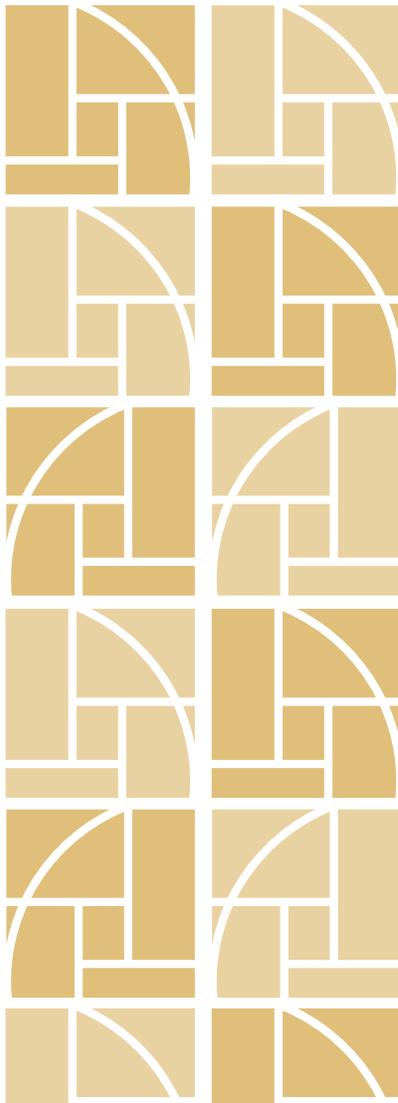




Global Spa Summit



GLOBAL SPA & WELLNESS
INDUSTRY BRIEFING PAPERS

2010



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GLOBAL

HOW HAS THE RECENT ECONOMIC CLIMATE AFFECTED THE SPA AND WELLNESS INDUSTRY IN YOUR REGION, BOTH NEGATIVELY AND POSITIVELY?

2009 has been one of the most challenging years in history for the lodging industry globally. The effects of the downturn were experienced in varying degrees throughout different regions of the world. Asia-Pacific was the most adversely affected, followed by North America, Europe and then the Middle East & Africa.

Even though it is widely held that the economy bottomed out in the third quarter of 2009 and that the economic crisis may begin to moderate in 2010, the general consensus is that recovery and subsequent growth for the global lodging and travel industry will begin to occur during 2011. While all hospitality industry segments have been affected, the luxury hotel sector (the segment most closely linked with spas) experienced the strongest negative impact due to drastic cuts in corporate travel budgets and reduced disposable incomes.

Previously, spas were added to many hotels and resorts as an afterthought, or at most a necessary amenity. In a hotel setting, the impact of the spa to the overall bottom-line was considered minimal. However, as hotel occupancies reflect negative patterns, the emphasis now is on each operational department to achieve efficiencies to support itself independently as well as work harder towards promoting synergistic revenue and profit growth. A widely held belief among spa operators is that spas are not well-leveraged and incremental revenue contribution from spas is not recognized.

In the U.S., hotel operating performance in some major cities have begun to show small signs of improvement, with New York, San Francisco, Atlanta and Boston reflecting marginal RevPAR growth in the first two months of 2010. RevPAR for the U.S. lodging industry is still expected to remain below its historical peaks that were achieved in 2006 and 2007, at least for the next several years, until 2013. The hospitality market in the short- to mid-term is likely to see increased transactions and consolidation, as distressed assets change hands. Similarly, consolidation and reorganization is likely to occur in the fragmented spa and wellness industry. Increased collaboration between hospitality and spa industry players, as well as among the various constituents of the spa industry, is likely to help identify best practices and promote long-term spa business improvements.

In Europe, the hospitality industry reflected mixed results in 2009. Long-haul was replaced by short-haul, although poor summer weather in Europe led to a last minute surge in demand, particularly for the Eastern Mediterranean (for example Turkey) which became more affordable due to the weak Lira. Spain's hotel market was the most adversely affected by the credit crunch and the overall weakness of the pound, which negatively impacted leisure travel. Spain has also



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struggled with major oversupply issues in both the lodging and residential second-home markets. With fewer leisure tourists last year, Athens, Prague and Moscow faced similar challenges and annual declines in RevPAR above 20%. More optimistically, the UK was less affected by the financial crisis. Markets such as London, Glasgow and Edinburgh witnessed declines in RevPAR of less than five percent in 2009 compared to 2008. Despite negative hotel performance in 2009, market analysts estimate an active development pipeline in Germany, Switzerland and Austria with approximately 440 new hotels (76,000 rooms) in planning stages or under construction. The historical significance of spa-ing in European culture, diversity of spa facilities, increased preference for short-haul trips, potential new supply of hotel developments and commitment of several governments (Hungary, Slovakia, Slovenia and Russia) towards developing medical and health tourism are seen as positive factors for the spa and wellness industry.

India's hospitality industry was particularly hard hit, with double digit falls in RevPAR in 2009. After several years of unprecedented RevPAR growth, the country witnessed RevPAR declines of up to 40% in the first half of 2009 and more modest declines of 20 to 30% in the remaining half of the year. Yet, the hotel industry in India continues to appear attractive in the medium term, driven by fundamental growth drivers, including the uptrend in domestic tourism and increasing disposable incomes and consumerism. Existing hotels in several key cities are not adequately equipped to meet the growing demand and several hotel chains plan to develop properties. Although over 6,200 hotel rooms are expected to be added in the premium segment alone during 2010 and 2011, analysts anticipate that the demand-supply gap will remain intact. The spa and wellness industry in India is anticipated to benefit from the major international hotel chains, including Hilton, Marriott, Starwood, Shangri-La, Carlson, InterContinental, Accor and Hyatt strengthening their market presence, as well as the growth of niche tourism, including medical, adventure and spiritual tourism.

In the Middle East and Africa, tourist arrivals are slowly showing signs of recovery. South Africa should benefit greatly from the FIFA World Cup — the first modern truly global event on the continent. The lodging industry in Middle East fared relatively well compared to most other regions, with an estimated decline of approximately 15% in RevPAR in 2009. Individual markets were impacted differently and there were also some exceptions. Beirut, for example, achieved an increase in RevPAR of approximately 80% due to the renewed political stability in Lebanon which brought in a record number of visitors, while Jeddah witnessed growth in RevPAR of approximately 6%, driven by strong increases in corporate demand coupled with limited supply. Dubai had achieved the most significant decline in performance across the region, marked by an approximate 35% reduction in RevPAR, caused by corporate belt-tightening, leisure travelers seeking discounted packages, as well as new supply additions.

More specifically, the spa and wellness industry in the Middle East is largely fragmented without definite categorization, lacking a regulatory body and cooperation among various stakeholders.

Even though beautification rituals have long been a part of the Middle Eastern tradition, the extra dimensions of health, wellness and healing have only recently been bundled with beautification and packaged as the term 'Spa'. Historically, Tunisia, Morocco and Jordan have had a strong spa culture rooted in their ancient civilization and abundance of natural resources. In terms of spa development, Dubai is by far the most active market in the Middle East. Kuwait, Qatar, Jeddah and Bahrain are seen to be following in Dubai's footsteps, with recently increased numbers of spa locations. Lebanon and Egypt, though very active with respect to the beauty industry, are only just beginning to develop a formal spa market.

The positive effects of the economic downturn on the spa and wellness industry globally have been:

- Greater owner involvement and interest in spa management
- Greater collaboration between spa and hospitality industry players
- Increased attention on business performance improvement
- Increased emphasis on operational diagnostics and efficiencies
- Creative solutions-oriented thinking for maximizing resources
- Focus on brand differentiation and quality of service delivery
- Shift of focus on sustainability - and away from marketing hype
- Time and opportunity to renovate, reposition and refine

The negative effects of the economic downturn on the spa and wellness industry globally have been:

- Discounting practices leading to price-based competition
- Staff downsizing leading to low levels of personnel at spas
- Budgetary constraints and lack of resources
- Increased competition to attract a reduced visitor base
- Increased competition to penetrate the resident customer base

WHAT WOULD YOU CONSIDER TO BE THE MOST INTERESTING STATISTICS TO COME OUT OF YOUR REGION IN THE PAST 12 MONTHS?

The lodging industry in the Middle East and Asia Pacific is expected to be the fastest to recover, since long-term fundamentals across the developing regions remain comparatively more favorable given a younger population, accumulation of local wealth and propensity for domestic and international travel increases. Additionally, the increased exposure to global lifestyle and consumption trends and heightened awareness of health and wellness in the region is anticipated to bode well for the spa and wellness industry.

Ernst & Young's Spa Benchmark Survey is currently in its first phase and focuses on the luxury and 5-star hotel spas in Dubai. What is interesting about Dubai is (unlike other mature markets globally) is that a large



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majority of branded lodging product resides in the luxury and upscale segments, which include extensive spa facilities. The hospitality industry in Dubai comprises a plethora of international hotel and spa brands from around the world (Asia, North America, Middle East) making the local spa market truly global in nature. As such, the implementation of Ernst & Young's Spa Benchmark Survey in Dubai allows the benchmark template to be tested across a range of spa business models and provides insights and highlights trends that are relevant for the global spa industry.

One interesting statistic to emerge from the year-end analysis included in Ernst & Young's Spa Benchmark Survey of luxury and 5-star hotel spas in Dubai 2009 is that Q4 2009 spa performance was not only better than expected, but was also the strongest compared to earlier quarters in the year. This strong performance seen for hotel spas in late 2009 was doubly interesting as globally the luxury segment suffered the most, and a more delayed recovery would have been expected. Furthermore, it goes against the myth that spa-going is seen only as 'pampering' and 'indulgence' and the economic climate would affect it adversely.

While 2009 began on a solemn note for the Dubai luxury hotel spa market, hotel spas showed improved performance at the end of the year. This is in spite of, and many believe due to, the troubled economic environment, as well-being and stress-reduction become top priority for many. Our year-end spa benchmark results indicate spa treatment revenues for Q1 2009 were the lowest for the year, whereas, treatment revenues for Q4 2009 were the highest (72% higher than Q1). The number of treatments booked in Q4 2009 were also higher than in Q1 2009, reflecting a 66% increase. Of note is that in Q4 2009, the pace of increase in spa revenues was higher than the increase in number of treatments booked. This suggests that by the latter part of the year price sensitivity of consumers had begun to slightly abate – contrary to the trends noted in the earlier two quarters of the year when number of spa treatments booked grew at a higher rate than the spa revenues as spa visits were greatly induced by discounting and promotions.

Another interesting trend that emerges from the Ernst & Young's Spa Benchmark Survey results, which is contrary to popular belief, is that spa performance is not directly related to performance of the hotel it is attached to. Even though spa operators indicated that hotel policy of discounting has the potential to negatively impact spa revenues, data indicates that Spa Average Treatment Revenue per Treatment Sold (ATR) remained fairly constant in the face of dramatic declines in Hotel Average Daily Rate (ADR) in 2009. Data revealed a wide variation in Dubai hotel ADR in 2009, fluctuating from AED 592 to AED 1,121 – a spread of AED 529. In contrast, Dubai hotel spa ATR remained in the AED 314 to AED 384 range throughout the year – a spread of only AED 70. This fact may be attributed to large number of non-hotel guests visiting spas as well as the tendency of guests who have saved money on hotel room rates to spend on recreation, entertainment and other attractions at the hotel.

WHAT INNOVATIVE THINGS HAVE YOU SEEN IN THE SPA AND WELLNESS ARENAS IN YOUR REGION THIS YEAR, ESPECIALLY IN THE AREAS OF SITE DESIGN, MARKETS, OFFERINGS OR MANAGEMENT?

We are increasingly seeing heightened attention being given to the business-side of spa operations. Spa operators are beginning to incorporate formal reporting techniques and use standardized metrics towards evaluating their spa performance. And, as agreements between owners and operators are commonly being renegotiated to be based on turnover, operators, owners, and developers alike, have become increasingly interested in learning, understanding and maximizing the potential of the spa operations within their properties/developments.

AND WHAT HAVE YOU DONE TO INNOVATE YOUR OWN BUSINESS RECENTLY?

The various stakeholders of the spa industry - owners, developers, investors and spa operators - are looking for a means of communication about spa performance. In response to this identified need, we at Ernst and Young have begun including additional analysis around the metrics compiled in our *Spa Benchmark Survey*. The objective is to provide data that is user-friendly, relevant, and implementable.

Given the positive feedback from our contributing spa data partners, phase two for *Ernst & Young's Spa Benchmark initiative* includes expanding the geographical scope of the survey across the Middle East, and subsequently in Europe and North America. Based on additional demand, future plans include adapting the benchmarking reports for other segments of spas. We have also begun providing advisory services that comprise operational diagnostics, brand strategy, revenue optimization, and concept review, with a special emphasis on spa businesses. We continue to encourage spa operations to be looked at critically on a stand-alone basis, as well as holistically within the greater context of resort/hotel/mixed-use developments. Our goal is to service the growing spa markets globally by leveraging our extensive experience in the real estate, hospitality and leisure industries.

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GLOBAL

ECONOMIC CLIMATE

The recent economic climate has affected the spa and hotel industry globally, mostly in a negative fashion. As the economy continued the global slide which started at the end of 2008, the global hotel industry's numbers for the year 2009 mirrored the tough operating environment. In all four world regions we reported double digit RevPAR drops (in US\$), with the hoteliers on the European continent emerging as the unfortunate leaders with an over 20% decline. These drops were primarily caused by the unprecedented discounts in ADR on the heels of continued deterioration in the number of travelers.

Corporate profits took a nose dive through 2009 and firms cut budgets for travel and training, with the hotel industry registering the corresponding decline in room demand. At the same time, corporate and leisure group spending deteriorated as meetings and conventions underwent extra scrutiny to justify their necessity. And with the economic slowdown, unemployment rates soared, directly impacting leisure travelers and family vacation length of stay and travel distance.

STATISTICS

The accompanying Table 1, shows the year end performance of hotels broken out by world region and subregion in US\$.

Table 1	Occ %		ADR (\$)		RevPAR (\$)		Percent Change from 2008		
	2009	2008	2009	2008	2009	2008	Occ.	ADR	RevPAR
Asia Pacific	60.7	65.1	119.91	138.66	72.74	90.30	-6.9	-13.5	-19.4
Central & South Asia	57.3	62.8	155.96	215.22	89.41	135.27	-8.8	-27.5	-33.9
Northeastern Asia	57.5	61.9	115.30	133.36	66.28	82.50	-7.1	-13.5	-19.7
Southeastern Asia	61.3	67.2	110.05	122.85	67.48	82.59	-8.8	-10.4	-18.3
Australia & Oceania	70.3	72.2	129.13	143.89	90.79	103.94	-2.7	-10.3	-12.7
Americas	55.3	60.6	99.08	108.96	54.81	65.99	-8.7	-9.1	-16.9
North America	55.2	60.4	98.12	107.91	54.14	65.21	-8.7	-9.1	-17.0
Caribbean	61.6	64.2	156.32	180.80	96.25	116.13	-4.1	-13.5	-17.1
Central America	56.8	68.2	117.40	125.19	66.64	85.34	-16.7	-6.2	-21.9
South America	60.4	65.5	111.44	117.22	67.35	78.81	-7.8	-4.9	-12.3
Europe	61.1	65.1	131.94	157.13	80.64	102.37	-6.2	-16.0	-21.2
Eastern Europe	51.8	59.0	113.03	158.47	58.57	93.50	-12.2	-28.7	-37.4
Northern Europe	65.5	68.2	124.64	152.24	81.64	103.76	-3.9	-18.1	-21.3
Southern Europe	56.3	61.7	135.32	157.12	76.18	96.90	-8.7	-13.9	-21.4
Western Europe	62.0	65.8	143.48	163.09	88.94	107.34	-5.8	-12.0	-17.1
Middle East/Africa	62.0	69.6	153.91	158.25	95.44	110.14	-10.9	-2.7	-13.3
Middle East	61.3	67.7	202.44	223.92	124.00	151.69	-9.6	-9.6	-18.3
Northern Africa	66.5	74.6	87.18	87.14	58.02	64.97	-10.7	0.0	-10.7
Southern Africa	59.4	67.7	125.31	122.91	74.49	83.19	-12.2	2.0	-10.5

Source: STR Global Lodging Review, December 2009

SPA INDUSTRY BRIEFING: *Global*

Luckily, the worst of the recession now seems behind us. Ongoing economic growth in the major economies jump started travel demand and ongoing steep discounts attracted leisure travelers in search of bargains. Unfortunately the impact of these reduced rates will haunt the global hotel industry for the coming years. It now seems to be fact that leisure and business travelers alike are trained to look for and ask for bargains, no matter where and when. This mentality of competition based on price has diminished some areas of the hotel sector to mere commodities with no other differentiating factor but their room rate. All the time, energy and effort spent on marketing campaigns to attract guests to the unique features of the lodging establishments seem to have been for naught as price comparison websites direct travelers to the hotel with the simple claim to fame: the lowest rate. Given that some hoteliers gladly play into the hand of this trend it could be a decade until we can report (inflation adjusted) ADRs back at level of the year 2007.

The push to discount overeagerly is probably the most important trend we observed in this downturn.

It is positive that through the first three months of 2010 occupancies have recovered somewhat, and rate discounts, while still rampant, seem to have slowed down. Asia Pacific hoteliers registered the strongest demand and occupancy increases of all regions. It is also remarkable that at the same time ADRs increased (in US\$), sometimes double digit.

In North America occupancy gains were achieved despite strong new supply growth fueled by the “easy” money of 2006 and 2007. At the same time, the rate discounts that especially upper end hotels used to fill their rooms continued to depress any potential for rate stabilization. It is interesting to note that the demand recovery seemed to have started “top down”, so that upper end hotels seem able to rebuild their occupancies the fastest. It remains to be seen if the bargain hunting clientele that was attracted to these high end hotels will remain in place once pricing power returns to those hotels.

The accompanying Table 2, shows the first quarter performance of hotels broken out by world region and subregion in US\$.

Table 2	Occ %		ADR (\$)		RevPAR (\$)		Percent Change from March 2009		
	2010	2009	2010	2009	2010	2009	Occ.	ADR	RevPAR
Asia Pacific	63.3	57.0	130.10	117.30	82.35	66.83	11.1	10.9	23.2
Central & South Asia	65.8	57.2	178.27	182.39	117.35	104.26	15.2	-2.3	12.6
Northeastern Asia	57.5	51.5	119.16	114.49	68.47	58.98	11.5	4.1	16.1
Southeastern Asia	68.5	59.4	120.70	109.59	82.64	65.10	15.3	10.1	27.0
Australia & Oceania	73.7	69.7	146.83	111.03	108.25	77.42	5.7	32.2	39.8
Americas	52.4	51.2	99.13	102.20	51.93	52.37	2.2	-3.0	-0.8
North America	52.0	50.9	97.50	100.77	50.73	51.31	2.2	-3.2	-1.1
Caribbean	71.1	69.0	187.84	180.07	133.63	124.28	3.1	4.3	7.5
Central America	66.5	63.2	128.01	129.11	85.19	81.60	5.3	-0.9	4.4
South America	61.3	56.7	113.67	106.02	69.71	60.13	8.1	7.2	15.9
Europe	55.1	52.9	126.22	120.32	69.56	63.69	4.1	4.9	9.2
Eastern Europe	43.7	40.9	109.68	107.76	47.97	44.04	7.0	1.8	8.9
Northern Europe	59.2	57.7	120.29	112.07	71.16	64.70	2.5	7.3	10.0
Southern Europe	50.6	47.3	118.74	119.68	60.14	56.61	7.1	-0.8	6.2
Western Europe	56.8	54.9	143.82	134.50	81.64	73.78	3.5	6.9	10.7
Middle East/Africa	62.6	61.9	163.75	163.68	102.44	101.40	1.0	0.0	1.0
Middle East	62.4	63.1	216.11	238.79	134.90	150.56	-1.0	-9.5	-10.4
Northern Africa	69.0	61.3	89.36	85.07	61.67	52.17	12.5	5.0	18.2
Southern Africa	57.6	60.8	140.20	116.04	80.75	70.59	-5.3	20.8	14.4

Source: STR Global Lodging Review, March 2010

INNOVATION

We continue to be excited about the success of the Spa STAR report (please go to spa.str.com). Over 60 luxury hotel spas are reporting monthly performance data and those spas are truly innovators in gaining competitive advantages in this uncertain environment.

The Spa STAR results mirror the ongoing rate deterioration observed in the hotel data. Average Treatment Rate for U.S. luxury hotel spas in our sample universe were discounted from \$141 in 2008 to \$135 in the year 2009, down 4.6%. This may not necessarily be a bad indicator, given that some hotels used the discounts in the spas to attract guests to the hotel and left the more expensive room rate intact. At the same time, average salon service rate declined from \$60 in 2008 to \$58 in the year 2009, down 3.2%. It remains to be seen if our Spa STAR data is showing that spa rates are less impacted by the recession or show more of a lagging, but more prolonged impact by the overall recession.

SUMMARY

When commenting on the state of the global hotel industry overall, one cannot help but notice that the impact of the external macro economic factors was twofold. On the one hand was the demand decline to which the hotel industry was subjected, on the other hand were the rate declines that the industry offered to its customers – which they were much more in control of. Be it spa treatments or hotel rooms, the industry is in charge of setting its own rates and we will continue to monitor and report on the pricing strategies that the operators deploy to turn the industry, and with it their own profitability, around.

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GLOBAL

ECONOMIC CLIMATE

The current economic climate has dramatically shifted spa and wellness consumer behavior by producing a savvier customer - a positive and negative trend. While consumer knowledge had previously been on the rise, producing far more educated spa-goers, it appears to be even more so now. This educated consumer is better able to appreciate the myriad spa offerings and can help operators understand how the industry needs to evolve. However, with discretionary income less abundant, consumers are also concentrating on what they 'need' versus spending on lavish experiences and 'extras'. Spa purchases tend to be more out of necessity for stress management or other needs than out of indulgence, and these 'needs' are held to an ever higher standard than before.

In response to this trend, websites are offering promotions, auctions, coupons; specials have become more prominent; and spas that typically would not participate are now doing so. Additionally, spas appear to be marketing shorter, less expensive treatments. After 9/11, there was a classic case of hotel pricing strategy responses: one luxury leader decided to lower rates drastically to drive occupancy, while their primary competitor held rates above the threshold; both companies tried to drive RevPAR by choosing very different roads. The spa industry seems to be going through this same trend, and operators are striving to land on the very thin line between discounts and cannibalization.

Along with the trend of the more educated spa-goer brings we are seeing another prominent hospitality trend: many luxury spa-goers have shifted to a less expensive alternative but still have the same high expectations. Additionally, with staffing cuts and re-allocations of resources, service has suffered in many areas. Consumers wanting more for less coupled with operators with lean staffing levels have resulted in a misalignment of the value proposition and overall guest dissatisfaction.

When the allocation of consumer spending is spread thin, receiving value is perhaps more important than ever; this current trend is either making or breaking spa reputations in the eye of the consumer. Very simply put, if the guest does not enjoy the experience, they are going next door to find a better option. They realize demand is low and everyone is vying for their business.

STATISTICS

In Coyle's recent study about spa consumer trends, 69% of spa guests surveyed had their most recent spa experience at a location near where they live, while 21% were at a hotel they stayed at for leisure. Capturing the local spa guest has been a big push in spa marketing and rightly so. This demographic is the most sustainable for same-store sales, a proven measure in the restaurant industry for several economic cycles.

SPA INDUSTRY BRIEFING: *Global*

In the same study, 81% of those surveyed cited discounts, not free treatments, as their number one reason to try a new spa. Again, this strategy has been prominent throughout the industry in the past 12 months. This gives the operator hope, as discounts get them through the door, and engagement sells upgrades and products that add to the bottom line.

Not surprising, but telling, is that 74% of those surveyed cited word-of-mouth referrals as their primary method of selecting a new spa. Interestingly, word-of-mouth has changed tremendously. It occurs on social networking sites, blogs, face to face and more. In addition, we found that 84% of those surveyed said it is important for therapists to explain products and their benefits during the treatment. Perhaps this can be attributed to the educated and savvy spa-goer 'justifying' the treatment or subsequent product purchase.

The fact that hotel RevPAR remains very low shows that people are still not traveling. Hotel clients report that the business traveler is not back yet and the leisure traveler is still discounting. This means that people are very tight with their discretionary spend in travel, which will likely affect destination spas and hotel spas negatively for longer. Up to 70% of hotel revenue comes from business travel. Spas that rely on a symbiotic environment with hotels, even if it is down the street or in the same neighborhood, will need local business.

Unemployment statistics have been staggering. As long as unemployment remains high, discretionary spending will be low. People either do not have the money or will see it as poor form to continue indulgences when peers are out of work (the AIG effect). When unemployment starts declining, spas should see improvement as spa-goers try to satisfy the pent up demand that builds when the customer has 'hibernated'.

INNOVATION

The emphasis on wellness in spa marketing and offerings has been significant, with pampering and indulgence disappearing almost entirely. Spas are also emphasizing 'stress reduction' in a big way as job seekers and job holders alike feel economic stress. Memberships and discounts for locals have become prominent ways to capture the local client's business. Also, use of auction sites, regional spa promotional sites, and direct marketing with discounts has become more visible and accessible. Discounting has become more liberal, even at luxury spas. Specials are now extended through peak times and packaging has become more prominent. Promotion and use of facilities (adding value to the purchase) has been more prevalent as well. Yield management is far more aggressive as spas offer same-day specials for slow times or modalities. The use of social networking to communicate such discounts has also become more mainstream.

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ASIA

ECONOMIC CLIMATE

In Asia generally, I believe the Global Financial Crisis has forced many in the spa industry to reassess their business and their business models. This meant bad news for some, whose businesses simply couldn't survive in the current climate. However, for the industry overall, certainly in the long term, it looks to be for the best. For too long now there has been a feeling of 'build it and they will come' in relation to spas. Of course this is natural for an industry in its boom years but eventually an adjustment must come. Spas are now, more than ever, being held accountable as businesses that must stand alone financially, not just aesthetically.

STATISTICS

Two key statistics from our businesses in the region have been both interesting and very encouraging.

1. Average Checques: Even though there has been so much focus on personal finances this past year, we have not seen a dramatic decrease in our average treatment prices throughout Asia. I think this is due in part to a general perception that no matter what the price of a treatment is in Asia, it will still be lower than in many other parts of the world – notably Europe and the U.S.

Another contributing factor for us is that the majority of our spas are in 5 star, internationally branded hotels. Many of the guests in these hotels would be considered relatively affluent and so the additional spend on a spa treatment is not a huge purchasing decision for them. Even though some guests at the lower end of the spectrum may have lost the privilege of being able to claim a massage on their expense account, they have been replaced at the higher end of the spectrum by new entrants who may have previously stayed in private villas or luxury apartments or even more exclusive hotels.

2. New Business Enquiries. Before the economic downturn, key growth areas for us in Asia were the Middle East, China and India. In the immediate aftermath of the crash, our development pipeline quickly dried up. Projects weren't necessarily cancelled, but delayed. The Middle East has been slow to recover, as has China, at least from a spa perspective. India, however, seems to have rebounded very quickly. In recent months we have had several enquiries from India and so have been focusing our resources in that direction. Initially, we are seeing growth in the mid market range and so we will be very active with our new Chavana Spa brand. We see growth opportunities for Mandara Spa also being significant in India and will come in due course.

INNOVATION

I think there has been a realization across the region that there needs to be a limit to the grandeur and opulence of spa designs. Sure, in many cases, the offering must be luxurious. However, with

SPA INDUSTRY BRIEFING: *Asia*

the end of the 'build it and they will come' era comes a reality check and a balance between building a beautiful spa and creating a business that is economically viable.

From our perspective, the key innovation over the past year has been the development and roll out of our mid-market brand Chavana Spa. We saw that there was a gap in the market and believed that if we could create a spa offering that was better suited to this market, we would do really well. The new brand has been very well received and with immediate opportunities in the key growth markets already mentioned, we are confident that Chavana Spa will soon be a big player in this space.

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ASIA: Thailand, China, and India

INTRODUCTION

Over the course of the past 36 months, the world economy has been witness to a dramatic series of events that will change the way that business is conducted globally. According to Pacific Asia Travel Association (PATA), international arrivals in a majority of Asian Countries declined in 2009. Thailand, China and India's international arrivals were all down by 3% respectively. Although PATA is forecasting an average growth rate of 2.7% per year over the next 3 years in Asia, the financial meltdown has changed consumer tendencies, habits and spending power. "Untouchable Countries" have shown economic weaknesses, flaws and political instabilities whereas developing / emerging countries have shown strengths, innovations and a mindset of capital conservation. The spa & wellness industry is not immune to this global shift.

THAILAND

Due to Thailand's rich culture and heritage, the country has been a natural for the development of some amazing resorts and destination spas such as Chiva Som and Kamalaya and more recently Six Senses Destination Spa in Phuket. According to the Thai Spa Association, there are currently 1,210 registered spa facilities throughout Thailand. Spa trends in Thailand are similar to other western countries. There has been strong consumer pressure towards the use of organic products and strong demand for luxury health & wellness related facilities. Examples include a new health and wellness facility called TRIA Integrative Wellness which is a state of the art wellness facility that offers: affordable diagnostic and lab testing, integrative wellness, specialty pharmacy, IV therapies and emotional counseling in addition to other standard services. Another example is the Ayurvedic Penthouse at The Mandarin Oriental Bangkok. By offering this luxurious and unique facility, The Mandarin Oriental Bangkok is driving demand and profits for both the hotel and spa facility through increasing guest's average length of stay and average spend per day.

It appears that the spa & wellness industry in Thailand will remain static in 2010 in terms of innovation, concept and design however. Many spa facilities are becoming "tired" and are in need of a conceptual and physical renovation. Demand is likely to remain stagnant and investor's appetite decreases especially as political uprisings continue.

THE PEOPLES REPUBLIC OF CHINA

As many markets stalled or slowed down throughout the world in 2009, the spa & wellness industry in China grew as investors pumped money into new hospitality developments and state guest houses throughout the region. According to SpaChina, in 2009 there were 267 registered spa facilities, a 28% gain over 2008 statistics. They report two strong trends shaping the future. The first is an increase in social acceptance amongst males for spa treatments and services with



SPA INDUSTRY BRIEFING: *Asia*

facilities becoming more modern and sleek vs. designs traditionally for females. The second trend revolves around luxury bathing facilities with large daily capture (100+). They are becoming increasingly popular amongst Chinese Nationals and many are anticipated to open over a three year period. This includes the Diaoyutai Arts Hotel, which includes over 100,000 square feet of spa inclusive of a 6,000 square foot wet circuit. The facility will offer 29 luxury treatments suites at 90 square meters each, a dedicated TCM Clinic and a Specialty Cosmetic Facility. The outlook for China is prosperous, filled with innovation and creativity amongst a growing population.

INDIA

In 2009, India also progressed in terms of spa & wellness as demand and individual wealth continued to grow. According to the Indian Spa Association, there are currently 367 spa facilities registered and they are forecasting a 15% growth rate in 2010. As disposable income increases amongst the Indian middle class and more importance is placed on health, wellness and fashion the spa consumer base in India will continue to widen. For example, in New Delhi, the number of luxury day spa facilities has increased by 200% over the last two-years. In addition, western skin care lines and other retail products are entering India at a rapid pace. Developers are using spa facilities as the main amenity to attract domestic leisure travelers out of the cities on weekends and holidays.

Over the course of the year, Spatality received an above average amount of inquiries pertaining to development possibilities surrounding destination spa facilities and residential wellness communities throughout India. We anticipate these sectors to be strong over the next five years as investors become more aware of the “wellness” investment potential.

Competition however is forecast to heighten and retail distribution is forecast to become increasingly difficult as economic growth and development continues. We anticipate major innovation to come out of India in 2010. Investors in India understand the power and benefits of spa and are willing to put the money, time and brainpower behind interesting projects and concepts.

CONCLUSION

Although all three markets looks promising and offer opportunities, Spatality anticipates innovation in terms of design and product offering to be delivered from China and India as opposed to Thailand. The consumer bases of China and India are eager to leap forward. Just like in other industries such as automobiles, medical supplies and mobile phones, spa facilities and spa professionals from China and India will come up with new ideas and services, putting their permanent fingerprint on the global spa & wellness environment.

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SPATILITY



ASIA: *Hong Kong*

ECONOMIC CLIMATE

Competition in Hong Kong increased because the larger hotel spa operations were impacted by a decrease in hotel occupancy throughout 2009. The more forward thinking and well managed spas focused on local business and those that applied this strategy had a successful 2009.

The Day spas also report a general increase in business and comment that whilst the number of customers may have increased, the average spend seemed to diminish. To some extent this was observed in the hotel spas also.

At least 12 new spas managed to open in 2009.

Because in Hong Kong memberships are traditionally paid up front annually, some spas were negatively impacted.

The biggest observance in business is that competition has increased for local market customers. Companies are becoming better at managing their resources and being more creative in offering packages to guests. Most spas finished in the positive category however below their budgets.

There were a number of high profile redundancies (lay-offs) at the beginning of the year but by midyear this settled down and there has been little movement of Spa Directors lately. Salaries have generally been frozen but some form of bonus has been paid out in a few locations.

One major local spa brand training school closed.

STATISTICS

Capture rate was impacted by a change in the occupancy levels for hotels and their mix of guests. Most hotels were able to supplement this with an increase in local business.

Perhaps the most interesting statistic for Hong Kong was the contribution margin in both Hotel and Day spas. It was largely maintained (just below budget) due to changes in business mix, packages and efficient cost control. In general the consensus was that the contribution was down between 5% and 10% on the previous year.

Product companies report an increase in business which was largely influenced by growing business in mainland China and the continued success of local spas.

INNOVATION

The increase in competition has spurred more creativity by all companies. All spas are trying to offer value for money by creating packages rather than discounting. Upgrades in services are also offered. Creative payment schemes for packages and memberships have also been introduced.

Edm (electronic direct marketing) and twitter are being used to reach out to potential customers with some success.

Product companies have improved their service to their loyal clients and department stores have tried to seek collaboration with product companies and spa operators to increase awareness.

A new spa management programme was launched at Hong Kong Polytechnic University.

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ASIA: *India*

ECONOMIC CLIMATE

With the IMF recently releasing data that India and China represent the two fastest-growing world economies, there's no debate that India is developing at a breakneck pace, unleashing new class mobility, and newly evolving markets. Recent investments in the spa sector from both five-star hotels and individual set-ups have shown impressive growth, however the sector remains shattered and unorganized. It is still in its infancy stage, so conscious effort needs to be taken to shape it up.

The recent economic climate i.e. recession has affected the footfall of the in-house guest in five-star hotels and thus their visit to the respective spas. The terror attack and the global meltdown have adversely affected the loyalty of spa-goers at five star hotels. Nevertheless individual spas are mushrooming across cities. With the increasing sense of personal care and luxury exhibited by the growing Indian upper-middle class, individual spa start ups by various spa companies and real estate developers are booming.

The Indian spa industry currently boasts over 2,300 spas, generating revenue representing approximately USD \$384 million annually. Initiatives are underway to train spa personnel to meet the growing demand for these 2300+ spas and for the hundreds—even thousands more that are likely to establish themselves in the next five to ten years. While the spa market in India is still a modest sliver of the overall \$60-billion-plus core global spa economy, India is poised to attract significantly more western tourists (particularly on the medical/wellness travel front) as well as continue developing its own vibrant, indigenous spa market at a heady pace.

STATISTICS

With the extended global spa economy now estimated to be worth \$255 billion, look for a step-up in security at spa destinations and resort hotels after the terrible Mumbai attacks. Yoga and Ayurveda represent serious business – it is a lifestyle for millions of people around the world who are increasingly enthusiastic about traveling to the spiritual and cultural source – India.

Day spas in urban settings are on the rise whereas medical or dental spas are set up especially with the foreign tourist in mind. On the other hand, the destination and resort spas cater mostly to local folks. Club spas are also mushrooming, though not fully fledged, all thanks to the visits paid by loyal patrons.

Indian spas will also continue to expand their Ayurvedic menus. However, nowadays, Ayurveda alone is not the identity of the Indian Spa Industry. Rather, we see advanced techniques and gadgets, alternative therapies, aesthetic surgeries, and medi spas that are all becoming integral to the spa scene in India.

INNOVATION

Trends:

- **Alternative Healing:** spas strive to offer holistic, organic elements in their treatments, as well as emphasize mind-body-spirit connections and advocate eventual lifestyle changes. Some treatments will combine elements such as massage, meditation, yoga and energy medicine like reiki, etc.
- **Stress reduction:** relief from chronic pain as well as pursuing a younger look
- **Spa visits as regular spa experiences** rather than a treat that is only reserved for special occasions
- **The evolution of products and services** designed specifically for men
- **Real estate developers** are adding residential spas to their gated communities and high-end condominiums
- **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 menus
- **'Team' treatments** that use two or more therapists are on the rise.

Management:

Increasing real estate prices, extensive training of therapists and the use of internationally acclaimed quality brands in products and equipment pose a combined challenge to keep spa treatments at a competitive price. Although spa investments are increasing, revenues differ from city to city. International and national academies need to set up training for spa professionals in order for us to offer the world class service so that there will be no difference in service between Los Angeles and New Delhi.

Design:

Many of the newer Indian spas are fashionably designed around Indian history, astrology and values, and offer incredible immersive spa experiences, dedicated to indigenous culture, myth, materials and design. Some are inspired to have life-size apsaras (nymph) sculpture from myths and legends (e.g. well known Caressaa Day Spa in Mumbai) to the replica of monuments whereas some are interested in showcasing a contemporary theme. Still, interiors are second priority with expenditures for operations taking center stage.

Innovations in our own business:

Combining the newest techniques with traditional treatments we strive to for perfection. We are an exclusive distributor for leading European brands which we showcase under one roof at Caressaa Day Spa. It not only fuels market demand but also gives lot of choice to our clients. We rely on client feedback, training staff on all details and branding to go that extra mile.

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ASIA: *Japan*

ECONOMIC CLIMATE

The most serious economic trend in Japan is deflation. Tokyo has been ranked as one of “The most expensive cities in living cost” by Economist magazine. This is in part due to the costs associated with poor infrastructure (i.e. transportation, housing, telecommunication, etc) and the Japanese Yen currency exchange position. The prices of various goods and services we purchase daily have been declining deeply. As an example, Japanese consumers are now able to purchase very fashionable high quality jeans for only \$9 and can also enjoy a tasty lunch box for under \$3.

Such an overwhelming deflation move is having a broad effect on the wellness service sector. The waiver of initiation fees is common now at most fitness clubs and competition between facilities in discounting various fees is getting keener and keener. To respond to such downward income trends, fitness clubs are shifting their core facility from being large and fully equipped to smaller studios with selected machines and exercise programs only. Conveniently located and budget minded Relaxation Massage services (10 USD per 10 minutes) are gaining steady demand from consumers while many luxury day spas have withdrawn from metropolitan areas. In an attempt to stimulate domestic expenditure, the Japanese government has introduced a drastic discount on interstate highway toll fees (ex. Tokyo to Osaka / \$140 → \$10). With the increase in highway usage, resort area businesses and related travel industries will hopefully experience an increase in revenues. With the highway toll price reduction there surely will be an increase in incredible traffic congestion.

Declining prices are favorable for consumers but cause difficulty in maintaining PL balance for businesses. Most owners with-in the wellness industry have heavily invested in their facilities and equipment resulting in a basic higher fixed cost ratio. Meanwhile, many business sectors have greatly reduced and or suspended the hiring of new graduates in order to reduce overall salary expenditures. The wellness business industry is currently benefitted by employing young staff easily and reasonably but it would seem that over time the business environment would lose energy as a whole.

STATISTICS

A birth rate of 1.37 and an expected life span of 86 years for females. By the year 2040 roughly 40% of the Japanese society will be over the age of 65. “Wellness” will become an even more essential word in such a mature society. In order to sustain social and individual wellness, which is a goal and result of “overall fulfillment”, national production should be more steady and vigorous. Historically Japan’s economic strength was developed through specific value added productions and services. This should continue to be our focus so that we can further develop the value and quality of our products and services. At such a time in the future our seniors, with their various knowledge and experience base, could very possibly become the “revival employees” for an organization. This could be especially true for the wellness business industry. Servicing the elderly

SPA INDUSTRY BRIEFING: *Japan*

customer's needs with like minded elderly staff is expected to be an in-trickle part of a company's employee structure. In the future this will help to ensure customer satisfaction and retention.

Ideas of utilizing seniors as wellness staff include:

- Lifestyle advisor: offers advice pertaining to good quality of life issues
- Exercise instructor: advises on effective exercise for sedentary lifestyle
- Therapist: social interaction through human communication

Simultaneously we need to increase the productivity of each employee. Efficient and sufficient job training will be necessary to ensure that employees develop the multiple skills necessary to perform effectively and responsibly.

INNOVATION

A broad consumer enclosure program has been ongoing and has shown significant expansion recently. The program is the combination of credit card, general purpose point program, electric cash and airline mileage programs. By purchasing goods or services with credit card or electric cash, consumers earn points which are credited to their account. Consumers can either redeem these points when purchasing goods or services at affiliated locations or have the points credited to their airline mileage program. As affiliated locations increase so too does consumer enrollment. Currently the largest enrollment program consists of:

- 34.4 million point cards (# of consumers enrolled)
- 50, 000 affiliate locations
- 55.8 million electric cash cards

At present only one major fitness organization has affiliated themselves with the program. The overall wellness service industry here in Japan has yet to fully commit to the consumer enclosure program. Our organization is preparing to join the program in order to access the younger generation whom are always in search for extra credit points related to their consumer activities and purchases. In preparation to joining the program we have introduced an in house stored value card system for the payment of various fees such as entrance, retail, program, beverages etc. By connecting the system with general purpose electric cash and credit card processing we obtain access to 34.4 million point card account holders.

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ASIA: *Japan*

ECONOMIC CLIMATE

Japan's spa and wellness industry was not affected by the economic crisis until the spring of 2009. Although the crisis hit us six months later than the rest of the world, we are taking longer to recover. Overall, the number of spa customers has dropped after spring 2009. Japanese spa goers' incomes were NOT negatively affected by the 2008 economic crisis. However, it was Japanese nature to exercise "self-restraint," to be thrifty, and limit spending money on luxurious items. This was reflected in a reduction of spa visits.

Operating 14 spas that range between mid-end to high-end hotel spas and RYOKAN spas (Japanese traditional hotel with ONSEN, hot spring), to day spas, I could see the different impacts for varied locations and conditions. For high-end spas, we did not see major drops due to our conservative approach to high-end spa customers during this economic crisis. We showed the lowest priced treatment menus to attract customers. We were able to sell value-added services and upgrade the treatment to a higher price point. However, there was a slight drop in revenues. Average treatment price per customer for 2008 at a high-end spa at a luxury hotel is yen27,718 (US\$ 1= yen95, US\$292). In 2009, it dropped to yen25,277 (US\$ 266). The average price per customer dropped 8%, and the number of spa customers dropped 7%.

For mid-end spas, we saw a major impact on the number of guests. Compared to 2008, guests dropped by 23%, but we saw the average treatment prices go up by 10%. This resulted from offering various add-on treatments on the menu that were price friendly, starting from yen1000 (US\$9.50).

Patience is required for weathering this economic climate, but as long as the right approach is used, we can continue to see positive and stable revenue.

STATISTICS

In Japan, you need to target local Japanese customers to maintain stable revenue. Local Japanese make-up 98% of our spa clientele, with the exception of Hilton Niseko Village. Niseko is a very popular destination for worldwide skiers due to its powder snow. In 2008-2009, the average percentage of international guests staying at Niseko Hilton Village was 22%. In 2009-2010, it went up to 30%. Though we are still in the middle of the economic crisis, the number of international guests at the hotel has increased 8%. Spa customers have increased by 38%. This is considered a significant jump for us. If we are able to attract more international guests to visit us in Japan, spa clientele will continue to increase. Hilton Niseko Village is working on increasing the number of

SPA INDUSTRY BRIEFING: *Japan*

international guests from 35% to 38% in 2011 and to 45% in 2012. The key point is to attract international customers who will enjoy the new spa experience in Japan. Currently, our Japanese ZEN themed spas are very well received by international customers.

INNOVATION

- Site Design: “Another-Japan” themed design has been very well received by both local Japanese and international customers. What if Japan had been modernized, while retaining its traditional style? This design has both modern and traditional parts of Japanese style. For Japanese, the space looks very cozy because it is something they are familiar with. For international guests, it is a new perspective with a Japanese flare that makes it fresh and exciting.
- Markets: To-Go Treatments. Japanese customers lack patience and do not like to waste time. Many want a time-efficient treatment. Many of my spas have a tailored menu offering “to-go spa treatments” for those who have limited time and budget.
- Offerings: Cross cultural SPA Experience. Using ZEN as a base concept, I mix other cultural rituals to create a unique spa experience for our spa customers. As an example, I found similarities between Northern Japanese culture and the Native American culture. At the spa located in Northeast Japan, I combined Native American Sweat Lodge elements with local culture to create entirely new spa experiences. It has been very well received both by local Japanese and international customers.

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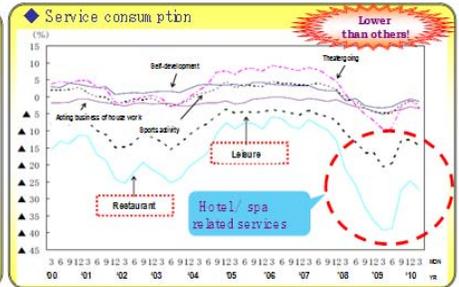
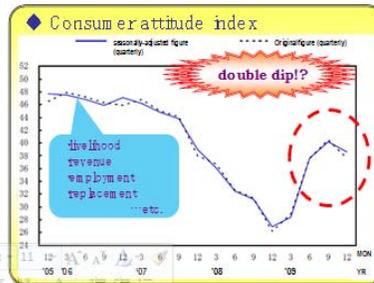
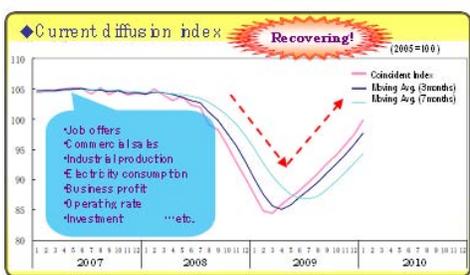


ASIA: Japan

ECONOMIC CLIMATE

IMF projects the real GDP growth rate of the world's economy to recover by 3.9% in 2010 (+4.7% up from 2009). The Japanese growth rate will recover by 1.7%, a dramatic improvement, up 7.0% from 2009's rate. As corroborating evidence, the current diffusion index shows the wedge-shaped recovering trend in 2009.

However, the trend on the consumer attitude index seems to be decreasing recently despite the overall recovery of the economy in Japan. The consumption trend of hotel / spa related services (such as leisure, restaurant, etc.) show a far worse trend than the other services such as self-development, sports, etc.



*Source: Cabinet Office ESRI Consumers trend survey, Jan2010 and Dec2009

From these figures, we can garner that the demand for pampering services remains weaker than the demand for other services and essential needs. The spas that previously provided pampering services are severely affected by consumer's behaviors. On the other hand, this rough passage has fostered a motivation on the part of spas to create innovative measures.

STATISTICS

According to the Japan City Hotel Association, the average occupancy rate of 206 hotels (22,000 rooms) in August (high season) 2009 was only 65.7%, a drop of 6.4% from the same month of the previous year. The Japan Hotel Benchmark Report by Deloitte Tohmatsu FAS reports that the ADR of all Japanese hotels in October 2009 was JPY13,519 (approx US\$145), down 7.1% from the same month the year before. RevPAR was JPY10,103, down 11.8%.



<Source: Japan National Tourism Organization (JNTO)>

SPA INDUSTRY BRIEFING: *Japan*

The key factors are assumed to be from the fore-mentioned domestic consumer attitude and the steep decline of foreign visitors due to the global recession and flu epidemic last year. (It was a tragedy for Japanese tourism businesses because foreign visitors were a big hope; they had been increasing until 2008 and were double the number from a decade ago.)

However, the year-on-year rate of foreign visitors in December 2009 showed a big surge of 22.2%, and it seems to be bottoming out after the 14 month decline. This favorable turn brought an improvement of ADR in Dec-2009, JPY14,750 (about US\$159), down only 1.6% from the same month the year before.

INNOVATION

Japanese spas now need (1) to implement innovative services for the essential needs of domestic consumers and (2) to drum up foreign visitors.

The local government of OKINAWA Island (the southernmost part of Japan) is conducting the Wellness Business Support Project to encourage regional spa and wellness resort hotels, thalasso-therapy centers, fitness gyms, catering, restaurants and cosmetic manufacturers to commercialize their services and products based on the evidence of effectiveness (verified by local healthcare research institutes such as clinics for preventive medicine and national universities). It's intended to establish full-fledged Health-Tourism in Okinawa and would attract health-oriented visitors and encourage repeat visitors. Now, Mitsui Knowledge Industry (MKI) is coordinating some projects to create the algorithm of selecting optimal wellness programs by utilizing the customer's Personal Health Record in order to develop the most effective and persuasive plan to attract customers through web booking systems.



Many of Onsen Ryokans (traditional Japanese Inns with hot springs) are reincarnated as new small luxury hotels with very healthy Japanese cuisine (most of them are local and organic) and unique wellness programs with elements of Japanese nature, culture, and ingredients. Some of the leading spas provide traditional therapies such as Shiatsu, acupuncture, and moxibustion therapy by licensed therapists.

There have been few interesting destination spas in Japan but, recently, Onsen Ryokans are becoming popular because they are unique and are cultural destinations. They attract a great deal of attention from, not only Japanese customers, but many foreign travelers. Ryokan spas play the role of cultural ambassador. Additionally, the co-operation between Urban hotels and rural Onsen Ryokans has started to introduce mutual guests to one another, enlarging both customer

segments. The harmonization between foreign and Japanese spas has brought about this innovative business solution. Also of interest, in few months, an International Shiatsu Foundation will be established for accrediting authentic Shiatsu for overseas spa therapists.

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ASIA: *Japan*

ECONOMIC CLIMATE

Last year, especially beginning last autumn, the Japanese economy has been darkest – consumers have stopped spending on luxury items, and lots of magazines who targeted rich consumer segments are collapsing. Many have stopped to issue their magazine or gone bankrupt.

Consumer have largely stopped going to spas which charge over 400USD for one treatment which is found in some high end hotel spas. Lots of top hotels introduced special introductory packages which has created new spa goers ie, younger generation, those in their 20's and 30's and their friends and moms.

Top hotel spas who introduced special introductory packages have gained a new customer base – local customers. They are a relatively younger generation, which is good news for hotels because it brings in a demographic that could be a regular for many years in the future. These new spa-goers are much younger than the previous customers who were generally hotel guests from overseas – women in their 40's and 50's.

There is sign of a recovery in Japan, however it seems limited to Tokyo. This country seems spread into two countries, one is Tokyo and the other is Japan without Tokyo. Tokyo is attracting lots of tourists from other Asian countries especially wealthy markets who would like to spend money for shopping and food, plus relaxing.

INNOVATION

- It is interesting to note that there is considerable market entry of foreign capital to the Japanese wellness and tourism market – especially Asian money.
- The traditional Japanese Onsen Ryokan has become an international standard spa itself with in-room massages, stone saunas, and high-end hot mineral water bathing facilities.
- Our food, drinks as well as Onsens are widely known to the Asian tourist, so our next innovation will be from our old traditional style of hotels. Service is changing to reflect international destinations as well as Onsen spas now and in the future.
- SpaFinder Japan has been introducing spa gift tickets (gift certificates) to consumers

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ASIA: *Singapore*

ECONOMIC CLIMATE

When the global financial crisis hit in shockwaves starting as early as 2008, it was no surprise that the declines in consumption and investment hit the spa sector hard, especially hotel spas, in which the overall hotel occupancy rate for 2009 dropped 4.6 percent, compared to 2008. For award-winning Spa Botanica, revenue increased by 2 percent because of strong marketing support and interest from the domestic market.

The outlook for 2010 is markedly optimistic, with all regions expecting growth between 8 and 32 percent, according to Intelligent Spas' Global Benchmark Report. The Consumers Association of Singapore recently reported, "Although there are more than 2,000 spas here, just 28 closed down in the past three years." These numbers remain comparatively positive in no small part due to strong governmental support to promote Singapore as a competitive Southeast Asian spa hub. This national backing is a telling indication of Singapore's social and economic profile.

STATISTICS

Our cosmopolitan island city-state has few natural resources, but, by positioning itself as a popular travel destination, tourism is now one of Singapore's largest industries. Although down from 10.1 million visitor arrivals in 2008, tourist numbers managed to reach 9.7 million last year, spending an estimated total of S\$12.4 billion. The Singapore Tourism Board targets 17 million visitors by 2015—a staggering number considering Singapore's current population of 4.99 million.

Along with two new integrated resorts with casino licenses (the first ever granted in Singapore) and other major events such as the Singapore Formula 1 Grand Prix, the spa sector is considered by Singapore Tourism Board to be an integral part of this draw.

It is not only tourists that Singapore's burgeoning spa sector hopes to attract. Locals are also huge supporters of the spa industry. According to a recent survey conducted by BeautyAsia 2010, the region's most established annual beauty and wellness trade exhibition, 75 percent of Singaporeans are happy with their current spending on beauty products and treatments and will not cut back on spending despite the economic downturn.

INNOVATION

Recognizing the enormous potential for continued growth in the spa and wellness industry, the Singapore Workforce Development Agency and the Tourism Industry Skills and Training Council jointly developed the Tourism Workforce Skills Qualifications system (WSQ), launched in October 2007. Spas like Spa Botanica would have at least 80 percent of their therapists professionally qualified.



SPA INDUSTRY BRIEFING: *Singapore*

These government-subsidized training programmes, ranging from Certificate to Diploma levels, ensure that Singapore's spa industry maintains its high standards. Through extensive hands-on training, new as well as experienced industry practitioners are equipped with industry-recognized skills, such as facial treatment, body massage, waxing and reflexology, to build on and advance their careers in the spa sector.

TRENDS

As Singapore forges ahead in establishing itself as a spa and wellness capital, its spas have also moved along with the times and with consumers' wants and needs. Offering a wider range of services to appeal to well-seasoned spa-goers, spas in Singapore have increasingly begun to diversify and branch into health and aesthetics to complement their regular spa services.

The additions of formerly "alternative" health treatments, including acupuncture, follow the global shift towards a more holistic approach to health and beauty. Consumers are more discretionary in their spending, but the demand for spa services remains strong as spa-goers increasingly view beauty and wellness treatments as an important day-to-day necessity related to their overall health and well-being, rather than a luxury.

For example, foot reflexology has long been a popular alternative medicine therapy in Singapore to improve general health. The market for this therapy has grown in recent years as it is incorporated into spas along with "mani-pedi" services. In our fast-paced, digitally driven era, time is a precious commodity, and spas have become convenient, multi-purpose places to relax and recharge, even on lunch breaks.

An increasing number of Singaporeans and Southeast Asians in general are also looking to aesthetic surgery to dramatically improve every aspect of their appearances, from their eyelids to their calves. Spas have jumped on the bandwagon, offering various non-invasive cosmetic medical procedures along with spa treatments.

As beauty, health and wellness are inextricably interlinked; there has been a revival in popularity of traditional Asian therapies. And as spas look to corner the convergent beauty and health markets, they are introducing age-old treatments to spa-goers who are increasingly aware of the value of these therapies and healing techniques. The adoption of these traditional Asian therapies in tandem with spa treatments is a natural progression that the burgeoning spa sector must undertake in order to address the need for value through holistic programmes.

Spas are diversifying and expanding, and the integrated hybrid spa is on the horizon. Traditional Chinese Medicine is being offered, and exercise, nutrition, weight loss programmes, and non-invasive aesthetic treatments are being sought.

Today, consumers are more health-conscious, and they are often turning to spas to help maintain their healthy lifestyles. Spas are attracting new demographics from men to seniors, who are seeking

individualised total wellness rather than simple treatments targeting only one or two areas and are identical from one spa-goer to the next. This trend has been ongoing and spas can no longer get by with a one-size-fits-all attitude. From coffee to bespoke designer goods, customisation is now the norm in almost every aspect of the consumer landscape. To retain existing customers and attract new clients, spas must dynamically reinvent themselves from “pure spas” to multifaceted hybrids that address spa-goers’ broadening demographics, diverse needs and changing expectations.

MEDICAL/HEALTH/WELLNESS TOURISM

Medical and health tourism is clearly big business in Asia. It is the most popular destination for medical tourists in the world, and medical tourism is rapidly growing in Asia with the number of medical tourists to Asian countries increasing by about 20 to 30 percent each year. It is estimated that the medical tourism in Asia will be worth US\$4 billion by the year 2012. Singapore hopes to attract two million medical tourists in 2010.

The relationship between spas and medical aesthetic clinics is a mutually beneficial one with considerable overlaps. Following these developments, more spas are bringing in medical doctors and specialists to augment their existing services. By offering what has come to be known as “wellness tourism,” spas broaden their appeal with popular medical aesthetic enhancement procedures, like Botox, dermal fillers, laser rejuvenation, preventative services and non-invasive treatments to meet the rising demand.

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AUSTRALIA

CURRENT SITUATION

In 2009 the number of Australian spas grew to just over 600, an 8.3% increase from 2008. The spa industry was estimated to have employed almost 7,000 people in 2009, which was a 17% increase over 2008 employment numbers. Similarly, spa revenues are estimated to have increased by 17% in 2009 with spas generating AUD\$500 million (approximately USD\$465 million). (Intelligent Spas) While the industry continued to grow during the Global Financial Crisis (GFC) spa media saw a big fall in advertising spend.

In Australia 67% of spas are day spas (not co-located with accommodation) and 33% are what we call destination spas incorporating hotel, resort and retreat spas offering overnight accommodation. (Intelligent Spas) Increasingly resorts are including a spa as part of their overall offering. While day spas are generally seen as a luxury or special occasion experience, there is growth towards spa becoming part of a regular health and wellbeing routine. There appears to be a growing number of medi-spas with doctors and nurses involved as well as a growth in the number of indigenous and organic treatments. Energy healing and vibrational healing is gaining more consumer interest. Spa menus are also now offering fusion treatments. An example of this would be a concurrent body scrub and facial treatments.

At the beginning of April 2010 there were 167 members of the Australasian Spa Association from Australia and New Zealand up 13 from the end of 2009. State based Educational and Social Networking events are held every 3 months. The Annual Conference and ASpa Awards – spas of excellence will be held in late 2010.

INNOVATION

HEALTH AND WELLNESS TOURISM

Health and wellness tourism has been acknowledged by government as a significant industry and in September 2009 the Australian Tourism Export Council (ATEC) sponsored a Health and Wellbeing Conference on the Gold Coast to help support the spa and wellness industry (www.atec.net.au/451.html). The Victorian State Government has also backed the spa industry and in 2009 Tourism Victorian launched a AUD\$7.3 million, four year, Spa & Wellness Action Plan which includes a promotional campaign to position Victoria as the spa destination for Australia (www.tourism.vic.gov.au/spaandwellness).

HEALTH REFORM AND PREVENTION

More broadly, both Federal and State governments are acknowledging the urgent need for health reform and embracing prevention and wellness. In 2009 the Federal Government announced a National Preventative Health Strategy based on the “Australia: The Healthiest Country By 2020” report from the Preventive Health Taskforce (www.preventivehealth.org.au/). Similarly the Na-



SPA INDUSTRY BRIEFING: *Australia*

tional Health and Hospitals Reform Commission came out with a set of guiding principles that include “Strengthening prevention and wellness” with the acknowledgement that a comprehensive and holistic approach is needed to reorient the health system to provide greater emphasis on helping people stay healthy through stronger investment in wellness, prevention and early detection and appropriate intervention to maintain people in as optimal health as possible (www.health.gov.au/internet/nhhrc/publishing.nsf/Content/nhhrc-report).

MEDICAL PROFESSION

The need for a wellness approach that incorporates healthy lifestyles has been taken up by the medical profession with the establishment of the Australian Lifestyle Medicine Association which held its inaugural Conference in 2009 followed by a second conference in 2010 where doctors and other health professionals discussed the need for lifestyle interventions in the treatment and prevention of lifestyle related diseases (www.lifestylemedicine.net.au).

WORKPLACE WELLNESS

A similar trend towards embracing wellness is evident within industry sectors. The 2009 Australian Health and Productivity Management Conference (www.ahpmcongress.com.au) discussed the cost to business of absenteeism and the much more significant costs of ‘presenteeism’ (whereby workers turn up for work but are unproductive due to an ongoing illness). The business case for addressing wellness in the workplace is seen to include positive impacts on productivity, recruitment, retention and ultimate profitability with return on investment for effective workplace wellness programs estimated to be around \$3-5 for every dollar invested. As many employees spend a significant portion of their life at work, workplace wellness programs are also positioned to address the growing burden of chronic lifestyle-related disease.

A landmark report on the health benefits of contact with nature commissioned by Parks Victoria led to the inaugural ‘Healthy Parks Healthy People’ Congress in April 2010 with more than 1000 delegates from 35 countries conversing on the importance of contact with nature for health, the significance of “nature deficit disorder” and the implications for health and wellness tourism, eco-tourism and public policy (www.healthyparkshealthypeoplecongress.org).

EVIDENCED BASED MEDICINE AND MASSAGE

A study into the peer-reviewed literature on the health benefits and safety of massage commissioned by the Australian Association of Massage Therapists and performed by Dr. Kenny Ng and Prof Marc Cohen reviewed 740 papers and found that there is sufficient evidence to warrant massage therapy being integrated into primary care (www.aamt.com.au). This review is currently being written up for publication.

MASTER OF WELLNESS

The RMIT online Master of Wellness program has expanded significantly in 2010 with formal transfer of Academic Credit between RMIT’s Master of Wellness and with the UC Irvine Graduate Certificate in Spa Management and the offering of new elective courses in Wellness Coaching,

Energy Medicine, Aromatherapy and Mindbody Wellness. There is also ongoing development, with new courses being planned on Permaculture, Corporate & Workplace Wellness, and Yoga Teacher Training. There are now more than 20 academic staff teaching in this program including staff situated in the UK and US. An optional staff - student retreat has been planned for late November 2010 that will follow the World Wellness Project Summit in Melbourne (www.worldwellnessproject.com).

NEW BATHING CENTRE AND WELLNESS EDUCATION

Peninsula Hot Springs expanded significantly with the launch of a new hot springs bathing centre in December 2009. On offer are bathing experiences inspired by travels to hot springs and spas all over the globe including, a reflexology stone walk, steam cave, deep hydrotherapy and watsu pool, pools designed for infants and families, foot and hand baths, massaging high pressure thermal showers, and many more. Wellness courses for middle and high school students are being created and offered at Peninsula Hot Springs to encourage awareness in, and the early uptake of, life skills in the areas of positive attitude, proper breathing, movement, diet, stress management and relaxation.

INTERNET RESOURCES

The strong growth in social web-based networking continued with media such as: Twitter, Facebook, Youtube and E-mail newsletters. There is also a trend towards expansion of web based marketing channels servicing the spa industry with online services such as: www.dayspaguide.com.au, www.everydayindulgence.com.au, www.find4me.com.au, www.netbookings.com.au, and www.hotspringsearch.com.

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EUROPE: *Bulgaria*

ECONOMIC CLIMATE

The economic crisis has had an unfavorable effect for the Spa and Wellness industry in Bulgaria. Most of the spa hotels reported lower revenues compared with the same period the previous year. The negative aspects are that the guests have become budget-oriented and have limited financial resources to spend for luxury.

The mineral spring spa resorts in the countryside are preferred mostly by the local and neighboring country's travelers. These hotels are fully booked during weekends and public holidays while midweek days are marked with very low occupancy levels. Of course there are rare occasions of organized events like seminars and conferences but they do not bring sufficient figures.

The Black Sea Coast and the Mountain Ski resorts are mainly seasonal. To attract tourists some hotels did interesting promotions which led to a domino effect. Due to the decreasing percentage of incoming tourists from the Russian Market some of the hotel chains became creative and started to offer bonuses like a cash re-payment of the Bulgarian entry visa upon arrival or free spa procedures. Regretfully the mechanisms to tackle the situation are not that many and it is hard to make a profit in the spa business these days.

STATISTICS

The most important event of 2009 was the nomination of the town of Velingrad for SPA Capital of the Balkans. This nomination was announced by Dr. Ghassan Aidi, President of IH&RA (International Hotel and Restaurant Association). Apart from the natural gift of the region which has 80 of the 500 mineral springs in Bulgaria, Velingrad has a tradition of hosting guests specifically attracted to water treatments.

Last year also marked the opening of 15 – 20 new four & five star hotels and complexes with a range of relevant services apart from property luxuries. Regardless of the crisis, the Spa and Wellness industry in Bulgaria achieved growth of approximately 3 - 4% in revenue.

INNOVATION

During the last 2-3 decades, the idea of Spa has developed greatly in the entire world. The countries of Western Europe, together with countries from East Asia and North America implemented these principles mostly in day spas, paying attention to anti-aging and cosmetic care for the face and body. The Medi Spa Centers in the Eastern European countries and especially in Bulgaria differ greatly from the Medi Spas in Western Europe and in the U.S. Here combinations of classical therapeutic and medicinal methods are used as well as wellness methods – both are applied simultaneously. Body, soul and spirit are subject to this treatment and to a great extent this represents the holistic medicine idea, which is becoming a leading idea here in the last several years.



SPA INDUSTRY BRIEFING: *Bulgaria*

We see a very strong medical presence, represented by medical doctors, nurses, physiotherapists and kinesiotherapists who are becoming the backbone of the newly organized system. Electrotherapy, active and passive kinesiotherapy, many different kinds of water treatments using special tubs with the natural treasure of the country - mineral (thermal) and sea water, adding salts, herbal extracts, sea weeds and natural sea mud applications as warm or cold packs are the basic way in which these treatments are performed under medical control. This is a perfect way of utilizing everything that nature gives to fight painful chronic diseases of the bones, muscles and joints - using scientific and indigenous ways. Tradition and modern science are combining their efforts to eliminate the harmful effect of these diseases.

This development emphasizes our strongest points – from history and tradition – since Greek and Roman times, showing the popularity of various treatment methods due to our unique natural resources – climate, curative mud (peloids) and an abundance of mineral and thermal water as well as a strong scientific presence. These are the prerequisites for a successful spa development.

Being a relatively inexpensive and hospitable country, these treatments are becoming more and more widespread in Bulgaria. Together with many countries from South Eastern Europe, associations are being formed with a sole purpose – to use and develop these classical treatment methods in the best possible way for the benefit of humankind.

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EUROPE: *Germany*

ECONOMIC CLIMATE

The financial crisis had an impact on bookings in regards to wellness vacations. The number of wellness holidays declined from 5.2 million in 2008 to 4.5 million in 2009.¹ This decline is partly due to the fact that more distant destinations are not as popular anymore as they used to be: Germans stayed in their own country by reason of financial considerations, travel security and environmental issues. Consequently, this decline had no effect on the turnover of the German Wellness Industry, as wellness travel within Germany increased by 4,7 %.¹

The financial crisis also created a gap between high affluent travelers and people with average income. Whereas people with lower income travelled less than before, people with higher income travelled more despite the financial crisis. However, they were more price sensitive and spent less money than before.² The winner of this situation were the 4 and 5 star wellness hotels in Germany reporting a double digit growth in 2009.¹

The interest in wellness and health has been continuous in 2009. Even so Germany has an efficient health insurance system, 86% of Germans were willing to spend extra private money for health, even in struggling times.³

STATISTICS

14 % of Germans pursued wellness activities in 2009⁴, and they spent 73 billion Euros. The forecast for 2010 is that they will spend 100 billion Euros.⁵ For half of the German population wellness is an important factor in their lives.¹

Wellness vacations are one of the favorite forms of vacation for Germans. Every third German household is considering a wellness vacations (11.5 million). 5.6 million households have already done a wellness vacation.¹ For 29 % of Germans, health is an important factor for choosing their holiday destination. For 31% it is important and only 7% say they don't consider it at all.²

Three out of four wellness vacations take place within Germany. In the last five years wellness vacations within Germany have continually increased with an average of 10% spending more than 1 billion Euro in 2009.¹ The spending for wellness vacations abroad has also increased in the last five years by an average of 10.5%. Top destinations for wellness vacations abroad are Austria and Northern Italy.¹ The preferred time for wellness retreats are prolonged weekends. The average duration of a wellness vacation is 2.6 days.⁶

Who is booking Spa Vacations? Every fourth wellness vacationer may be described as “proactive health conscious”: people with life experience, who are quality conscious (often over 50 years of



SPA INDUSTRY BRIEFING: *Germany*

age). They do not only want to be pampered but want to use this opportunity to recharge and learn about health. They want treatments and activities for body, mind and soul. “Stressed performers” between 35 and 49 years old are the largest group of wellness vacationers (30%). They seek relaxation and recovery and are very interested in beauty related treatments. In this group the financial crisis shows an effect as their spending for wellness vacations declined by 12%. “Families” at 24% are the new emerging group for wellness vacations. They like to be active together and seek this vacation as a balance to their everyday life. Their spending for wellness vacations increased by 7% in 2009, in spite of the financial crisis.

Booking behavior: travel agency: 44%, hotel direct: 21%, tour operator direct: 13%, Internet: 12%.¹

INNOVATION

Prevention: 50% of Germans are overweight, 40% do not do any exercise, 20% smoke. In summary 30% live an unhealthy lifestyle. 94% are open to preventative measures. 86% are willing to spend extra private money (besides their health insurance) for health improvement and have done so despite the crisis.³ Together with the fact that 1/3 of Germans consider wellness vacations, wellness and health vacations as a preventive measure, there is enormous potential for growth in Germany.

Longing for a deeper meaning of life: Germans have been and still are, the world champions in vacationing in regards to time and spending. As travelers Germans are looking for a deeper meaning and quality in life, values that help them cope with the uncertainty of our times. For them holiday is a time to rest and find a new balance through experiences that give them new values. Nature, religious pilgrimages, art and culture are very popular. This explains the great interest in wellness, as a holistic approach to wellness allows for experiencing a new meaning of life and how to implement that in everyday life.⁷

Design

Nature and natural materials in a modern, contemporary setting, which also appeals to a very young audience, are the design of successful spas. Latest trends in furniture design include furniture made out of paper that appeals to the young generation who go for natural and ecological materials. They are often presented in modern and often astonishing forms that are close to art. This focus on nature also includes a sophisticated fusion of the outside/inside allowing nature to play an important role in the design of rooms.⁸

Offerings

Everything that addresses the energetic level of a human being, from diagnostic systems that are based on energy checks to treatments that work with energy to energy healing systems. Energy diagnosis and healing are fast and correspond to our fast paced times. They are perfect for the Wellbeing Industry as they allow a holistic diagnosis, as well as wellbeing and health improvements in a short period of time.⁸

What have you done to innovate your own business recently.

With the huge growth of the spa industry, quality has become one of the main factors for success. We have worked on the quality aspect of our criteria for holistic health resorts and hotels as well as the quality of our partner hotels. With the movement of the spa industry towards holistic health, education of the consumer has become paramount. In the last year we have given talks and seminars about holistic health and quality for the press, travel trade and consumers worldwide.

Footnotes:

- 1 Wellness Sensor 2010
- 2 Forschungsgemeinschaft Urlaub und Reisen FUR
- 3 Roland Berger Strategy Consultants 2009
- 4 Hamburg.business-online.de
- 5 Global Insight
- 6 Gesellschaft für Konsumverhalten GfK
- 7 Expedia Travel Trendwatch 2009
- 8 Thanks to the input of Andreas Wieser (Lanserhof)

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EUROPE: *Germany*

ECONOMIC CLIMATE

The bank crisis has affected all branches in the industry. In total the experts see for 2010 a positive development. In numbers more than 65% of the industry say, that the turnover was the same or a bit more than 2008.

Around 35% claimed loses in turnover and revenue. Looking at the turnover, there was a shift from retail sales to more treatment sales. So even, when the turnover was the same, treatments took over the retail sales.

Looking at bookings and average stay per guest, the numbers stayed nearly the same as in 2008. Around 85% of the spas have reached the same numbers in 2009 as in 2008. 80% could point out to having even had longer stays per guest. 82% could reach same turnover regarding guest revenues.

The spa industry was proactive to reach last year's revenue figures, increased marketing, discounts, special packages, affiliate programs, gifts, etc.

We can also say that those who did reach 2008 revenues in 2009, did more to reach those results. We see planned investments, like renovations and new constructions being skipped. A few projects are building newly, implemented more sustainable practices, reducing operational costs.

On the positive side, there have been no reductions in therapists or spa team members. The industry understood the value of their human power.

STATISTICS

A bigger part of the industry (more than 25%) is looking for more authentic, holistic and natural organic products versus 70% who are not expecting new developments from the spa product industry.

INNOVATION

The most interesting development is the future market of couples treatments. Men are doing more spa treatments: whether a hamam experience, the rasoul experience or typical spa treatments for



SPA INDUSTRY BRIEFING: *Germany*

face and body. We are seeing more and more suites for couples appear on spa menus. To support this development we have developed special treatments for couples and customized treatments for suites and their technical equipment (Jacuzzi, steam bath, sauna).

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EUROPE: *Germany*

GOOD LUCK IN THE CRISIS

The financial and economic crisis has influenced spa & wellness travelers in and out of Germany. According to the “Wellness Sensor 2010” published by GfK (Society for Consumer Research) and the German Wellness Association, the number of trips to spa and wellness destinations has dropped from 5.4 millions in 2008 to 4.5 millions in 2009. The GfK Group is Germany’s largest market research institute, and the fourth largest market research organization in the world. The “Wellness Sensor” is performed on an annual basis in 20,000 households.

Good news for upscale 4 and 5-Star spa- and wellness resorts: They did not suffer from the crisis but rather increased their business – up to four per cent in 4-star properties and up to an amazing twelve per cent in the 5-Star category. The total spending for wellness-based travel went up by 4.7 per cent, which is more than 100 million Euro!

New spa and wellness seekers are families which have increased their spending by 7 per cent. Obviously, they are younger people who have adapted to wellness before and are not willing to neglect this as parents. Regarding destinations, in 2009 Germany was the favorite place to spend wellness vacations. Competition is coming from the cruise ship market where the market share of total trips taken by Germans jumped up to 15 per cent, compared to a market share for spa and wellness travel of 19 per cent.

GREEN SPA

The consciousness for environment and sustainability has arrived in German Spas – still very reluctant but on the rise. This development has been confirmed at the BEAUTY Trade Show in March 2010, where a complete show area directed by the German Wellness Association displayed interesting “Green” techniques and attributes. Whilst efforts of energy saving are not really new, architects and spa operators are starting to focus more on the right choice of floor-coverings, wall paper, “healthy” wall paint and light systems. New environment-friendly products like towels or staff clothing are requested. Natural and organic skin care products are getting a larger fan group than it used to be a couple of years ago. Shall we guess when a Green Spa is no more “Nice to have” but “Must-have”?

TRENDS TO WATCH

The number of serious spa and wellness hotels in Germany can be estimated at 600 properties. They have to compete in a fast growing market in Europe. Therefore, after a flood of Buddhas, Lomi-Lomi and oriental kitsch in hotel spas, the actual trend now is absolutely “Go local”. Regional “USP’s” can easily be communicated and go along with the increasing demand on domestic “spa” travel. For example, a hotel owner in the Black Forrest harvests spruce-tips every spring to pro-

SPA INDUSTRY BRIEFING: *Germany*

duce their own aroma oil or skin care products. Guests have a choice between bath, massage or peeling. Along with the treatment, a cup of spruce tea is served. But the smell and taste of spruce is not only limited to the spa. Healthy spruce honey is served for breakfast or in the ice parfait for dinner.

A quite different program is offered in the northern part of Germany on the coastline of the Baltic Sea on the island of Usedom with an offering called “MEERness”. The philosophy behind this play on words is to bring the sea into the hotel, the spa and the restaurant. Marine algae are used in treatments as well as in the kitchen, and special reading material is to be found in the library. “Back to the roots” in Germany is resulting in going back to old traditions of therapy, Balneotherapy and Hydrotherapy or Kneipp cures.

The move from just pampering to a holistic wellness understanding is worth watching in Germany – as an alternative to doctors, drugs and diseases, as wellness-pioneer Don Ardell expressed 33 years ago. What he called “REAL” Wellness is a concept to promote healthier, more enjoyable lifestyles. The option is not “Yes we can” but: “We will do something for ourselves, now or never!” Don Ardell will be guest of honor in August, when the German Wellness Association (Deutscher Wellness Verband) will be celebrating its 20th anniversary. This relatively short term of twenty years makes me notice how fast our industry has been growing in our country and all over Europe.

Building bigger and bigger is not always better and does not always mean to make big money. The importance of spa to be a profit center is not shared by everyone. It is one thing to promote a wellness philosophy and to attract a reasonable number of clients. It is something else to run a spa well and profitably – that’s a completely other story. Talking about economic viability, there is no compromising. There is still a gap of knowledge between how to run the business of spas with accurate and detailed figures. No problem in F&B Departments: everybody can tell you about food costs. No question either, when asking hotel managers about occupancy or Average Room Rate (ARR). But already when you inquire about RevPAR, some begin to stammer. Regretfully there are no reliable spa benchmarks in Germany yet. There is a strong need to catch up with other countries, but most properties are reluctant to provide confidential figures.

CONCLUSION

The crisis has not hit the spa & wellness hotels in Germany as hard as expected. Those who have invested not only in hardware and square meters, but in quality over the years have been rewarded. Quality of service, quality of staff, and quality of treatments have added value for the guest.

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EUROPE: *Germany*

ECONOMIC CLIMATE

Despite the present economic situation, wellness vacations still rate as very popular amongst Germans. One out of three German households, which equates to 11.5 million, considers taking this type of vacation and 5.6 million households have been on a spa vacation already. Nearly half of the German population considers the topic of wellbeing as an important part of their life. It is important to mention that in Germany “wellness” is not regarded so much as beauty treatments but more as relaxing heat experiences such as sauna, steam baths and spa or health treatments such as massages and hamam treatments. These kinds of wellness vacations are spent mostly in wellness hotels.

For consumers to decide which hotel one will spend their vacation in, independent and reliable quality seals are becoming more and more important. These are even more important for hotel selection than articles in magazines or newspapers or information and ratings from the Internet. This is leading to an emergence of new quality seals for spa and wellness hotels in Germany. Another positive development for the country’s hotel industry is that more Germans are deciding to spend their vacations in Germany, which was not a traditional holiday destination in the past. Nowadays three out of four spa vacations are spent in national regions. But even though the number of national guests increased by 5%, the actual bookings of spa treatments declined slightly. Yet this is not a dramatic development, considering the above-average figures for the industry from the previous years.

STATISTICS

Even though the economic situation at the end of 2009 compared to the end of 2008 was rated worse by the hoteliers, their forecast for 2010 turns out to be much more positive. One reason for this brighter perspective is the reduction of the VAT rate from 19% to 7% in January 2010 for overnight hotel stays. This has resulted in a stronger desire for the industry to invest. 80% of hoteliers indicate that they want to invest the savings from this tax reduction into their hotel.

Besides investing in new or better conference equipment, hoteliers are willing to invest more in the wellness and fitness areas of their hotels than in previous years. This is a result of guests’ requests and expectations.

INNOVATIONS

During the last year the German hotel and spa industry started to pay more attention to the uniqueness of their range of services and facilities. The Roomers design hotel in Frankfurt, for example, has become a hot spot for the national and international design elite. The combined conference and spa

SPA INDUSTRY BRIEFING: *Germany*

area of the Roomers hotel was created by 3 deluxe biorhythms as a holistic communication vehicle comprising contents, and the interior design was staged via a combination of materials, tactile stimulation, light and sound.

Another example of giving uniqueness to a hotel is the Kameha Grand in Bonn, which belongs to the Leading Green Initiative. The hotel has its own geothermal system and is able to cover around 70% of its own heating and cooling requirements.

KLAFS newly launched sauna PURE is a good example of high quality standards and well thought out design concepts. It was honored with the iF product design award 2010. It is important to get customers physically involved in KLAFS' products these days therefore new showrooms were opened in Zurich, Switzerland and Dusseldorf, Germany, in 2010.

In the current economic situation, we are putting emphasize on innovation and R&D. KLAFS participates, for example, in a new research centre - the Fraunhofer Institute in Duisburg. The so-called Future Lab develops the hotel room of the future with a first time ever open heat experience area inside the bathroom. Also, KLAFS is presenting a concept beyond hot and cold stimulation: the Energy-Lounge a relaxing lounge for power napping—with a unique and new room concept. As proven by scientific experiments, the frequency of the movement is in perfect synchronization with brain waves. A sensor conveniently starts the oscillating movement, allowing you to drift into deep dreams.

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KLAFS
MY SAUNA AND SPA

EUROPE: *Germany*

ECONOMIC CLIMATE

Guests in general are all reacting to the “crisis”. Even those who don’t have to look after their purse follow the “fashion” and prefer lower budget-offers.

Here in Austria and Germany our package-offers normally start at €140. Now we have had to make entry-offers for €55 which are very popular. The challenge is how is this possible with a minimum revenue of 30% less?

New packages such as a short-time-massage on the neck and shoulders however with superior quality, with permanently heated herbal balls for 20 minutes, followed by a herbal-warm-pack for the body. This new treatment provides 40 minutes of soft warmth and relaxation.

A special organization of this package reduces costs down to €2.00 for material and application-time.

Massage 20 min. á €1	€. 20.00
Herbal bundle	€. 5.00
Warmth-pack + application	€. 2.00
Linen + small materials	€. 4.00

Total cost	€. 31.00
Price.net	€. 44.00 or 55.00 less 20% VAT.

Profit	€. 13.00

This is just an example as we help our customers by providing programs with low costs.

STATISTICS

We are forced to provide at least 20% discounts now-a-days or our guests will simply pass.

INNOVATION

In some relaxation areas we provide double-function-benches, which provide full comfort relaxation totally flat or electronic lift to an up treatment position. Between the benches there are plants that enable a new way to arrange the space. This way guests don’t have to come to rooms necessarily as there are a wide range of short-time-treatments for those on a low budget that

SPA INDUSTRY BRIEFING: *Germany*

we can provide without the need for a reservation by using these adjustable benches. Our staff comes to the guest. Bottom line, we sell much more.

In addition, the Flamingo-Spa in Helsinki is one of the biggest in Europe with 65 therapists and is possibly also one of the most successful. The manager recently shared with the audience in a symposium in Warsaw how it is possible to sell successfully in the high-price-level. www.flamingospa.fi

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EUROPE: *Hungary*

SPA & WELLNESS INDUSTRY

Hungary is one of the major spa destinations of the world, a tradition which goes back to Roman times. It has over 400 hot springs and Budapest is often called the “Spa Capital” because it is the only capital city in the world with real hot springs inside the city boundaries. Many of Hungary’s spas (that are actually public baths based on thermal and/or medical waters) are visited by domestic tourists or patients who have a doctor’s prescription or holiday vouchers (a tool for support used in social tourism) and are entitled to various treatments everyday, sometimes for several weeks.

The main focus of most of the health tourism attractions in Hungary is on medical tourism. There are relatively few leisure facilities with only a handful of aquaparks and hotels specifically serving families with children, for example. Only 50% of spa hotels, and 45% of thermal baths offer wellness treatments, which mainly consist of saunas and traditional massages, although there is a gradual increase in the diversity of massages (e.g. Thai, Ayurvedic). It is only really the wellness hotels which offer a whole range of wellness facilities, but even here, more spiritual and psychological forms of wellness (e.g. lifestyle consultation, occupational wellness) are largely absent. Medical wellness is a feature of some spa hotels, which means a practitioner-supervised wellness programme. This seems to represent something of a stepping stone from curative medical to preventative wellness tourism.

ECONOMY

According to the data of the Central Statistical Office (Hungary) there are 50 medical and 90 wellness hotels in Hungary, with 13,186 and 13,592 beds, respectively. The more established medical hotels are mainly visited by foreign guests (especially from Germany and Austria), whereas the guests in wellness hotels are dominantly from Hungary. Medical guests stay longer than average (domestic guests: 3 nights, foreign guests 4.5 nights), but the average length of stay of wellness guests is lower than that (domestic guests: 2.2 nights, foreign guests 2.8 nights).

Contrary to what the abundant natural healing resources may suggest, the Hungarian population health data is below the European Union average and residents have been slow to embrace new trends in preventative wellness tourism. As a consequence, Hungary has one of the lowest life expectancies in Europe, high levels of depression and suicide, a poor diet with excessive alcohol and cigarette consumption, and relatively low levels of exercise. Hungarians also visit the doctor an average of 12 times per year (compared to 3 times per year in the UK) and take large quantities of traditional medication. Governments have not helped with their lack of public health awareness campaigns and failure to implement a smoking ban in public places. 88% of the respondents

declared that they do not care at all for wellness, bio, and fitness “madness”. As one aerobic trainer suggested: people do not understand the real meaning of wellness in Hungary. They cannot link fitness, spas, massage, nutrition and so on into one concept. Wellness for them is more about relaxation, avoiding stress, spending time with their family, and perhaps visiting the countryside – and sitting in thermal pools!

SPA & WELLNESS RELATED PROJECTS

The National Development Plan (NDP) identified natural healing resources to be the key element in deciding which developments should take place. This objective resulted in the upgrade of existing and the development of new thermal (medical) water based baths (or spas as the local terminology, wrongly, goes) and the renewal of nearby accommodation facilities. During the last 2-3 years the NDP provided support for over 30 development projects all around the country (with 10.5 billion HUF support – app. €37 million). Six projects, predominantly from traditional bath-towns, were qualified as ‘special development’ and were awarded €42 million.

The Ministry of Local Government (the responsible body for the implementation of National Tourism and Health Tourism Strategies) has defined the preferred special characteristics (positions and specialisation) for most thermal baths. These preferences, however, remain suggestions, since the National Development Agency (the governing body of development funds) is independent from the ministry. This leaves us with the risk that most of the new developments follow the same pattern of what we have seen in the last few years: creating copycat facilities.

The developments represent, however, a bi-polar situation. There are a few new facilities (e.g. Spirit Hotel & Spa in Sárvár or the Rácz Hotel & Thermal Spa in Budapest) that follow the same trend of what we can observe in Austria, Slovenia or Germany, i.e. high-end wellness services with 4 or 5 five star accommodation facilities. The other end of the spectrum is the continuation of sanatorium/hospital-like thermal or medicinal baths that are serving predominantly patients financed by the National Health Fund.

Among the new facilities are some of the largest of their kind in Central and Eastern Europe (e.g. Aqua-Palace in Hajdúszoboszló or Aqua-World in Budapest). These new establishments follow the indoor-pleasure-bath-complex trend set in Austria and Germany.

The Hungarian Hotel Association is working on the refinement of standards both for medial and wellness hotels. These new standards would need to help existing facilities and new developments alike to improve competitiveness and service quality.

OPPORTUNITIES

In early 2010 the second part of the National Health Tourism Strategy was completed. This new document focuses mainly on the medical side of health tourism (especially on therapeutic/rehabilitation treatments and operative procedures). This strategy is expected to provide support for new developments, initiated especially by the health sector (e.g. hospitals). There is a strong need for improvement and diversification of existing services and facilities. Product development, based on local resources and materials, would be essential.

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Hungary & Central Europe

BACKGROUND

The situation in Hungary and Central Eastern Europe (CEE) is very similar. Spa tourism started in the 19th century in Central Europe, with Hungary being an integral part. At that time, the Kingdom of Hungary consisted of present-day Hungary, Slovakia, Transylvania, and the northern part of Serbia. It contained famous spas such as Postyén, Herkulesspa, Tusnad Spa, and Magyar-kanizsa. The significance of Hungary in the 19th century spa-world is clearly reflected in the fact that the Spa World Association was founded in Budapest in 1937.

The current spa and wellness industry in this region is divided into traditional spas and spas for international consumers. Budapest, the richest capital city in the world when it comes to thermal waters, has its traditional renewal spas as well as some specialty spas like the Hévíz, with a natural thermal lake and Egerszalók, with a Pamukkale-like salt hill. More and more indoor spas have been built in compliance with international standards. Unfortunately, approximately 60% of the market of spa businesses have not made much progress in the past 50 years, although modern outdoor pools are becoming more and more prevalent.

ECONOMIC CLIMATE

The current financial downturn has had little effect on the majority of people so far, and it hasn't had a dramatic effect on local spa consumption. Revenue generated by domestic visitors did not decline until the middle of 2009, although the increase in recent years did not seem to continue. In the last half of 2009, however, revenue has changed with approximately 15% fewer visitors using spas compared to a year ago.

The number of foreign visitors has decreased slightly, but not on special holidays (like Easter). Also, there was a disruption in flights to Hévíz, the best-known Hungarian resort, but in April the flights restarted. Now it appears that the number of foreign visitors will continue to drop because of the financial crisis, although this may also constitute an opportunity for Hungary and CEE, which has had a long tradition with spa-tourism and low prices. We are an inexpensive alternative for people who decided on more expensive destinations in the past.

Within the CEE region, the share of revenues derived from spa treatments is well below that of hotel revenue or spa revenues in other areas. An alignment to international trends had already begun but due to the current economic crisis, this process stopped. While people are still visiting spas in hotels, they are less eager to try new treatments.

Hungary and the CEE has had the opportunity to use its relatively low priced offerings as an attraction to the more cost-conscious European market. A focused marketing strategy would also



SPA INDUSTRY BRIEFING: *Hungary and Central Europe*

help promote the spas in CEE. It is, however, very unlikely that this area will ever regain its position as the market leader it once was in the first half of the 19th century.

STATISTICS

The most interesting statistic is the strong position of the wellness and medical spa hotels in relation to other Hungarian hotels. In 2009, 7 million guests spent 18.3 million guest-nights in Hungary. The number of guests decreased by 8.3% and the number of guest nights decreased by 8.4%. However, in 2009 the number of guests in wellness hotels only decreased by .7% and the number of guest-nights actually increased by .3%! Despite the crisis, one of the biggest indoor spas in Europe, located in Hajduszoboszlo, as well as 6-8 other new indoor spas in Hungary expect to see significant growth in the number of spa goers and foreign tourists.

Demand for the more expensive services did not decline. The customer seems to be willing to pay for quality. Also interesting, there is growth in more extreme services such as a nightbath. Demand for higher priced and quality services seems to continue. We are also noticing a positive result from the taxation holiday voucher that is being used to help increase domestic tourism.

INNOVATION

Hungary has many new and modern covered spas. 4- and 5-star hotels have been built as a result of the developments in the last decade. There are plans to redesign the traditional treatments according to world trends, but at the same time preserve the strong heritage and medical spa background from this area.

An Innovative Tourism Cluster NGO is trying to develop complex spa treatment packages and know-how based on the natural fruits of the region. Also there is effort to promote medical research that can properly measure the effects of spa treatments (including the effect of water) even on a molecular level. Among treatments, the Crio sauna and oxygen bath are the newest break-through items. Budapest and Eger have renovated their traditional Turkish spas. They are amongst the most impressive in the world when it comes to traditional spa pools. Based on trends that are showing increased interest in the medical spa arena, traditional Central and Eastern European spas (such as the Gellért, Széchenyi, Rudas) as well as sanatoriums may likely contribute to the renaissance of traditional spa-ing.

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EUROPE: *Ireland*

ECONOMIC CLIMATE

Ireland's spa industry has experienced significant change and development over the past 10 years. This was incentivised by tax concessions to encourage the development of world class hotels across the country – each one boasting a larger more sophisticated and exotic spa than the next. It was the start of an amazing journey for both the Irish client and therapist.

These spas enjoyed unlimited budgets when it came to staffing, stocking, advertising, training, etc. However affluent the property may have been, there was one main shortfall across the industry in Ireland. Most were being operated day to day by hotel managers. Successful in busier times, when things became more challenging it became apparent that this multi million euro industry needed some credible career options in its management structure for the now thousands working in the sector.

The Irish spa goer was enjoying experimenting with all the wonderful types of hotel spa's available and selecting favourites as they went. For most it was the physical building which impressed them. For some the spa most covered in the media. But for the core Irish client (who is interested in the health benefits of treatments) it was the service. This led to repeat business and positive word of mouth for the spa concerned. A steady increase in competition, the worsening economic downturn and falling guest figures are spelling out a difficult future for the luxury hospitality sector in Ireland. The recession which began in the second half of 2008, greatly affected the tourism industry as consumers showed increased concern over their personal finances.

Surveys indicate that many spa managers believe the spa industry may be protected to some extent from the negative effects of the current economic climate, as spa consumers continue to demand relaxing spa and wellness services despite potential decreases in their discretionary spending. The leisure industry has suffered as people have less disposable income. However, with health, fitness and 'wellness' issues remaining topical, a certain level of demand will remain and will grow into the future, according to various tourism bodies. When consumer confidence returns and people begin to know where they stand financially, the industry will see the benefit.

POSITIVE

- Client care and customer service are flourishing in surviving business's
- There is greater value for the customer
- Popular treatments are being packaged together and sold with a day spa pass
- Benefits of training is being realised by most managers and owners now.
- Less staff turnover so better intercompany relations
- Employers benefit from their staff being on part time contracts
- More group business

SPA INDUSTRY BRIEFING: *Ireland*

- Team spirit is alive with incentives and the staff are creating a motivated work place
- As the competition narrows due to closures, the top Irish spa's will benefit

NEGATIVE

- Treatment revenue has decreased by 30% - 50 % across the board;
- Retail sales have plummeted – from an average of 12% to now a mere 2-5%;
- Salaries or hourly rates across the sector have in most cases been reduced or frozen
- There are challenges scheduling a part time work force
- Low stock levels / tight cash flow;
- No new spa developments due to the banking crisis;
- Contra deals being struck with media in exchange for advertising
- Unimaginable uncertainty due to the extent of properties experiencing receiverships
- Credit terms restricted by suppliers who have incurred financial losses

STATISTICS

The exponential growth in spas in Ireland over the last 10 years has been astounding. Everywhere you look, from big cities to the most remote rural spot, spa and wellness offerings exist. In 2006 alone, over 30 facilities opened, offering different types of spa experiences. Much of this growth is represented in the hotel or resort spa sector. The growth is not only in response to changing consumer expectations but is also playing a key role in educating Irish consumers with regard to spa experiences. Within a short period of time, Ireland's health and wellness industry has grown from offering a few select, dedicated health farms and spas, to offering a significant choice to the consumer.

INNOVATION

During 2009 the country's first degree in Spa Management was born at the Athlone Institute of Technology. In addition to the Fáilte Ireland Spa and Wellness Categorisation Programme, this degree will support the development of the spa management career in Ireland. The drive to diversify and expand current product offerings is fuelling development in wellness tourism. New leisure experiences and treatments, which can be packaged and marketed as a desirable, relaxing and health-promoting experience, are also contributing to supply growth.

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EUROPE: *Italy*

ECONOMIC CLIMATE

People are increasingly aware of who is who and who does what in our business. The customer now wants a “guarantee” that his/her money is being spent for something that is really worth it. The reputation of a business is everything; superior quality and service together are a must. The economic downturn has unfortunately affected the profitability in some areas, where profit is down 20% compared to 2008.

Some areas have still been able to maintain good results and have reported stable figures. Requests for new projects and a downturn in product sales is another result of the downturn.

INNOVATION

When talking about design, the tendency of “green” values and care for the environment is really strong. The ayurveda method is also quite popular these days.

For my own business we have given more importance to branding. We have created a Brand book for our trademark DS and a new Designbook for the care suite DS.

We are also working on a new product line, WHITE GOLD. Following our key elements that include the mountains, fresh air, spring water, the colour white and true, natural materials.

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DANIELA STEINER

EUROPE: *Monaco*

ECONOMIC CLIMATE

The Principality of Monaco's hotel inventory is primarily in the first and deluxe class categories with 2500 sleeping rooms. Monaco's spa facilities are either situated in these hotels or with direct access to the hotels (Willow Stream at the Fairmont Monte Carlo, ESPA at the Hotel Metropole Monte Carlo, Les Cinq Mondes at the Monte Carlo Bay Hotel and Resort and Les Thermes Marins with direct access to the Hotel Hermitage and Hotel de Paris.) The spa industry in the Principality is driven by tourism demand although some revenues are derived through memberships of local residents. Visitors enjoy the pleasures and benefits of spas as part of their overall experience in Monaco and the region but do not book the destination solely because of the spa. Due to the recent economic turndown, Monaco had a drop of 17% in bed nights from 2008 to 2009.

The hotel and spa market were affected by:

- a) The weak dollar and pound vs the Euro
- b) High unemployment rate
- c) Concern about the H1N1 virus

As a destination representing the epitome of luxury, cost and perception during the recent economic crisis has led to a significant drop in guests and revenues. Of Monaco's visitors, 77% are individuals coming for leisure purposes and the balance are participants in meeting and incentive travel programs.

Individuals were more reserved with vacation plans as they saw their portfolios drop in value. Corporations cancelled many meetings and motivation trips due to the AIG effect. Both audiences utilize spa services. The spas that cater to local consumers fared better than those dependent on the spending of travelers.

In Monaco, due to the general wealth of the population and their interest in health related services and their desire to relax, spas have been able to maintain a fairly good balance between revenues, therapist productivity and profitability.

Investors have been concerned regarding return on their investments which has resulted in the postponement and cancellation of future spa projects; however, Willow Stream proceeded with its plans and opened 9 months ago. To protect profitability, spa managers have had to be more vigilant to ensure a profit margin. Managers have had to give service a priority as customers are more aware than ever of the value for their money.

OPPORTUNITIES

Due to competitiveness, The Monaco Government Tourist Office is forging partnerships with key players in the destination to ensure consistent communication via e-mails, newsletters, social media to the press, and tour operators specializing in the wellness market. A study is being conducted on client expectations and what would be best to entice winter offers.

The government is encouraging all spa operators to ensure that their product lines are organic and biodegradable. Hotels, spas and restaurants are being encouraged to expand their menus to include more light and dietetic offerings.

The SBM Group has been using the time during this difficult period for the training of staff. Staff performance and quality service will drive frequency of visits and pricing as business returns.

With the growing interest in wellness and medical tourism, the Principality of Monaco has an opportunity to draw clients as there are two very reputable facilities with global reputations: The Cardio Thoracic Center Monaco Institute of Sports Medicine and Surgery.

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The logo for Monaco, featuring the word "monaco" in a lowercase, rounded, sans-serif font. The letters are dark grey with a slight shadow effect. A small red square is positioned at the end of the word, after the period.

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EUROPE: *Russia*

ECONOMIC CLIMATE

The threat of an unprecedented economic crisis influenced the recently stabilized spa and wellness market in Russia in a way as different to the majority of international markets as the Russian spa industry itself. With a few important projects, like a huge recreation and wellness complex in Volgograd (concept developed by “Schletterer Spa & Wellness Design”) put on hold, a number of others were launched in 2009 - 2010.

Rather than limiting the vast range of proposals and focusing on client retention the majority of Russian spas have even increased their activities by introducing new products and equipment, paying more attention to the inexpensive domestic brands.

While a large number (up to 15 %) of the smaller beauty salons were closed and about 20% of the still operating beauty market experienced a significant drop in clients, the majority of spas - especially in Moscow and some other big cities - were reporting stability and even a slight growth in consumer demand. Therefore key performance indicators on the Moscow spa market - the capital of Russia least hit by the crisis – have not changed drastically.

Reasons include marketing efforts to attract and retain new clients by the experienced players, as well as reduced spending by Russian consumers on tourism abroad. As the economic crisis hit, the trend of “escapism” and “modesty” resulted in many “nouveau-riches” becoming active spa-goers instead of spending huge money on luxury.

The unfavorable economic climate has changed the shape of the spa and wellness industry in other ways. A number of previously successful players (i.e. Moscow “Rixos Royal Spa”, “Petrovka Sports Wellness Club”) left the market by the end of the summer due to a critical increase in rental price. In the meantime the most luxurious spas – “ESPA” at “Ritz Carlton Hotel” in Moscow and “Dominique Chenot Spa” at the “Barvikha Luxury Hotel”- have kept their prices rather low to boost new clients in addition to hotel guests. Many other spas on the Russian market have offered a new balance between price and value by focusing on express-packages rather than offering extensive 6-hour treatment programs.

Despite significantly reduced budgets on education and marketing, conferences, professional shows and forums devoted to spa and wellness demonstrated a stable growth. As the crisis achieved its climax in many other sectors, in September 2009 two new events were launched for Russian spa professionals – the International Congress Spa & Beauty in Moscow and SpaFest in Turkey.



SPA INDUSTRY BRIEFING: *Russia*

Another important development was the launch of a state-supported educational program “Management in Beauty and Health Industry”, which, for the first time in the history of the Russian spa industry, included a 16-hour course of lectures on the spa business.

With the future of the Russian spa and wellness market seen linked to the development of the hospitality industry, the developments in this segment are crucial. In 2009, despite the complicated economic situation, 17 new hotels were opened in the capital of Russia, and the occupancy rate was stable in September 2009.

According to estimates by “Ernst &Young”, only 17% of the 261 Moscow hotels belong to international operators. The double digit growth of this segment predicted by the year of 2014 for Moscow as well as Krasnodar region and Sochi in particular- to host the Olympic Games. Although five star and luxury hotels constitute only 5%-7% of the market, the hospitality market development will inevitably give a boost to the Russian spa and wellness industry. Another key factor to ensure the future growth of the local spa market is the vast number (over two thousand) of traditional balneotherapy and rehabilitation institutions (“sanatoriums”) waiting for investment and reorganization in accordance with the European business-model.

The current economic crisis, alongside with spa-goers tightening their budgets, has coincided with two serious developments, introducing new regulations. First, the profession “cosmetologist” was officially declared as “medical” in July 2009 which has resulted in quite a number of spa and beauty institutions needing to work under a medical license. Furthermore, the formal certification of beauty products was annulated and substituted by an optional declaration. This change might open the market to a big flow of new cosmetic brands, including local ones.

INNOVATION

In contrast to vast offers of diverse treatments and services (some spa menus have up to 200 various treatments), nowadays Russian spa and wellness centers tend to focus on signature products and treatments, and introducing new medical technologies in order to assure tangible results to their clients. The achievements of Russian medical science opens new prospects for the spa business.

Gaining tremendous popularity among those interested in healthy lifestyles, is the method of endo-ecological rehabilitation elaborated by professor Y.M.Levin, head of the Russian clinical lymphology scientific school. Based on purification of the interstitial space by means of phytotherapy and spa treatments, this method has been successfully implemented in the Russian sanatorium “Kivach” (located in the Northern Russian region of Karelia), a medical destination spa, specialized in detoxification programs.

In collaboration with the Foundation for Development of the Spa Industry, the new preventive method is being introduced in medical spas. The next step is adapting the method to day spas. A new education program which combines spa-therapists training with the endo-ecological method, is going to be launched shortly at the State Friendship University.

Integration of medical science into the slowly developing Russian spa and wellness industry is sure to become a major factor fueling its growth in the near future, as new medical spa technologies become attractive investment products.

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EUROPE: *Spain*

ECONOMIC CLIMATE

The negative effects:

1. A significant drop in revenue from the thermal baths, spas and other tourist establishments of health and beauty in the year 2009, about on an average of - 30%.
2. A considerable decrease in health and wellbeing consumption, which is still considered as a “caprice” product, owing to a significant reduction in household expenses of tourism and leisure on account of the rise in unemployment and the downturn in household consumption: a decrease in the number of treatments contracted, the travellers, and overnight stays, as well as a significant lower average price.
3. Companies have been forced to cancel or halt their projects owing to the fact that the investments are totally paralyzed.
4. A very significant decline in the demand resulting from the spa industry.
5. The fragility of the spa market has become more marked. It is true that the sector has grown quickly and has not had time enough to be strengthened. We notice a lack of expertise in management, operations and marketing.
6. A “price war” has been created: promotions, offers, discounted prices. These promotional actions have also been reflected in the quality and the professionalism of the sector.

The positive effects:

1. Customer’s expectations are higher regarding standards of quality and professionalism. Customers are expecting an added value for the money they spend, and they are more discerning. Also they are adopting a more rational behaviour in their consumption.
2. Consumers look for excellence in service, personalization in treatments – treatments adapted to client’s requirements or needs – and the quality of the products that are applied to the skin – for instance natural products, organic anti-aging properties.
3. Changes in consumer behaviour have created new market segments, new targets and new offers.
4. Professional intrusion has been restrained: the emergence of multiple companies with few facilities and poor service has been stopped.
5. There has been a “spa market cleansing” at the moment with the strongest companies still standing.
6. The economic crisis is forcing employees of the spa industry to improve in professionalism and quality. We have to be able to respond to this new demand in standards in order to survive.

EVOLUTION OF THE SECTOR

Since 1998, we have seen significant growth of the spa industry in Spain. Having multiplied by 5 over this decade. Revenue of the spa industry which includes market segments such as thermal baths and other tourist establishments for health and beauty - thalassotherapy centers, and spa hotels in general - grew by 4.7% in 2008 to 3,375 million Euros.

Despite the deterioration of the economic situation that started in the last months of 2008 that brought about a reduction in tourism expenditures, there has been an increase in the public budget for the social thermal sector and a considerable increase in the supply of spa hotels which explains the growth of this sector. Also, the establishment's renovation policies and an orientation targeting a younger demographic with bigger purchasing power and motivation to go to spas for relaxation and aesthetics, has helped increase revenue of the spa industry.

Compared with the previous year – 8% -, in 2008 the revenue of thermal baths grew by 3.7% to reach 280 million euros. 37.5% of this revenue came from treatments, while accommodations represent just under 36%. Total revenue of hotels with spa, thalassotherapy centers and establishments specializing in health and beauty, rose 4.7% in 2008, to 3.095 million euros.

INNOVATION

Despite Spain's current economic situation which is showing that the recession is prolonged and the recovery will be weak, potential in the spa & wellness industry is still high in the medium and long term for 3 main reasons:

1. It is one of the latest upward trends in the personal care market
2. There is an increasing demand for health and wellness tourism
3. It is a product of differentiation and profitability

This optimistic view creates more of awareness than innovation in the sector. It will lead to developing appropriate training for therapists, managers and directors as well as establishing quality standards, respecting the environment, incorporating renewable energy and new systems for saving energy.

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EUROPE: *Switzerland*

ECONOMIC CLIMATE

SPA: Almost every spa was forced to re-evaluate and optimise working processes, such as cleaning, cross-working, work-planning, and opening hours, in order to minimise costs.

GUESTS: We distinguish two types of guests. The first type of guest is willing to pay any price but has very high expectations on quality. They do not book in advance but expect immediate time slots and they require more advanced and specialised treatments, which necessitates a high level of training on the part of the therapists.

The second type of guest is looking for the best deal, such as discounts on treatments, all inclusive deals, deals on products such as 3 for 2.

However, both types of guests have a tendency to book spa treatments on very short notice, which is a real challenge for scheduling and employee planning.

STATISTICS

Nowhere else in Europe is so much being invested into hotel spas as in Switzerland. Over the last few years investments of hundreds of millions of CHF were executed, in particular in 5-star hotels. Despite this fact, there are almost no statistics available.

The Swiss Hotel Association has evaluated key spa figures of its 15 partner hotels that participated in the benchmark.

Spa Managers have an annual meeting during which they share information, minutes are taken and distributed. However, due to its complexity and variety, the reliability of statistics has been an issue for many years and therefore is no longer part of their meeting agendas lately.

INNOVATION

Site design: The Grand Resort Ragaz has built the first spa-suite hotel with thermal water in all guest rooms, including in room sauna and steam bath as well as in room treatments facilities. In general, there has been a shift towards simple but high quality design and décor.

Offerings: Most spas indirectly make use of yield management by creating attractive packages/deals to increase/maximise utilisation, in particular for off-peak time slots. City spas offer lunch-break deals, mountain resort spas offer discounts when the weather is good and other spas offer

SPA INDUSTRY BRIEFING: *Switzerland*

special packages on weekdays, such as morning specials or after-work spa-ing.

Management: Due to the fact that medical spas are more and more on the opportunity radar, most hotel spas are now looking for a co-operation with a medical clinic, nutritionist and/or an exclusive contract with a cosmetic brand.

What the VICTORIA JUNGFRAU has done to innovate their business:

- The VICTORIA-JUNGFRAU Grand Hotel & Spa opened the first-ever SENSAI SELECT SPA worldwide in co-operation with Kanebo. It includes specifically designed treatments and a range of specific products.
- We have a co-operation with “Double-Check” which is the Swiss Academic Centre for Checkups and Second Opinion in affiliation with the renowned University Hospital in Zürich.
- We are looking at creating wellness packages with the help of ESPA, which will include treatment offerings, nutrition, spa focussed room amenities, as well as furnishing the rooms in order to create a spa retreat program.
- The VICTORIA-JUNGFRAU SPA is one of the only Spas in Europe, which follows the strategy of single-branding.



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EUROPE: *Turkey*

ECONOMIC CLIMATE

In 2009, the tourism sector felt the impact of the global economical crises as much as all other sectors. The spa and wellness segment is one of the most luxurious and niche segments of tourism where it is difficult to lower the cost of operation.

However at the beginning of the summer last year, lots of hotels renovated and upgraded their spas or made new investments and opened new spas in Turkey.

In 2009, the income in the spa and wellness sector declined by 19% compared to 2008. In the first quarter of 2010 there is an increase of 10 % compared to the first quarter results of 2009.

Even though the impact of the global economic crises isn't completely over, the numbers show us that there is a positive change in the spa & wellness industry. After the psychological pressure of the crises in 2009, people started to spend again for spa & wellness in 2010. We see in reports that guests are not only taking massages; they are also booking special treatments.

Compared to the past, the vision of companies has changed. They emphasize the importance of wellbeing and quality of life to their employees. With the popularity of wellbeing and quality of life, companies are adapting to this new trend and prefer to organize their meetings in hotels which have spa and wellness inside.

They want massages and treatment sessions as one of the essential parts of their organization's meeting agenda. Employees feel better with massages and treatments after stressful meetings. With a relaxing atmosphere, stress is reduced and they can become more creative.

By providing outstanding service quality, there is a continual increase in customer satisfaction which results in additional revenue and enhanced business success.

STATISTICS

In 2010 there is an increase in the number of investments in the spa and wellness industry. Turkey is one of the richest countries in the world in terms of natural resources thus enabling the country to make continuous development in the spa and wellness sector.

Beside Turkish investors, foreign investors are starting to make new investments in the spa and wellness industry. These investments will be a positive sign for Turkey that will result in an in-

SPA INDUSTRY BRIEFING: *Turkey*

crease of international tourists. According to the reports of Tourism Ministry, the average length of stay of international tourists coming for spa and wellness purposes is 10 days. There are 400 spa & wellness centers in Turkey. 220 of them are in resort spa of five star hotels and they are mostly located on the Mediterranean coast.

Historically we understand the vital benefits of thermal water with thermal therapies. Historically hammams have been one of our key traditional symbols. New generations are aware of the benefits of these for their health and wellbeing and prefer to take hammam and spa packages regularly.

INNOVATION

The spa and wellness guest profile is demanding and selective. We regularly analyze our guest satisfaction reports so that we can reach the top level of consumer satisfaction and fulfill our guest's needs. Despite the economic crises, we have invested heavily in the education of spa employees in both 2009 and 2010.

As Richmond Nua Wellness Spa, the first and only destination spa of Turkey, we put a lot of emphasis on creating spa packages which positively influence sales of special treatments and massages in different segments. Examples include: 365 days detox, periodic detox camps, anti-aging treatments, baby mooners for pregnancy period, yoga and pilates sessions, etc. Through this strategy we reached a significant increase in the popularity of these special tailor-made packages.

In order to increase our guest portfolio we utilized our e-marketing extensively by reaching out to our guests directly with these new technological internet system tools.

Beside treatments and wellness we emphasized healthy nutrition by creating a beautyfood menu, with healthy food items consisting of healthy ingredients with calculated calories. Each food item is identified with its benefit for the body and immune system.

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EUROPE: *Turkey*

ECONOMIC CLIMATE

Despite the global economic crisis and the investment slow down, the spa and wellness industry continued its popularity and growth. The SPA & Wellness industry is very much bounded with the tourism sector which closed the year 2009 with an increase in number of tourists (around 2.4%) compared to the previous year, despite the global economic downturn and descending investments. In 2009, 27 million foreign visitors, with the receipt of 21 billion USD, visited Turkey; Turkey's main competitors like Spain, Greece, and Egypt all recorded significant decreases. Thanks to a long and exceptionally attractive coastline, natural, unique, historical, and archaeological sites, a suitable climate, improving touristic infrastructure, and a tradition of hospitality, Turkey has become one of the world's most popular tourism destinations and it has been one of the most important drivers behind Turkey's economic development over recent decades. In 2009, the industry generated 95.3 billion TL (Turkish Lira) of economic activity (approximately 10.2% of Turkey's GDP) with an employment of approximately 1.8 million people (7.2% of total employment). With strong government efforts and the increasing popularity of Turkey as a tourism destination, the international tourist arrivals in Turkey is expected to increase at a healthy rate of over 10% in the coming four years.

The global financial crisis has challenged the macroeconomic and financial stability of many economies by adversely affecting financing facilities and external demand, thus causing a significant slowdown in all global economics. While the financial markets in Turkey proved resilient to the crisis, the decrease in external demand and slowing international capital have had negative effects on the economy. Nevertheless, the positive developments in the economy show signs of a fast recovery as early as the last quarter of 2009. In the years 2010 and 2011, Turkey is expected to show annual growth levels of 4% and 4.5%.

STATISTICS

Turkey is the 15th largest economy in the world and 6th of the EU countries in 2008 according to the IMF report (2009) with the largest youth population among EU countries. With the help of this youth population, Turkey has a dynamic, stable, and attractive economy with annual average real GDP Growth of 5.9% between 2003-2008 with 742 billion USD Nominal GDP (IMF World Economic Outlook, April 2009). The annual average real GDP Growth Forecast in OECD Countries between 2011-2017 is 6.7% - the fastest growing economy among the OECD countries. Furthermore, in September 2009, Goldman Sachs forecasted that by 2050, Turkey will be the 9th largest economy in the world, surpassing Japan, Germany, and France.

Most important economic institutions of the world like JP Morgan, Goldman Sachs, Nomura, OECD, and World Bank have listed Turkey among the countries that will recover from the global crisis in 2010 with the fastest pace. This expectation was supported by the declaration of withdrawal of the negotiations with the IMF in the last quarter of this year. Despite a decrease in GDP per capita in



SPA INDUSTRY BRIEFING: *Turkey*

2009, compared to the previous year around 17.7% (8.6 billion USD), Turkey is seen as one of the engines of global growth in the upcoming decade.

With incentives from the government, urban hotel investments boomed in 2009. Especially, the major hotel chains like Hilton, Accor and Marriott started lots of investments. Beside the hotel investments, there is a trend toward more luxury hotels. For example, the agreement to build a new luxury hotel has just been signed and the first Shangri-La Hotel, 7-stars, will be opening on April 2012 in Istanbul. Istanbul is the 3rd most-visited city of Europe, following London and Paris. Germany, the United Kingdom, and the Russian Federation are the top sources of tourists to Turkey. Antalya and Istanbul are the most popular cities attracting approximately 60% of all arrivals.

Currently, hotels in Turkey have a capacity of 567,470 beds. In addition there are many hotels in the investment stage with an additional capacity of 258,287 beds. The CAGR in bed capacity between 1998 and 2008 has been 6.1%. Turkey has the 'newest bed' rate in Europe with 44% in front of Spain with 41%. Out of the world's top 100 best hotels, 20 are from Turkey. Currently, 9 of the world's top 10 hotel chains are operating in Turkey.

The construction sector plays a crucial role in Turkey's economic development, accounting for well over 6% of GDP and employing some 1.4 million people. In 2009 Turkey's construction sector felt the affect of the global crisis, contracting approximately 16%. Despite this negative picture, in 2009, 31 Turkish contractor firms have managed to be listed in the "Biggest 225 International Contractors of the World" by ENR, with around 5000 projects. This number was 25 in 2008. With this increase, Turkey as a country is ranked 2nd in the world after China. Apart from Russia, North Africa, the Gulf Region, and Central Asia where Turkish firms are already operational, in 2010 there are new markets to be entered such as Western, Central and Southern Africa, as well as India. Within the six year period between 2002 and 2009, the annual volume of business undertaken abroad increased from 1.7 billion USD in 2002 to 23.6 billion USD in 2008. In 2009, because of the affects of the global crisis, this figure decreased to 18.8 billion USD.

Turkey is among the top seven countries of the world in terms of its rich geothermal resources and potential and ranks 2nd in Europe with its 1,300 thermal springs. Thermal centres and mineral springs as natural therapy centres have traditional importance in Turkey. Therefore, this tradition points to a great potential demand in the area of domestic tourism as well as foreign tourism. Local and foreign ventures for the construction of thermal facilities are supported with concessionary incentives.

INNOVATION

Miscellaneous tourism types like health tourism, thermal tourism, or golf tourism combined with the SPA concept, are new innovative trends in the SPA industry. Further expansion of coastal tourism is expected, but there is also considerable potential for health and thermal spas, winter, mountaineering, congress, expo, and golf tourisms.

A new developing segment in the SPA industry draws attention: Health & Thermal Tourism. Turkey is becoming a popular destination for medical tourism especially among the European tourists. In 2008, the country received around 200,000 foreign medical tourists, an impressive 40% increase from 2007. In Turkey, medical tourists can find world-class wellness facilities, along with nearly every imaginable medical procedure - all at a fraction of the prices typically charged in the United States and Europe. Turkey expects to attract more than 1 million medical travellers by 2015.

DEIK (Foreign Economic Relations Board) states that the factors that make Turkey attractive in terms of health care tourism are: large-scale private sector investment in health care; rapid increase in the number and variety of hospitals, medical centres, clinics and thermal spas; trained qualified medical staff; the latest technology; and substantial price advantages.

Due to the demand and developments in medical spas and thermal (mineral water) spas, we have been innovating designs, systems, units and equipment for medical and thermal spas including therapeutics and physical therapies, like hydrotherapy, balneotherapy, peloidtherapy, different pools and shower systems where healing effects are used.

We have also started to offer more and more hamams for spa wellness centres both in domestic projects and in our projects abroad with the increasing popularity of hamams worldwide. In all the resort hotel spas, hamams are the touchstones, as the most important primary element of the spa centre. Not only is this true in resort hotel spas, in almost every day spa, hamams are required and we are designing a vast variety of hamams depending on the concept of the project from quite modern to traditional classical ones.

As for other innovations, we are designing and offering themed spa concepts with saunas, steam rooms, salt rooms, hay therapies, sand therapies, snow rooms, ice fountains, experience showers, and relaxation rooms with different aspects like “silent” or “social”. In spa design, we use more and more natural materials like marble and natural stone and use natural colours enriched with sophisticated lighting systems and also install the spas on the ground floors where there is natural light, air, and a view. Depending on the concept of the overall project, we sometimes offer quite minimal designs however sometimes splendid, luxurious and deluxe design.

Apart from these, marine tourism and golf tourism is also expected to see huge growth in coming years. In recent years, golf courses with international standards have opened up. Turkey has become an elite golfing centre where players from around the world can meet in an environment of quality and prestige. In these golf hotels, very luxurious spa and wellness centres are often part of what is offered.

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EUROPE: *Turkey*

ECONOMIC CLIMATE

Negative

- Individual's shrinking disposable income affected membership sales. And most of the spas in the city destinations base their income on memberships.
- As the crisis hit, people cut back on luxuries, spa treatments fall into that category.
- We have seen a decline in the more expensive treatments in 2009.
- As in all our hotels we price membership in Euros, the strengthening of the currency at the end of last year affected new sales as well as renewals.

Positive

- The impact of the economic crisis affected people's health and stress levels increased. We have noticed an increase in de-stressing treatments in some areas.
- Due to increased competitive advertising among different hotels and spas people are more aware of what the word "spa" means and also its benefits and healing therapies.
- At least for Turkey, business seems to be picking up again.

STATISTICS

- Due to changes in the tourism sector and competitive advertising campaigns, people are choosing more natural spa holidays with holistic experiences - they are looking for hotels with different categories of spas, thermal springs, or holistic healing therapy spas to rejuvenate themselves.
- Maintaining a healthy concept of living has become an important factor in determining holiday destinations.
- Nutrition and healthy living becomes an integral part of the spa. The concept of healthy living is relatively new in Turkey and spas can contribute to the improvement of overall health by offering dietician advice, healthy eating, etc.
- Knowledge of spas has increased substantially compared to 2-3 years ago when people used to think of spas as only places for massage. Now it is a total concept of well-being of the mind, body, soul as well as total fitness.
- Sizeable and state of the art fitness and spa facilities have become a more and more important decision factor for hotel guests when they choose a hotel.
- Here in Turkey fitness is still an equally important factor to the success of a spa. So on top of revenue generated from treatments, there is an additional income level in that people are prepared to pay more for the guest rooms, knowing they have good spa facilities on property.
- Product sales are still very low
- The traditional Hamam treatment still accounts for almost 50% of treatment revenue.
- We still see a number of so called spas opening which are purely huge fitness centers, not offering much in terms of spa treatments or a spa feel.

SPA INDUSTRY BRIEFING: *Turkey*

- A lot of investments are done purely with local sources, not making use of international available know-how, technology, etc.

INNOVATION

- Many new concepts have been introduced, for example LPG machines for cellulite, laser treatments for skincare and Botox. Especially in Turkey, people are very technology addicted. If there is a new machine, or a new trend, people want to be among the first to try it and experience it.
- Spa management consultants have sprung up in many regions.
- Many traditional cosmetic companies have also ventured into the spa field offering new ranges of international spa products and spa therapies with training geared to hotels and spas.
- In our Amrita Spas in Izmir and Istanbul we have introduced Ayurveda in recent months and we hosted an Ayurveda workshop where an Ayurveda doctor came to participate and explain the benefits of Ayurveda to all our spa members - this has helped awareness and increases revenues for our Ayurveda healing therapies.
- On the fitness side, we have increased the number and variety of group classes to include Pilates, Step Aerobics, Spinning, Yoga, Taebo, Kinesis and Reformer, and Aqua gym.
- Private fitness training is an important factor in the success of any spa in Turkey.
- We have also introduced workshops on Reiki, Laughing Yoga and Diet & Nutrition to promote the awareness of health and wellness which is currently required by the local community.



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EUROPE: *United Kingdom*

ECONOMIC CLIMATE

Like most regions of the world, the wellness industry has been impacted negatively by the economic crisis and unfortunately there have been a number of establishments that have gone out of business as a result. However, despite the difficult economic climate, there have been a few areas of the industry, which have generally performed well, namely: gyms, value priced spas, and hotel spas.

Many gyms and fitness centers saw a significant increase in usage and memberships following the economic crisis. Gym operators consistently reported that in the economic slow-down, consumers have renewed their focus on their own health and wellbeing. And while, operators have found it difficult to increase membership fees during this period the increase in gym usage and ancillary revenues has sustained many businesses in this area.

The other area of growth has been the spas and salons that are value-priced. Consistently, these operators have reported double-digit year-on-year growth during this period as consumers have maintained their usage of spa and salon services but shifted to lower priced providers. Some of these operators have relied on headline discounts to drive new customers, but the most successful have focused on creating compelling value-added packages for the mass-market consumer.

The biggest beneficiaries of the financial crisis appear to have been the domestic hotel spas and resorts. The decline in the value of sterling has meant that many consumers have chosen to spend their holidays inside the UK and those hotels and resorts which have a credible spa offering are particularly attractive for either a short break or a family holiday. One national spa resort operator reported an astonishing 96% occupancy rate for the year. Destination and city hotels are learning to better package rooms with services and treatments and hotel spa managers are becoming the darlings of the hotel as general managers are finding that the spa can be an effective tool in selling room nights.

STATISTICS

Despite the encouraging signs that the wellness industry is weathering the economic crisis relatively well, there remains the long-standing concern that the industry is viewed as an unnecessary luxury by too many. The 2010 National Health and Fitness Omnibus Survey by Leisure-net solutions, an ongoing study of 1,600 UK consumers, reported that 61% felt that “spa treatments are a special treat that should be done every now and then”. This is a concern as it suggests that the spa industry can do more to become front and center of the consumer’s wellness regime rather than an occasional luxury.

INNOVATION

The online collective buying and private sale phenomenon, which has taken the US by storm through websites like Groupon and Gilt Groupe, has rapidly become a major force in the UK market. There have been more than 20 companies in the UK that have launched in this area. The sites tend to offer a range of lifestyle related deals including restaurants, bars, events and spas.

The exact mechanisms for these sites vary, but essentially they all provide a platform for businesses to reach new customers through a discounted offering (sometimes with a minimum number of people needing to purchase to activate the offer), to a targeted group of customers, for a short period of time (typically a day). The social networking and viral aspects of these sites combined with the discount and the short sale period mean that these sites can generate tremendous amounts of business and new customers for even the smallest of businesses.

Wahanda was an early mover in the space with a focus on wellness, and we are already beginning to see consolidation with many of the websites either closing down or merging, however, a few winners will certainly emerge in each market and they appear destined to become an important marketing channel for spa operators who are willing to discount to drive incremental business.

Of course, the discount model is not right for every spa or salon operator, however, it is rapidly becoming clear that the emergence of the Internet as a “social buying” medium will have a powerful impact on everyone in the wellness industry and how we market.

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EUROPE: *United Kingdom*

INTRODUCTION

'It's the Economy, Stupid' was Bill Clinton's famous 1992 campaign slogan and never has a single phrase been more appropriate for 2009, the year of global recession and general economic turmoil. With high unemployment, a steep fall in GDP, and a collapse of consumer confidence particularly in the developed markets, 2009 was no easy ride. And travel (inevitably) was affected. The spa industry generally follows the ups and downs of the economy so tourism arrivals and departures declined significantly, the luxury sector was particularly hit hard, and the trend towards the 'staycation' was much in evidence.

ECONOMIC CLIMATE

The U.K. went into recession early and is late to recover. A 7.8% unemployment rate is not as high as some, but is a significant cost and productivity issue. A 4.9% GDP fall in 2009 and public spending at record levels, partly as a consequence of government stimulus measures to drive the recovery, are both short and long term issues. And the decline in bank lending to businesses, down 8.1%, further increased the pressure. In the overall travel market visits abroad by U.K. residents decreased by 14% in the 12 months to February 2010 - a decline of 9.4 million visits. There was a marked decline in business travel (down by 21%) as well as holiday travel (down 14%) but visits to family and friends were less affected (down 6%). With regard to visits to the U.K. by overseas residents, there was a decline of 4% in the 12 months to February 2010, a decline of 1.4 million visits. There was a decline in business travel (down 14%) and visits to friends and family (down 7%) but holiday visits actually grew by 5%, partly attributable to favourable exchange rates which improved the attractiveness of the U.K. as a destination. Bottom line: more people were holidaying in the U.K during 2009 which significantly helped the hotel and spa industry ride out the economic downturn.

SPA DEVELOPMENTS & CONSUMER BEHAVIOUR

2009 was more about reinforced balance sheets than reinforced concrete but spa developments were completed and spa projects were announced. Not at the frenzied rate of previous years but in significant numbers. Openings included the So Spa at the Sofitel St James, the Scarlett Spa at the Bedruthan Steps Hotel, the Rockliffe Hall Hotel and Spa, the Harrods Urban Retreat Medi-spa and many others – reinforcing the long term investment potential of the spa sector.

A recent Mintel survey in the UK found that only 17% of respondents were 'stress free' – the other 83% had significant worries about finance, family and friends, personal health, job satisfaction, and job security. A demand for a retreat from the daily grind, from the fast pace of modern living, is no surprise. Couple this with different lifestyle requirements from the 'we're here now' Generation X and Y consumer and the 'nearly here' Millennial's and you can see how the future of the spa industry looks rosy.

BYE BYE 2009 AND HELLO 2010!

Every business we know breathed a sigh of relief at the end of 2009, but it was not a ‘hunker down and do nothing’ year. Spas in the U.K. took the opportunity to right size their businesses, become more efficient and get more aggressive at marketing. They continued to see the value in staff training and were more robust in the selection of treatments and products. Professional Beauty magazine conducted a U.K. tracking study on beauty salons, nail salons, and spas and it is the spa sector which is holding up better with higher treatment room occupancy, growth in number of treatments per week, stable profitability and a return of business confidence.

INNOVATION

Although business failures in the U.K. increased to 1 in 74 businesses in 2009 versus 1 in 87 in 2008 there were no high profile casualties in the spa sector. We believe a key reason for this was the response of individual spa owners to the economic downturn, they worked harder, their businesses worked smarter, and they focussed on getting the basics right. Out the door went trendy treatments and there was a lot more focus on time; yield management, loyalty, and repeat business. 72% of spas in the Professional Beauty survey offer Gift Vouchers and many are on 3rd party gift programmes and spa managers are getting more innovative in using new channels to communicate their products and services. This is reflected in the increased use of social networking sites like Facebook. Value led marketing is now the standard, not the exception. Spas have a promotion schedule, offer incentives and discounts, and reach out for new business as a matter of course. This was likely driven by a need for economic survival - but it has put the industry in good shape for the recovery.

And the most surprising statistic? In a recent survey, spa owners said they would prefer a visit from Cheryl Cole rather than Brad Pitt – now that’s economic reality!

At SpaFinder Europe we responded to the recession as would be expected. However as an internet marketing company we specifically focussed on, and invested in, making our technology deliver enhanced benefits to our spa partners and our customers. We launched an international online redemption system so our spa partners can redeem gift cards and vouchers back to us quicker and more easily – saving administration costs and speeding up reimbursements. And for consumers we launched an eVoucher gift product – with instant delivery to the buyer’s (or recipient’s) inbox which provided immediate gratification for the internet buying generation. We are 100% focussed on meeting our customer’s requirements.

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THE MIDDLE EAST & AFRICA: *Ghana*

AYEKOO FROM GHANA!

The spa industry is said to be worth \$225 million annually. Recently, the International Spa Association (ISPA) which is a leading authority in the spa world highlighted global trends - over 100 million people visited spas worldwide and the global economic downturn has actually had a rather positive impact on the global spa industry. After all the hassle and tussle, people need a place to escape, indulge and rejuvenate. Albeit the industry still witnessed isolated cases of spa closures across the globe.

In Africa - excluding South Africa - less than 1% of the population visit spas. The continent of Africa has seen little investment in the industry. Apart from South Africa where the spa industry is well established, we in sub Saharan Africa can hardly boast of any well-established spa facilities. Africa's premier day spa, owned by Allure Africa ltd., and a destination spa off the coast of the Volta Lake are the only Industry players within the region.

THE CRUNCH, OR IS IT AN ECONOMIC DOWNTURN?

The industry is a novelty and current statistics indicate a growing requirement for wellness and preventative therapy. People are becoming increasingly aware of their wellbeing and would go the extra mile to live and feel well. It is indeed very exciting to know that the two establishments are all found in Ghana and even more exciting to know the challenge in pioneering the development of the industry within the sub-region rests with us.

During the period of the crunch, we witnessed an increase in spa patronage among our few clientele. The hurdles to overcome are related to infrastructural development, human resources and culture. Demystifying spas from being wrongly stereotyped as a "female thing" and place for the bourgeoisie is necessary.

THE GROWING NEED FOR WELLNESS

A recent research report in Ghana by a clinical psychologist, Dr. Araba Sefa-Dede, revealed that 4 out of every 5 top executives are either stressed or have stress-related disorders. Professor Samuel A. Danquah, an international consultant in Clinical psychology, referring to statistics from the Ghana Health service, re-iterated that over 5000 stress-related deaths are recorded annually in Ghana.

INNOVATION, OR STRUCTURAL DEVELOPMENT?

I am not particularly sure what there is to innovate except the foundation that needs to be laid. There is no structure to improve and there are no systems to innovate. There are only tremendous prospects and potential that needs to be harnessed.

“LOOKING INTO THE FUTURE, WE HAVE NO BETTER ALTERNATIVE THAN TO BUILD AND MAINTAIN THE RIGHT MATERIAL AND HUMAN RESOURCES FOR THE FORESEEABLE GROWTH IN THE INDUSTRY.”

INNOVATION - ALLURE AFRICA LTD.

With a clear goal of building globally standardized human asset and material resources, three structural developments, or should we say innovative initiatives are being spearheaded by Allure Africa.

1. Iyaba Expo, Africa's premier spa resource exhibition and conference, was brought to life. Iyaba brings together 1000's of professionals in the spa and beauty industry from the West African sub region and beyond. Exhibitors from North America, Asia and Africa exhibit their products; provide demonstrations and master classes to everyone attending.
2. Allure Africa is bringing the first tertiary level institution to provide unparalleled education that will produce empowered future leaders in the wellness and beauty industries and to build world class human assets who can deliver excellence in standards that will transform a culture and a continent.
3. Facilitating premier resource partnerships with over 16 renowned global brands including Repêchage, Kanshi, Jabu Stone, Supernail, Clean & Easy, MUD, among others. The purpose is to help grow the spa and beauty industry in the sub-region with the right material resources. A new company has been set up in line with this objective. Allure Sales and Distribution Company Ltd [AllureSDC]. It is a resource partner for the spa and beauty industry in West Africa.

To see Africa is to see potential. The prospects of growth in the spa and other industries are enormous. In Ghana, the stance of peace and tranquility and growing economic exploits such as the current oil boom have attracted much foreign investment. This is exciting as we lead the spa industry to grow and become one of the world's finest and most attractive in the next 5 years!

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THE MIDDLE EAST & AFRICA: *South Africa*

INTRODUCTION

South Africa covers an area of 1.2 million sq. kms. and has a population of 49 million with a diverse ethnic mix. 80% black, 10% white, 9% coloured, and 2% Indian. South Africa is home to 6% of Africa's population and produces 20% of the continent's GDP. It has 45% of Africa's mineral production and 50% of the continent's purchasing power.

The spa culture has developed at a steady pace over the past 20 years. 70 years ago several medical doctors published articles on the benefits of spa treatments specifically hydrotherapy, diet, exercise and psychotherapy as well as thermal springs, but no health spas were established. In 1929, a South African woman published "The Grape Cure" which gained an international following. In 2003, the Grape Cure was resuscitated and led to the introduction of Vinotherapy programmes into a Cape Winelands Hotel and Wellness centre. The first large destination spa was founded in 1972, and in 1986 it evolved to include a medical staff as well as complementary therapies.

ECONOMIC CLIMATE

The sharp economic contraction in the early part of 2009 resulted in real GDP for the year declining by 1.8%. By April 2009, the business cycle had begun to pick up and economic growth strengthened in the final quarter of 2009. General economic conditions continue to improve in 2010 with increased consumer spending. Inflation has eased back to 5.7% from 6.2%. The economy is predicted to expand by 3.3% during 2010 and GDP is listed as 3.2%. However unemployment is still a concern at 24.3%. The black and coloured middle class has doubled in size since 2003, and make an appreciable contribution to the economy. China is the major trading partner both for exports and imports.

An estimated .5 million tourists are expected to arrive in June and July, the majority from the U.S., combining soccer + safari. Preparations include improved roads and transport, ten new and upgraded soccer stadiums, a new world class Cape Town airport, and the King Shaka airport in Durban. The world cup will contribute ZAR 50 billion (\$7 billion) to the economy from construction investment alone and a further ZAR 20 billion (\$2.8 billion) generated by tourism. According to the "Future of Independent Travel" report for U.K. travellers, the top 10 "must see destinations" for 2010 included Cape Town at number 5.

HOTEL INDUSTRY

During 2009, there was an 8% reduction in foreign and domestic tourists. A decline in RevPar by 12.8% occurred in 2009, but this was balanced by a substantial (30%) increase in the number of beds.



SPA INDUSTRY BRIEFING: *South Africa*

New 5-star Hotels with spas:

- The One and Only, Cape Town Waterfront with an ESPA Spa.
- 15 on Orange with Suntra Spa, Cape Town, Protea group
- Oyster Box Hotel and Spa, Durban, part of the Red Carnation group
- Hyatt Regency Oubaaï Golf resort and Pure Spa
- Fairmont Zimbali Resort and Willow Stream Spa, Natal north coast.
- Cape Royale and Equinox spa, Cape Town
- Coral Hotel, Cape Town's first dry hotel
- TAJ group has established their first hotel and spa in Cape Town

In addition three 5-star floating hotels, the Noordam, Amsterdam and Westerdam will be sailing between ports between Cape Town and Durban during the World cup. Reports warn against an oversupply of hotels and a drop in demand for hotel rooms, with the gap between supply and demand for hotel rooms in South Africa the widest in approximately 10 years. (Grant Thornton report) There is a notable trend in the development of boutique hotels and guest houses, as the foreign appetite for these is increasing.

THE SPA INDUSTRY

The Intelligent Spa Benchmark Report 2009 provided the following data gathered from 62 spas.

- Spa revenue generated was ZAR 380 million (\$50 million) in 2008
- 35% day spas 55% hotel/resort/retreats
- More than 2500 people were employed in 2008
- International tourists made up over 1/5 of spa visitors
- 67% of visits to hotel spas were from people not staying at the hotel
- 77% of spas stated that clients request discounts and added value
- Spa numbers are forecasted to grow by 8% this year
- Visits to day spas are forecasted to grow by 20%
- Revenue per spa is predicted to increase into 2010

The South African spa market is performing relatively well despite the recent economic conditions and spa owners and managers have a positive outlook. Day spas target 30% retail sales. The training academies in South Africa are highly regarded internationally. They have high standards with accreditation for CIDESCO, ITEC, and other international qualifications. Several postgraduate courses and training are offered for spa management. The SA Spa Association is compiling an index which will be available for both local consumers and tourists.

TRENDS AND INNOVATIONS

- True African influence is captured in interior design, rituals and African designed treatments, "SPAFARIS," traditional healing, drumming
- Indigenous products make use of a wealth of South African flora. Fynbos, buchu, marula, mangongo nuts, and the medicinal plants Sutherlandia, Pelargonium, Hoodia, and African Potato.

- Chemcity, has identified the 5 most important indigenous plant products to come out of South Africa: Ecklonia Maxima, Rooibos, Fynbos, Baobab, and Aloe Ferox.
- Local products which have gained international success are Environ (antioxidants), Theravine (Grapes), and Ecklon (seaweed)

ARCHITECTURE AND SPA DESIGN

- Environmentally friendly, Green building, materials and products
- “Quick –Spas” urban spas offering 30- 45 minute treatments at a lower cost.
- Spa treatments for specific culture’s preferences and skin types.
- Provide a sense of place with pre- and post -treatment experiences
- Hydrotherapy is using new shower technologies which project from the floor.
- Senior spa treatments and teen treatments
- Cultivate relationships between living habits, health, self-care, and environment
- Extend spa offerings: life coaching, nutrition, cosmetic, dental treatments, wine and coffee bars, and complementary practitioners

CHALLENGES

Energy supply, Unemployment of 24.3%, Large wealth disparities, Human Capital flight

OPPORTUNITIES

- Tourism remains the biggest potential for growth beyond 2010
- South Africa has 1st world infrastructure, access and accommodation. Spas embrace the best of international influences, and also offer true African treatments and products.
- Medical tourism at present offers mainly surgery and Safari. There is opportunity for post surgical recuperative facilities which offer a total approach to wellness as well as rehabilitation.
- To date there has been no coastal Thalassotherapy spa. South Africa’s coastline and indigenous seaweed products allows for the development of an African thalassotherapy centre.
- There has been no real development of thermal waters in this country. There are several areas with excellent mineral springs which could be incorporated into recuperative facilities

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THE MIDDLE EAST & AFRICA: *United Arab Emirates*

ECONOMIC CLIMATE

2009 and 2010 have been a yin/yang experience. 2009 was definitely yin with guests being a lot more cautious with spending which reflected in reduced hotel capture rates whilst 2010 has been more yang and seen a positive turnaround with business levels returning positive. As hotel capture rates dropped due to reduced hotel room rates, the local external market was able to help sustain business levels. The residents in the UAE still retained their high net worth and with the right kind of offers still frequented spas. Local residents don't like to be treated like tourists and pay tourist rates, so creating loyalty incentive schemes and low period specials allowed treatment numbers to remain stable, although retail levels dropped as resident guests are less likely to purchase spa retail.

Another sign of the strong local market has been the increase in the number of day spas. Day spas continue to open and achieve positive growth. Local UAE business women are being drawn to the industry as it is seen as an attractive part-time business and they are succeeding through their strong local contacts and networking for these ladies-only spas. Gentlemen only spas have also seen an increase; however one concern is that many of the smaller day spas do not adhere to the local law of male to male and female to female therapists. Most 5 star establishments strictly adhere to the local rules and the smaller day spas and salons risk negatively affecting the reputation of spas in the region.

Although hotel capture rates were lower in 2009, there has been a positive return of hotel guests in 2010 as room rates have returned to previous levels. Hotel guests purchase of retail in the spa has also returned to 2008 levels. The economic climate also created the opportunity to streamline operations by looking at smarter staffing options, increasing therapist utilization % and reducing operating costs. Many spas in the regions are now more efficient as a result.

STATISTICS

Overall Dubai suffered a reduction in spa revenues in 2009 of approximately 30% which mirrored food and beverage and hotel revenue declines across the region. It is always interesting to see how spa revenues reflect hotel operations and the challenge for spas operating in hotels has been to increase internal capture rates during quite times and build external business levels to offset the typical cyclical nature of the hotel industry.

2010 however has been a completely different story with revenue returning to near 2008 levels. Once again this reflects a return in hotel occupancy rates. As rates increase, so does the internal capture rate. The challenge facing the UAE in the near future is the expected increase in the number of spas, particularly with new properties opening. The UAE has always had high occupancy levels due to high demand and the relatively low number of hotel rooms. In Dubai alone there will be 15,000 new rooms coming into the market in 2010 which will dramatically impact business levels since the anticipated number of travelers into the region is only predicted to increase 3% over 2008 numbers.

INNOVATION

Spas tend to be looking towards technology to drive innovation. The market seems to have been flooded with medical/wellness devices which have a wide range of claims. Equipment ranges from lipotropic devices and body contouring equipment, cold laser, massage, tanning and steam. The benefit of these devices is debatable however the question remains 'is this kind of trend good for the industry'. Obviously this equipment reduces labour costs, however they are more suited to the salon environment rather than spa. Salons which are calling themselves spas confuse consumers and with spas suffering from consumer ignorance in many parts of the world, legitimate spa experiences may be affected.

If spa becomes flooded with gimmicks then the credibility of the industry will suffer. I personally feel innovation should be coming from developing more legitimate physical therapies and therapeutic treatments rather than artificial equipment. The spa industry has only touched the surface of developing truly unique spa experiences using different raw materials and techniques.

Jumeirah is working on developing a bespoke wellness offering through its spa brand Talise. We recently launched our Integrated Medical Centre as part of the Madinat Jumeirah with a full team of medical staff, an onsite pathology laboratory and other innovative diagnostic tools. Programs have then been developed to combine spa experiences with the wellness experiences. For example we offer a 3 hour optimal health assessment which combines full blood and wellness diagnostics, a medical consultation, a lifestyle consultation, a spa treatment and health assessment report - all within 3 hours at the spa.

To compliment the integrated medical centre we also launched a new spa menu which takes the therapeutic element of the treatments to a new level. Each treatment has been enhanced with either therapeutic ingredients or techniques to allow guests a much more legitimate healing experience whilst still enjoying all the luxury spa elements. We are finding the return rate for guests much higher as guests feel the benefits and are happy to return and take more treatments.

Jumeirah has also been working towards developing an accurate forecasting tool based on hotel room rates, occupancy, seasonal trends, external business levels and previous business levels. By being able to accurately forecast business levels we have been able to better plan staff levels and promotional activities to maximize potential revenues.

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NORTH AMERICA: *Canada*

ECONOMIC CLIMATE

The spa industry in Canada has been a success story until 2009, growing 329 % between 1996 and 2006. There were more than 2,300 spas located across the country as of March 2006 as hotel and resort spas became the new default amenity for any new property. Despite narrow margins compared to other hospitality services – roughly five to 20% on spa services (where a hotel room might garner as much as a 70% mark up) the industry contributed more than \$1 billion to the Canadian economy in 2006.

However the bright picture started to fade with the recent economic downturn, especially for the hotel and resort spa sector. This category is more dependent on the tourist trade and as Statistics Canada reported in the summer of 2009, U.S. tourism – accounting for 75% of spas' foreign clientele – is experiencing its longest decline since 9/11.

Add those bleak tourism numbers to the corporations and government groups worried about the appearance of booking spa time, and to the individual spa goers who are cutting back on spending as they suffered through cutbacks. In addition sales of spa retail products are down and “signature treatments” – a standard service such as a pedicure with something extra – have fallen away in favor of core treatments, such as a massage from a registered massage therapist which can be claimed, in many company health plans, as a legitimate medical expense.

It all adds up to challenging times but in the end, there is at least one upside to these leaner times. Where once a rash of new spa openings left employers vulnerable to losing their trained staff, the labor market is in a different position than it was a couple of years ago and employees are remaining with their current employers much longer.

STATISTICS

- 64% of spa goers are women and 36% are men, which is a large increase of male clients.
- On average they are 42 years of age in Canada.
- Average annual income of spa travelers in Canada is \$68K as opposed to the U.S. with \$98K.
- Generally spa travelers most popular leisure pursuits are culture, cuisine and shopping.
- Americans (63%) are more likely to visit a spa while traveling than Canadians (49%).
- Canadian travelers are more likely to take their spa vacations close to home.
- Most popular service among the Canadian spa visitor: 86% want a massage, followed by facials, body treatments and manicures/pedicures.
- The five most important factors Canadian consumers consider when choosing a spa vacation destination are: 1: lodging accommodations, 2: personalized service, 3: cost/value for money, 4: affordable destination, 5: type of spa treatments offered.

INNOVATION

With the drop-off in U.S. tourism, competition between spas has become fiercer and is challenging spa operators to come up with creative solutions to attract the local or international spa-goer. Assisting the “doing whatever it takes” attitude of spa operators, The Canadian Tourism Commission (CTC) and 58 leading spas across the country collaborated to put Canada on the international wellness map. With innovative treatments such as Ontario maple-sugar scrubs, exfoliating treatments with Saskatchewan sea minerals, wild rosehip and chamomile oils from British Columbia, Canadian spas rank up there with the world’s best. According to CTC, the Spas Initiative was undertaken to identify spa experiences across the country to help develop awareness of Canada as an international spa destination.

Another initiative to attract the elusive client has led Leading Spas to develop Spa-Bay, based on e-Bay-style auctions. Member spas post weekend getaways and gift certificates to the Spa-Bay site, allowing anyone to bid on low-priced vacations – with bidding for \$100 gift certificates starting as low as \$15 – keeping numbers up at the spas themselves and opening the door for up-selling/cross selling once the consumer visits.

In another marketing effort, an Oasis-brand fruit juice promotion sees participating spas give discounts to customers who come to the spa with their specially marked fruit juice caps.

Some day spas hire luxury coaches to travel from hotel to hotel to pick up conference attendees and their spouses and bring them to their location and also offer double-duty treatments, such as a pedicure running simultaneously with a facial, for those clients pressed for time as they are working longer hours due to the reduction of staff at many companies.

Our clients’ goal is obviously to profitably change customer behavior and therefore maximize the value of their clients. In order to support this goal, SpaSoft has added functionality to the core application to isolate and collect the best data to identify, engage and grow the most valuable customer relationships and assist in managing loyalty awards.

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NORTH AMERICA: *Mexico*

ECONOMIC CLIMATE

In 2009 Mexico experienced one of the most dramatic drops in tourism due to the combination of Influenza, perception of unsafe conditions and economic down turn.

It was not uncommon to see occupancy levels as low as 10 %. This negatively impacted the spa industry and prompted the introduction of highly discounted rates and incentives to entice travelers. Additionally spas were forced to reduce their work force and in some cases it was necessary to close.

On a more positive note it enhanced the relationships of the private and public sectors. Additionally Federal and State governments allotted funds for the promotion of tourism in all troubled areas. Stronger committees to promote regional tourism were created and businesses went from competing to collaborating.

The industry turned to its local market in order to survive. Most of the destinations that previously relied on international travelers had to invest in sending a welcoming message to the Mexican markets, as well as adjusting its pricing accordingly.

STATISTICS

I would venture to say that some of the most interesting statistics in Mexico and specifically in the Northwest region are related to the shift from international markets to national markets, and the focus on the creation of an inelastic market based on medical and wellness spas.

The Baja region historically targeted the U.S. market and counted on its disposable income and available credit to grow its resorts, vacation homes and spa industries. This of course collapsed in 08/09 and most of the unfinished projects were abandoned.

The medical and wellness spa industry in the region has caught the attention of the tourism secretary and the tourism sector, and is viewed as an opportunity to bring back the U.S. market to the region. Some examples they looked at closely are Rancho La Puerta and Sanoviv, a destination spa and a medical spa accordingly.

The trend shows that India is the preferred global destination for medical tourism however Mexico leads as the preferred medical destination for Americans. This trend has inspired leaders in the industry to place medical and wellness spas as a priority in its growth strategy.



SPA INDUSTRY BRIEFING: *Mexico*

As a result the Governor of Baja California has signed an agreement with the tourism industry to support this trend and has assigned resources for the promotion of such facilities in the state.

INNOVATION

Mexico's spa industry is in a very young and not so organized stage and is greatly influenced by the trends in the United States. These trends are seen primarily in the resort towns. As Mexico's spa industry matures more sophisticated brands will be leading the way.

More effective designs are being introduced in order to make spas viable businesses, and the primary focus for the design of the space is based on the culture and character of the area.

The primary market is Mexican nationals and we continue to see women leading the way, but are now seeing more business men using these facilities. Mexico's main cities are enjoying an increasing number of citizens with more disposable income, whose lifestyle embraces the use of spas for wellness purposes.

The wave of indigenous treatments based on ancient communities has been a saving grace for the spa industry in Mexico. Most spas embrace the ancient traditions of the Mayans, Aztecs and other lesser known but important tribes. Our traditional remedies have proven to be effective and are backed by scientific studies and the use of herbs and medicinal plants play an important part of a spa's identity.

Organic and regional products are the preferred choice, but some European brands have gained a strong presence at the spas. The trend for sustainable products and practices is supported by the vast majority of Mexicans.

Rancho La Puerta has taken advantage of the challenges that 2009 brought to Mexico to revisit its operating practices. By maintaining and enhancing its leadership as an innovator, and promoter of green practices and evidence based treatments and programs. We have continued to promote wellness as a vital element for all humans, and have taken a stronger stance in social responsibility and responsible tourism.

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RANCHO LA PUERTA
making healthy people healthier since 1940



NORTH AMERICA: *United States*

ECONOMIC CLIMATE

We have found that people are spending less on everything and have made conscious decisions on priorities for their lives and lifestyles. Still, people are willing to spend money on themselves for things that make them feel good and are about wellness. Spas should be centering their attention to cater to these needs. Personal treatments that are good for the body and soul are items that one has the ability to control. This is important in a world economy where most people feel helpless in their effectiveness to change their well-being.

We've seen the quantity of spas increase in the New York City area over the last year, where personalized treatments, packages, and indigenous signature treatments are the de rigueur. Hotels and resorts have found that spas are a necessary amenity for three- to five-star properties in order to maintain their market share. The smaller hotels and boutiques are also offering in-room treatments as an alternative in order to compete if they do not have the property space for a spa and therefore the ability to offer their guests a full-service spa.

Today's world carries with it a lot of pressures and stress that wellness facilities cater to. They are providing not just one treatment, but a series of treatments that complement the others and provide a path to a wellness regime for the client.

INNOVATION

Spa design has become a specialty and is not just about creating a serene environment. Today's spas and wellness centers are researching exotic and innovative techniques from all over the world and offering them to their local clientele. The spa client is a sophisticated traveler who wants new and innovative whole-body experiences that incorporate water, color, aromas, acoustics, tension, compression, and sensuality in a relaxing, serene environment.

It is important to experience the local spa treatments for innovative techniques to incorporate in the 360-degree design of spas and wellness centers. Ours are totally integrated with functioning operations. Design that works and produces results for the guest is what we consider a success.

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NORTH AMERICA: *United States*

ECONOMIC CLIMATE

The ongoing economic downturn these last two years has had a deep impact on every industry in the U.S., including the spa and wellness industries. While there's a lot of new data in 2010 that indicates that a meaningful turnaround is underway, last year was particularly challenging for the hotel, resort and destination spa segments. We did see the closing of some very prestigious properties along with restructurings and mergers. However, given that the U.S. was hit hard by the global recession the number of resort/destination that closed was actually surprisingly low.

The day spa business held steadier and has proven more resilient because of the lower dollar /time commitment required of the consumer and because some stressed consumers decided to forego expensive travel in favor of the day- or spa-cation closer to home. Chains of day spas specializing in low-cost services such as Massage Envy, Woodhouse and Facelogic continue to grow. Ultimately, the fallout from this economic crisis will be a positive one for consumers, as hotel/resorts spas look at – and innovate – how to deliver more value.

Extremely popular 'deal impulse' models like Groupon and Gilt will continue to proliferate, and they're providing important lessons for our industry to learn more about the value of yield-management. And prices of treatments, which many would argue had become out of touch with consumer realities, are being reevaluated.

STATISTICS

Some of the most compelling and encouraging data we've seen in the U.S. over this last year has spoken to the relative strength and resilience of the spa industry during the recession, against the backdrop of much more significant declines for the broader hotel, travel and airline industries. For example, recent data from Smith Travel Research reveals that luxury hotel spas proved significantly more resilient than their 'room' equivalents across a tough 2009: while the Average Daily Rate for rooms fell 16%, and occupancy declined 9%, the average spa treatment rate dipped a far more modest 4%, and Treatment Room Utilization actually grew 3.5%. Smith Travel's analysts argue that luxury hotel spas' ongoing, comparative strength may mean increased attention from management going forward. As STR's vice president, Jan Freitag, put it, "a hotel room can only be sold once per night, while a spa treatment room can be sold multiple times a day."

Other data points to the relative strength of the spa industry in challenging times. For example, the annual 'State of Spa Travel' survey of travel agents across the U.S. (commissioned by SpaFinder), showed that in a very tough 2008, a significant majority of travel agents (70%) reported NO declines in spa travel bookings, and 34% actually clocked year-over-year increases over pre-reces-

SPA INDUSTRY BRIEFING: *United States*

sion 2007. 2009 was more challenging with 58% of agents reporting declines over 2008, but only 1 in 5 agents reported that spa travel had declined ‘significantly’ last year.

A host of factors have helped keep the spa sector comparatively strong. Most critical has been the industry’s ongoing, wider shift from mere ‘pampering’ toward a much broader wellness and health focus. It’s been a smart move: for consumers in tough times, their health and well-being is an expense they can less afford to cut back on, and the data seems to reveal that people will continue to invest in what they ‘need,’ rather than what they merely ‘want.’ In addition, day and stay spas across the U.S. responded quickly to the recession by rolling out discounts, value-adds, and attractive deals.

INNOVATION

Spas have been innovating beyond straight discounting and have created incentives smartly designed to drive incremental revenue and retain loyal customers. There has been an increase in spa membership programs for example.

Another key innovation is the many ways the industry has been marrying spa and wellness. We’re seeing a big increase in what could be called a ‘hybrid spa’ model, with spas incorporating many more, diverse offerings such as fitness or bringing in more medical doctors or alternative medical practitioners along with spirituality and community classes.

There has also been a dramatic increase in both spa businesses and consumers adopting all things online. We’re seeing a groundswell of consumers online searching for spas, selecting spas based on online consumer reviews, booking treatments online, and embracing spa social networking sites, such as Facebook or Twitter. On the industry side, spas are embracing tools like online booking at their websites, online gift certificate and retail sales, and some are beginning to adopt yield management software.

At SpaFinder, while we have been instrumental in providing consumers the option for online spa bookings, in the last year we’ve launched some critical new offerings, including ‘instant printable gift certificates,’ which have been very popular with consumers. In addition, we’ve just launched a free iPhone application, which allows consumers to search for nearby spas, read about them, find deals, and book treatments – all with the swipe of a finger.



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NORTH AMERICA: *United States*

HISTORY

Prior to 2008

- A rapid increase in the absolute number of hotels/resorts with spas.
- Strong competition among properties for experienced spa managers/directors.
- Companies hiring individuals without prior spa management experience whom they thought could grow into a terrific spa director. Candidates are found in different service sectors and within properties.
- Rapid promotion within spa companies: hands-on providers with people skills became managers; managers with minimal financial/human resources skills became directors.
- Property-level spa managers and directors were not expected to be skilled at budgeting, marketing, sales, human resources, public relations, finance, or retail management.
- Successful spa directors and managers moved frequently from property to property, from company to company, and received excellent increases with each move (about 12 to 18 months apart).

2008 to Present

- Spa development plateaus as existing properties have already added spas, and new property development dramatically stalls.
- Strong competition among spa managers and directors for scarce positions.
- Many spa managers/directors staying put in their secure positions for fear of being laid off at next employer.
- Professional development stabilizes. As properties tighten their belts, few hands-on providers became managers; few managers become directors. Some spa directors are laid off and spa managers are promoted to his/her position.
- As properties reduce staffing levels, they favor spa professionals with talents in areas traditionally regarded as pluses, or even non-essential: budgeting, marketing, sales, human resources, public relations, finance, and retail management.
- Spa professionals grow in place. Professional movement decreases dramatically. Performance expectations rise. Non-performers lose their positions and have little opportunity for re-employment.

Spa Management Positions in the United States:

- VP of Spas – Approximately three to four people hold this title.
- Corporate Director of Spa Operations – Approximately 30 people are responsible for 10 or more spas. The title used varies by company.
- Regional Spa Operations Director - Approximately 16 people responsible for two or more spas, but less than six.
- Spa Director – Adding together the hotels/resorts, Forbes Five & Four-Star and the AAA Five Diamond & Four Diamond hotels/resorts with spas, plus the destination spas in the



SPA INDUSTRY BRIEFING: *United States*

U.S., there are approximately 700 properties. Depending on size, there would be a spa director or spa manager in charge of operations.

- Assistant Spa Director & Spa Manager – Most large hotels/resorts/destination spas have between two to three spa managers or one assistant and one spa manager, depending on their size (square footage and number of treatment rooms) and quality.
- Other titles we see in use: Treatment Manager; Fitness Director or Manager; Operations Manager; Recreation Manager; Salon Manager; Spa Sales Manager; Retail Manager; & Guest Reception Manager.

CURRENT SITUATION

Spa operations consultants are plentiful in the U.S. Because there has not been enough work for all of them, some people have moved, at least temporarily, to Asia or Canada, where there are more development projects. Some consultants have applied for high-level, high-profile, and higher-salary spa director positions, but usually the owner or general manager remains unconvinced, because she/he knows that once the economy recovers the consultant disguised as a spa director will return to his or her entrepreneur role. Plus, the consultant may not be able to fit in a workaday culture.

We know of seven corporate or regional spa operations individuals who lost their position in 2009 - 2010 due to the position being eliminated. One hotel/resort company eliminated all regional positions (six), excluding the person at the top and one assistant. One worldwide hospitality company did the reverse and promoted their head of spas and hired four senior directors plus additional management positions; this particular company is committed to expanding their footprint of spas around the globe.

There have been few spa director positions available in the last 12 months where the salary range was over \$100k. This is partially because spa directors have stayed in their positions, not wanting to leave a relatively secure position for fear that they would be the last person hired and the first person laid off at a new property. Due to this, there is a lot of pent-up career demand with people who are ready for a new position and/or responsibilities, but there has been little movement. For the first time in many years, the employer is now in a position to be able to select from a number of terrific candidates, whereas in past years there were more positions than candidates, and the candidates commanded the show.

Probably 40+ spa directors are ready to move to a new position, but are primarily interested in a regional or corporate position. This is now a common theme for people who seem to be burned out by day-to-day operations of one spa and believe they can handle increased responsibilities and possess the strategic skills for a higher level position. We recruited a senior director of spa operations & development for a worldwide company with 40+ properties and it was a long, drawn-out interview process to find the person who had the skills/experience/personality to handle multi-properties and be able to easily relate to owners and general managers. We handled two searches for spa directors at

mega resort spas (over 40 treatment rooms) and dozens of people applied. One client wanted a spa director who hadn't moved around every one or two years, and this requirement upped the ante to find the right person, because the movement of directors has been so frequent the last few years.

A few clients found that many out-of-work candidates were interested in their position. Those applicants were not often seriously considered. This is a common theme of employers wanting to find the very best candidate and feeling nervous about hiring someone who has been out of work and looking for months. The feeling is that this person has most likely lost his/her competitive edge. Some candidates have accepted positions outside of the U.S.

SUMMARY

Since 2003 our management recruiting firm has focused on the spa business. In the last seven years we have placed 61 spa management professionals in 36 companies, primarily in the United States.

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NORTH AMERICA: *United States*

ECONOMIC CLIMATE

NEGATIVE: The economic crisis that all major industries experienced in the United States was exaggerated in the spa and wellness arena due in part to the robust period of expansion and economic success that immediately precipitated the collapse.

The primary reaction in the U.S. was an immediate market contraction and correction. In certain regions of the U.S., particularly southern Florida and southern California, the number of businesses in our industry had grown by so much that the supply greatly outweighed the demand. In areas of overcapacity such as these, the market saw immediate business closures throughout 2009. Of the businesses that survived in the U.S., over 45% reported reduced revenues compared to 2008 (American Spa Industry Insider, August 2009). To survive, business owners needed to adapt to the economic climate quickly.

One of the most prevalent negative effects of the recent economic climate is the propensity of spas to routinely and deeply discount the price of the services offered. Discounting is a slippery slope and one that has potentially irreversible effects.

The acceptance of discounting as a pricing philosophy in our industry in the U.S. has led to an ever more dangerous trend involving third-party companies who offer up-front cash flow to help owners navigate the rough economic time. This has a potentially devastating long-term affect.

POSITIVE: Even when faced with challenging economic factors, the best and most industrious business owners find ways to steer through the difficult times and emerge on top. One short term shift we have seen is spas concentrating on the acquisition of new customers to focusing on the retention of existing customers. Here are some ways this is being accomplished:

1. Growth and emergence of membership programs that focus on providing value to clients who are already consuming services on a regular basis.
2. The increase of loyalty programs. A parallel can be drawn to other hospitality industries, such as hotels and airlines, which have been years ahead with regards to loyalty and point programs.
3. More than ever, spas are leveraging existing clients to be the source of new clients. By structuring beneficial referral programs, spa and wellness businesses are able to capitalize on the social networks of their existing core clientele to grow their business.

STATISTICS

The most intriguing, and at the same time troubling statistic that has emerged in our industry in the last year has been the overwhelming percentage of single item transactions. Looking at a sample size of approximately 800 operating spa locations, over 80% of the transactions that occurred over the past 12 months only contained one ticket item (Data sourced across active locations in the US using the SpaBooker software platform). We can conclude:

1. Spas are doing a poor job of up selling add-on services to compliment the primary treatment. Spas are not doing a sufficient job at adding retail items to tickets. The importance of a successful retail selling operation is well documented, and adding retail to less than 20% of treatment tickets is not a positive statistic.
2. The high percentage of single item transactions reflects consumer buying habits and shows that the consumer is not purchasing peripheral items. The silver lining is that it leaves room for improvement once the consumer loosens the proverbial “purse strings”.

INNOVATION

One innovative trend is the growing importance of offering online booking for spa services. In Q1 of 2009 across all businesses offering online booking on the SpaBooker system, there was an average of 10 online bookings per month per spa. In Q1 of 2010, that number has jumped to 29 online bookings per month per spa. That’s a huge increase and shows no sign of slowing down. Online booking saves spas money in personnel time while at the same time allowing consumers the convenience of booking spa treatments at any time of the day or night. Revenue management is beginning to be utilized in some of the more successful operations.

Since SpaBooker is an online, SaaS (Software as a Service) tool for spa and wellness companies to manage their business, we’ve focused on helping these businesses connect more easily with the online consumer, and more specifically, the mobile online user. One key innovation was to develop the SpaFinder iPhone Application, which allows consumers to search for spas directly on their iPhone, and through integration with the SpaBooker Platform, actually book appointments in real-time. Secondly, we have optimized the online booking engines of all of our clients to adapt to mobile devices and provide an easy-to-use booking platform. The significant innovation in this regard is that we’ve done the mobile adaptation on their behalf so the individual businesses don’t need to commit time and expensive resources to have it done.

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SPABOOKER
a Division of SpaFinder

NORTH AMERICA: *United States*

ECONOMIC CLIMATE

The economic pressures of 2010 have resulted in people turning to spas for regular maintenance of mind, body and spirit. Spa-goers are still going, but taking fewer treatments than before. Hotel spas are experiencing fewer guests than before; however, this is because of a drop in hotel occupancies; hotel guests who decide to travel regardless of the economy are partaking in spa services just as much as they were before, and the spa capture rate of in-house guests has remained consistent. The fitness industry is experiencing surprisingly positive results, showing that consumers are not forgoing their fitness regimes despite tougher economic times. People are working out because they are stressed out and have decided to take care of “number one.”

STATISTICS

The majority of spa clients are women ages 35 to 55. “Baby boomers” represent a large portion of these consumers, and nearly 90% of these clients have done something to maintain a youthful appearance, whether it is receiving anti-aging facials, meditation, yoga, holistic nutrition, or cellulite treatments. Young spa-goers (between 26 and 35) are more likely to use the Internet to find spas and purchase products. They are also more likely to request additional treatments at spas, an important consideration given the crucial role played by the Internet, social networking, and other modern media. There is a significant rise in the number of men visiting spas, according to ISPA. In some regions, males make up as much as 40% of the clientele. Market research from Mintel has stated that male-specific product sales are growing at the expense of unisex toiletries. Eight years ago, the medically based day spa industry began growing at a rapid pace and remains one of the fastest growing segments of spas. Statistics from the International Medical Spa Association report that the desire for a “stress-free” treatment environment, access to more non-invasive healthcare alternatives, and the availability of advanced technology such as laser and other anti-aging solutions promise steady triple-figure annual growth for medi-spas within the next 10 years. Currently, it is a \$1 billion industry.

In a recent survey by ISPA, members reported:

- Business is strong due to a loyal client base
- Some members are seeing dips in new business
- Guests are scheduling fewer advanced bookings
- Guests are booking fewer treatments per visit
- Retail sales appear to be slowing
- Weekday appointments are slowing
- Implementation of cost-saving efforts: cross-training staff, reducing staff levels, cutting back on overtime, downsizing renovation projects, reducing inventory

SPA INDUSTRY BRIEFING: *United States*

Incentives being used:

- Complimentary gift cards with a gift card purchase to discounts ranging from 20% - 50%
- Memberships to spas, providing guests with free products upon completion of a service, and upgrades
- Reduced weekday rates as a way to increase bookings
- High discount cards to loyal clients
- Discount coupons for gift shops or “buy five services, get one free” offers
- Free access to wellness lectures and fitness classes
- Overall, nearly all members noted offering a little something extra for clients
- Some noted that the best way to achieve guest loyalty is by offering the highest level of service

Ideas to increase business:

- Partner up with local charities and donate a portion of sales to get media attention, partner with local businesses to offer special incentives to their employees, customers, clients, and/or members, getting their spa advertised in the company’s newsletter, work with local newspapers, magazines, and TV stations to tell them about unique services, specials, and the above-mentioned partnerships
- While 30% of spas had gross revenue decreases of 10-19%, only 7% experienced a decrease of 35-50%, and 32% remained the same or increased revenues.
- Profits for the above-mentioned spas were up for 33% of the respondents, flat for 15% and down by 1-19% for 35% of the respondents. This is an indication that spa owners and directors are sharpening their staffing guidelines, yield management skills, and keeping operating expenses in check in order to save costs during times when there are fewer spa visits (69% of respondents experienced a decrease in spa visits) and/or guests are not willing to pay top dollar for spa services.

According to a recent study by U.S.-based consultancy WSL Strategic Retail:

- 80% of consumers “are not buying anything that they don’t need,” especially in skincare retail
- Sales of facial skincare products priced above \$70 declined by 6% in the 4th quarter of 2008 and 7% in the 1st quarter of 2009
- Brands need to have legitimacy
- Brands need to create an opportunity for the consumer to trade down

While we have been in a luxury drought, there is hope as can be seen in the figures showing luxury spending rose overall by 29.4% in the third quarter of 2009: It is interesting to note that the strongest growth is taking place among experiential items (hotel, spa, travel, dining) and decreasing in the personal category of fashion and jewelry.

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NORTH AMERICA: *United States*

ECONOMIC CLIMATE

We cannot look at the state of the current U.S spa and wellness industry exclusively from the point of view of the recent “economic climate.” In the past two decades we’ve witnessed the substantial growth of an industry often referred to as “the boom” with year after year growth not just in revenue, but also in number of locations which drove the industry to the point of over-saturation and a desperate need for differentiation. Now if you factor in the economic climate of the past couple of years and the slowdown in spa revenue, results are predictable. However, this may lead to a new window of overall opportunity that will completely reposition the industry and take it to new heights.

Speaking in broad and general terms, over the past couple of years, the U.S spa market has had to navigate through some rough waters. The conveyor belt of new clients is no longer in action due to the loss or threat to disposable income. As much as we all know the importance of visiting a spa and building it into our lifestyles, the reality is that the majority of consumers still see it as luxury, pampering, or vanity.

Initially we are seeing “survival of the fittest,” unfortunately the smaller businesses do not have staying power, and the drop in revenue has forced many closures. The ripple effect is that the stronger and larger locations are maintaining and even indicating some growth during this time. The businesses with a strong focused strategy and a level of creative thinking to tap into new business models or opportunities will look to maximize the stress on smaller businesses.

One such example in the past year has been the entry of a new business model to the industry, the entry of the franchise model. One of the most noted and most successful examples is Massage Envy. It has managed to bring in a new model to the market that has a small footprint, easily reproduced with affordable service prices, resulting in professional services becoming more accessible.

The more accessible our services are, the more end consumers will be exposed to our industry. The franchise model is heavily monitored, managed, and supported with strong internal educational programs which secure high and consistent service standards.

STATISTICS

The most interesting statistic to us as a manufacturer is the growth of our top tier accounts and the increase in our professional services. Going back to the opportunities that are coming out of the recent turmoil, we see top tier accounts working with us very closely on minute-by-minute strategic plans and programs to make sure they are limber enough to meet the needs and expectations of our ever-changing clients. We have seen a tremendous amount of growth in our professional services, which we believe is due to a shift in consumer priorities. Clients are working with smaller budgets and are therefore moving from extensive cosmetic procedures to more results-oriented aesthetic ser-

vices. There has been a very intentional shift for the prestige spa sector to increase and improve their spa revenue by promising results. These properties are seeing luxury, pampering, and sensual journeys as a given standard of service and are now focusing on marketing their results-oriented services as the reason “why” guests should visit their spa while vacationing with them.

INNOVATION

Speaking as a visionary, I would say we are on the cusp of some very exciting times. Historically, beauty, wellness, prevention, and health have been seen as parallel industries whereas I see them as one. The way of the future is what I call The Inclusive Health model. Under this umbrella, all of these industries will work together to create the ultimate destination for clients. An inclusive health spa could be housed in a hospital, urban setting, resort/destination, corporate structure, etc. and will become part of everyday living offering affordable and manageable lifestyle programs for all, with a focus on topical skin health, internal cellular health, and a sense of self.

Unlike ordinary preventative care, which aims to prevent specific conditions, or integrative care which uses a multi-disciplinary approach to remedy specific conditions, inclusive health is an approach rooted in the Science of the Water Principle that is designed to protect and promote health on the cellular level. Respecting that the whole body is connected, we are able to improve the health of every cell in the body over a period of 10 weeks.

With the influence of the health care and medical communities, it is imperative that these inclusive health spas operate on a philosophy that is rooted in science and can show the client progress with measurable results. The traditional expectations of visiting a spa for relaxation, pampering, and self indulgence will be a given byproduct with the consumer’s focus clearly shifting to measurable wellness results. The consumer’s mindset is changing to a view that lack of disease is not enough and that the real goal is optimal health and wellness. The consumer will build Inclusive Health into their lifestyle and hence our industry will become more mainstream.

As much as the current economic climate is causing turmoil in our industry, it is also forcing us and navigating us toward contributing in a way we could never have imagined before in our changing lives. Here are some hard facts that we are facing and frankly the picture is pretty much the same across most developed countries:

- We have a disease management health care system with less than 5% of our annual budget being spent on any form of preventative care
- More than 50% of major illnesses are lifestyle based
- The explosion of childhood obesity leading to this generation of children being potentially the first to be outlived by their parents
- It is estimated that close to 50% of annual foods purchased are fast food
- Cultural stress, which is constant and pervasive stress, is contributing to a record number of prescriptions for anxiety and sleep disorders.

And the list goes on and on, making it very clear to see the opportunity for the Inclusive Health spa to focus on taking care of the entire person with strong coaching and education on lifestyle choices. Seeing the success of our inclusive health model in our partnership with the Christus Hospital group tells me the future of the spa industry is very strong.

On another note, any time an industry makes such a large shift, we have to also consider the change that needs to take place within the standards of education for the staff in the industry. Although there are some isolated elements of strong educational programs currently available to our service providers, we still have a lot of work to do in terms of creating consistent post-graduate level education which will meet the needs of the changing industry. With this in mind, we will be launching the University for Inclusive Health, UIH. UIH will be opening its doors with a 40 hour inclusive health practitioner program designed to support the occupational growth of service providers world-wide. It is very apparent to me that not all service providers have a desire to grow into management or education. Their passion continues to lie with helping people and with this certification; they are able to work one-on-one with clients to ensure they are at their optimal health versus simply performing a facial or massage for example.

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NORTH AMERICA: *United States*

ECONOMIC CLIMATE

It is no news globally that the United States has suffered from the deepest recession in modern history over the last 18 months. What may not be as widely known outside of the U.S. is that the health care debate has divided the country. While independently, these two issues are of great magnitude, when combined together they could present one of the greatest opportunities ever for the spa industry.

In this current economic climate, the spa industry was not spared. Prices for treatments dropped, cutbacks in staffing levels were made and little to no money was spent on upgrading or renovating properties causing guests to feel the pinch overall through inferior experiences. Interestingly though, treatment room utilization was up which demonstrated that many patrons, at all pricing levels, did not necessarily reduce the number of spa services that they receive. They looked for shorter or abbreviated treatments so that at the very least, they did not have to go without.

The primary reason for visiting a spa was stress reduction, indicating that the recession contributed to poor mental, emotional and physical health. When you combine this with the fact that a staggering 70% of all Americans are either obese or overweight and that prescription drug sales grew to a record \$300 billion in 2009 during a declining economy, the United States does not have a health care issue; it has a health care crisis. The increased use of cholesterol-lowering and anxiety reducing drugs proves we are a culture of quick fixes and instant gratification. We would rather take drugs as opposed to getting healthier through diet, exercise, massage, meditation or yoga.

The health care industry in the United States is one of the only industries growing through this bad economy. They have borrowed ideas from the spa industry to create sexier, more experiential hospitals wanting to give patients more hospitality type experiences. So why not the I reverse? For the future “health” of our industry, it will be imperative for spas to look at inclusive health care for our own growth. The opportunity is ripe and now more than ever, not only prevention but disease management is at our doorstep. Price Waterhouse Coopers reported that “wellness programs and initiatives to personalize the experiences of health plan members are on the rise” and that “employers will rely on prevention and disease management programs to temper costs... rather than shifting higher levels of cost-sharing onto workers.”

INNOVATION

Inclusive health care is a relatively new concept that is now practiced in some medical spas. It is a partnership similar to that of the patient-centric integrative health centers, where “a team of professionals partner with a patient to achieve long-lasting cosmetic goals and total wellness” (Dr. Howard Murad 2009). We see the broader extension of this concept reaching out to all types of spas particularly the facilities that were overbuilt between 2001-2007. They are suffering the

SPA INDUSTRY BRIEFING: *United States*

wraths of the recession with underutilized spaces and amenities at great cost to their ROI because they were built with a projected growth that was based on a booming economy. These spas have the space and client base that can provide new avenues for a team of health care professionals such as chiropractors, mental health professionals, dentists, nurse practitioners, nutritionists and physical trainers to set-up offices in spaces that could be re-purposed to suit an inclusive health care model. A visit to the spa would now not only include a bariatric massage for an overweight guest, it would also include a weigh-in and Body Mass Index reading by your nutritionist, a back and hip alignment by your chiropractor, a blood pressure and cholesterol check by your nurse practitioner and a training session in the privacy of your own room.

The aforementioned spa types are particularly well-positioned to become leaders in the health and wellness industry because their strength has always been the ability to connect with guests at a highly personal level not seen in a traditional health care model. Spas have a low stress/high touch environment that presents the human side of health rather than the clinical side and they will need to draw on this strength to attract potential consumers for the partnered services approach.

The emergence of wellness centers such as Canyon Ranch, Cooper's Clinic or the Duke Center for Integrative Medicine clearly indicate that the demand for comprehensive health programs exist at the higher end of the cost spectrum. However, it will be important to create better priced solutions at the local level that address the local client's health and wellness needs. This is where the real opportunity lies for spas to capture this need as it exists at a much broader level.

According to a recent public opinion survey, "more than three-quarters of Americans support increased investments in prevention programs to help people make healthier choices" (Greenberg Quinlan Rosner Research and Public Opinion Strategies 2009). The same survey found that prevention is their highest priority for health care reform. This proves that Americans are not only open to a proactive idea for better health but are in fact demanding it. Clearly, all signs point toward the opportunity for spas to evolve to the next level by providing a more all encompassing health care model that would include supporting a team approach focused on 360 degree care.

From grass roots to the higher levels of involvement, the spa industry will need to speak with a unified voice that lobbies to advance the singular purpose of bettering people's health and reversing the health crisis in America. It is certainly possible for us to emerge from this recession in a better financial position and with greater market share than ever before. We must use this time of turmoil to make strides and changes that will positively impact our industry well into the future.

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NORTH AMERICA: *United States*

ECONOMIC CLIMATE

In the U.S. 2009 was a very difficult year for any business that relied on the discretionary income of its clients. From Q4 2008 through the end of 2009, many spa businesses underwent a complete transformation, at least those that survived. On the negative side, of course it's terrible to see businesses have to close their doors and for people to lose their jobs. A more long-lasting and potentially damaging effect however, especially for the spa industry, is that clients learned that they could do without spa services, or traded down the quality of their retail purchases – some of these new behaviors are likely to stick. Experts predict that we have another two years to go before consumers feel more confident and that spending may never return to previous levels.

The U.S. spa market is predominately made up of day spas, with resort/hotel spas coming in second in terms of the number of units. Day spas are owned by people from all walks of life and with widely varying business skills. They usually do not have the deeper pockets of a corporation behind them. Survival depended on learning how to do more with less, and slimming down on overhead while not impacting the guest experience. Resort and hotel spas also had to make major operational changes to reflect the new economic reality. I think we learned a lot about how to be more strategic with cash flow, and to make necessary changes in some areas that were long overdue, such as employee compensation plans. Also, in a Darwinian twist, spas that were just getting by in 2008 either made major changes or closed their doors, so the facilities that remain are healthier and stronger.

INTERESTING STATISTICS

I'm not aware of a particular statistic, however one thing I've seen is a huge jump in the number of spas using social media as a marketing vehicle. It makes perfect sense in the current economy, as it has proven to be both inexpensive and effective. A year ago, you could count on one hand the number of spas with a Facebook fan page or using Twitter – now there are too many to tally. The long-term implications are yet to be revealed, but I suspect we will see a continued migration to digital media from print for advertising and marketing initiatives.

INNOVATION

- The U.S. is seeing the continued blurring of lines between wellness and traditional spas.
- Day spas and resort spas alike are embracing wellness initiatives, incorporating modalities such as Ayurveda, acupuncture, TCM, nutrition and hypnotherapy.
- Spas are offering collections of services oriented to a specific goal.
- At the same time, there is a return to simplicity as clients want the tried and true when it comes to massages and facials; service menus are becoming easier to navigate.

SPA INDUSTRY BRIEFING: *United States*

- We are also seeing more spas or spa services being offered in varied venues such as hospitals, fitness centers and retail stores.
- I believe we will also see the continued growth of low-cost, low-frill service models targeting a specific audience.

This industry evolution means that spa services are available in more places to more people than ever before, and so becoming more mainstream and not just for special occasions. Having a collection of services and price points available means that consumers can find the spa experience that's perfect for them.

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NORTH AMERICA: *United States*

ECONOMIC CLIMATE

Although it depends on the individual U.S. market, overall spa revenue has been down by 20-30%. Visits are holding solid, people just aren't spending as much on treatments and products when they come to the spa. Spa owners and managers are realizing that in order to survive they must have the whole package; exceptional customer service, treatments that under-promise and over-deliver, an environment full of amenities that add value, and services that are priced appropriately for the market. One of the positives to come out of this current economic climate is that there has been a weeding out of mediocre spas. Now, more than ever, the customer is king. If they don't like what they see, they don't come back.

INTERESTING STATISTICS

The International SPA Association's (ISPA) statistics are always worth analyzing.

- The 2009 report showed that overall U.S. industry revenues continued to grow at an annual rate of 17.8% to \$12.8 billion for year-end 2008 from \$10.9 billion for year-end 2007. Revenue remained stable at the per spa level. Due to the timing of the study, the statistics don't accurately reflect the economic situation in the U.S. at present. That September, the infamous stock market crash occurred, the result of which, was consumers spending less, massive job losses, and the government bailout of banks.
- The number of locations grew to 21,300 for a five-year average growth of 17%. As with the previous report (2007), location growth by year (18.8%) again exceeded revenue growth (17.8%). I'm still surprised by the number of small business owners who want to open a spa.. Banks are not loaning money for projects and, unless the entrepreneur targets a market that is not saturated with spas, it's not a viable time to build a spa. Spas in higher-end hotels are almost seen as mandatory. Again resort development has slowed because of the economy and difficulty in raising capital.
- The number of visits per spa is interesting as it declined slightly to an average of 7,486 per location for 2008. Just five years before, that figure was 11,063 per spa. This, coupled with the previous statistic, indicates that some markets are saturated and competition is more fierce.

INNOVATION

Integrated wellness is a great direction for the spa industry. I'm glad to see us moving away from the term 'spa' and putting a greater emphasis on 'wellness.' We need to be careful that we don't confuse the consumer. Thoughtful consideration needs to be given in how we transition this message in our marketing efforts. On a similar note, there's a movement away from using the term 'luxury' in marketing materials. The term no longer resonates with U.S. consumers. Gone are the days of excess spending. Instead, being cost-conscious and financially savvy is hip and chic. This movement challenges spa operators to be creative.

Spa-goers are looking for more simplified, yet more personalized menus. They are overwhelmed by massive menus with a myriad of treatments. They want what they want and don't want to spend a lot of time

SPA INDUSTRY BRIEFING: *United States*

perusing pages. We are seeing more creativity in the U.S. in making menus more simplified, yet personalized. Which leads me to consumers want more than personalized menus, they also want personalized experiences. At Creative Spa Concepts, we are programming a lot of spa suites that can provide spa/hotel crossover experiences (spa treatments, steam showers, napping areas, F&B areas, DVD players for meditation or movies, changing/vanity areas, etc.) These suites make a personalized guest experience possible while, often times, not requiring a therapist be present.

Spas are becoming harder to categorize as 'Resort', 'Destination', 'Day', etc. Day spas with yoga and cooking classes, resort spas with destination spa elements, spas in hospitals - there are many hybrids and this creates challenges in marketing and design. CSC is working with a stand-alone day spa in a major U.S. city whose owners want to offer a yoga membership and quarterly destination spa programming. We have to be more thoughtful about creating multi-functional spaces and how to maximize revenues from the space. Another new challenge is to come up with accurate benchmarks.

A lot is happening with integrated medicine. Spas for the senior population are a growing segment, as well as spas in hospitals. Yet, to date they have not been as successful, which I believe is related to marketing efforts.

U.S. spas are using eco-friendly designs. Though, eco-friendly policies can pose a challenge for operators in figuring out ways to reduce water consumption and linen usage. Achieving LEED certification is popular for a lot of developers. Spas are faced with challenges to reduce water usage and linen consumption to meet the highest standards. For now, most of the focus is on using 'green' building materials. Some operational changes are underway, for example, one CSC hotel client is getting rid of bottled water by giving refillable water bottles to guests and placing filling stations around the property. Seems to me that hoteliers are going local to add a spa. This could be because room rates are down and the GM wants to bring in a successful, well-known, local business.

At CSC, we are being innovative in two ways to add value to our clients and the services we offer:

- We are launching Get Spa Smart. This section of CSC's site shares complimentary information and resources to help spa professionals develop and operate better businesses. For media, Get Spa Smart includes Spa Inspired Life, a section that features experts who share beauty, fitness, cuisine, and well-being tips, recipes, etc. to give journalists a 24/7 online resource. In addition, spa business can strengthen their consumer education through utilizing tools from Spa Inspired Life. Get Spa Smart is complimentary and available only to trade professionals.
- CSC invested in an in-house PR person to add value to our clients. Most consultants don't use PR, though we are seeing that through CSC's PR efforts, our clients receive a boost in their reputation, brand, and bottom line.

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SOUTH AMERICA: *Brazil*

ECONOMIC CLIMATE

The recent economic recession had a negative affect on the spa industry in Brazil in 2008 and first quarter of 2009. However, the impact was lower than expected. The spa industry in Brazil is very young, but it is growing very quickly because of the increasing popular culture of body and beauty care, wellness and quality of life. People in Brazil are increasingly becoming aware of what a spa actually offers, its services, structures and benefits, and that has brought many new spa goers to the spas. This fact has positively influenced new entrepreneurs in this market, and therefore created a much larger market for the spa business in this country, especially in the larger cities such as São Paulo and Rio de Janeiro.

Many people in Brazil still link the concept of spa to luxury and very expensive services. This false view of spas has kept potential clientele away. Basically, despite the recent negative economic environment, we notice that the Brazilian spa industry is rapidly overcoming it and we are seeing a very positive growth for this segment in our country.

The Brazilian people are very price oriented. Many people do look at quality first but at price. Even though there are many differentiated spas with higher quality structures and services, they also compete with smaller and lower quality and less expensive spas. This is a big challenge for entrepreneurs, who must differentiate their spa and services.

STATISTICS

The Brazilian spa market is very young, fragmented, informal and not professionalized. This has resulted in difficulties especially when it comes to gathering information and statistics. We still have no precise information on our spa industry, but the market is estimated to have fewer than 1.000 spas, mainly concentrated in São Paulo, where we suspect 40% of the spas in the country are located.

Some data we have in the Brazilian spa market is related to the first Spa Week (last October) that we (the Brazilian Spa Association) organized in São Paulo. We just promoted the second edition of Spa Week, very similar to the U.S. and Canadian version. This event has strongly and positively impacted the spa market in the cities where it occurred - São Paulo and Rio e Janeiro. It was a 14 day event and 14 spas participated (in the second edition happening in this April we jumped to 38 spas). There were 6.7 thousand services rendered during this period, which resulted in an increase of an average of 110% of the normal routine of the spas. 83% of the clientele were woman, and 39% were 21 to 31 years old, which shows that the younger population is more oriented toward the benefits of the spa, but does not frequent spas because of the prices. 30% of the clientele were 32 to 41 years old. It is also interesting to know that 41% of the people who attended Spa Week had never gone to a spa in their life! There is an extremely large potential client base.

INNOVATION

Brazil is a multiracial country with many cultures and origins. This has influenced the spa industry, which reflects different countries around the globe: Japan, India, U.S. and Europe in particular. Because the Brazilian spa industry is young, most of the innovations come from worldwide influences. It is difficult to find innovative services or treatments that are not found in any other place. However, Brazil is rich in local influences, natural environments and many natural resources. Some indigenous factors might include facial products, body lotions and oils from natural Brazilian resources, different natural masks, natural grains and seeds for pillows and relaxing couches, the use of local types of woods for decoration and architecture etc.

In terms of management, the Brazilian spa industry is very poor. Most of the spa entrepreneurs are aestheticians, physiotherapists or other types of spa professionals that succeeded in their individual businesses. It is hard to find strong and prepared entrepreneurs investing in this business, but it is growing because of the overall growth of the industry. There is also a lack of education programs in Universities as well as a need for dedicated schools for spa professionals and managers. We, in the Brazilian Spa Association, are investing a lot in this segment, developing special courses, processes and certifications.

In Buddha Spa (a chain of spas of which I am a partner), we have developed and created during a very professional and structured management team in the past 5 years. We are probably the most professional spa company in Brazil, operating our own spas and working as spa consultants for other companies. My partner and I have a financial and law background, therefore we have structured an efficient business model that can be replicated by the franchises we have launched. Our professional structure and management training includes client management, therapists, administrative management, legal issues, controlling and procedures, marketing and commercial, architecture and decoration, coordination and supervisors, etc.

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