

# Global Spa Summit

JOINING TOGETHER. SHAPING THE FUTURE.

**General Session**  
**Tuesday, May 20th, 2008**  
**8:00am – 9:00am**  
**Empire Room**

## **North American Spas: Making Sense of the Data Canada and the United States!**

*Panel Leader:*

*Mia Kyricos, Director, Spa Development, Operations & Marketing  
Starwood Hotels & Resorts, New York*

*Panelists:*

*Sharilyn Abbajay, Treasurer, ISPA, Kentucky*

*John Fox, Senior Vice President, PKF Consulting, New York*

*Donna Holtom, President, Leading Spas of Canada, Canada*

*Scribes:*

*Viktoria Borek (EHL), Jennifer Simonian (EHL), and Liza Solomon (Cornell)*

### **Sharilyn Abbajay (On the U.S. Spa Industry):**

- The bottom line is that collectively, research and data is critical to the health and sustainability of the global spa industry.
- The definition of spa has become blurry. There are lines between what is and what isn't a spa.
- The spa industry is much larger than the core and relative segments but we need to define the industry in some way.
- The purpose of the ISPA 2007 study was to obtain spa industry data in order to develop a current profile of the industry in North America.

### **Methodology of the ISPA 2007 study:**

- Development of a comprehensive spa inventory
- Quantitative survey completed by more than 1,000 spa professionals
- In-depth executive interviews



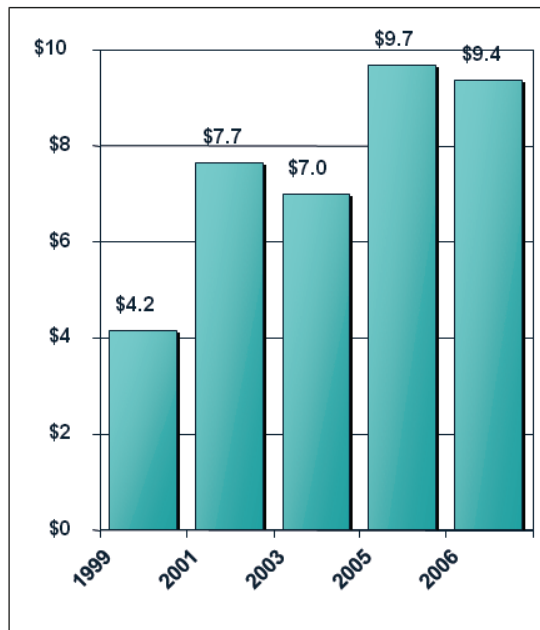
The definition which was utilized for this study was:

- Spa: An establishment that offers at least two of the following kinds of services:
  1. Massage (full-body)
  2. Skin care treatments ( facials)
  3. Body treatments (hydrotherapy or body wraps/scrubs)

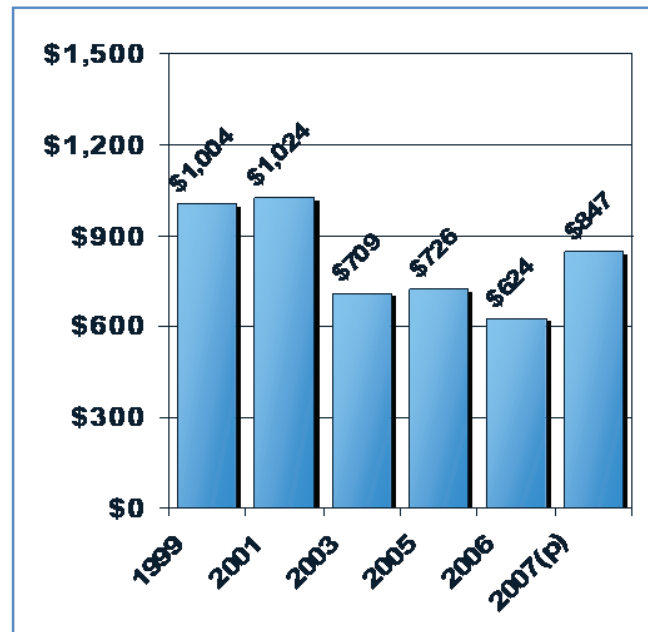
Day spas make up the majority of all US spas.

Of all spas, 72% have at least one position open for employment.

The U.S. industry is stable –



*Industry Revenue (in Billions )*



*\*Revenue Per Spa Establishment (Thousands)  
\*The 2007 (p) bar represents what owners and managers expect to achieve in 2007.*

The rate of spas opening is slowing. Between 1999 and 2006 there was a 12% annual growth rate with an average of approximately 1600 locations added per year. Day spas are the most saturated and the most at risk.

There has been a 12% decrease in spa visits per spa due to more entrants into the industry. New spas have lower visits until they mature.

Individual revenue per spa has dropped. This is because the average is between new spas and mature spas (reminder: this is only an average).

Industry profit margins had dropped between year 2001 and 2003 but have been on the rise since then. Profit in 1999 was at 14.9%; in 2001 at 15.6%; in 2003 at 8%; in 2005 at 14.3%; in 2006 at 17.4%.

U.S. spas have found ways to become more efficient by asking questions such as:

1. How can we increase visits?
2. How can we attract more guests?
3. How can we integrate complimentary sessions?
4. Is there a staff shortage?

Key takeaways:

- While U.S. spas have found ways to become more efficient and improve the bottom line (despite declining per-spa revenue) this can only continue for so long. At some point, the industry needs to find a way to increase the number of spa visits in order to maintain a growth trend.
- The number of open staff positions within the U.S. spa industry is also a significant issue that needs to be addressed.
- When looking at overall spa industry numbers, it is important to keep in mind that day spas make up the lion's share of the U.S. industry. When looking at individual segments, we are seeing revenue growth in other areas such as resort/hotel and medical spas.
- Other countries are seeing incredible growth in the spa community. These countries can use the benchmarking data on the U.S. spa industry to foster their own sustainable growth of the industry as a whole.

Mia Kyricos (Panel Leader):

The industry is healthy and strong. Will the cream rise to the top?

John Fox (reporting from *Trends in the Hotel Spa Industry*):

(Please note that this is only a snapshot of a group of hotels)

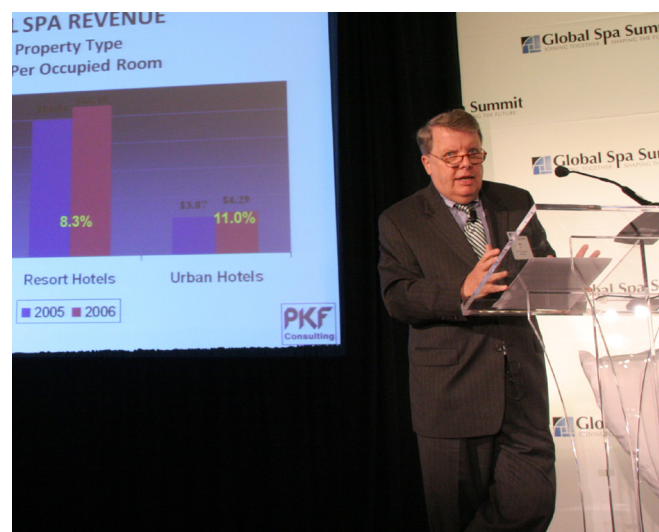
Massages are a spa's top revenue generator at over 50% of total spa revenue. This can be attributed to people sticking with what they know.

Membership fees have increased by 5.6%.

This supports a changing lifestyle.

Dollars/Available Room:

- All Hotels: 9.7% increase from 2005-2006
- Resort Hotels: 9.3% increase from 2005-2006
- Urban Hotels: 12.4% increase from 2005-2006 (Note: *Attributed to a smaller dollar number*)



#### Dollars/Occupied Room:

- All Hotels: 8.5% increase
- Longer Stay at Resort Hotels: 8.3% increase
- Urban Hotels: 11% increase (*Note: Attributed to smaller dollar number*)

#### Breakdown of Spa Revenues:

- 51.3% from massages
- 21.7% from spa treatments
- 7.4% from salon treatments
- 6.6% from merchandising
- 5.6% from membership fees
- 3.6% from other revenues
- 2.9% from club use
- 0.5% from fitness lessons & personal training
- 0.4% from health/wellness services

#### Hotel Spa Revenue:

- 9.7% growth in all hotels
- 9.3% growth in resort hotels
- 12.4% in urban hotels (*Note: smaller absolute number and smaller total revenues*)

#### Spa department profit statistics:

- Done under hotel accounting methodology
- Does not include overhead costs such as utilities, marketing, general manager or rent
- As hotels improve their reporting, we will have an improvement in data

#### From 2005-2006, Change in Spa Revenue:

- Total departmental revenue: Increase by 9.7%
- Clothing/Merchandise: Increase by 20.4%
- Memberships Fees: Increase by 15.5%
- Massage: Increase by 9.6%
- Spa Treatment: Increase by 9.4%
- Club Use: Increase by 5.3%
- Salon Treatment: Increase by 1.4%

Urban spas have larger growth when compared to resort spas; however, the dollar (US\$) amount is much smaller. In terms of revenue per occupied room, there is a significant spread between urban hotels and resort hotels due to time spent at the hotel.

#### Profits before deducting undistributed and fixed charges of hotel:

*[Revenue – Direct Costs Only]*

- All Hotel Spas had an increase of 11.3%; Urban Hotels had an increase of 45.1%; and Resort Hotels had an increase of 9.1%.
- In terms of department profit: spas with more than \$2M revenue had a 8.6% increase; spas with \$750K-\$2M revenue had a 20.5% increase; and spas with revenue less than \$75K had a 29.4% increase.

## Donna Holtom (On the Canadian Spa Industry):

Since 2003, the Atlantic area of Canada has been the fastest growing region in Canada.

The size of the Canadian Spa Industry:

- Approximately 2,500 spas in Canada according to ISPA's "spa" definition.
- Most spas per capita are in Ontario and British Columbia.
- There are fewer spas in areas with lower populations (Quebec and the Prairies)
- Ontario, British Columbia, Alberta, and Quebec make up 91% of Canadian spas.

74% of spas in Canada are day spas. Their average growth over the last 10 years is 17% per year. In 2004-2005, they experienced an average growth rate of 29%.

Employment has also grown because of the increase in the number of spas.

45% of Canadians travel within Canada.  
Active spa-goers represent 3.7 million Canadian consumers.

For Canadians, the main criteria when choosing a spa vacation are:

1. Accommodation
2. Available spa facilities
3. Cost value for dollar
4. Affordable destination
5. Spa treatments



Key points & conclusions:

The Canadian spa industry growth is strong and steady and is not yet saturated. Spa tourism is one of Canada's best kept secrets. Canada has the largest number of freshwater lakes. The industry needs to "tell its story!" The spa industry needs to recruit qualified human resources. The Canadian spa industry is here to stay!

## Discussion:

Mia Kyricos (Panel Leader):

How do we use the data?

Sharilyn Abbajay:

Use the data in pieces and measure and apply it to the current reality of your business. Keep in mind that sample sizes are different and only a snap shot in time!

John Fox:

Don't use absolute numbers as a trend line!



**Audience Comment: Mary Tabacchi (Professor, Cornell University):**

It's about how you sample. It's about defining what you're doing. It's important to remember that statistics are an estimate and a hope that it represents the population.

**Susie Ellis (President, SpaFinder):**

We must analyze and question the research. The media doesn't have the time to read entire reports and the media often latches on to negative numbers without questioning. We need to help educate the media as well as investors as to what the data means. ISPA needs to do a better job in educating those who write about their research so that a drop in revenue for day spas is not reported as applying to all segments of the industry.

**Audience Comment: Mike Canizales (CEO, Spa Chakra):**

It is damaging to be negative; you cause problems with negative numbers. For example, PKF should be clearer and should say that it does not include rent and utilities in its calculations.



The Global Spa Summit is an international organization that brings together leaders and visionaries to positively impact and shape the future of the global spa and wellness industry.