International SPA Association®

2006 Spa Industry Statistics

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Prepared for ISPA by

ASSOCIATION
RESOURCE CENTRE INC.
Research and Strategy Division

About the International SPA Association

Since 1991, the International SPA Association has been recognized worldwide as the professional organization and voice of the spa industry, representing more than 2,700 health and wellness facilities and providers in 75 countries.

Members encompass the entire arena of the spa experience, from resort/hotel, destination, mineral springs, medical, cruise ship, club and day spas to service providers such as physicians, wellness instructors, nutritionists, massage therapists and product suppliers.

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About the Association Resource Centre 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 September and October 2006. 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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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. Updates of this study were conducted in 2002 and 2004.

Since the inaugural study, much has been learned about the industry. The studies have generally pointed to rapid growth in the industry. As the industry grew, the lines of what was and wasn't a spa and what category a spa belonged to became blurred. In response to this issue, ISPA undertook the first spa industry census in 2005. The census involved formally qualifying and classifying the almost 24,000 potential North American spas in ISPA's inventory. The results of this process were then used to revise industry size estimates and re-weight data from the previous three studies using more strict criteria. The revised estimates are presented in this report.

Recognizing the need for up-to-date information, ISPA decided in 2006 to begin tracking the size of the industry on an annual basis. Accordingly, ISPA engaged the Association Resource Centre Inc. to conduct a study to develop current estimates of the size of the U.S. industry in summer 2006. These estimates 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. This report provides this up-to-date information by highlighting the key findings from the 2006 Spa Industry Statistics Survey.

Purpose and Objectives

The main purpose of this study was to determine the current size of the U.S. spa industry. The primary objectives of the research were to:

- Estimate the size of the spa industry in the U.S. in terms of revenues, number of visits, number of establishments, square footage and employment;
- Gauge the growth rate of 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 10 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 September 2006.

- *Developing an Inventory of Spas:* An extensive search of various business directories was conducted via Internet to develop a comprehensive inventory of U.S. spas. All businesses suspected of being spas were included in either the 2005 or 2006 spa industry census. During the census, attempts were made to contact all potential spa businesses to qualify them as a spa using product/service based criteria and to classify them by spa type using revised category criteria. In all, 9,074 spas in the U.S. have been formally qualified and classified. This represents two thirds of the industry. Qualification and classification incidence rates from the census were then used to extrapolate the size and type distribution of the overall industry.

- *Quantitative Survey:* The Association Resource Centre Inc. conducted a survey via internet, mail and telephone in October 2006 to obtain key operating statistics from spas. In all, 639 surveys were completed with spa owners and managers across the U.S. The data in this report have been weighted to accurately reflect the true distribution of the industry population. Data were weighted by region and spa type. Definitions of regions and spa categories are provided in the appendix.

Why Did the Old Estimates Change?

As mentioned above, 2005 saw ISPA undertake a census of the North American spa industry to formally qualify and classify spas. Through this process, ISPA developed specific product/service based criteria for the qualifying and classifying of spas to remove any ambiguity that inherently exists with any rapidly expanding industry. The results of this process were applied to data from the previous studies to develop revised estimates of the number and distribution of spas. Following is a summary of the key impacts of this process and other methodology changes on the previous estimates:

- *Number of Spas:* With more stringent criteria, businesses were not able to "self-qualify" themselves as spas. Only businesses that met the product/service based criteria were qualified as a spa. Accordingly, fewer businesses qualified which reduced the estimate of the number of spas for each year and ultimately reduced the industry estimates to reflect the lower rate of qualification.

- *Classification of Spas by Type:* The criteria for each spa type were modified slightly to reduce ambiguity. This resulted in some shifting of spas among type categories. This had some minor effects on the per spa averages which are reflected in the overall estimates.

- *Removal of Accommodation, Retail and Fitness:* With the exception of destination spas, per spa estimates of statistics in 2006 do not include accommodations. Similarly, on-site retail and fitness operations that were not contained within the spa were specifically excluded from the statistics. In other words, a greater emphasis was placed on narrowing the statistics to the spa only. Using results in the surveys for previous studies that apportioned revenue and square footage to different departments, these components were removed and the averages recalculated to make the results comparable to the 2006 study.

It is important to note that the results reported in previous studies are accurate based on the definitions used at that time. The methodological changes were made to reflect the changing industry and the revised estimates for previous studies were developed to ensure comparability going forward.

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 August 2006 and was based on spa listings in various business directories. Industry estimates may not include unlisted spas or spas not classified as spas in directories; nor do they include cruise spas.
- Industry averages and estimates (including revenue, employment, square footage, spa visits, etc.) as well as other data were based on survey responses and are only as accurate as the data provided by survey respondents.
- 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.

II. SIZE OF THE U.S. SPA INDUSTRY

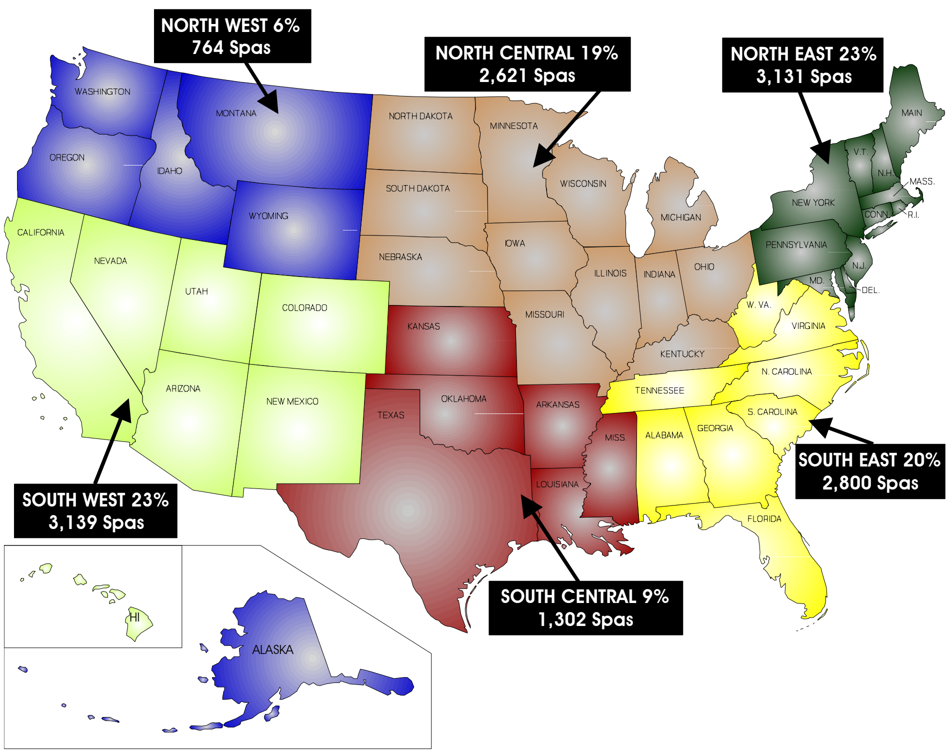
This section provides five key measures of the size of the U.S. spa industry: the number of spas, industry revenues, number of spa visits, employment and square footage. Individual spa benchmarks by type and region can be found in the appendix.

How Many Spas Are There?

As of August 2006, it is estimated that there were almost 13,800 spa locations across the United States. The distribution of spas by region is presented in **Exhibit 2-1**.

EXHIBIT 2-1 — REGIONAL DISTRIBUTION OF SPAS IN THE U.S.

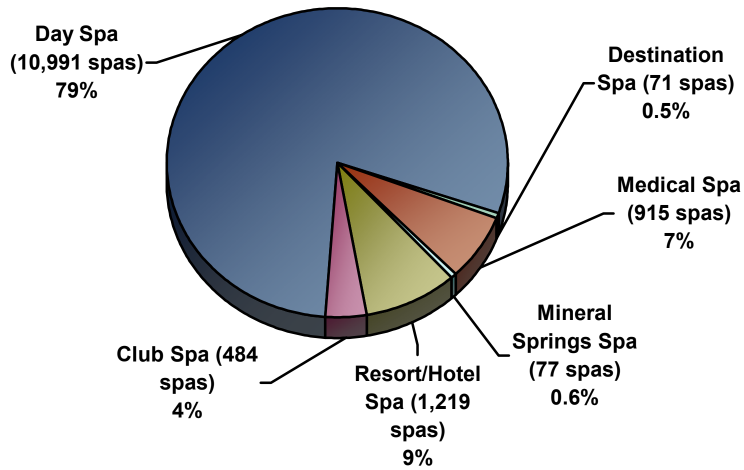
Total Number of Spas in the U.S. — 13,757



The South West and North East are the two largest regions in terms of the number of spas. Each represents almost one quarter (23%) of spas in the U.S. At one fifth of the industry each, the South East (20%) and North Central (19%) regions also represent significant portions of the industry. While the distribution of spas in the U.S. is generally similar to the overall population distribution, there are some deviations. Specifically, the portion of spas in the South West and, to a smaller degree, in the North East, is significantly higher than their respective proportions of the population. In other words, there are more spas on a per capita basis in South West and North East than in other regions. On the other hand, the share of spas in the North Central and South Central is much lower than their share of the population.

As seen in **Exhibit 2-2**, the U.S. spa industry continues to be dominated by day spas. In fact, almost four out of every five spas in the U.S. is a day spa. At only 9% of spa locations, resort/hotel spas are a distant second followed by medical spas (7%) and club spas (4%).

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

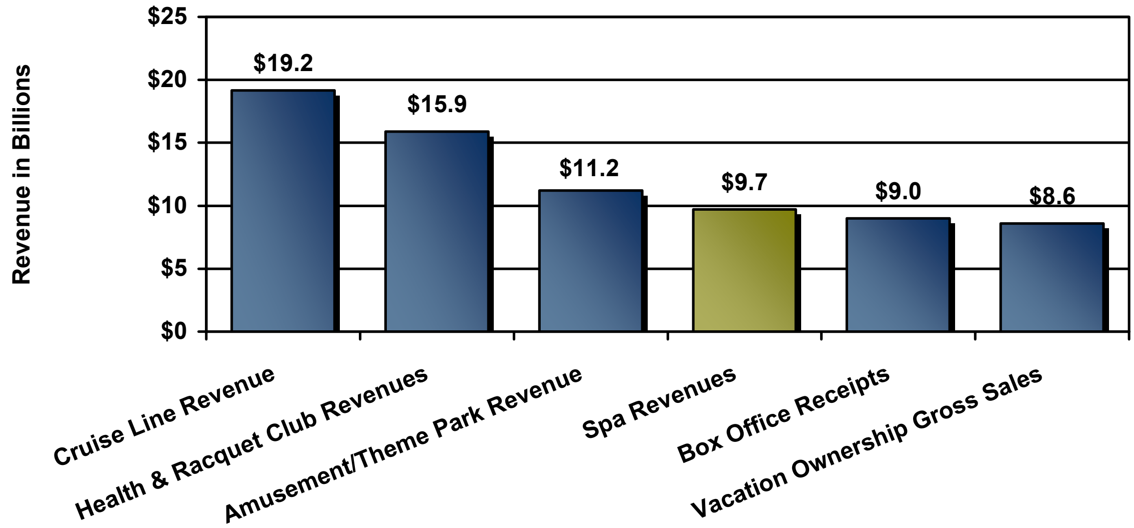


Note: Spa type definitions can be found in the appendix.

Industry Revenues

In 2005, the U.S. spa industry generated approximately $9.7 billion in gross revenue. As seen in **Exhibit 2-3**, the spa industry is in good company when compared to other leisure industries in the U.S. Specifically, 2005 spa industry revenues were slightly above box office receipts and vacation ownership gross sales and just below amusement/theme park revenues.

EXHIBIT 2-3 — ESTIMATED SIZES OF U.S. LEISURE INDUSTRIES (2005)



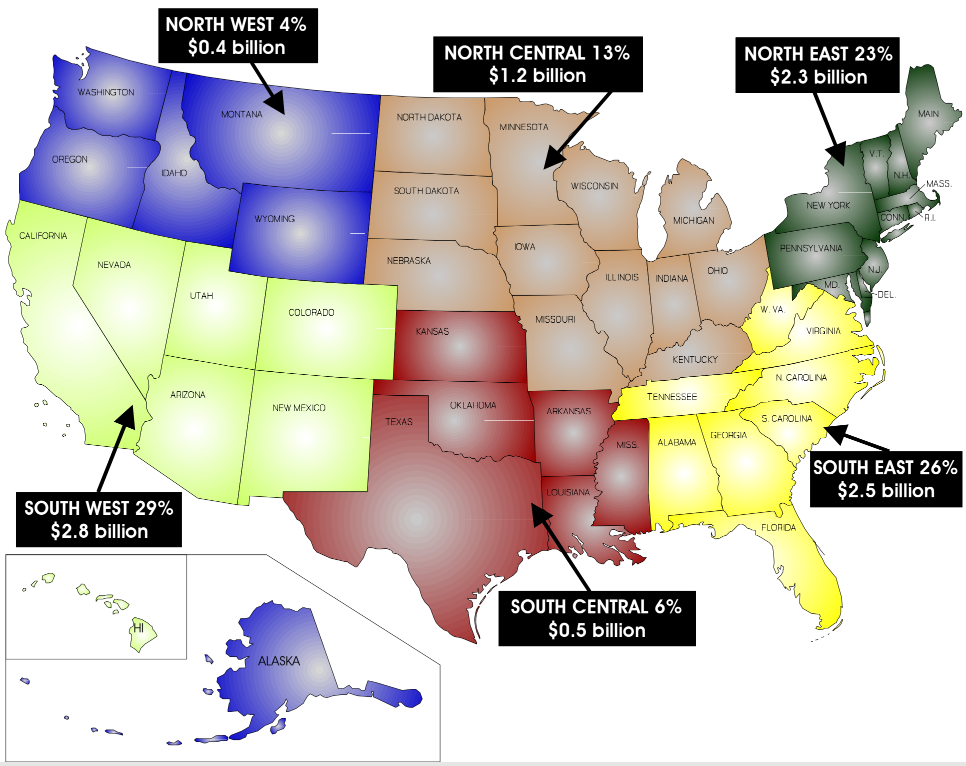
Source: International Council of Cruise Lines, International Health, Racquet and Sportclub Association, International Association of Amusement Parks, Association Resource Centre Inc., Motion Picture Association of America, American Resort Development Association

While not presented in an exhibit, it is worth noting that spas report experiencing a healthy 14.3% average profit margin in 2005.

Interestingly, the distribution of revenue geographically differs from the distribution of spas. More specifically, the South West region leads the way accounting for 29% of all industry revenues. This compares to only 23% of locations. Another region that represents more than its fair share of revenue is the South East with 26% of revenues compared to only 20% of locations. Conversely, spas in the North Central and South Central regions account for a considerably lower share of revenue than they do locations. The distribution of spa revenues by region is shown in **Exhibit 2-4**. The exhibit also shows the confidence interval (or degree of error) associated with the overall industry estimate.

EXHIBIT 2-4 — REGIONAL DISTRIBUTION OF SPA REVENUES IN THE U.S. IN 2005

Total 2005 Spa Industry Revenue in the U.S. — $9.7 Billion

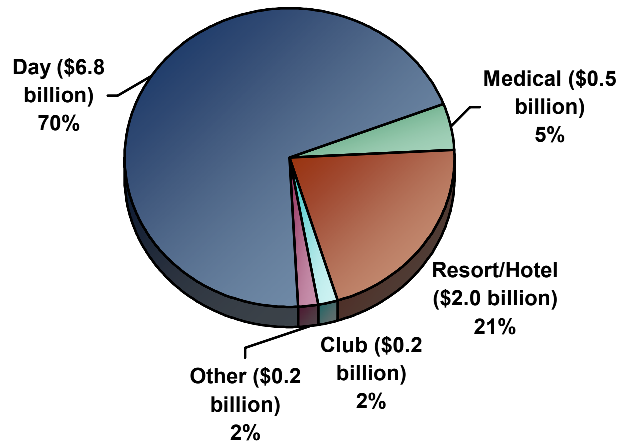


	Spa Revenue Confidence Interval*		
	Low	*Estimate*	*High*
Revenue Confidence Interval	$8,257,102,614	$9,685,343,935	$11,113,585,255

Notes: Interpret results for regions 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%.
Percentages add to more than 100% due to rounding.

Industry revenue by spa type is summarized in **Exhibit 2-5**. Not surprisingly, it is the day spa segment that accounts for the most significant portion of industry revenues at 70%. However, the revenues generated by day spas are disproportionately low compared to their share of locations (79%). By comparison, the resort/hotel segment accounts for only 9% of locations but 21% of industry revenues. Revenues for other segments are more in line with their share of industry locations.

EXHIBIT 2-5 — SPA REVENUES IN THE U.S. BY SPA TYPE



Notes: Interpret results for spa types with caution due to small sample sizes.
Due to small sample sizes, destination spas and mineral springs spas have been grouped under "other".

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

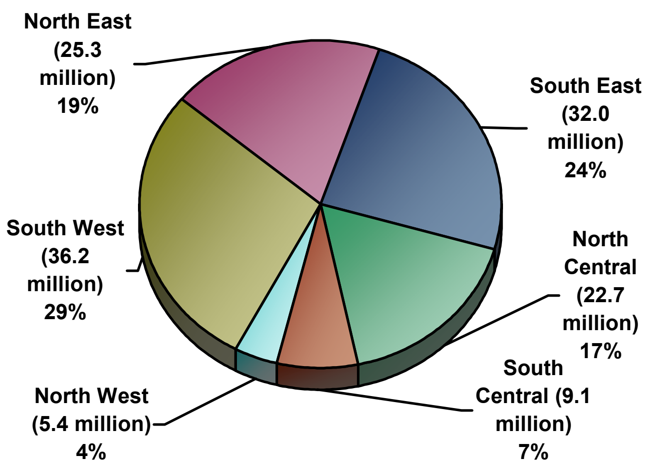
Spas saw a total of 131 million visits from spa consumers in 2005 (see **Exhibit 2-6**). As seen with revenues, the South West (29%) and South East (24%) regions saw a disproportionately high share of industry visits in 2005 compared to the number of spas. Conversely, all the other regions saw a disproportionately low share of visits, particularly the North East (17%).

A look at visits by spa type reveals that resort/hotel spas are, on average, seeing a greater number of visits per spa. This is evidenced by the fact that resort/hotel spas represent a higher share of industry visits than they do locations. On the other hand, medical spas saw only 4% of industry visits compared to 7% of locations.

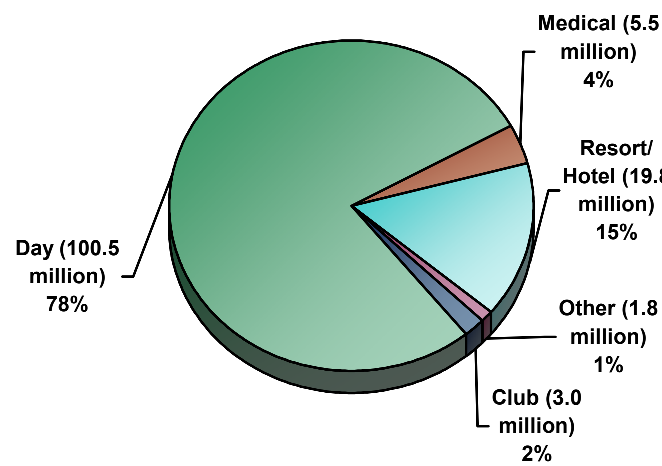
EXHIBIT 2-6 — NUMBER OF SPA VISITS IN THE U.S. IN 2005 BY REGION AND SPA TYPE

Total Spa Visits in the U.S. in 2005 — 131 Million

Visits by Region



Visits by Spa Type



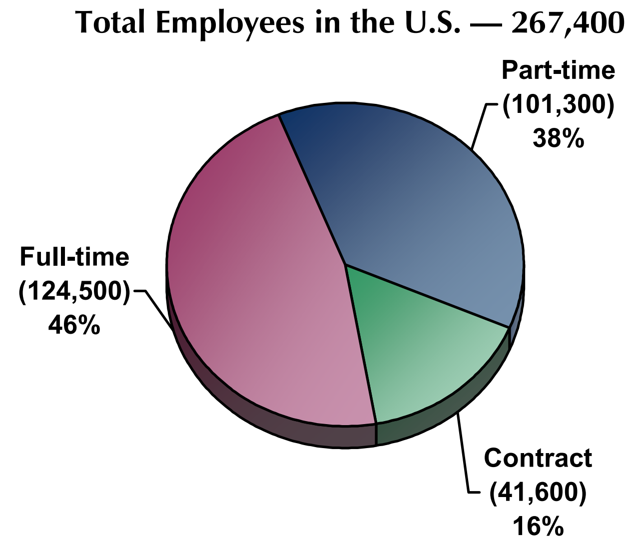
Spa Visit Confidence Interval*			
	Low	*Estimate*	*High*
Spa Visit Confidence Interval	116,098,817	130,693,460	145,288,102

Notes: Interpret results for regions and spa types with caution due to small sample sizes.
Due to small sample sizes, destination spas and mineral springs spas have been grouped under “other”.
* 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%.

How Many People are Employed by the Spa Industry?

As a whole, the spa industry employs an estimated 267,400 people - 124,500 full-time employees, 101,300 part-time employees and 41,600 contract workers. Less than half (46%) the employees in the spa industry are full time. **Exhibit 2-7** shows the distribution of employees by level of employment. Spas report, on average, that 43% of their revenues go to payroll.

EXHIBIT 2-7 — TOTAL INDUSTRY EMPLOYMENT IN THE U.S.



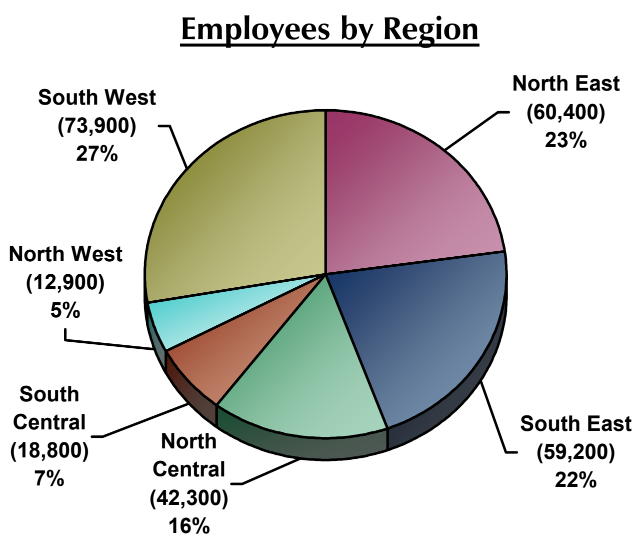
Spa Employment Confidence Interval*			
	Low	*Estimate*	*High*
Total Spa Employment Confidence Interval	228,769	267,397	306,025
Full-time employment confidence interval	*107,968*	*124,491*	*141,013*
Part-time employment confidence interval	*87,792*	*101,348*	*114,903*
Contract employment confidence interval	*33,008*	*41,559*	*50,109*

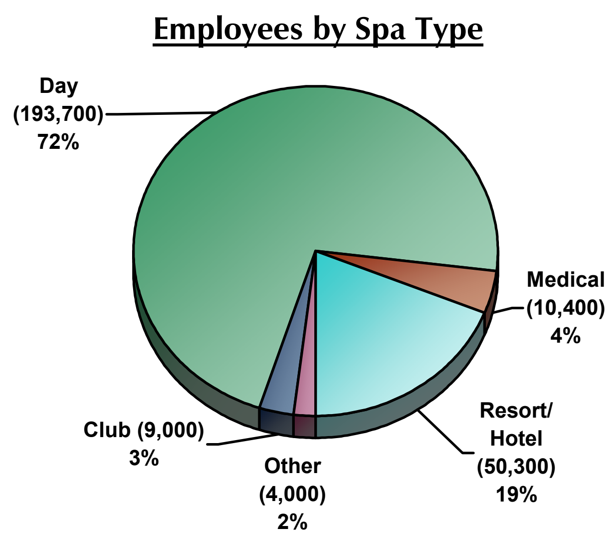
Note: * Estimates are, by nature, subject to error. The confidence interval represents the range in which the true industry employment falls. The level of confidence used was 95%.

Exhibit 2-8 illustrates the distribution of employees by region and spa type. Once again, the South West is the largest region when it comes to employees with just over one quarter (27%) of all spa employees in the U.S. This is followed closely by the North East (23%) and the South East (22%). The only region with a noticeably lower share of employees compared to its share of locations is the North Central (16%).

Accounting for 193,700 of all employees, day spas are the largest spa employer with almost three quarters (72%) of all industry employees. Resort/hotel spas again account for a disproportionately high share of the industry's employees at 19% (50,300 employees) relative to their share of locations.

EXHIBIT 2-8 — NUMBER OF EMPLOYEES BY REGION AND SPA TYPE





Notes: Interpret results for regions and spa types with caution due to small sample sizes.
Due to small sample sizes, destination spas and mineral springs spas have been grouped under "other".

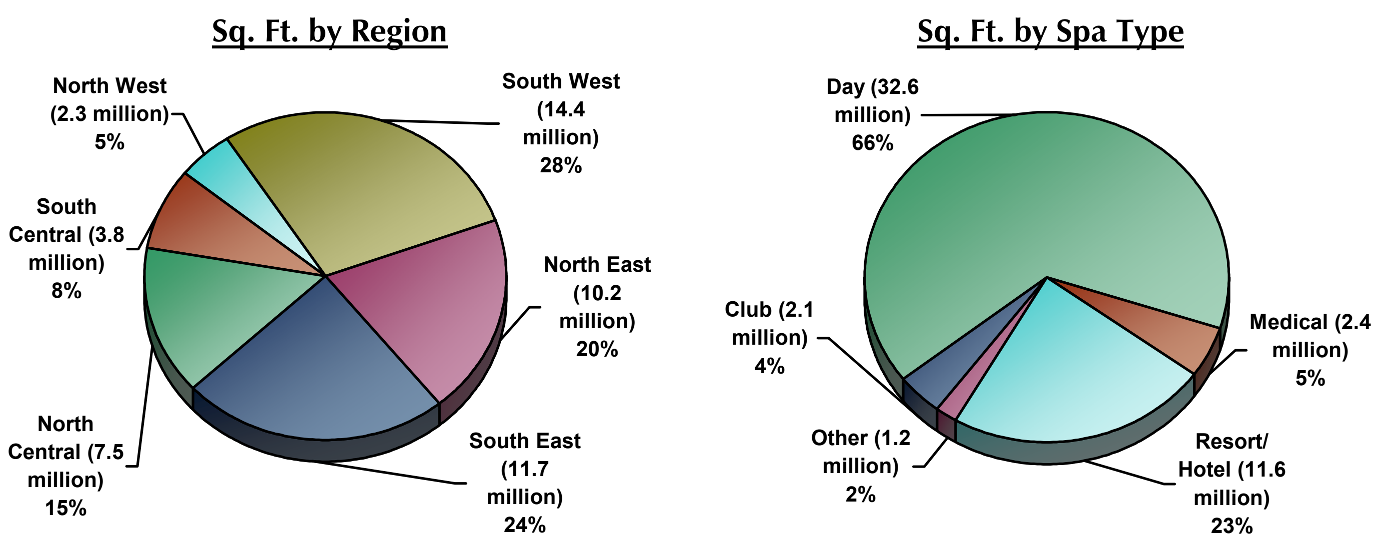
Square Footage

Spas in the U.S. occupy an estimated 49.9 million square feet of indoor space (see **Exhibit 2-9**). As seen for other industry statistics, the South West (28%) and South East (24%) regions account for a greater portion of industry space than they do locations. On the other end of the spectrum, it is the North East (20%) and North Central (15%) where industry space is disproportionately low compared to the number of locations.

Despite accounting for 79% of industry locations, day spas only occupy two thirds (66%) of industry space. On the other hand, resort/hotel spas account for only 9% of spas, but almost one quarter (23%) of industry space. The share of space for other segments is roughly equal to the share of locations.

EXHIBIT 2-9 — INDOOR SQUARE FOOTAGE IN THE U.S. SPAS BY REGION AND SPA TYPE

Total Indoor Square Footage in the U.S. — 49.9 Million Sq. Ft.



Square Footage Confidence Interval*			
	Low	*Estimate*	*High*
Square Footage Confidence Interval	43,602,841	49,942,468	56,282,095

Notes: Interpret results for regions and spa types with caution due to small sample sizes.
Due to small sample sizes, destination spas and mineral springs spas have been grouped under "other".
* 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%.

III. INDUSTRY GROWTH

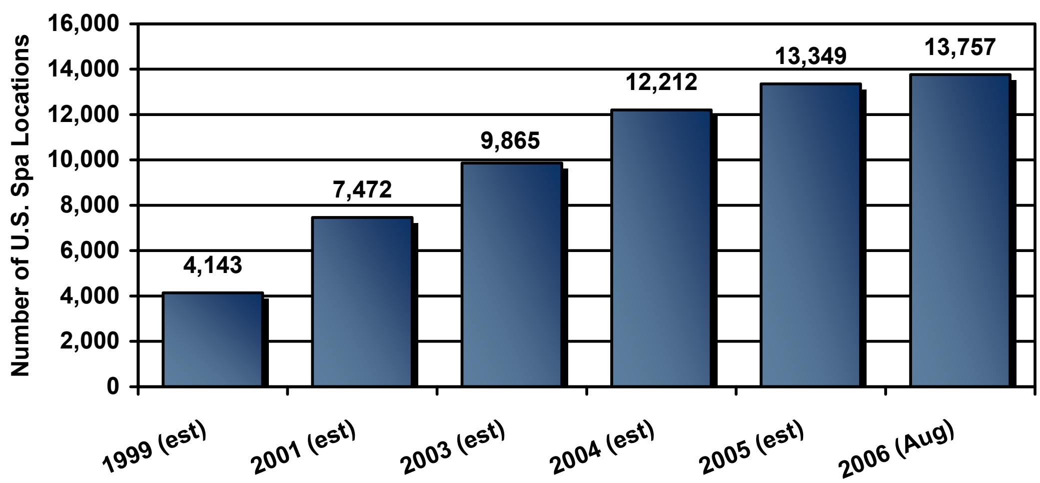
The previous section presented a current snapshot of the size of the U.S. spa industry. The discussion now turns to how these numbers have been changing over the past few years. Changes are analyzed in four of the key areas — number of locations, revenues, number of spa visits, and employment.

Generally the results show that the industry is growing. Despite the continuously growing number of locations, there appears to have been a slight dip in other key indicators between 2001 and 2003. However, as discussed in the sections that follow, the 2005/06 results indicate that the industry is back on track.

The Number of Spa Locations Continues to Grow

Over the last six years, the number of spa establishments in the U.S. has seen strong growth with an average annual growth rate of 22%. At only 9%, the growth from 2004 to 2005 is the lowest seen during the period. However, there is no consistency in the growth rate. Accordingly there is no indication as to whether it is a slow down or just a slower year. On a cumulative basis, the number of locations grew by 232% from the end of 1999 to August 2006. In other words, the number of spas in the U.S. has more than tripled in six and a half years. Growth in the number of spa locations is presented in **Exhibit 3-1**.

EXHIBIT 3-1 — GROWTH IN THE NUMBER OF U.S. SPA LOCATIONS



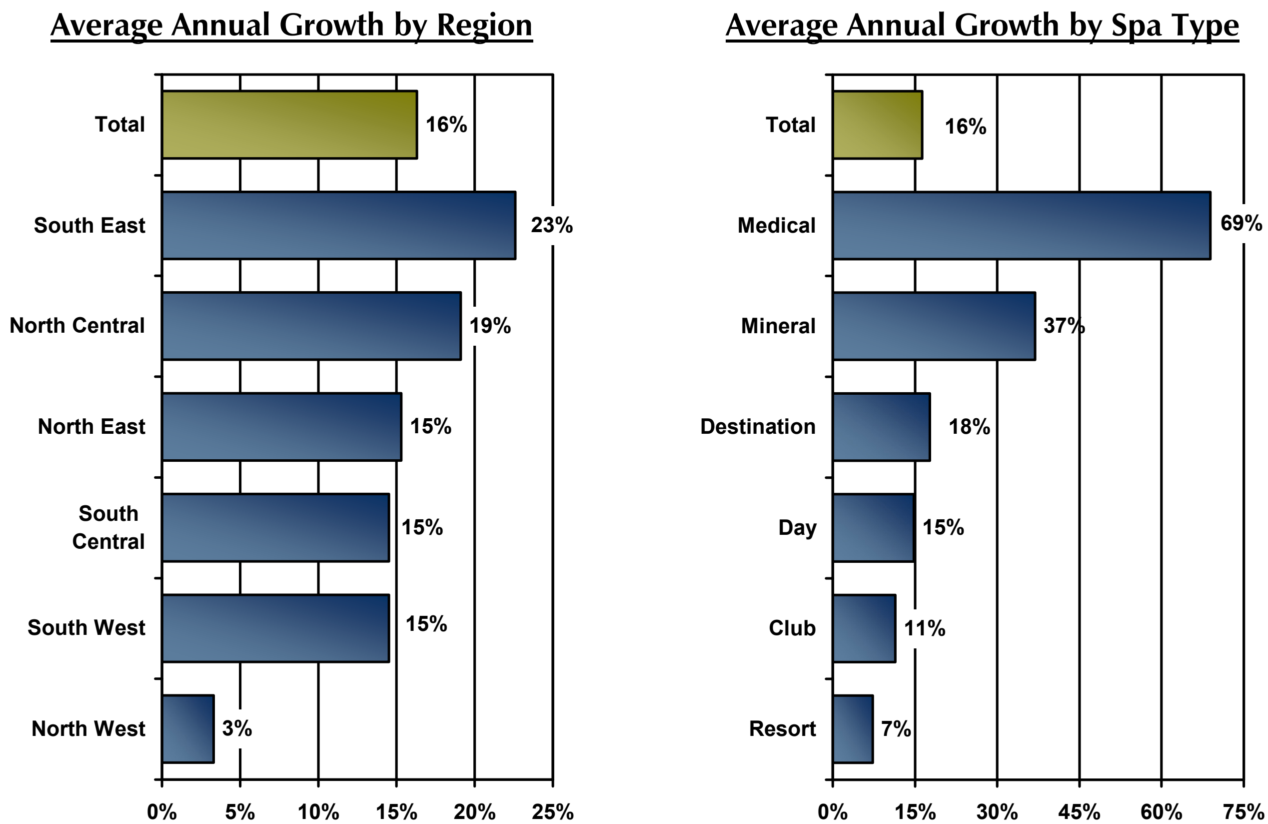
Establishment Growth Rate

	1999	***2001****	***2003****	***2004***	***2005***	***2006*****
Annual	-	34%	15%	24%	9%	3%
Cumulative	-	80%	138%	195%	222%	232%

Notes: Industry sizes for 1999 through 2005 are estimates of the number of spas at the end of each year. Industry size for 2006 represents the size of the industry as estimated in August 2006.
* Growth rates for 2001 and 2003 represent the average annual growth for the preceding two year period.
** The 2006 growth is year to date growth to August and is not an annual rate.

Average annual growth in the number of locations from 2003 to 2005 by region and spa type is presented in **Exhibit 3-2**. Since 2003, the strongest growing region, in terms of locations has been the South East at 23% per year. The North Central region (19%) has also been growing at a rate slightly higher than average. Conversely, the lowest growth rate was seen in the North West at only 3% per annum.

EXHIBIT 3-2 — AVERAGE ANNUAL GROWTH IN SPA LOCATIONS BY REGION AND TYPE OF SPA 2003 TO 2005



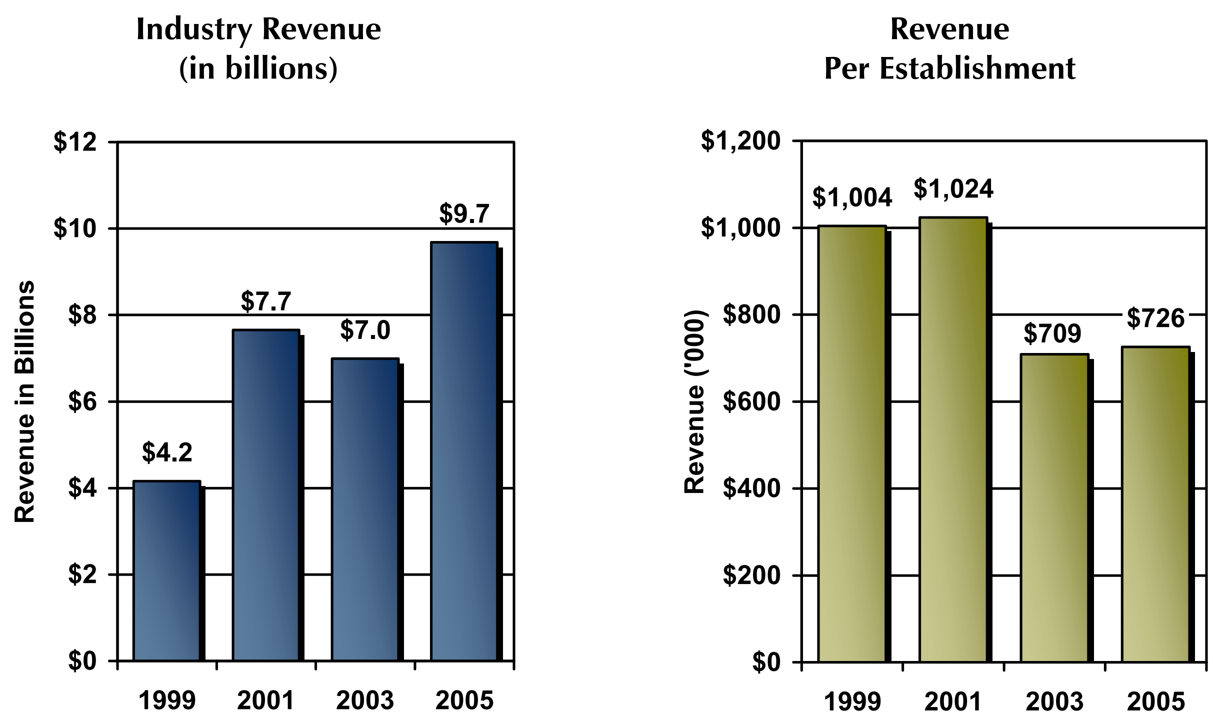
Notes: Interpret results for regions and spa types with caution due to small sample sizes.

Interestingly, the results by spa type show that medical spas grew at an average annual rate of 69% from 2003 to 2005 – twice the growth of any other segment. Surprisingly, the slowest growing segment is the resort/hotel segment at only 7%. When interpreting these growth rates, it is important to consider the size of the segment. In other words, while the growth rate (percentage) is higher for a small segment (i.e., mineral springs), the actual number of spas entering the industry is much lower than among larger segments with a lower growth rate.

Strong Revenue Growth Returns to the Spa Industry

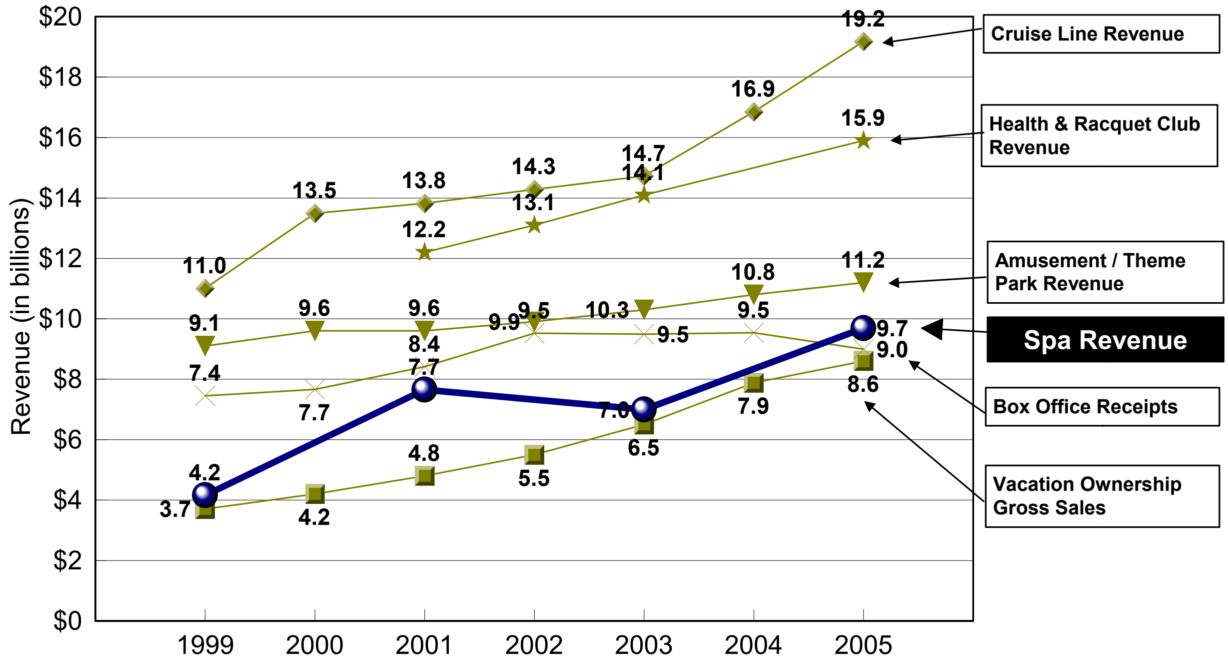
As illustrated in **Exhibit 3-3**, despite a growing number of locations, the industry experienced a dip in revenues from 2001 to 2003 before rebounding again in 2005. More specifically, after almost doubling its revenues from 1999 to 2001, the industry saw an average annual drop of -4.4% from 2001 to 2003. During this same period, the number of locations grew by an average of 15% annually. However, a dip in demand meant fewer dollars for more spas. Consequently, there was a significant drop in per location revenues from 2001 to 2003. By 2005, both the number of spa locations and per spa revenues were growing again resulting in an average annual revenue growth from 2003 to 2005 of 18%.

EXHIBIT 3-3 — SPA INDUSTRY REVENUE GROWTH



Revenue growth for select U.S. leisure industries is charted in **Exhibit 3-4**. Despite the decline in revenues from 2001 to 2003, the spa industry is the top performer in terms of revenue growth from 1999 to 2005 at an average annual rate of 16.3% over six years. Only vacation ownership sales came close at 15.2%. Clearly, the spa industry is gaining ground.

EXHIBIT 3-4 — GROWTH IN LEISURE INDUSTRY REVENUE

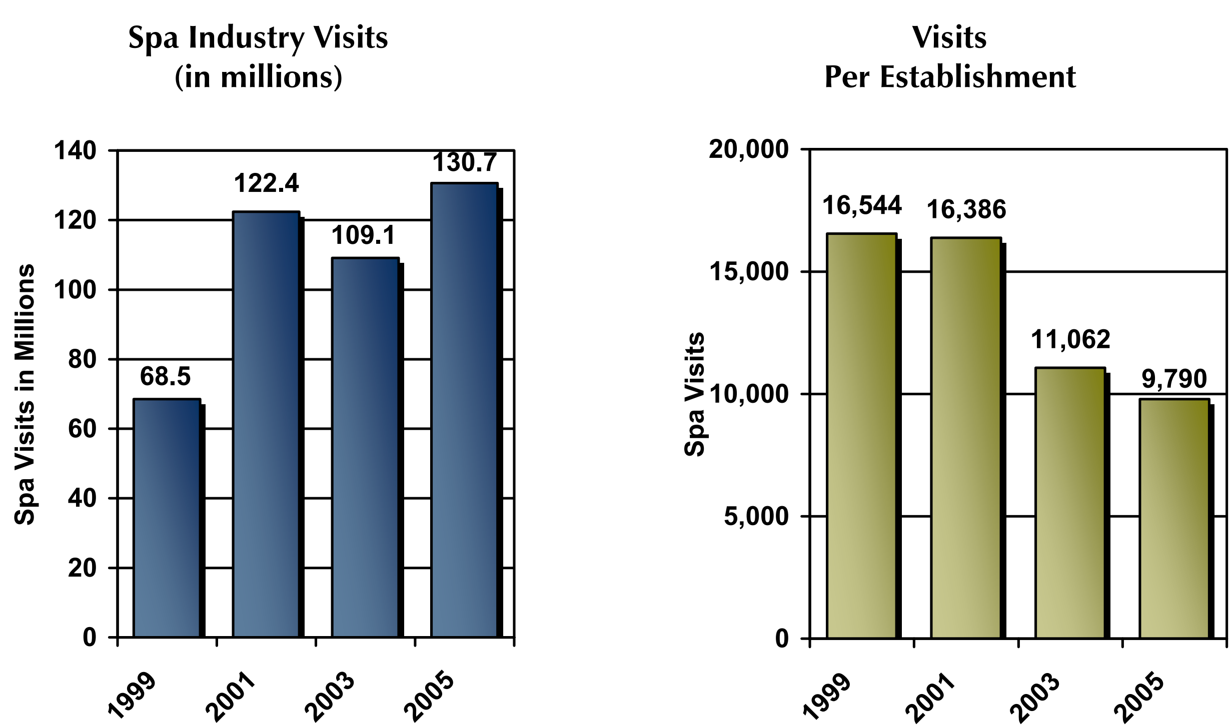


Source: International Council of Cruise Lines, International Health, Racquet and Sportclub Association, International Association of Amusement Parks, Association Resource Centre Inc. Estimates, Motion Picture Association of America and American Resort Development Association.

Growth in Consumer Demand

As in any industry, it is consumer demand that dictates the growth and success of the sector. Growth in the number of spa visits both at the industry level and at the individual spa level are shown in **Exhibit 3-5**. Not surprisingly, growth in industry visits follows a similar pattern to growth industry revenue. Visits nearly doubled from 1999 to 2001 before dropping by an annual average of -5.6% between 2001 and 2003. This corresponds to a significant one third drop in visits per location during the same time period. Despite a continued decline in per location visits in 2005, the overall industry visits returned to levels slightly higher than those in 2001.

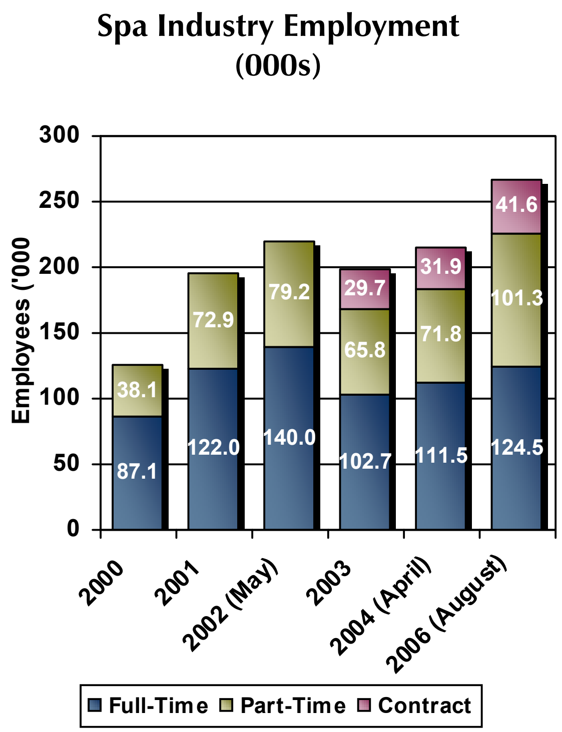
EXHIBIT 3-5 — GROWTH IN CONSUMER DEMAND

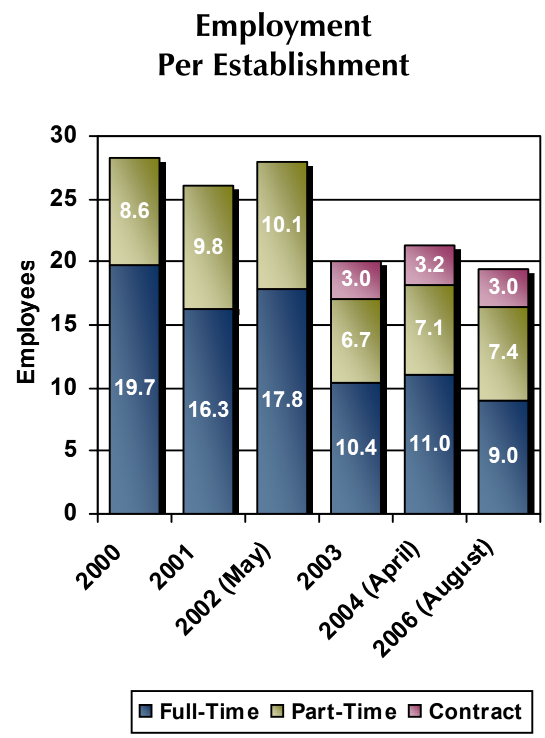


Industry Employment Growth Returns

Growth in employment shows a similar pattern to revenue and visits. As seen in **Exhibit 3-6**, employment had been growing at a steady pace from 2000 to 2002 with no significant changes in the number of employees per spa. However, both per location and industry employees dropped considerably in 2003. In the two years that followed, the number of employees per location has remained stable while the overall industry employees have grown at an average annual rate of 16%.

EXHIBIT 3-6 — GROWTH IN EMPLOYMENT





In terms of structure, the mix of full-time, part-time and contract employees remained unchanged from 2003 to 2004. There was a slight shift away from full-time employees in 2006 with only 47% of employees being full-time (vs. 52% in 2004).

Human Resource Challenges

The results from the in-depth interviews reveal a number of human resource challenges. While one interviewee was pleasantly surprised that their region was enjoying "more qualified people than ever before applying for jobs," many regions across the United States and Canada continue to experience a significant "shortage of qualified people from a skills perspective," particularly with regard to the "directors and strong management" staff they need to keep their spas running smoothly.

Some worry that this lack of qualified personnel at the top of North America's spas is having a 'trickle down effect' on the lower echelons of the personnel infrastructure. As one individual suggests, "the lead therapist is not always well trained; when they are, there is a more motivated staff."

The general feeling is that the root cause of the spa industry's long-standing human resources woes continues to stem from the reality that "the demand is huge" but "the education is inadequate." While some efforts, such as certification initiatives, may be helping to some degree, the suggestion was made more than once that the individual spas themselves should be playing a more significant role in this regard through more and better in-house training.

As a second potential solution to offset the staffing crisis, one individual suggests that the spa industry explore new avenues by being more "clever in recruiting" and consider looking at "other industries for non-core therapist and front desk" positions.

A second human resource issue that continues to challenge the spa industry is compensation. The spa industry, having grown to a large extent out of the salon industry, has struggled to find an affordable and mutually beneficial balance when it comes to compensation. While many spas initially adopted the commission approach traditionally used by the salon sector, the significantly higher costs incurred by typical spa owners made it virtually impossible for them to compete with the commission rates being offered by salons. As a result, many spa owners continue struggling to find the "happy medium" between salary, commission and benefits that is mutually beneficial both to themselves and their staff.

VI. INDUSTRY TRENDS AND ISSUES

Despite predictions that the spa industry could not sustain the rapid expansion that has characterized it through recent years, the spa industry continues to thrive. As the spa sector continues to evolve, it is fast becoming mainstream – an accepted way of life that is far more than just pampering. With its increased focus on health and wellness, the spa concept has evolved into a lifestyle choice that many people are now buying into. The spa industry has matured.

The following section summarizes the results of 10 in-depth interviews conducted with spa industry professionals from across the United States and Canada on behalf of ISPA by the Association Resource Centre Inc. The objectives of this research were twofold — to take a current high level snapshot of the industry in its current state of evolution and to determine the extent to which it has changed since the last study was completed in 2004. The areas addressed cover a wide range of topics including industry growth, employment trends, consumer behavior, regulation and product and service trends.

It is important to note, due to the small sample size, that the following results should be interpreted with caution.

Industry Trends

Growth

Despite the predictions in 2004 that the "exploding" growth of the spa industry was bound to cause over saturation within the market, the meltdown does not appear to have taken place despite the fact that many spas, particularly in the day spa sector, no longer exist. While a few professionals continue to report annual growth in the 30% plus range, the general trend appears to be that that new spas are opening up faster than marginally profitable spas are exiting the industry but that the growth in locations is not being matched by a growth in demand.

For the most part, however, interviewees no longer describe spa sector growth as "exponential" or "exploding", but instead see it to be expanding at a steady pace. While several individuals still expect a "leveling off" to occur, they agree that today's spa industry is "still growing" - at least for the time being.

Spa Sector Expansion

In stark contrast to 2004 when interviewees predicted that day spas would continue to enjoy extensive growth over the coming years, those we interviewed this time around singled out the day spa sector as the category experiencing the most saturation and hence the most difficulty. Many feel if it were not for the number of new day spas opening up, the day spa segment would be in decline as unprofitable spas are forced to close down.

If the day spa sector is "in a squeeze," the hotel and resort spa sectors are picking up the slack, at least in terms of new locations. It seems as if "every resort is putting in a spa" – and it is really starting to pay off, particularly for some of the bigger chains.

The counter view expressed by several interviewees, however, is that hotel spas are not all attracting enough traffic to make for a convincing business case. It is felt by some that hotels are finding themselves in a catch 22 situation because consumers now "expect" hotels to offer spa services much as they "expect" to have access to fitness facilities when they stay at a hotel. Hotels have little choice but to add spa facilities and many are having trouble attracting sufficient business from this source.

Medical spas were also singled out by several interviewees as a sector that is currently "going crazy" in terms of growth, a trend that is expected to continue into "the foreseeable future."

Other trends related to spa sector growth are:

- A growing number of single owner businesses are being replaced by "operations run by two or more owners."

- The recent success enjoyed by the resort/hotel spa sector is causing destination spas to "have a tough time" as resorts take over the lion's share of the spa traveler market.

- Increased competition within the resort/hotel spa sector is forcing them to become "more savvy as marketers" in order to grow their consumer base beyond "their hotel patrons." Some are beginning to "reach out to their community and (are) allowing locals to come in and enjoy their services."

While there are many possible reasons to explain why the spa industry is still growing, the integration of the spa concept into mainstream North American culture appears to be the dominant reason why the sector continues to thrive. The term, 'spa' is coming to mean more than just 'pampering' and is now a "way of life" for many:

- In an era where issues like obesity, stress, and environmental toxins have become serious concerns, many are incorporating 'lifestyle' elements including fitness, diet and overall health, into the traditional treatment-based spa concept.

- The term 'spa' is being incorporated into a diverse number of products and services. Linking itself to everything from "spa cuisine" to "spa friendly" skin care and cosmetics, 'spa' is becoming a household word.

The Major Industry Players

Who They Are

The 'kings of the castle' in the North American spa industry continue to be the 'big' names, particularly in the hotel and resort spa sectors. While there is some concern that, with their increased operating costs and the growing levels of competition within the sector, "some resorts are still struggling to make their spas viable," most agree that Canyon Ranch and Golden Door continue to be the "icons" of the spa sector.

Other top industry players continue to include household names such as Ritz Carlton, Fairmont and Starwood. Other names mentioned included Sheraton, Red Mountain, Elemis and Rancho La Puerta. Cruise line spa operator, Steiner Leisure, also made the list.

As was the case two years ago, there "are not many new players" to watch for over the next couple of years. As the bigger players "get smart about multiple spas and branding" and "centralize their strategic planning to ensure a consistent experience at all locations", the consensus continues to be that the big names will continue to enjoy cost efficiencies and, as a result, will continue to "pick up steam."

Investor Trends

For the first time, industry professionals are suggesting that it is getting easier to convince investors to open up their purse strings. Following are some possible factors that have contributed to this turnaround:

- The financial hardship and stiff competition that has traditionally plagued the industry has finally forced its players to evolve their "mom and pop'" spas into "real businesses" or to get out of business altogether. In the words of one interviewee, "spas have finally learned how to turn a profit."

- The integration of the spa concept into various facets of North American culture is turning the term 'spa' into a lifestyle. Investors are beginning to see this and, seeing new potential, are starting to buy into the concept.

Mergers and Consolidations

Generally speaking, the consolidation taking place within the spa industry itself continues to occur among the major players who are "looking to add more to their portfolios." Beyond this, however, there are a growing number of new kinds of alliances taking place as the spa industry extends itself into non-traditional areas:

- As spas become mainstream, more product line manufacturers such as American Express, Coca Cola/Dasani Water and Splenda, to name a few, are looking to cross-market their brands with the 'spa lifestyle' concept.

- The medical industry in general and the plastic surgery sector in particular, are beginning to incorporate spa treatments such as naturotherapy and acupuncture into their service structure.
- There is increased cooperation between the spa sector and the skin care industry with some skin care brands allowing hotels and spas to market their products using their own brands. The Canyon Ranch line of skin care products is just one such example.
- Real estate developers are also getting into the game by building "residential spas" into the gated communities and high end condominiums they are building.
- Some businesses are starting to merge the spa concept with entertainment. Examples include one New York spa that now doubles as a night club along with other spas that are starting to use their facilities for various after-hours social activities, with considerable success.

Consumer Behavior

To a significant extent, the same trends that dictated consumer behavior in 2004 continue to dominate today. Following are some interviewee comments:

- As more people buy into the 'spa experience,' patrons expect more from their spa visit than simply being "pampered." As the concept is increasingly being linked to lifestyle decisions based on health and wellness, "patrons now look for spas before deciding where to hike, play golf, etc."
- Consumers want results. Whether they are looking for stress reduction, relief from chronic pain or want to look younger, people continue to buy into the spa experience because they are aware of, and expect to see, the benefits that spa treatments can bring.
- Using spas to fight the aging process continues to be a key consumer motivator. Spa visitors want treatments that help them "look good for their age," and are willing to pay top dollar to get them.
- Consumers continue turning to spas to help them 'de-stress,' and to get a break from the "hectic pace" of their everyday lives.
- People are "making their investments cover more experiences over a year."
- Consumers are starting to use spas as venues for social interaction. Corporate group and "girlfriend getaways," in particular, were cited as growing trends.
- While spas initially tended to be "everything to everyone," consumers are now looking for experiences tailored specifically to their demographic.

- Despite previous predictions, the majority of spa visitors continue to be female. Some spa owners, however, are growing their male customer base by providing facilities exclusively for men and marketing specifically to their demographic by offering services like plasma televisions, work stations and wireless technology.

The Legal and Regulatory Environment

As in 2004, spa industry regulation continues to vary significantly between regions. On a federal level, involvement continues to be negligible, with at least one interviewee feeling that there has been "nothing national" in terms of spa related government initiatives. Again mirroring 2004, there is no overriding theme among the legal issues spa owners are facing. Some comments:

- In some areas, ingredients in skin care and sun products are becoming better regulated, allowing consumers to "have more confidence in the products they use."

- There is legislation pending in some states requiring therapists to increase their number of practice hours before they can become licensed.

- Some feel there has been too much "softening of legislative requirements," particularly with regard to health inspections in some regions. The decreased regulation in this particular area is seen by some to have a detrimental effect on the industry as a whole, as poor health and sanitation practices by some spas have the potential of giving spas a bad reputation across the state.

- In an increasingly litigious society, spas are constantly measuring their actions against potential risk. More than ever, spas must be careful about the claims they make when it comes to their products and services.

- Some spas that provide paramedical treatments are finding it difficult to get adequate insurance coverage. When one interviewee began looking into offering botox, they found that "the insurance company wouldn't cover the spa even though it had licensed practitioners."

Industry Trends

New Products and Services

With regard to new products and services, the spa industry is continuing the trend from 2004 with several new offerings taking the sector by storm:

- **Paramedical Treatment and Skin Care Product Lines** are growing in popularity. While they are seen by some to be potentially very lucrative, the high cost of the technology required to keep current makes it difficult for some of the smaller spas to offer services in this area.

- **Terms like "natural" and "organic" are the new buzzwords** in skin care treatment and products. This 'return to nature' is manifesting itself in many forms, including "detox culinary services," 'organic' skin care lines and "mineral make-up."

- "**Team types" of treatments** that use two or more therapists is also seen as being on the rise although it is felt by some that "many people are ripping off the concept."

- **The evolution of skin care from a product-based service to an experience-based service** is another trend to watch for. New facial treatments are focusing on creating an experience for the consumer "based on how the product is put on and taken off the skin" by incorporating elements like massage into the service. As one individual testifies, "when guests receive the total treatment, they love it." Also, the retail price of the product is included as a component of the overall cost of the experience.

- **New techniques in skin rejuvenation** that use LED technology has some spa professionals very excited about the future of skin care. Lauded as "non-invasive" and "reasonably priced" this new method, according to some, has been "proven" to "reverse skin damage" and is seen to be a real "breakthrough" in aesthetics.

Top Industry Trends and Issues

There was very little consensus among interviewees when we asked them to rank the top issues for the industry. Following are some of the important trends and issues to watch for according to those we spoke with:

If there is one thing that interviewees agree on, it is that **poor eating habits and obesity is a major issue in North America** today and is expected to have a significant impact on the spa industry for some time to come. There is concern, with the exception of 'lifestyle' type spas, that many day spas are said to have moved away from the fitness aspect of the spa experience altogether. The hope is that other segments of the industry will respond to this issue by "making fitness more important" and by increasing their focus on "preventative health, nutrition, etc."

Intense competition within the industry is having both positive and negative effects on the spa sector. Some adhere to the adage that 'pressure makes diamonds' and feel this increased competition has spurred industry players to get creative and become "more sophisticated" in their product and service offerings. Others, however, are concerned that the original "spa concept" and the "mom and pop" approach that was the foundation of the industry are being lost by some who are "are losing sight of why they got into business."

Training is an area that continues to be lacking, particularly in an era where the technology being used to treat clients is constantly changing and becoming more complicated. As one interviewee explains, "training is important so that therapists in spas can feel comfortable providing the spa services. Manufacturers should offer a training package when they sell machines."

The spa concept is being integrated into cultural behavior. It will be important in the months and years to come to nurture this trend by establishing and developing alliances and agreements across new societal sectors. By developing mutually beneficial relationships with professionals such as “naturopathic nurses, unions (and) psychologists", the spa industry has a real opportunity to "solidify" its role within North America’s culture. ISPA is seen as an organization that could take the lead in developing such an initiative.

Spa treatments can be expensive and, as they become more "sophisticated," fewer people will be able to afford spa services. Some are concerned that "**someone will go for the mass market**" and start the process of converting spa treatments into commodities that are bought on a price basis rather than on the basis of the quality of the overall experience.

Deep discounting of spa services by ‘big box’ stores, often at prices below that at which spas can profitably offer the service, could have a significant impact on the spa industry. This is a practice that could open up spa services more readily to the mass market and, in the process, start turning the spa experience into a lower priced commodity. For those who do not wish to be forced into competing on a price basis, they will have to pay even more attention to the value-added components of their service offerings, particularly if deep discounting forces some spas into lowering their quality in order to be able to offer lower prices.

‘Residential spas’ are a ‘new kid on the block’ and are already enjoying considerable success, particularly in the high end condo and gated community markets in areas like coastal Florida. As the opportunity becomes more widely understood and embraced by real estate developers, there is expected to be a significant increase in the number of spas that are being incorporated into new housing projects.

V. 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 is a top growth performer among select leisure industries.* Over the past six years, the spa industry has seen the highest rate of revenue growth among select key U.S. leisure industries. Despite a hiccup between 2001 and 2003, the spa industry has proven that it is a solid performer.

- *Industry growth has been strong in the past two years; but the industry did experience a brief period of stagnation.* Over the past six years, the number of spa locations in the U.S. has risen consistently. The same can not be said for consumer demand and ultimately revenue. The industry saw a slight decline in all key performance indicators from 2001 to 2003. This was the result of a decline in the per spa averages led by spa visits. Since 2003, all key performance measures have been growing at the industry level. However, there are signs of saturation as the number of visits per spa continued to decline.

- *Day spas represent four out of five spas in the U.S.; but resort/hotel spas are the dominant performer in terms of revenue.* At 79% of all spas locations, day spas are by far the largest industry segment. However, while the resort/hotel segment represents only 9% of spa locations, it accounts for a disproportionately high share of the total industry revenue (21%).

- *Medical spa is the fastest growing segment.* Over the past two years, the medical spa segment has been the fastest growing (in terms of locations) in the industry. In fact, the growth rate of medical spas is more than double the next closest segment. While not outlined in the report, results also point to medical spas as the fastest growing revenue segment.

- According to the executives interviewed, *the North American spa industry has matured.* As more sophisticated and profit focused organizations have entered the market, they have forced the rest of the industry to become more aware of the financial bottom line and what it takes to generate a sustainable profit. Today's spa operator has a much keener understanding of what it takes to be profitable than was ever the case a few short years ago when exponential growth ensured a spot for anyone who wanted to hang a spa shingle on their door.

- Two factors appear to have contributed to the maturation of the North American spa industry. The first has already been mentioned – the increased focus on the bottom line. The second factor has more to do with the maturation of the market than it does with the maturation of the industry. The spa experience is weaving its way into every walk of day to day life and this is resulting in an increasing array of non-traditional partnerships, the rapidly increasing interest in spas on the part of residential real estate developers being a prime example.

- Importantly for the industry, *the increased competition has forced spa owners to become better business people*. It has also forced manufacturers and product distributors to become more creative and innovative in their marketing and branding initiatives. And all of this has led to an increased level of awareness on the part of investors who are now much more willing to invest in worthwhile spa projects. The North American spa industry has indeed matured.

- Will this maturation continue? Probably yes. As long as there are good profits to be made in the sector, the industry will continue to grow and prosper albeit some segments faster than others. However, as industries mature, they eventually attract the mass marketers into the industry and this, in turn, has a tendency to produce intensive price competition. Large box stores now offer the services of professionals such as optometrists and pharmacists at loss leader prices to attract consumers into their stores. Will they attempt to do the same with spa services? One can only guess; but if they do, this will mark a further maturation of the spa industry as it has in many other sectors.

- *The spa industry has much more business acumen than it did just a few short years ago*. To remain on the leading edge and be competitive, spa owners in the future will need to be even more proficient in this regard. The good news is that if past history is any indicator, this is definitely one industry that will be more than up to the challenge. It would not have evolved to this point had that not been the case. The next few years should be quite exciting as the spa industry continues to mature and reinvent itself.

APPENDIX – PER LOCATION STATISTICS BY REGION AND TYPE

Statistics by 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

KEY SPA STATISTICS BY REGION

	Total	North East	South East	North Central	South Central	North West	South West
Indoor Square Footage – Mean	3,630	3,271	4,196	2,848	2,887	3,026	4,599
Indoor Square Footage – Median	2,400	2,200	2,700	2,250	2,500	2,400	2,400
Revenue in Thousands – Mean	$726	$746	$911	$481	$442	$523	$909
Revenue in Thousands – Median	$350	$375	$420	$300	$325	$260	$350
Annual Spa Visits – Mean	9,790	8,337	11,756	8,798	7,203	7,234	11,900
Annual Spa Visits – Median	5,350	5,300	5,700	5,600	5,196	4,547	5,308
Full-time Employees – Mean	9.1	9.9	11.8	6.8	7.7	8.0	8.5
Full-time Employees – Median	4	5	5	4	4	4	2
Part-time Employees – Mean	7.4	7.2	5.8	8.2	3.5	7.1	9.9
Part-time Employees – Median	3	4	2	5	2	4	3
Contract Employees – Mean	3.0	2.2	3.6	1.1	3.2	1.7	5.2
Contract Employees – Median	0	0	0	0	0.5	0	0
Profit Margin – Mean	14%	17%	16%	10%	15%	14%	14%
% of Revenue to Payroll – Mean	43%	42%	44%	48%	45%	43%	39%
Revenue/Sq. Ft. – Mean	$207	$231	$197	$200	$153	$184	$224
Revenue/Visit – Mean*	$85	$94	$81	$69	$65	$93	$102

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.

Statistics by Type of Spa

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*. Its primary purpose is guiding individual spa-goers to develop healthy habits, offer on-site accommodations, overnight guest accommodation, more than one spa service, at least one fitness and sport activity, exclusively healthy spa cuisine and at least one education program and workshop.
- *Medical Spa*. A facility that operates under the full-time, on-site supervision of a licensed health care professional whose primary purpose is to provide comprehensive medical and wellness care in an environment that integrates spa services, as well as traditional, complimentary and/or alternative therapies and treatments. The facility operates within the scope of practice of its staff, which can include both Aesthetic/Cosmetic and Prevention/Wellness procedures and services
- *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.

KEY SPA STATISTICS BY TYPE

	Total	*Club Spa***	*Day Spa*	*Medical Spa***	*Resort/ Hotel Spa*	*Other***
Indoor Square Footage - Mean	3,630	4,410	2,975	2,669	9,563	8,251
Indoor Square Footage - Median	2,400	2,500	2,300	2,242	6,000	4,000
Revenue in Thousands – Mean	$726	$450	$634	$568	$1,712	$1,196
Revenue in Thousands – Median	$350	$300	$306	$350	$1,000	$400
Annual Spa Visits - Mean	9,790	6,340	9,365	6,693	16,731	12,723
Annual Spa Visits - Median	5,350	4,500	5,300	3,600	8,729	5,456
Full-time Employees - Mean	9.1	7.1	8.3	5.2	19.6	11.4
Full-time Employees - Median	4	4	4	3	8	4
Part-time Employees - Mean	7.4	8.0	6.5	4.0	17.4	7.5
Part-time Employees - Median	3	3	3	2	9	4
Contract Employees - Mean	3.0	3.6	2.9	2.2	4.2	8.3
Contract Employees - Median	0	0	0	1	0	4
Profit Margin - Mean	14%	18%	13%	9%	26%	N/A
% of Revenue to Payroll - Mean	43%	42%	43%	44%	44%	N/A
Revenue/Sq. Ft. – Mean	$207	$142	$210	$212	$204	N/A
Revenue/Visit – Mean	$85	$76	$78	$119	$132	N/A

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