International SPA Association®

2007 Spa Industry Study

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ASSOCIATION RESOURCE CENTRE INC.
Research and Strategy Division

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 3,000 health and wellness facilities and providers from 75 countries. ISPA advances the spa industry by providing invaluable educational and networking opportunities, promoting the value of the spa experience and speaking as the authoritative voice to foster professionalism and growth. For more information on ISPA, write to, call or e-mail:

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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. Core team members from the Association Resource Centre Inc. have played lead roles in all of ISPA's North American industry research since the inaugural study in 2000.

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 July and August 2007. 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 a global industry leader, ISPA commissioned the first-ever comprehensive study of the North American spa industry in the year 2000. Not only was this study the first of its kind to provide a detailed profile of the industry, but it was groundbreaking in its detailed examination of critical issues such as industry size, revenue, employment and growth.

The study results have since been updated in 2002, 2004, 2006 and most recently in this 2007 report. This executive summary highlights the key findings from the 2007 study conducted by the Association Resource Centre Inc. The full report contains a more detailed analysis including product/service offerings, employment and a profile by spa type, geography and by ISPA membership status. The 2007 study is the first full profile study to be conducted since ISPA undertook the 2005 Spa Industry census – a process that achieved the formal qualification and classification of two-thirds of the North American industry.

These interesting facts can assist spa owners and managers in evaluating the financial health of their business. In addition, the statistics outlined in this study 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.

Overview of the U.S. Spa Industry

Despite a dip in revenues, the industry is healthier than it was a year ago. In fact, findings show that over the past several years, spas have been increasing their revenue per visit and ultimately their profit margins. This greater focus on the bottom line has led to consistent industry profit growth since 2003 and suggests that, despite lower revenues, spas are finding ways to operate more efficiently. While day spas do not represent the entire industry, their significant market share (80%) suggests they will ultimately drive the overall industry numbers. Accordingly, the majority of significant fluctuations in the industry are often attributable to what is going on with day spas.

How Big Is the North American Spa Industry?

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

Spa Locations: At the time of this study (July 2007), there were an estimated 14,600 spa locations across the United States. As was the case in 2004, day spas continue to be the largest spa category, accounting for four of every five spas in the United States. Resort/hotel spas, followed closely by medical spas, make up the next largest spa segments.

Spa Visits: There were approximately 111 million spa visits made in the United States in 2006. While day spas continue to dominate in overall visits, they are seeing a disproportionately low number of visits per spa when compared to the resort/hotel sector. Medical spas are also slightly underrepresented in terms of visits per spa.

Revenues: The U.S. spa industry generated approximately $9.4 billion in gross revenue in 2006. Geographically, the South West region generates the most revenues, followed closely by the North East and South East areas of the country. At 56%, day spas continue to generate the largest share of industry revenues, followed by the resort/hotel segment (27%) and the medical spa segment (11%). Once again, however, day spas are underrepresented while the other two segments mentioned are overrepresented in terms of their share of revenues.

Employment: The U.S. spa industry employs an estimated 232,700 people. These total employees are made up of 117,100 full-time, 73,100 part-time and 42,500 contract workers. Spas find it most difficult to fill positions for nail technicians, massage therapists, estheticians and the front desk.

Square Footage: U.S. spas occupy an estimated total of 56 million square feet of indoor space. With few exceptions, this measurement does *not* include space dedicated to accommodations, food service or other non-spa specific services. Day spas account for the most overall industry space (62%), while resort/hotel spas tend to be biggest on a per-spa basis. On average, treatment rooms account for almost half (48%) of all indoor spa space.

Canadian Spa Industry

As of August 2007, there were an estimated 2,800 spas in Canada. In 2006, the 2,800 Canadian spas produced total estimated revenues of almost $1.1 billion CDN (approximately $1.03 billion USD as of July 31, 2007) from more than 17 million spa visits. The industry employs an estimated 30,500 people, 62% of which are full-time. The industry occupies total indoor space of approximately 7.1 million square feet.

How Fast Is the Spa Industry Growing?

While growth has slowed somewhat, overall the spa industry is healthier than it was a year ago. Following are the key growth areas:

Locations: The spa location growth rate in the United States has slowed in recent years – 9% in 2005 and 13% in 2006 compared to an average of 21% since 1999. Despite a slowing growth rate, the actual number of spas in the United States continues to grow at a robust pace. In fact, the results show that the industry has been growing by an average of 1,600 locations per year and continued this trend in 2006 (1,700 locations). Medical spas continue to be the fastest-growing segment in terms of locations at an average rate of 19% per year from 2004 to 2006, followed by resort/hotel spas at 16%. In fact, results show that medical spas, once the size of the destination spa segment, overtook club spas in 2004 as the third-largest segment.

Spa Visits: Looking at the industry as a whole, total consumer demand doubled from 1999 to 2001, but has changed very little since then. While some growth (both positive and negative) has occurred within this period, all changes since 2001 fall within the margin of error, suggesting that industry demand continues to be stable. The stability in demand is the driving force behind what is happening in the rest of the industry. The lack of growth in overall visits combined with the growing number of locations has led to declines in visits and revenues per spa.

Revenues: Spa industry revenues saw a slight decline from $9.7 billion in 2005 to $9.4 billion in 2006; however, given the margin of error on the estimates, the results suggest that industry revenues are unchanged. However, spas appear to be doing a better job at managing expenses, which has led to improved profitability. The average profit margin has increased from 8% in 2003 to 17% in 2006. The net result is higher profits despite lower revenues.

Employment: Since the inaugural spa industry study in 2000, employment in the spa industry has generally been on the rise with a couple of temporary peaks. At the per-spa level, however, the number of employees has generally been declining since 2002. The declines in per-spa averages are quite likely due to the influx of new spas and not to an actual decline within existing spas.

Square Footage: As with other measures, the average size of spas in the United States has declined over the years. This is largely a function of the new spas entering the industry being smaller. Overall, the total industry space has been increasing with the number of locations.

Canadian Spa Industry

While more historical data is needed to gain a true picture of what is going on in the Canadian spa industry, the data that is available indicates a very healthy industry. While the industry is growing rapidly, the pace appears to be manageable. Specifically, growth in locations has not had many significant peaks or valleys, rather the grow rate tends to hover around the 10-year average of 17%. Overall, the industry is seeing growth in all key areas. At the per-spa level, visits continue to grow while revenue and employment are fairly steady.

Spa Pricing and Productivity

Pricing and Productivity Measures: U.S. spas report average revenue per visit at $97, and an average retail revenue of $48 per visit. The average price of a spa treatment in the United States is $79, with massages and facials priced at an average $77 and $80, respectively. Overall, U.S. spas generate an average of $165 per square foot of space.

What Are the Key Trends in the Industry?

NOTE: In-depth interviews were not conducted as part of the *2007 Spa Industry Study*. Accordingly, the following analysis is a summary based on interviews conducted in the fall of 2006 for the *2006 Spa Industry Statistics* study.

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 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: It is gradually getting easier to convince investors to invest in the spa industry. Extensive branding and retailing within the spa industry, as well as increased competition are seen to be key contributors to this trend.

Conclusions

The following is a summary of some of the key conclusions.

- The number of locations continues to grow at a good pace, but the rate is slowing. Despite a lower percentage growth rate, it is important to note that net increase in locations in the United States continues to average about 1,600 spas per year.
- Stable demand, combined with growth in locations, means lower average visits per spa.
- As the industry is maturing, it is evolving, which has led many to seek differentiation, such as in the medical and/or resort/hotel spa sectors, or in the development of new spa types such as mobile spas and residential/community spas.
- While the day spa sector continues to dominate the industry across many key measures, the disparity in per-spa revenue between day spas and other spa types (particularly resort/hotel and medical spas) is significant. With the intense competition, day spas may be in for a challenge over the coming years.
- With stability in demand and a growing number of locations, spas have seen a decline in average visits, revenue and employees per spa in recent years. However, the lower averages appear to be attributable to the newer spas entering the industry as opposed to the more established spas that have been around for many years.
- 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 growth rate in the Canadian spa industry is both manageable and sustainable going forward. In Canada, the growth in visits is outpacing the growth in locations.

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