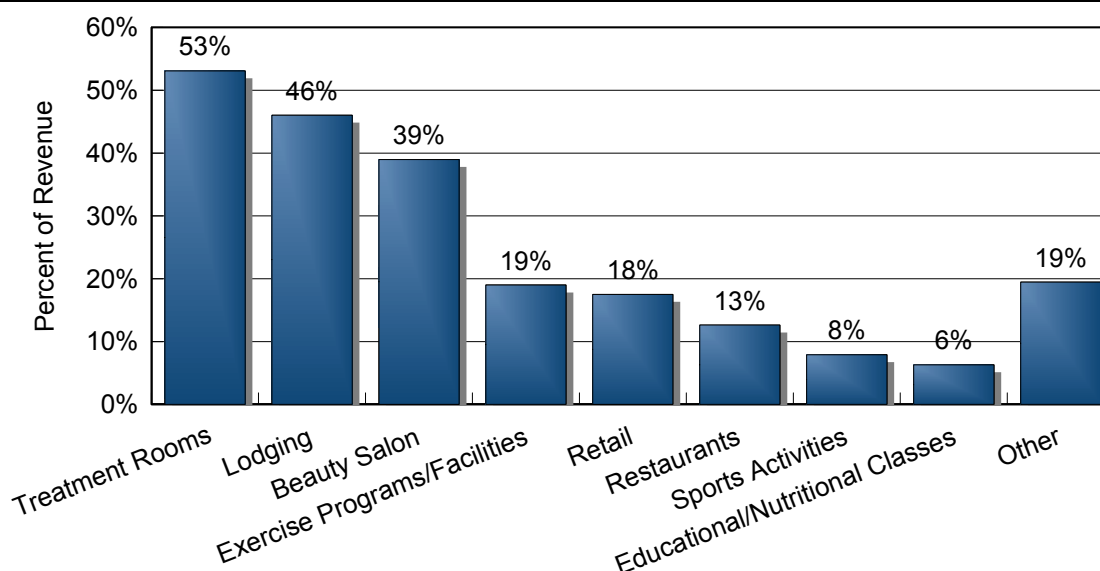
At first glance, the results suggest that there has been a slight shift in industry space distribution over the past two years. However, most of these differences are likely due to a change in the questionnaire with the addition of the two non-revenue generating items.

The exhibit also presents a distribution of industry space for different spa types. Club spas and resort/hotel spas are far less heavily weighted to treatment rooms than day spas and medical spas. Not surprisingly, club spas allocate a significantly higher than average portion of space to exercise programs/facilities while resort spas allocate more to lodging. In addition to treatment room space, day spas also allocate a larger than average portion to beauty salons. Interestingly, medical spas, on average, allocate one-fifth of their space to retail.

Where is the Money Made?

Treatment rooms continue to be the most significant contributor to revenue among spas that offer them. For those that offer them (and most spas do), treatment rooms account on average for over half (53%) of the spa's total revenue. **Exhibit 5-5** shows the percentage of revenues allocated to each of the different product offerings among those who offer the product. Spas that offer lodging report that, on average, the service offering accounts for 46% of their total revenues. Beauty salons (39%) are also significant revenue contributors, as are exercise programs (19%) and retail (18%). Compared to the 2002 study, the average portion of revenues accounted for by lodging and beauty salons (among those that offer them) has grown significantly.

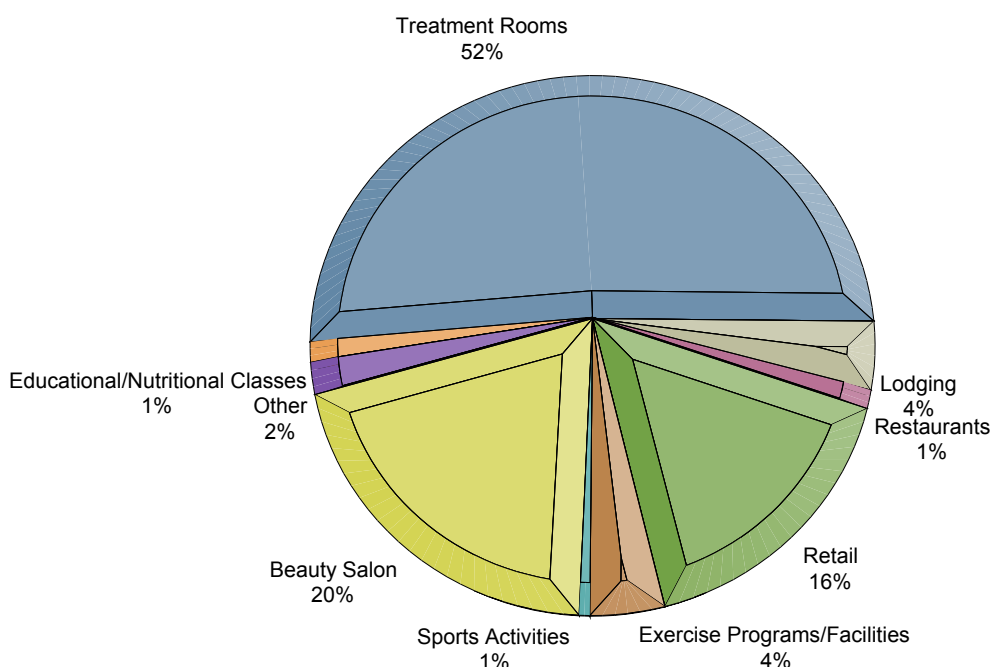
EXHIBIT 5-5 — PERCENTAGE OF REVENUE BY SERVICE OFFERING



Note: Base is those who offer each product/service.

Exhibit 5-6 shows, on average, how revenues are divided among the different product/service offerings for the overall industry. Industry revenues continue to be driven by treatment rooms with over half (52%) of the industry's revenue being derived from this product. Other significant contributors to total industry revenue are beauty salons (20%) and retail (16%). There have been no significant changes in the distribution of industry revenue since 2002.

EXHIBIT 5-6 — AVERAGE PERCENTAGE OF REVENUES FOR ENTIRE INDUSTRY



Revenue Allocation by Spa Type

	Club Spa*	Day Spa	Medical Spa*	Resort/Hotel Spa	Other*†
Treatment Rooms	30%	52%	63%	53%	50%
Exercise Programs/Facilities	42%	1%	1%	4%	4%
Educational/Nutritional Classes	3%	1%	4%	1%	1%
Lodging	3%	1%	2%	16%	27%
Restaurants	2%	0%	0%	5%	3%
Sports Activities	4%	0%	0%	1%	2%
Retail	9%	17%	21%	12%	9%
Beauty Salon	5%	26%	1%	7%	3%
Other	3%	1%	8%	3%	2%

Note: * Interpret results with caution due to small sample sizes

† Other type of spa includes mineral springs spas and destination spas.

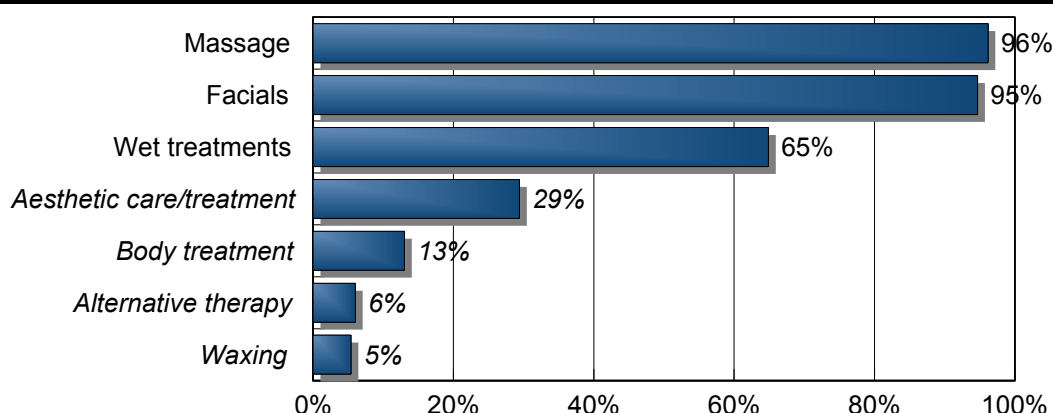
The average distribution of industry revenue for different spa types is also shown in the exhibit. As seen in the exhibit, the day spa sector receives a greater portion of its revenues from beauty salons and retail than other sectors. Medical spas also receive a greater portion of revenue from retail than do other spa types. As expected, lodging is a key revenue generator for resort/hotel spas while exercise programs/facilities are a key generator for club spas.

Treatment Room Service Offerings

As mentioned in the previous section, most spas offer treatment rooms. Treatment rooms are the staple product of the industry. **Exhibit 5-7** shows the top treatments offered by spas. Virtually all spas offer massages (96%) and facials (95%). These are clearly the core services of the industry.

Approximately two-thirds (65%) of spas indicated that they offer wet treatments. It should be noted that these three services were included in the survey as prompted responses (i.e., listed as choices on the survey). The remaining services were provided in the "other" category (i.e., respondents came up with these answers on their own). As can be seen, a large portion of spas also offers aesthetic treatments (29%) and body treatments (13%). It is interesting to note that the portion of spas offering wet treatments has decreased from 78% in 2002 to 65% in 2004.

EXHIBIT 5-7 — TREATMENTS OFFERED



Items in italics were mentioned unprompted. Other items were listed on the survey.

Treatments Offered by Spa Type

	<i>Club Spa*</i>	<i>Day Spa</i>	<i>Medical Spa*</i>	<i>Resort/Hotel Spa</i>	<i>Other*[†]</i>
Massage	99%	95%	91%	100%	100%
Facial	76%	96%	88%	97%	89%
Wet treatments	41%	62%	49%	87%	82%

Note: * Interpret results with caution due to small sample sizes

[†]Other type of spa includes mineral springs spas and destination spas.

Base is those who offer treatment rooms.

The exhibit also shows the top three treatments by spa type. Medical spas are less likely than other spa types to offer each of the treatment types. With the exception of massage, this holds true for club spas as well. Wet treatments are most common among resort/hotel spas.

Those offering massages and/or facials were asked to indicate the level of variety they offer by indicating how many different types of treatments are offered under each service category. The results are summarized in **Exhibit 5-8**. On average, spas offer 6.7 different types of massage and 7.3 different types of facial treatments. Resort/hotel spas offer the greatest variety for both treatments.

EXHIBIT 5-8 — NUMBER OF TREATMENTS OFFERED BY TREATMENT TYPE

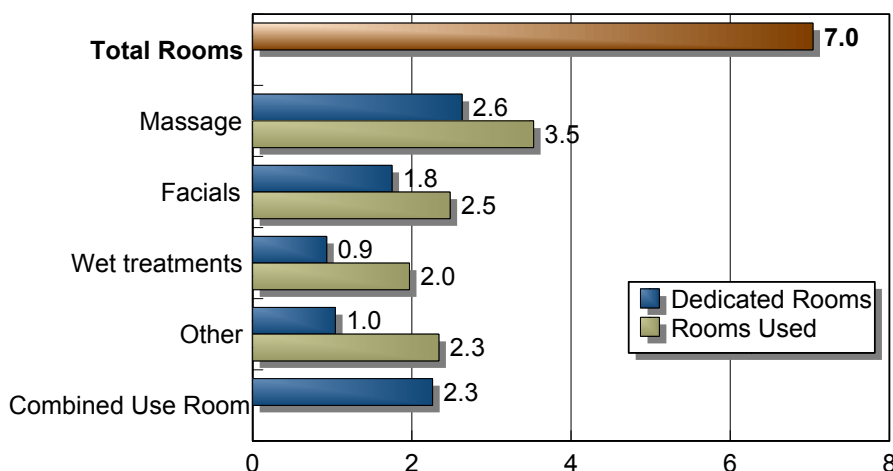
	<i>Total</i>	<i>Club Spa*</i>	<i>Day Spa</i>	<i>Medical Spa*</i>	<i>Resort/Hotel Spa</i>	<i>Other*†</i>
Massage	6.7	6.3	6.2	5.4	9.8	6.8
Facial	7.3	6.4	7.2	7.5	8.1	6.5

Note: * Interpret results with caution due to small sample sizes

†Other type of spa includes mineral springs spas and destination spas.

Base is those who offer treatment rooms.

Spas that provide treatment rooms have an average of seven rooms available. The number of rooms ranges by spa type from 4.5 rooms for club spa locations to 13.9 rooms for resort/hotel spa locations. In addition to asking spas about the total number of treatment rooms they have, spas were asked to indicate how many rooms they use for each type of treatment. It should be noted that the question was asked in a slightly different manner on the telephone survey compared to the Internet survey. Internet respondents were asked to indicate the specific types of rooms whereas telephone respondents were asked to indicate how many rooms are used for each treatment type. The responses are summarized in **Exhibit 5-9**.

EXHIBIT 5-9 — TREATMENTS OFFERED

Treatments Offered by Spa Type

	<i>Club Spa*</i>	<i>Day Spa</i>	<i>Medical Spa*</i>	<i>Resort/Hotel Spa</i>	<i>Other*†</i>
Total Number of Treatment Rooms	4.5	5.9	6.7	13.9	9.9

Note: * Interpret results with caution due to small sample sizes

†Other type of spa includes mineral springs spas and destination spas.

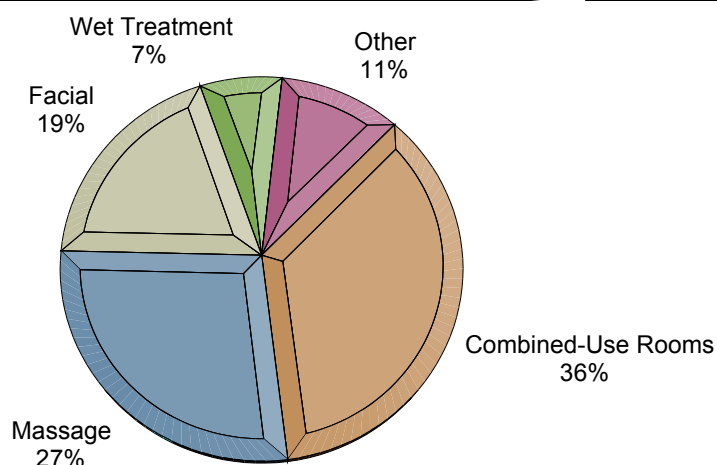
Base is those who offer treatment rooms.

Question were asked in a slightly different manner on the telephone survey compared to the Internet survey. Internet respondents were asked to indicate the specific types of rooms whereas telephone respondents were asked to indicate how many rooms are used for each treatment type.

The typical spa has 2.6 rooms dedicated to massage, 1.8 dedicated to facials, 0.9 dedicated to wet treatments, 1 room dedicated to other treatments and 2.3 rooms that are used for two or more types of treatment. When looking at the number of rooms used, regardless of whether they are dedicated or shared, results show that the average spa uses 3.5 rooms for massage, 2.5 rooms for facials, 2.0 rooms for wet treatments and 2.3 rooms for other treatments.

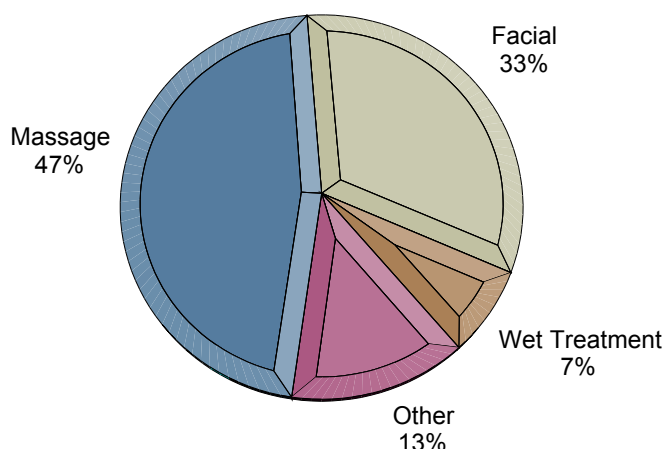
Exhibit 5-10 shows the breakdown of treatment room space by treatment type. With one-third (36%) of space allocated to combined-use rooms, spas are clearly trying to make optimal use of their space. However, two-thirds of the space is dedicated to a specific treatment type. One-quarter (27%) of treatment space is used exclusively for massage and one-fifth (19%) exclusively for facials – the two primary treatment room services.

EXHIBIT 5-10 — ALLOCATION OF TREATMENT ROOM SPACE



Note: Base is those who offer treatment rooms.
Question asked on Internet survey only.

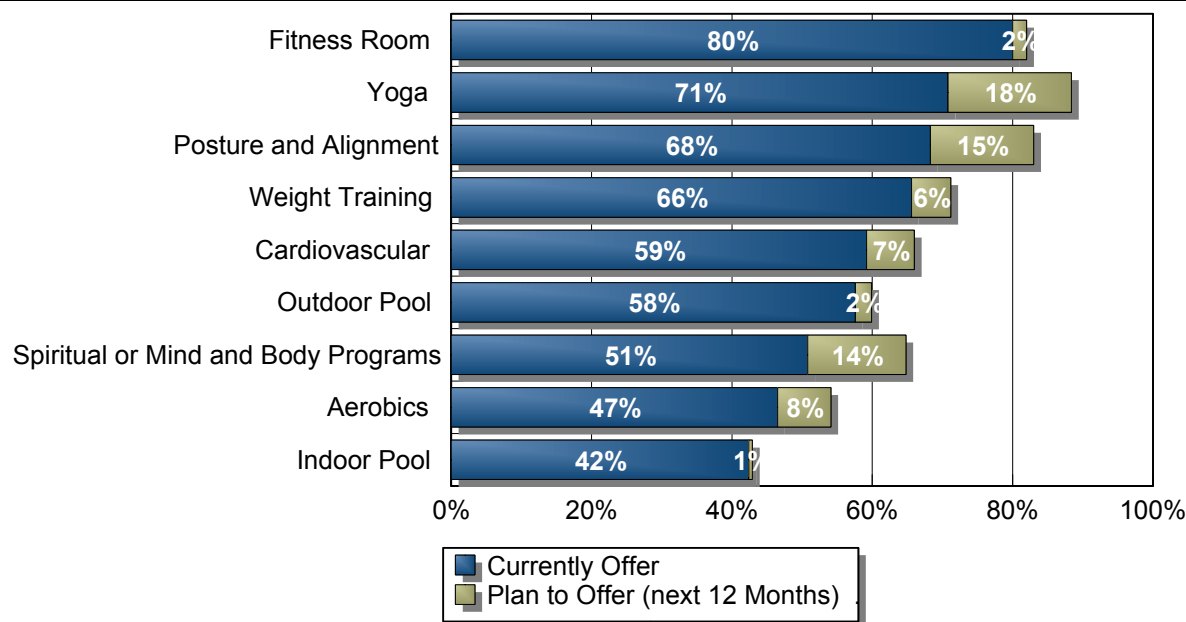
Those offering treatment rooms were asked to indicate what portion of their treatment room revenues were derived from each of the top three treatments. As seen in **Exhibit 5-11** on the next page, almost half (47%) of treatment room revenue is generated from massages while one-third (33%) is generated from facials. Wet treatments only account for 7% of treatment room revenues.

EXHIBIT 5-11 — ALLOCATION OF TREATMENT ROOM REVENUE

Note: Base is those who offer treatment rooms.

Exercise Program and Facility Service Offerings

As presented earlier, 27% of spas report offering exercise programs and facilities as part of their spa experience. Those who offer such programs were asked to indicate what specific programs and/or facilities they currently offer or plan to offer in the next 12 months. Their responses are summarized in Exhibit 5-12.

EXHIBIT 5-12 — EXERCISE PROGRAMS AND FACILITIES OFFERED

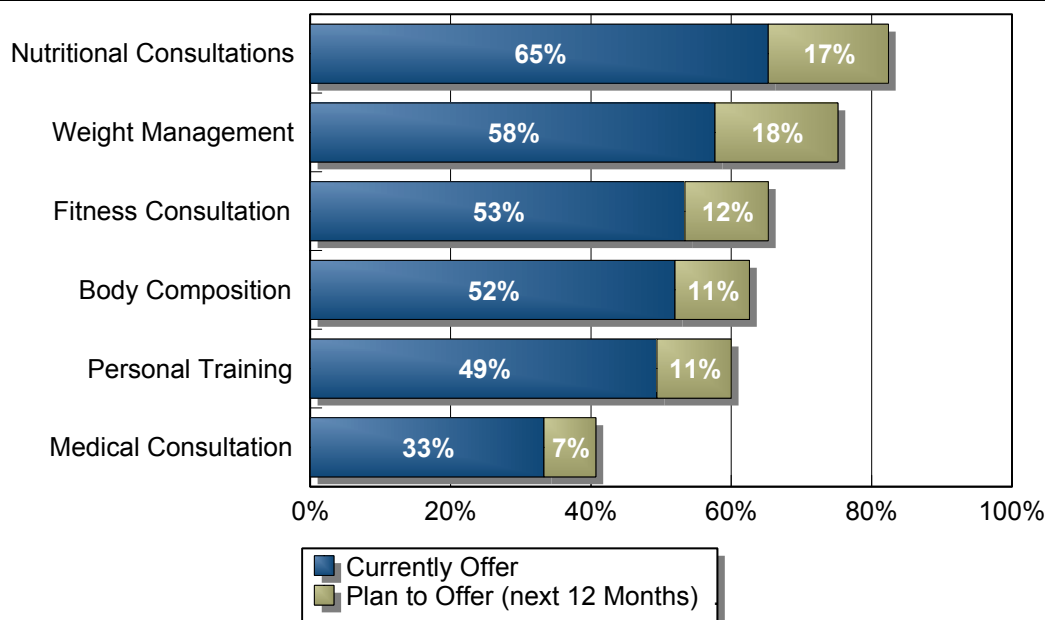
Note: Base is those who offer exercise programs and facilities.
Question was asked to Internet respondents only.

The core exercise program/facility products currently offered include fitness rooms (80%), yoga (71%), posture and alignment (68%) and weight training (66%). Looking at products these spas plan to add in the coming year, the products expected to make the biggest gains in future years are yoga (18% plan to add it), posture and realignment (15%) and spiritual or mind and body programs (e.g., Tai Chi, medical, Chi Gong) (14%).

Educational and Nutritional Classes Offered

Educational and nutritional classes are offered by 29% of spas in North America. The educational and nutritional classes that these spas currently offer, or plan to offer, are presented in **Exhibit 5-13**. The most popular current educational/nutritional class product offerings are nutritional consultations (65%) and weight management (58%). All products in the educational/nutritional class area are expected to make gains in popularity in the next 12 months, particularly the top two products, according to survey respondents

EXHIBIT 5-13 — EDUCATIONAL AND NUTRITIONAL CLASSES OFFERED

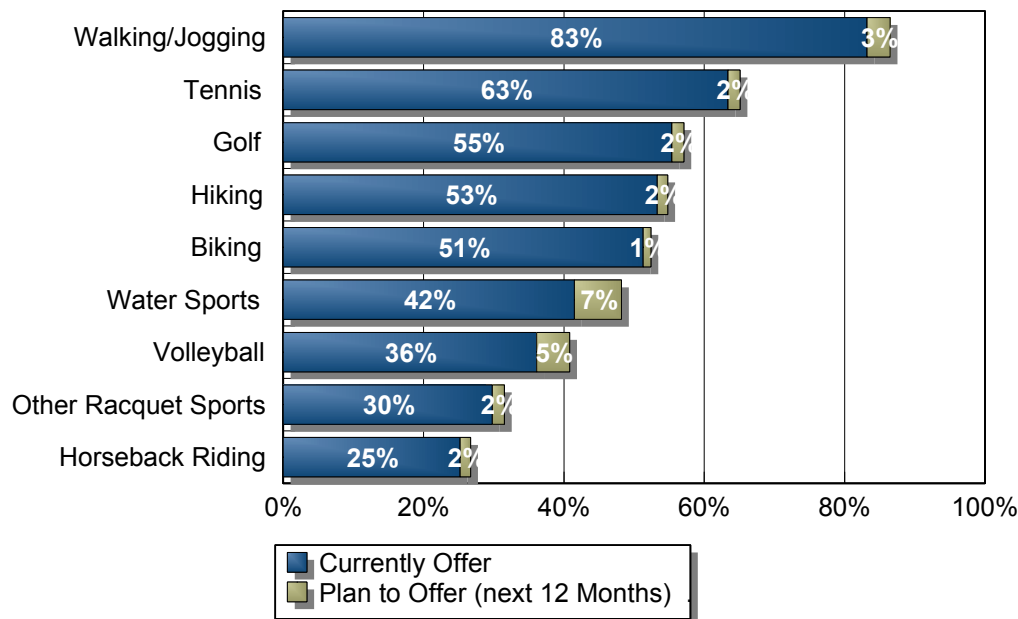


Note: Base is those who offer educational and nutritional classes.
Question was asked to Internet respondents only.

Sports Activity Product Offerings

The sports activity products currently offered (or planned) by the 13% of spas who offer such products are depicted in **Exhibit 5-14**. Top products/services currently offered include walking/jogging (83%), tennis (63%), golf (55%), hiking (53%) and biking (51%). Few changes are expected by survey respondents for sports activities in the coming 12 months.

EXHIBIT 5-14 — SPORTS ACTIVITIES OFFERED

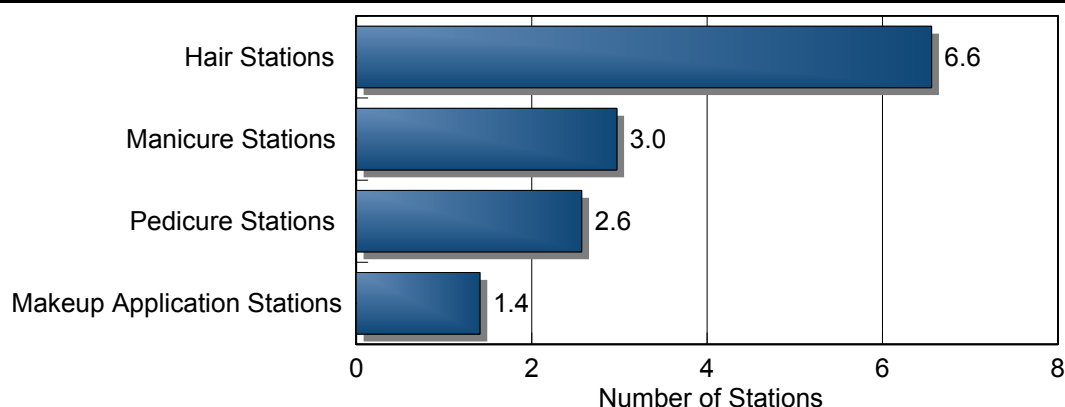


Note: Base is those who offer sports activities.
Question was asked Internet respondents only.

Beauty Salons

The 58% of respondents who offer beauty salons were asked how many stations they have for specific services. The averages among those offering beauty salons are illustrated in **Exhibit 5-15**. Hair stations are the main component of beauty salons (average of 6.6 stations per spa). At an average of 3 manicure stations and 2.6 pedicure stations, these are also key services. The average number of makeup applications is only 1.4.

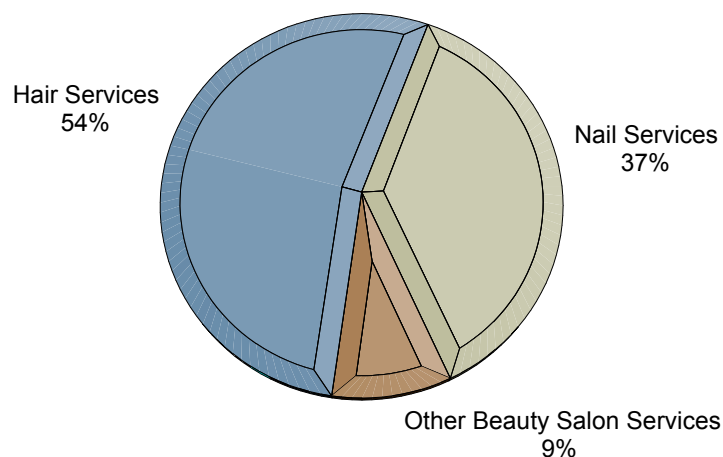
EXHIBIT 5-15 — NUMBER OF BEAUTY SALON STATIONS AMONG THOSE WHO HAVE THEM



Note: Base is those who offer beauty salons.

The average distribution of beauty salon revenue by service is shown in **Exhibit 5-16**. Again, the results show that hair services are the main component of beauty salon services accounting for over half (54%) of all beauty salon revenue. Nail services account for a further third (37%) of beauty salon revenue.

EXHIBIT 5-16 — ALLOCATION OF BEAUTY SALON REVENUE



Note: Base is those who offer beauty salons.

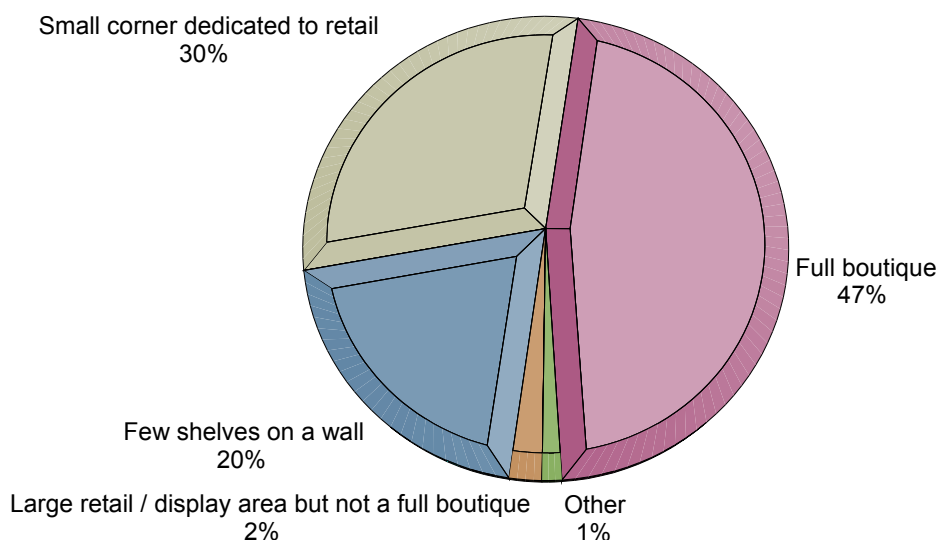
Retailing in the Spa Industry

The vast majority (93%) of spas offer at least some retail products to their clientele. This section summarizes some of the key aspects of their retail operations.

Exhibit 5-17 shows that almost half (47%) of those who offer some retail services do so through a full boutique setup while a further 2% maintain a large dedicated area that is not a full boutique. In other words, 49% of spas that offer retail manage a significant operation. This demonstrates the importance of this product offering to the industry. Of the remaining spas that offer retail, just under one-third (30%) has a small corner dedicated to retail and 20% have a minimal operation with only a few shelves of retail.

Interestingly, while there is a correlation between the significance of the retail operation and the portion of the revenue that it accounts for, the differences are not as large as might be expected. Those offering small shelves or corners dedicated to retail generate approximately 15% of their revenues from retail while those operating full boutiques generate only 20% of their revenue that way.

EXHIBIT 5-17 — RETAIL SETUP



Retail Setup by Spa Type					
	Club Spa*	Day Spa	Medical Spa*	Resort/Hotel Spa	Other*†
Few shelves on a wall	33%	20%	35%	12%	17%
Small dedicated corner of the spa	51%	31%	31%	22%	22%
Full boutique	16%	46%	31%	64%	58%
Other	0%	4%	3%	2%	4%

Note: * Interpret results with caution due to small sample sizes

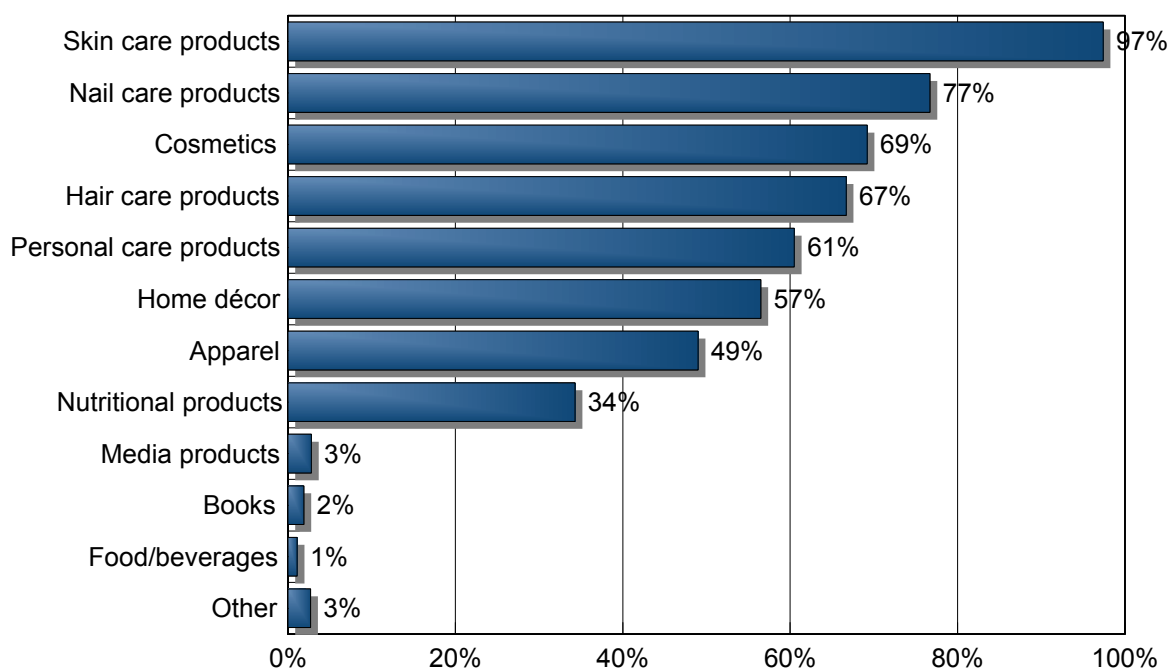
† Other type of spa includes mineral springs spas and destination spas.

Note: Base is those who offer retail.

Also shown in the exhibit are the breakdowns by spa segment. Not surprisingly, resort/hotel spas are the most likely to offer a full boutique retail setup whereas club spas and medical spas are more likely to offer only a few shelves of retail.

Skin care products are far and away the most common retail products to be offered, with almost all (97%) retailing spas offering them. Retail products sold are summarized in **Exhibit 5-18**. Other key products offered by more than two-thirds of retailing spas include nail care products (77%), cosmetics (69%) and hair care products (67%). These products, which are related to the spa experience, are the core retail products of the spa industry. Personal care products, while somewhat lower at 61%, could also be grouped into the core product category. Home décor (57%), apparel (49%) and nutritional products (34%), while offered by a significant portion of retailing spas, are second tier products.

EXHIBIT 5-18 — RETAIL PRODUCTS SOLD



Top Retail Products by Spa Type

	Club Spa*	Day Spa	Medical Spa*	Resort/Hotel Spa	Other*†
Skin care products	85%	98%	96%	100%	97%
Nail care products	43%	82%	42%	81%	51%
Cosmetics	33%	74%	62%	64%	47%
Hair care products	38%	69%	36%	74%	66%
Personal care products	42%	58%	49%	78%	78%
Home décor	17%	55%	41%	81%	68%
Apparel	73%	40%	23%	87%	88%

Note: * Interpret results with caution due to small sample sizes

† Other type of spa includes mineral springs spas and destination spas.

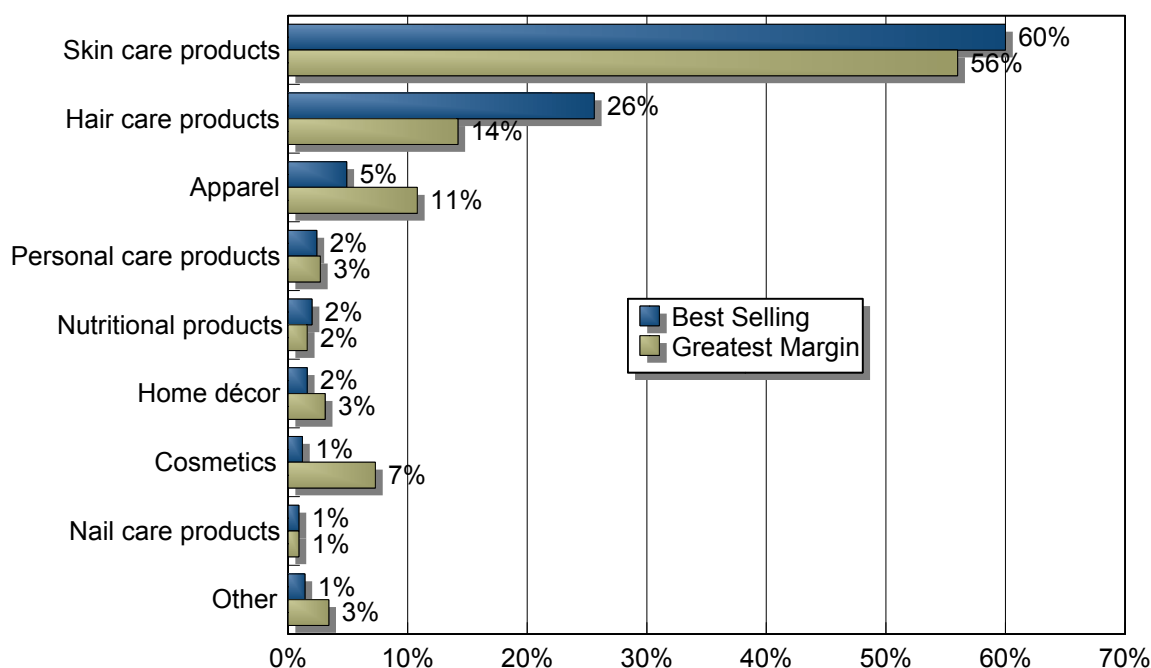
Note: Base is those who offer retail.

Product Definitions: Apparel - clothing, robes, slippers, jewellery; Skin care products - moisturizer, cleansers, sun-protection/tanning products; Nutritional products - vitamins, power bars or drinks; Personal care products - neck massager, foot warmers, lavender scented eye pillows; Home décor - candles, fountains, wind chimes

Resort/hotel spas and day spas are far more likely than other spa types to sell several products including nail care products, hair care products and personal care products. Resort/hotel spas and club spas are both more likely to sell apparel than their industry counterparts. Resort/hotel spas are also more likely to sell home décor products while club spas are the least likely to sell cosmetics.

Exhibit 5-19 shows the best selling products and those with the highest margin. Again, skin care products top the list with three-fifths (60%) of retailing spas indicating it is the best selling product and 56% of retailing spas ranking it as the best margin generator. Hair care products are a distant second as both the best selling product (26%) and the one with the highest margin (14%). Significantly, 11% of respondents cite apparel as their highest margin product; however, this is not a universally offered product.

EXHIBIT 5-19 — BEST SELLING AND HIGHEST MARGIN RETAIL PRODUCTS



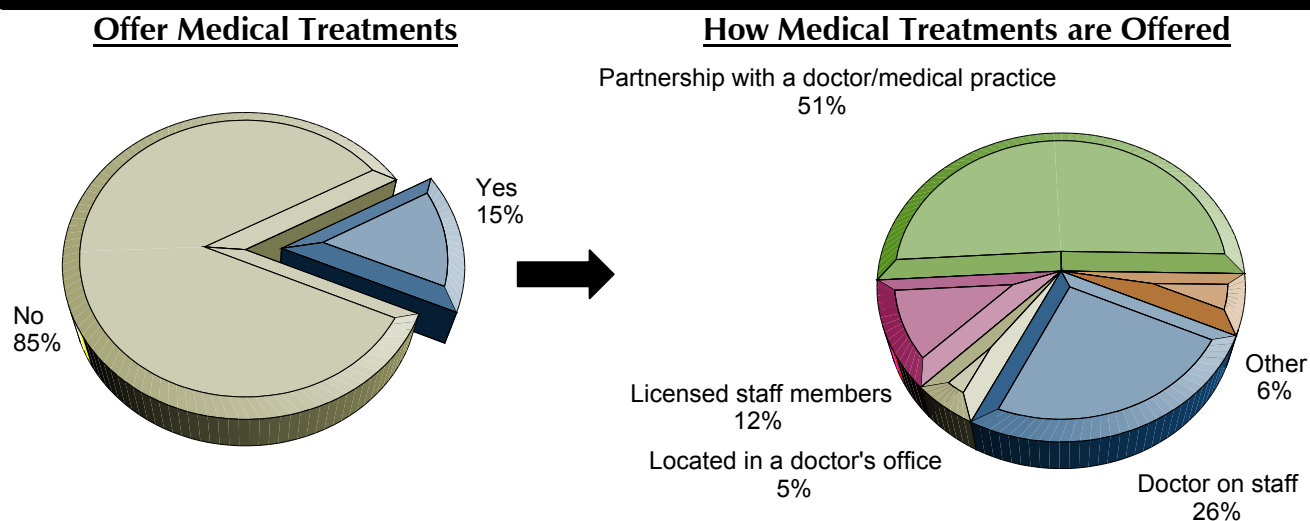
Note: Base is those who sell retail products.

Products with the greatest margin was asked to Internet respondents only.

Medical Treatments

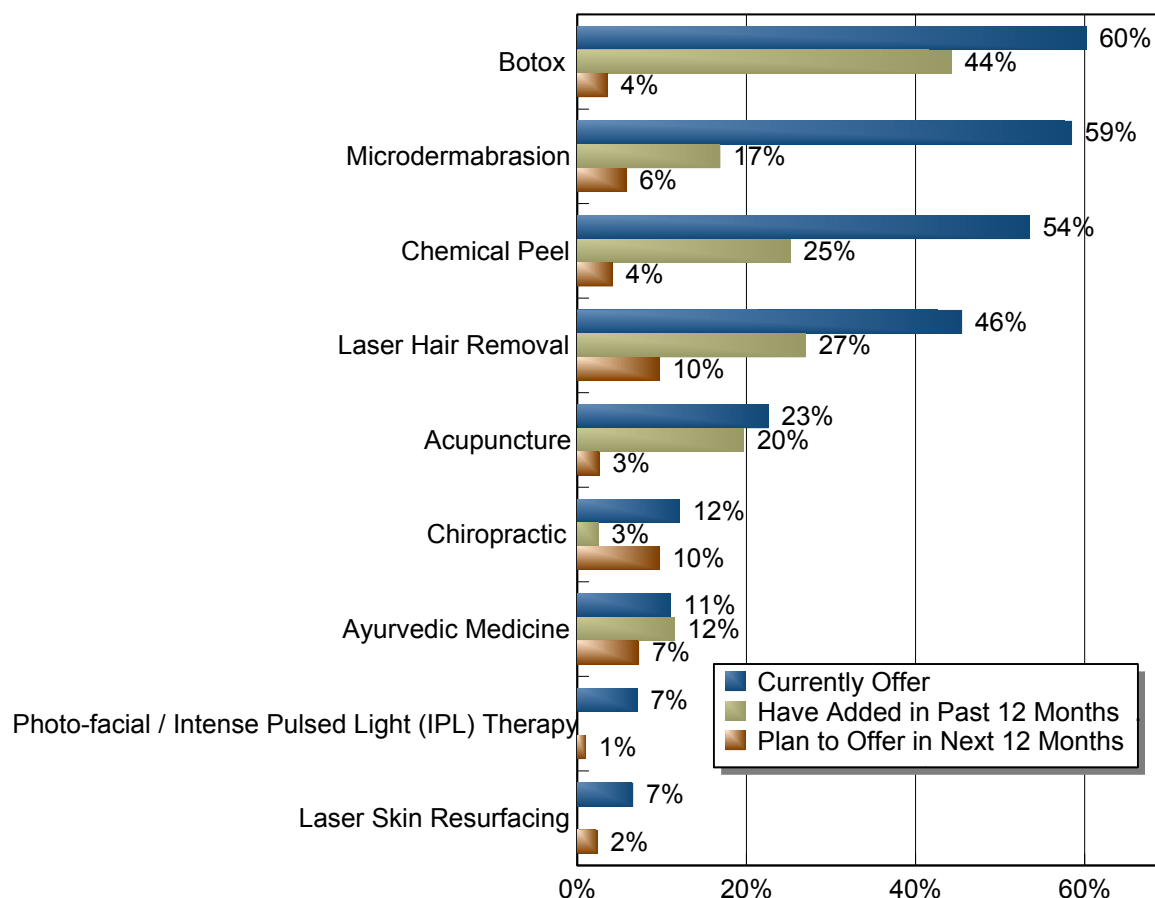
As seen in **Exhibit 5-20**, 15% of spas in North America offer medical treatments. Importantly, the results show that the industry does go through proper channels to offer medical services. Half (51%) of spas that offer medical treatments do so through a partnership with a doctor or a medical practice. A further quarter (26%) of spas has a doctor on staff, 12% have licensed staff members and 5% are located in a doctor's office. Clearly, the vast majority of spas use medical professionals to administer medical spa treatments. *NOTE: Readers can refer back to Exhibit 4-3 on page 31 for information on the portion of spas offering medical treatments by type.*

EXHIBIT 5-20 — HOW MEDICAL TREATMENTS ARE OFFERED



Note:

Exhibit 5-21 on the next page shows which medical treatments are offered by those who offer medical treatments. The most common medical treatments offered are Botox (offered by 60% of spas offering medical treatments), Microdermabrasion (59%), Chemical Peels (54%) and laser hair removal (46%). Acupuncture, while significantly less common, rounds out the top five medical treatments.

EXHIBIT 5-21 — MEDICAL TREATMENT OFFERED

Note: Base is those who offer medical treatments.
 Interpret result with caution due to small sample sizes.
 Products added in the past 12 months was asked only on the Internet survey.

Respondents who offer medical treatments were also asked to indicate what treatments have been added in the past 12 months (asked on the Internet survey only) and which ones they plan to add in the next 12 months. Not surprisingly, the treatment most likely to be new to the spa is Botox, with 44% of spas that offer medical treatments reporting they have recently added it to their roster of service offerings. Chemical peels (25%), laser hair removal (27%), acupuncture (20%) and Microdermabrasion (17%) have also grown in popularity in the past year. Interestingly, plans to add new medical treatments in the next year are limited. The biggest potential is for laser hair removal (10% plan to add) and chiropractic treatments (10%). However, it should be noted that this potential only relates to spas that already offer some medical treatments. There may very well be significant potential amongst spas that do not currently offer such treatments.

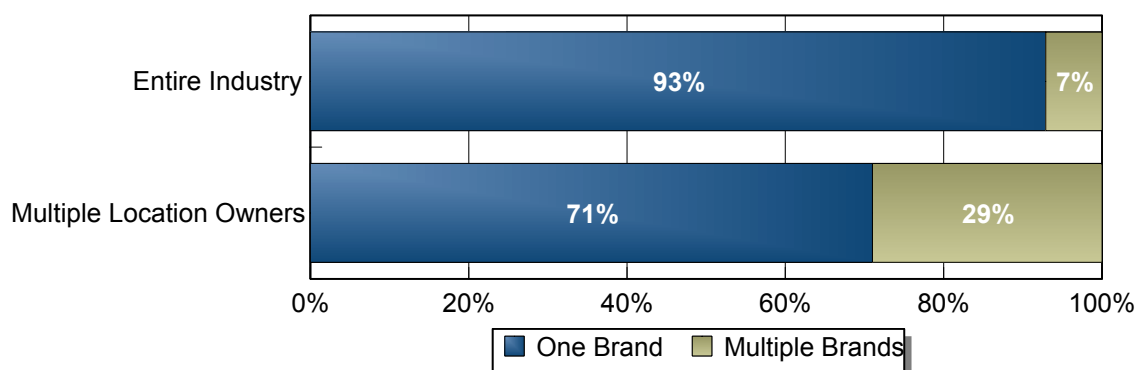
VI. BRANDING

Over the past several years, the issue of branding has come to the forefront of many industries. The spa industry is no exception. This year's study included branding questions related to both the spa location and the retail products offered. This chapter summarizes the responses to those questions.

Branding of Spa Locations

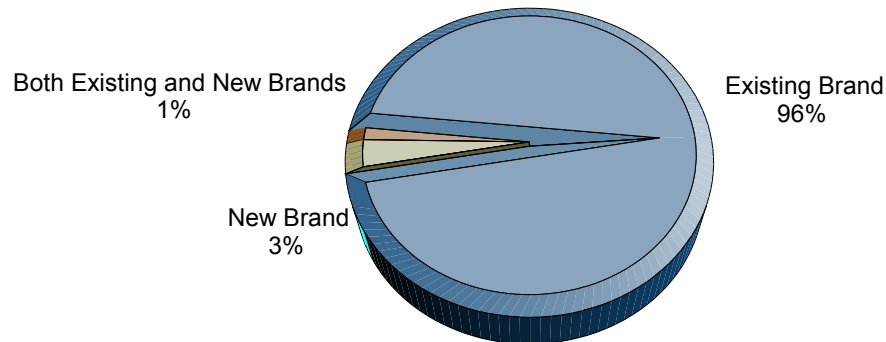
When it comes to branding and spa locations, the aim is to create a consistent look, feel and service delivery across all locations and all product/service offerings. By using a consistent brand, companies accomplish two key things. First, new locations can be easier to launch than new brands as there is consumer recognition. Second, by following a "recipe", it can be more time and cost efficient to get a new spa up and running. As illustrated in **Exhibit 6-1**, the vast majority of spas (93%) operate as a single brand. For companies operating more than one location, the majority (71%) still operate under a single brand, demonstrating the importance of consistency. Not surprisingly, resort/hotel spas are the most likely to promote multiple brands (23%) than other spa types.

EXHIBIT 6-1 — NUMBER OF SPA ESTABLISHMENT BRANDS



Given that most spas only operate under a single brand, it is not surprising that almost all spas (96%) that have opened new locations in the past twelve months have done so under an existing brand (see **Exhibit 6-2**). Clearly, spas opening new locations understand the importance of brand recognition and the need to maintain consistency across their business spectrum.

EXHIBIT 6-2 — BRANDING OF NEW LOCATIONS

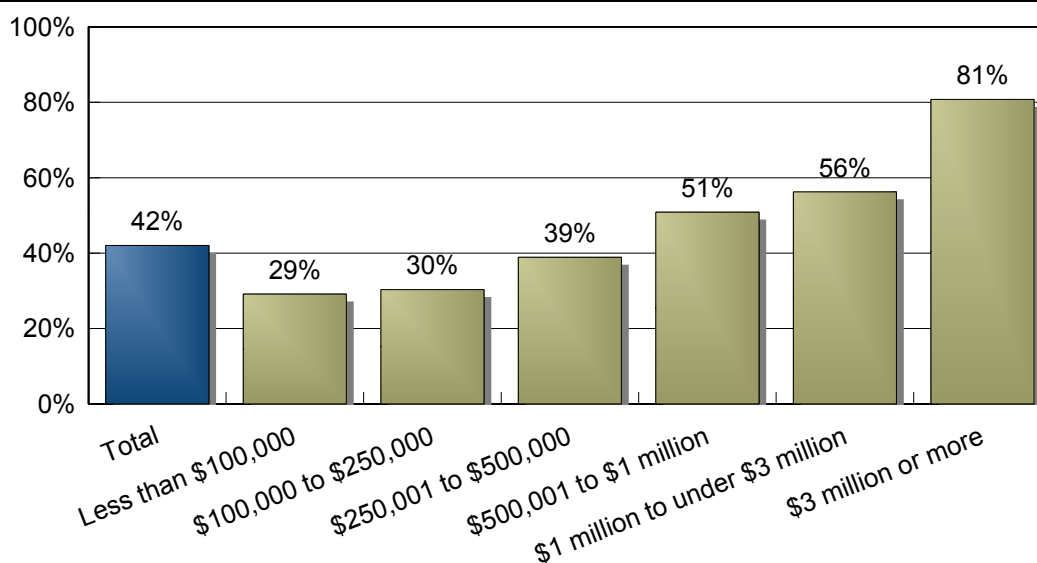


Note: Base is those who have opened a new location in the past 12 months.

Branding of Retail Products

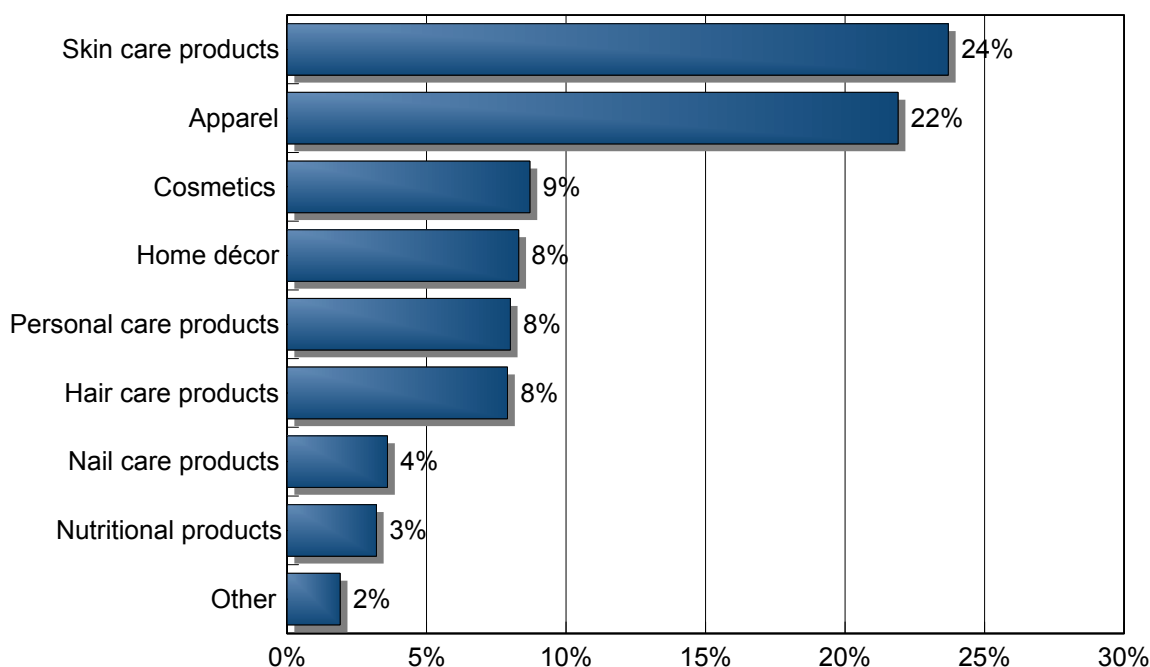
Approximately two out of every five (42%) spas that offer retail sell branded products (with the spa's name on the product). **Exhibit 6-3** shows the proportion of retailing spas that sell branded products by spa revenue. Interestingly, there is a direct correlation between selling branded retail products and spa revenue. The higher the revenue, the more likely the spa is to sell branded retail products. Only 29% of retailing spas whose revenue is under \$100,000 sell branded products, whereas 81% of those with revenues over \$3 million do. The results suggest that branding becomes more important as spas grow.

EXHIBIT 6-3 — PERCENTAGE OF SPAS OFFERING BRANDED RETAIL PRODUCTS BY SPA REVENUE



Note: Base is those who sell retail products.

Retailing spas were asked to indicate which retail products were branded (see **Exhibit 6-4**). Skin care products (the most common retail product overall) is the most common branded product to be offered (24% of retailing spas offer this product in a branded form). The second most common branded product is apparel (22%). Interestingly, apparel was not very high on the overall retailing list. However, it is one of the easiest products to brand; hence it is better showing in branded products.

EXHIBIT 6-4 — BRANDED RETAIL PRODUCTS SOLD

Note: Base is those who sell retail products.

Product Definitions: Apparel - clothing, robes, slippers, jewellery; Skin care products - moisturizer, cleansers, sun-protection/tanning products; Nutritional products - vitamins, power bars or drinks; Personal care products - neck massager, foot warmers, lavender scented eye pillows; Home décor - candles, fountains, wind chimes

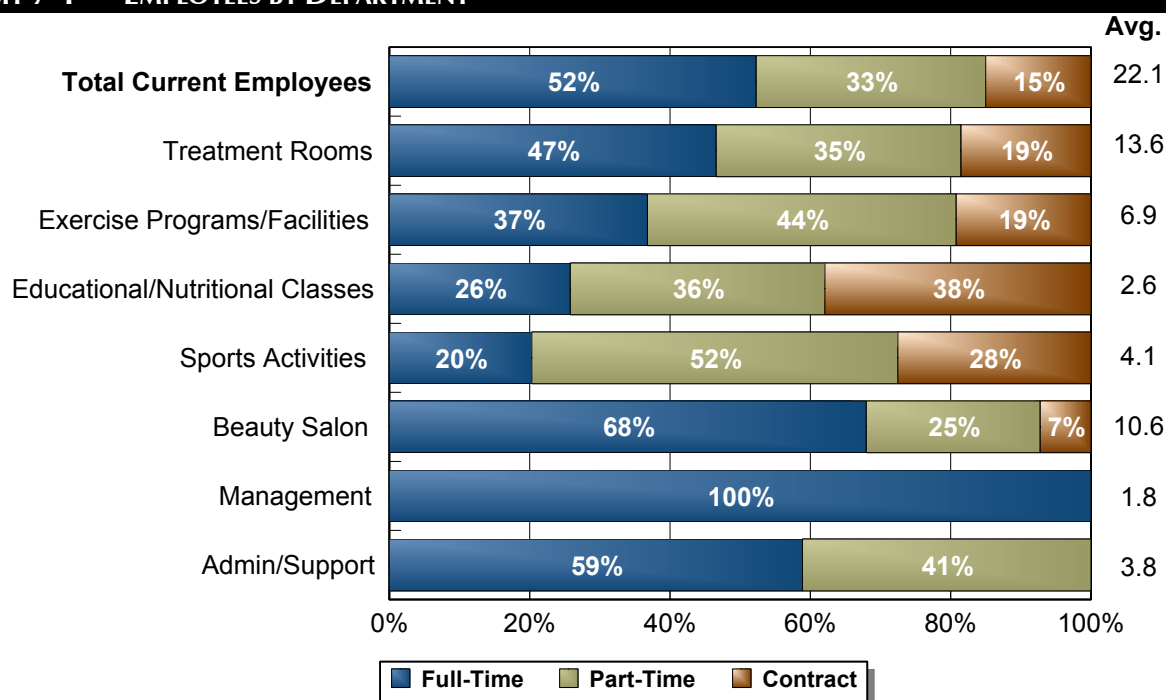
VII. EMPLOYMENT IN THE SPA INDUSTRY

The spa industry is very labor-intensive. This chapter examines the employment structure of spas in the U.S. and Canada.

Employment Structure

On average, spas employ 22 people, of whom half (52%) are full-time, one-third (33%) are part-time and 15% work on a contract basis. In terms of structure, the only spa segment that deviates from the industry average is club spas where only 25% of staff are full-time and 52% are part-time. This year's study marks the first time that contract staff has been broken out as a separate group. A detailed breakdown of employment by spa department is presented in **Exhibit 7-1**.

EXHIBIT 7-1 — EMPLOYEES BY DEPARTMENT



Note: Averages for individual departments represent only those who have the department and do not necessarily sum to total employees. In some cases, staff work in more than one department. Department breakdowns were asked Internet respondents only.

As seen in the 2002 study, beauty salons continue to be the department that utilizes the highest percentage of full-time staff (68% full-time). Treatment rooms also have a high proportion of staff in full-time positions (47%). On the other hand, sports activity departments are more part-time oriented with 52% of staff being part-time. Contracting is most common for educational/nutritional classes (38%) and sports activities (28%).

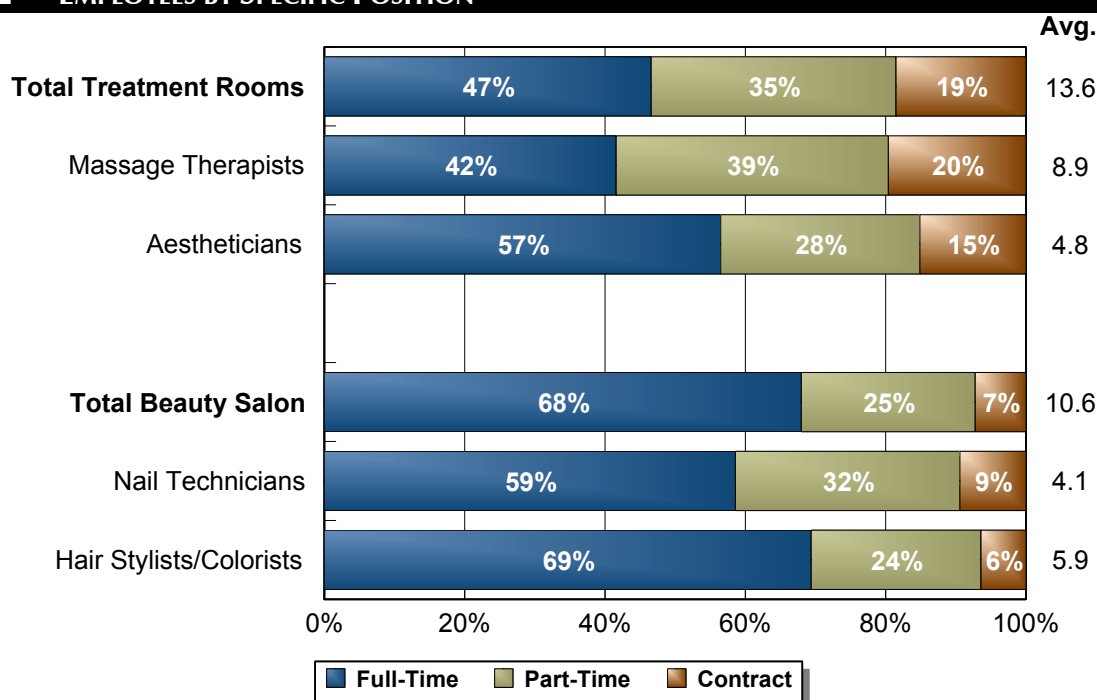
At 59%, administration staff personnel have a greater likelihood of being full-time than do staff in most departments. It should be noted that, on the questionnaire, the option was not given to separate out contract staff for management or administration personnel. Also, respondents were not asked to categorize management staff as full or part-time.

On average, treatment rooms utilize the largest number of employees (average: 14 employees per spa among spas that have such departments). Not far behind are beauty salons with an average of 11 employees. Other departments are considerably smaller with the smallest department being educational/nutritional classes (three employees). Many respondents, particularly the smaller spas, indicated that staff tend to work in more than one department. Spas employ an average of two managerial and four administrative staff per location.

Also new to this year's study, Internet respondents were asked about employment in specific staff positions in the treatment room and beauty salon departments. The results are summarized in **Exhibit 7-2**. As seen in the exhibit, 9 of the 14 employees in treatment rooms, on average, are massage therapists and 5 are aestheticians. Aestheticians are more likely to be full-time employees (57%) while massage therapists are equally split between full-time and part-time.

In the beauty salon department, there is an average of 6 hair stylists/colorists and 4 nail technicians. While both positions are more likely to be full-time than part-time, the portion of full-time employees among hair stylists/colorists (69%) is greater than for nail technicians (59%).

EXHIBIT 7-2 — EMPLOYEES BY SPECIFIC POSITION



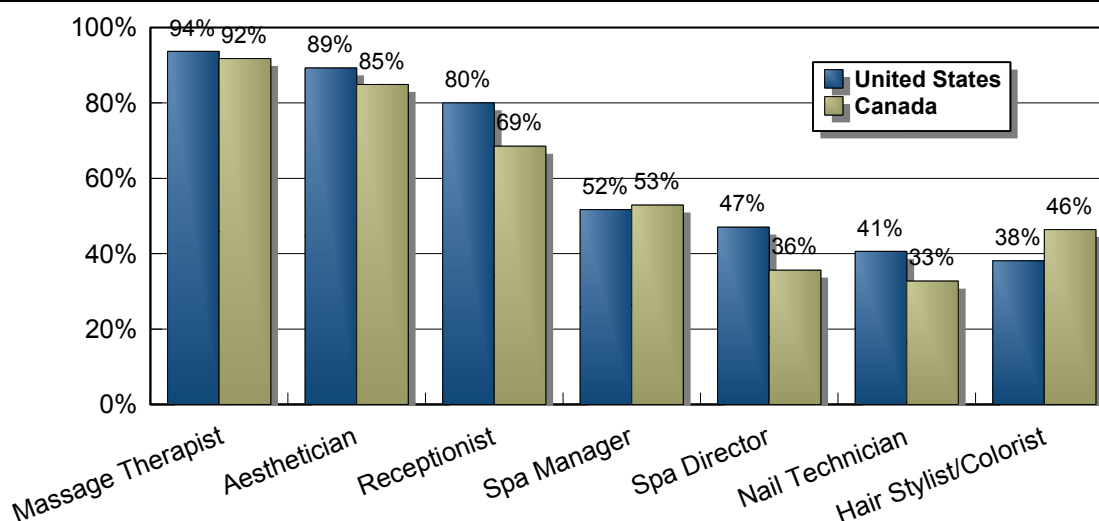
Note: Averages for individual departments represent only those who have the department and do not necessarily sum to total employees. In some cases, staff work in more than one department.

Employment Positions

As seen in **Exhibit 7-3**, almost all spas in the U.S. (94%) and Canada (92%) have a massage therapist on staff and most (89% in the U.S. and 85% in Canada) have an aesthetician on staff. Given that treatment rooms are the industry's key service offering (98% of spas offer them), this should come as no surprise. The majority of spas also have a receptionist (80% in the U.S. and 69% in Canada). Nail technicians (41% in the U.S. and 33% in Canada) and hair stylists/colorists (38% in the U.S. and 46% in Canada) are far less common in spas. However, this is not surprising as only 58% of spas indicated that they have a beauty salon.

Approximately half (52% in the U.S. and 53% in Canada) of respondents employ a Spa Manager while just under half of U.S. spas (47%) and one-third of Canadian spas (36%) employ a Spa Director. As indicated in the last study, the lower number of spas that employ a Spa Director or Spa Manager is likely a function of the industry make-up – a small number of large players and a large number of small players.

EXHIBIT 7-3 — EMPLOYMENT POSITIONS HELD IN SPAS



Employment Positions by Spa Type

	Club Spa*	Day Spa	Medical Spa*	Resort/Hotel Spa	Other*†
Massage Therapist	93%	94%	90%	94%	90%
Aesthetician	93%	90%	85%	88%	65%
Receptionist	80%	76%	62%	92%	79%
Spa Manager	33%	51%	65%	58%	59%
Spa Director	86%	35%	56%	82%	46%
Nail Technician	13%	43%	0%	48%	16%
Hair Stylist/Colorist	6%	45%	9%	37%	23%

Note: * Interpret results with caution due to small sample sizes

† Other type of spa includes mineral springs spas and destination spas.

Question asked on Internet survey only.

Ninety-two percent (92%) of resort/hotel spas employ a receptionist, the highest proportion among all spa types. Medical spas are the lowest at only 62%. Spa Managers are least common at club spas

(33%). Conversely, Spa Directors are most common at club spas (86%) and resort/hotel spas (82%). Both resort/hotel spas (48%) and day spas (43%) are significantly more likely to employ nail technicians than other spa types.

Human Resource Challenges

The 2002 ISPA report highlighted several key human resource challenges: hiring and retaining staff, compensation, training, lack of business skills, cost of labor and benefits and the lack of national standards for training. In-depth interviews with industry executives revealed that all of these issues are still important to spa owners today. Following are the key challenges outlined in this study's executive interviews:

- Human resource availability is still a huge problem for the industry; however, the problem appears to be shifting from the size of the labor pool to the quality of the labor pool.
- There are a lot of conflicting viewpoints about the supply of labor depending on who you are talking to and in what part of the country they are located. Some argue that the schools are not turning out enough spa directors and managers and that colleges do not offer specific courses or career tracks in this area. Others take the contrary view that more schools are offering spa management courses and that the supply of labor is not as big a problem today as it was in 2002.
- The quality of those entering the industry is an extremely important issue. Overall, the lack of training is a problem, specifically relating to students who are "coming out too soon and too young".
- "Traditional therapy people don't think like business people". This has an impact on their willingness and/or ability to drive the business and operational aspects of the spa.
- Paying staff for "what they are worth" is a challenge, as is the high cost of doing business "one on one". Therapists and aestheticians "continue to demand escalating salaries" and, to reduce payroll, spas have been "reducing the management side", resulting in less attention to detail and overall more poorly run spas. The receptionist position is considered very important, yet pays little. On a positive note, the industry is "slowly getting a handle on the problem". As the schools turn out more therapists, this reduces the pressure on wages and wage expectations.

As the industry levels out, the human resource challenges that it faces continually evolve. While they tend to be in the same areas, the nature of the challenges is continually changing.

VIII. INDUSTRY TRENDS AND ISSUES

This chapter looks at key trends in the spa industry, including emerging product, consumer, retail, investor and legal and regulatory trends. The top industry priorities, as well as the effects of war and terrorism on the industry, are also discussed. The results reflect trends identified during the quantitative survey process, as well as those revealed during the qualitative executive interviews.

Product Trends

According to the spa executives who were interviewed in the qualitative component of the study, there is a “revolution” in cosmetic procedures and consumers can “look better without the need for cosmetic surgery”. As the Baby Boomers age, there is increased interest in cellulite treatments, glycolics and skin care products. Many of these products are influenced by European, Asian trends, and there is a “desire and need for natural versus artificial processes”. Some products are geared towards the “spiritual” side and others are targeting men. Some spas are offering color therapy, crystal therapies, etc. There are also more medically-based spa products that attract consumers not just for “outer skin care but also internal wellness”. However, massage appears to still be the core service.

Over the past two years, facial products, cosmeceuticals and pharmaceuticals have “witnessed a big difference”. For example, more research has been undertaken on enzymes and how they work with cells. The question is whether there will be a “problem” in the future because “there are no clear definitions” of products.

Spa-influenced products such as clothing, home spas, spa-like tubs and home massage tables are on the rise. Largely “driven by the manufacturers and vendors”, these products and services would not be nearly as successful if “there wasn’t a growing receptive audience”. Consumers are putting ownership of their health in their own hands. However, it would be advantageous to have better education of what these products do for the customer.

Clearly, the spa industry has arrived.

Within the quantitative survey, spa owners/managers responding to the Internet version of the survey 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.

Only 24% of respondents indicated that they do not currently offer any differentiating products, and 40% indicated that they do not plan to offer any new ones in the near future. Of those that do offer, or plan to offer, unique products, the top mentions are listed in **Exhibit 8-1**.

EXHIBIT 8-1 — UNIQUE THERAPIES/TREATMENTS/PROGRAMS OFFERED

Current Offerings:	Planned Offerings:
<ul style="list-style-type: none"> • Alternative therapy (14%) • Facials (13%) • Body treatment (13%) • Hydrotherapy/water treatment (13%) • Massage therapies/body rubs (9%) • Equipment/amenities (9%) • Variety of packages/combination services/customized services (7%) • Ayurveda (7%) • Natural treatment/herbal treatment/ 3-mud treatment/organic (7%) • Stone therapy/La Stone/Stone massage (6%) • Medical treatment (5%) • Permanent makeup/tattooing (5%) • Aesthetic care/treatment (5%) 	<ul style="list-style-type: none"> • Facials (14%) • Alternative therapy (14%) • Aesthetic care/treatment (9%) • Body treatment (9%) • Rituals/treatments from other countries/cultures (9%) • Caters to a full range of clientele (couples, teenagers, etc.) (8%) • Carries unique products/variety of products/customized products (6%) • Themed spa parties/theme weeks/holiday treatments (6%) • Medical treatment (6%) • Energy/spiritual healing services (6%) • Variety of packages/combination services/customized services (5%) • Non-invasive cosmetic procedures (5%) • Skin care (5%) • Ayurveda (5%) • Outdoor/environmental therapies (5%)

Note: This question was asked to Internet respondents only.

Consumer Trends

Unquestionably, consumers are buying into the spa experience. Two years ago, the ISPA report touched on consumer behavior and found that people wanted “pampering”, “to stay healthy and look good” and that they were generally quite knowledgeable and demanding about spa services. Executive interviews indicate that the industry view is that consumers continue to feel this way. Key findings from the interviews include:

- There continues to be a shift in attitudes. At one time, “spas were nothing but pampering for older rich women” and were seen as too self-indulgent. The emphasis is now increasingly on self-preservation and spas have gained a new aura of respectability.
- People want to reward themselves for working so hard (i.e., stress reduction). In fact, “de-stressing and decompressing” are cited as the top two reasons for “being touched and pampered”.
- The desire for relaxation and pampering has “deepened” over the last five years and is broader based. The “under-35” group is willing to invest in it; the 45+ group took longer. All of this was fueled by the Baby Boomers when they hit 40.
- Baby Boomers and their children will pay to look young and healthy. With “2/3 of consumers overweight”, weight loss has also been an important motivator: “We promote health.”

- Kids' spas are a "respite for children" and are another destination where the family can be together.
- Men are the greatest untapped potential. Younger men are now "more open to spas" and there is a link to fitness facilities.
- Get back to the basics – offer core services that really deliver benefit. Despite an ever-broadening range of spa treatments, most interviewees report that their original core treatments – massage and facials – are still the most popular treatment modalities.

Two-thirds (65%) of survey respondents indicated that they had seen or experienced new consumer trends over the past 18 months. **Exhibit 8-2** lists their top mentions, which fall into three main groups – changing consumer attitudes, increasing visits from different demographic groups and increasingly popular products.

EXHIBIT 8-2 — CONSUMER TRENDS EXPERIENCED IN THE PAST EIGHTEEN MONTHS

- Attracting men (19%)
- Tanning (8%)
- More medical and therapeutic treatment (7%)
- Awareness of health/wellness/nutrition/fitness (7%)
- Attracting younger people (7%)
- Other types of catering to different demographics (6%)
- Aesthetic care (5%)
- Massage (5%)
- More interest in spas/becoming popular (5%)

Client Satisfaction

Sixty-two percent (62%) of respondents indicated that they have a formal client feedback mechanism. **Exhibit 8-3** lists the top reasons for satisfaction and dissatisfaction.

EXHIBIT 8-3 — REASONS FOR CLIENT SATISFACTION/DISSATISFACTION

Reasons for Satisfaction:

- Good guest service (39%)
- Well-trained/knowledgeable staff (22%)
- Good results (19%)
- Good atmosphere/environment (14%)
- Friendly/nurturing service (9%)
- Customized/personal service (6%)
- Stress relief/relaxing (5%)
- Professionalism (5%)

Reasons for Dissatisfaction:

- Customer service (18%)
- Appointment availability (14%)
- Distractions (noise, temperature etc.) (13%)
- Dissatisfaction with treatment (12%)
- Facility issues (cleanliness, equipment, size etc.) (12%)
- Timeliness (10%)
- Front desk errors (8%)

Note: This question was asked to Internet respondents only.
Base is those who have a formal feedback mechanism.

Retail Trends

This year's survey asked respondents to indicate if they had witnessed any retail trends in the past eighteen months. Thirty-nine percent (39%) of retailing spas indicated that they had. **Exhibit 8-4** lists the top trends mentioned. Generally, the theme is increasing sales or demand for specific types of products. The most common trends, mentioned by 20% of those who experienced retail trends in the past eighteen months, is increasing skin/body care product sales and demand.

EXHIBIT 8-4 — RETAIL TRENDS EXPERIENCED IN THE PAST EIGHTEEN MONTHS

- Skin/body care products (20%)
- Natural/organic products (8%)
- Hair care products (7%)
- Products/treatments for men (6%)
- Demand for quality products/specific ingredients (6%)
- Slowing retail sales (6%)
- Increasing retail sales (5%)
- Self-tanners/bronzers (4%)
- Anti-aging treatments/products (4%)

Investor Trends

- Generally, interviewees report some difficulty in prying investors' wallets open. This could be attributable to any number of factors:
 - Legacy of the dot.com bust.
 - The after-effects of 9/11 have "spooked investors".
 - "Banks stay away from half million dollar leaseholds".
 - Some people with money and no experience are trying to get into the business.
 - Many spa owners may lack the level of business sophistication banks look for when evaluating risk.
- There is a general feeling, however, that "money is out there if you know where to find it". Several executives report that venture capital firms and investors have approached them and/or are talking to them "about lending on cash flow". In particular, medical spas have garnered attention to the point that people are "interested in investing".
- Although there are clear signs that financing may not be quite as difficult today as it was when the last ISPA Spa Industry report was prepared in 2002, it is quite probable that the bulk of investment funds are still originating from businesses such as hotels "that already own a lot of things". Many of the new players and those that are experiencing significant growth are large hotels that already have their financing in place and look at spa investments as only one part of their total portfolios.
- Many major high-end hotels now have branded spas and this trend is expected to continue, although not all major hotel chains are pursuing the spa opportunity. Those that do, however,

are managing their spas as profit centers rather than simply adding the facility because some of their guests assume spa treatments to be natural amenities in a major hotel (e.g., a fitness facility).

- Mergers are expected to take place primarily in the resort/hotel and day spa sectors, but not with the destination spas.
- The spa industry is fragmented and ripe for consolidation, although consolidation does not necessarily deliver greater efficiencies. Unlike manufacturers (where eliminating duplication creates profits), spas are very labor intensive and service oriented. Staff cannot simply be eliminated because of consolidation. The real value of consolidation is seen in the ability to leverage off the brand.
- Some day spa owners have been exploring acquisition opportunities (e.g. spas in trouble), however the fit isn't always right and there has been "limited success". In addition, the very nature of spas – "personal, one-on-one experience" – means that owners "need to be there".
- New spa owners are entering the industry with growth on their mind. This usually means they do not want to limit themselves to one spa facility for their livelihood. Mergers and acquisitions could appear to many to be the most expedient route to achieving their growth and profitability ambitions.

Legal and Regulatory Trends

The industry is characterized by an uneven playing field that varies from state to state or province to province. Different geographical jurisdictions are experiencing different stages of regulation or de-regulation. There is no overriding theme to the legal issues spa owners are facing; however, the spa executives did articulate a number of issues that are important to them now or that may become increasingly relevant:

- *Independent contractors versus employees (California):* Most therapists are becoming employees and this has a financial impact on the spa if a contracted professional becomes injured and seeks workers' compensation. The law doesn't always differentiate between contractors and employees and tends to treat them both the same, even though contractors are not officially on the payroll as employees.
- *Licensing of therapists:* Requirements and guidelines currently vary by jurisdiction and may get "stricter" although this is not necessarily seen as a bad thing for the industry. In fact, many would like to see more uniformity of practice standards across the continent.
- *Medical spas:* The industry will need to become self-regulating to "avoid problems down the road".

- *Certification for practicing massage therapists (Arizona):* A new law comes into effect on January 1, 2005 and has an impact on senior therapists who will have to be re-certified (i.e., issue of grandfathering).
- *National standards for massage therapists:* Currently each state has different rules.
- *Medical insurance:* Not generally available for therapists although this may be starting to change as insurers become increasingly aware of the benefits and cost savings associated with preventative healthcare.
- *Tips (from customers):* In Canada, the government has moved to require tip reporting (by employers) for waiters/waitresses and casino employees; it is only a matter of time before spas are required to report tips (by employers – note, tips are already supposed to be reported on income tax returns). This is already a big issue in the U.S.

Top Issues and Priorities for the Spa Industry

When asked to rank their top priorities for the industry, interviewees focused on a few key areas. Generally, they felt that, with the industry's rapid growth, there was a need to "mature and become more professional" and "to be seen as a premier experience". Following are some of the important trends and issues according to those interviewed:

- *Quality and consistency in staffing:* What is acceptable at one spa may not be at another.
- *Educating and maintaining quality staff:* Practitioners need to be taught how to run a business; educate the various categories in the industry about each other in order to make them more accepting – "bring back the feeling of community in the industry".
- *Consistency in delivering guest expectations:* With variable experiences from one facility to another, standardized protocols would be desirable; enabling consumers to separate "what really works from what is just sales hype because there are too many whimsical and non-verifiable claims made that compromise legitimate spas".

During the past 12 months, the industry has continued to grow with "better standards of service and experience". Some of the highlights of the past year include:

- More medical spas. Five years ago the term wasn't even used and "the fact that doctors are interested in the spa arena provides a new legitimacy to the industry".
- Spas are more respected for what they do.
- Hotels now recognize that spas are good revenue generators.
- Greater variety of treatments, which could have turned out to be fads but have "turned out to be popular".
- Spa cuisine has evolved from "low calorie, healthy food" to a greater variety of food, plenty of spa cookbooks and a heightened awareness of spa cuisine overall.
- International travel is increasing and the spa experience will become more "global". The spa phenomenon has been primarily in the U.S. but increasingly there are "fabulous places being built overseas".
- Insurance companies are starting to pay for spa visits; some of them recognize that it's cost effective to pay for preventive care. "This trend is starting to move forward."
- Customers are asking for spas "relevant to their particular need", e.g. multi-cultural dermatology, hair texture, etc. The industry is recognizing the needs of different ethnic groups; however, the industry has not been trained to accommodate multicultural diversity.

- More affordable spas. Pricing has leveled out.
- Spa owners are more willing to put their money into non-revenue generating space (i.e., rather than more treatment rooms) and recognize that spas are a “total experience”. More money is being spent on changing rooms, better showers, a change in the finishes (i.e., redecorating), etc. This is perhaps driven by the inclusion of men in their marketing programs.

The Effects of War and Terrorism

The ISPA report commissioned in 2002 confirmed the negative after-effects of 9/11 and the slow return to normalcy. As consumers re-evaluated their priorities, they slowly began to spend some of their discretionary income to travel again. Then the war against Iraq and terrorism became top-of-mind. While “people aren’t completely relaxed”, the situation is viewed as not having had the same impact because “the economy is in rebound” and “people are traveling again”.

The events of 9/11 appear to have had an unusual impact on the spa industry, particularly on those categories that required the client to travel. Executives who own or work in resort/hotel or destination spas reported an immediate drop in the number of treatments following 9/11 but an increase in the number of treatments per client. The reason for this is that fewer people - particularly in the United States – were traveling right after 9/11. However, those who were traveling increased their usage of spa treatments, the thought being that their personal stress levels had increased and that they were in greater need of therapeutic relaxation. The fact that day spa visits continued to grow during this period would tend to support the hypothesis that it was the absence of travelers that was causing the problem.

Canadian destination and resort/hotel spas also reported a further drop in revenues as a result of the SARS outbreak, the results of which were described as “devastating” for the industry in Canada.

Those who reported revenue shrinkage immediately following 9/11 and/or SARS all indicate that the business has come back. The Iraq war and the fight against terrorism appear to have had very little impact, attributed by most executives interviewed to the buoyancy of the U.S. economy.

Some interviewees believe that consumers will turn to spas “the worse things get” and look for ways to “take more time to get together” and “to take care of themselves”. Spas are a natural for this type of sentiment.

IX. 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 industries.

- *The spa industry has proven that it is more than just a trendy fad; it is a major player in the hospitality and leisure arena.* Over the past two years, the spa industry has maintained its ranking against other key U.S. leisure industries despite a slower rate of growth. The spa industry has proven that its positioning is sustainable. The spa industry has arrived.
- *Industry growth has moderated over the past two years.* For close to a decade, the spa industry saw tremendous growth in every facet of the industry. The last two years have seen this growth level out. While the number of locations continues to grow, other aggregate industry measures – revenues, square footage, employment, and visits – have tapered off or even decreased in the past two years. In other words, there are more spas sharing the “same pie”. The result is lower results at the individual spa level.
- *Day spas continue to be the largest industry segment in terms of number of establishments; but resort/hotel spas are quickly becoming the dominant player.* At 72% of all spas locations, day spas are by far the largest industry segment. However, while the resort/hotel segment represents only 14% of spa locations, it accounts for a disproportionately high share of the total industry revenue (41%), spa visits (27%) and employees (26%).
- *Medical treatments and spas represent a key growth area.* Over the past two years, the medical spa segment has been the fastest growing (in terms of locations) in the industry. In addition, many spas in other segments have been adding these types of treatments. This is an important trend for the spa industry as it shows an endorsement of the industry by the medical profession and lends considerable credibility to the benefits of spa services. However, to maintain the endorsement and credibility, spas must ensure that the medical treatments are offered through proper channels (i.e., by medical professionals and certified staff), something it appears to have done a good job at so far.
- *Newer spas are focusing on the industry’s core product.* While beauty salons continue to be important, they are losing ground in terms of the portion of spas that offer them. This suggests that newer spas may not be including beauty salons in their offerings and are instead focusing on the industry’s core product — treatment rooms.
- *The spa industry still needs to recruit qualified resources.* The rapid growth of the industry from 1997 to 2001 created significant competition for scarce qualified resources at all levels. However, as industry growth has moderated, the demand for resources has also leveled out and the problem in the industry has shifted away from the size of the labor pool to the quality of the labor pool. In a one-on-one service industry, the image of the business is a direct

reflection of the image of its staff. It is critical that spa industry resources be properly trained and developed into qualified professionals to uphold a sterling image for the industry. The stabilizing of industry growth presents the industry with a good opportunity to “play catch-up” in training its resources.

No longer the young upstart of yesterday, the spa industry in North America appears to have reached a new level of growth and sophistication. In our interviews with spa owners, executives and consultants, we talked to people who were integrating vertically, developing their own proprietary products, investing in research and development and paying greater attention to their bottom line profitability... all typical signs of an industry that has started to mature. Most are optimistic about the future growth potential of the industry and only time will tell if they are right.

As the industry continues to grow, its composition is likely to change as well. Spa treatments that were once highly profitable may start to become commodities as increased competition drives prices lower. The challenge will be to keep adding perceived value to the core services. And, as is typical in a rapidly growing industry such as this, we should expect to see some rationalization (which may have already begun in some sectors) taking place. The recent and projected growth of resort/hotel spas brings a whole new dimension to the industry. For one thing, these are organizations who understand how to run profitable business. They pay considerable attention to the bottom line... and their growing presence and competitive threat will cause other spa owners to do likewise.

At the other end of the spectrum are the much smaller owner/operators who are flexible and who have managed to carve out a relatively safe niche for themselves. Caught in the middle, however, is a large number of small to medium-sized spa businesses that could find themselves selling out to larger players wanting to expand their brands. During industry rationalizations, it is usually the small fish that swims through the holes in the net and the big fish that breaks through the net. Invariably, it is the medium-sized fish that inadvertently finds itself entangled in the net and gradually ceases to exist.

The challenge for the spa industry, now that spa treatments have gained an increased air of respectability amongst the consuming public, will be to keep service levels up while keeping operating costs down. This will be a difficult challenge for many and some casualties should be expected along the way. It is no longer possible to simply hang out a shingle and open a spa. The industry has become far too sophisticated for that. For those who are able to combine their love of the spa environment with a keen focus on how to run a successful and profitable business, the future is still very rosy indeed.

The spa industry has come of age.