AMERICAS: *United States*

BACKGROUND

The spa and wellness industry in the U.S. has seen tremendous growth in both supply and demand for the past 25 years. In the late 1980's there were only a handful of luxury destination spas, a few resort spas and a sprinkling of mineral spring spas scattered around the country. The industry grew steadily and then exploded in the 1990's when day spas emerged onto the scene and many high end hotels began adding spas. Aesthetic med spas became popular around 2002 as a result of the FDA approving Botox for frown lines and wrinkles. In the past few years, the prevalence of health problems, such as obesity and diabetes, has resulted in more emphasis on medical wellness spas as a preventative measure. A new category, wellness communities or spa lifestyle real estate emerged very recently. Overall spa industry growth figures have averaged approximately 15-20% per year for the past 20 years (ISPA).

Macro trends which have fueled the growth of the U.S. spa industry include:

- Aging baby boomers who want to maintain their health and looks
- Increased levels of stress, which is the number one reason people go to spas in the U.S.
- Health care industry challenges, 50 million+ Americans without health insurance necessitates an emphasis on prevention (now more vigorously trumpeted by President Obama)
- Increasing affluence and more affordable spas attract new demographics
- The pursuit of beauty defies recession to some degree
- Technological advances have made new products and services available and the internet which has affected how spas operate, manage, and market
- Globalization has exposed people to other country's healing traditions and fueled a desire for complementary and alternative wellness services

CURRENT NUMBERS

Some recent statistics:

- U.S. Population is approximately 305 million
- 25% percent of the population has been to a spa
- There are more than 21,000 spas in the U.S. Note – there are more spas in the U.S. than there are Starbucks around the world! (SF)
- 75% day spas (SF)
- 11% resort/hotel/destination spas (SF)
- 10% medical spas (SF)
- Spa revenues now exceed 13.2 billion dollars per year (SF)
- The number of spas continues to increase, but revenues per spa have not kept pace
- We see indications of saturation in the day spa segment
- 1/3 of first time spa-goers come in due to a gift – mostly gift certificates or vouchers (ISPA)

ECONOMIC CRISIS

The U.S. economy began to show signs of a slowdown in early 2008, due in part to escalating gas prices which hit a never-before-seen high in July. Although gas prices came down in the second half of the year, two major events in the third quarter catapulted the already edgy economy into turmoil, greatly impacting the travel, hospitality and spa industry. In September, the fall of Lehman Brothers stunned consumers, bringing a large amount of business travel to a standstill. A second blow occurred when insurance giant AIG (American International Group) was criticized by many, including both Presidential candidates, for spending over $440,000 at the St. Regis Resort and Spa in Southern California shortly after accepting an $85 billion federal bailout. This became known as "The AIG Effect" which has continued to impact corporate travel well into 2009. The banking crisis, the evaporation of mortgage lending and a plummet in the level of consumer confidence resulted in a sharp drop in demand in the last quarter of 2008 and the first quarter of 2009. As the recession worsened, it appears as if the "AIG Effect" is causing an even greater effect than was first noticed, as a result of concerned public scrutiny of corporate travel expenses. In addition, a guilt factor has emerged; even those who could afford to spend money on spa services feel pressure not to do so (at least visibly). The recent warnings of a swine flu pandemic has had an additional, although very minor, affect on travel so far. Recent unemployment figures show continual increase in unemployment, now 8.9%, although slowing in pace.

FALLOUT

While reliable data shows a definite decrease in hotel metrics, spa data is more difficult to come by. Early observations show that "as goes the hotel, so goes the spa" and that some spa categories (namely the day spas) are more resilient than others.

Hotels

It was estimated that the lodging industry lost $1 billion worth of corporate meetings and incentive trips in January and February 2009. U.S. hotel industry figures showed that compared to the first quarter of 2008, the first quarter of 2009 was down 11% in occupancy to 51%, down almost 8% in ADR (Average Daily Rate) to $100, and down almost 18% in RevPar (Revenue per Available Room) to $51 (STR).

For the hotel segment, several areas of the country have been hit harder than others. This includes Phoenix and Miami (simultaneous issues of supply growth and demand decline), Detroit (auto industry turmoil), New York (financial market disaster and a large supply of luxury properties), and Atlanta (decrease in both corporate spending and business travel). Washington D.C seems to be the only bright spot (STR).

Some properties with spas have closed and that figure is likely to increase through 2009. Early casualties include the Greenbrier Resort & Spa in West Virginia and Daufuskie Island Resort & Breathe Spa in South Carolina, both of which filed for bankruptcy in early 2009. In the first quarter of this year, spa revenue was down approximately 25% for the luxury spa category (STR).

A few top resorts are feeling such a significant "AIG Effect" that some have removed "and Resorts" from their name and many are looking at ways to bundle spa services in order to prevent them from appearing on a person's bill at checkout.

Estimates point to hotel spa revenue declines of up to 20% versus 10-20% for day spas. Of interest, it appears that in some resort or hotel spas, the percent decline of spa revenue is less than the percent decline in room night revenue.

Day Spas

51% of Day Spas reported gains in spa revenue in 2008 compared to 2007, with first quarter 2009 decreases observed for the majority of day spas - although not all (SF). Day spas have benefited from customers staying closer to home, which keeps them connected to their local day spa. It also appears that the economic downturn for spas has been somewhat mitigated by increased stress levels, producing the "need" for spa services such as relaxing massage. The idea of the "daycation" or "staycation" seems to be catching on. In general, day spas which are notoriously more "nimble" than resort or hotel spas have remained the most resilient, likely in part to quicker decision making and marketing responses. Estimates of day spa revenue decreases in the first quarter 2009 (from a variety of sources) come in around -10% to -20%. In the day spa segment there is a slight uptick in the amount of spas being sold or closed; however, a significant wave of closures has not yet materialized. One recent visible change of hands occurred when Spa Chakra purchased the Cornelia Day Resort in Manhattan in the first quarter of this year.

Medical spas

This segment, which includes both aesthetic med spas and preventive wellness spas, seems to be showing a mixed result. The aesthetic med spas that are implementing effective marketing and solid management are continuing to grow. The rapid expansion through franchises has disappeared; however, with the recent approval of Dysport (the first competitor to Botox) we may see increased competition and lower prices. Those medical spas focusing on wellness and prevention are showing more promise, especially if they have some link to proactive lifestyle choices. The health care industry is one of the bright spots in the U.S. economy as it continues to add jobs. The federal government's $787 billion economic stimulus package includes healthcare funding which incorporates prevention programs.

In summary, the recent global economic crisis has affected both supply and demand. While demand for spa services has decreased due to the recession, underlying macro trends continue to fuel demand to some degree. Supply was still increasing in the early part of 2009 as projects already in the pipeline were completed although others (including some already under construction) have been put on hold, scaled back or cancelled completely. There is consolidation and the weeding out of weak players across the board, something most agree was needed. This will continue. Final figures for 2009 will likely show that total spa industry revenue and profitability will be down significantly for the first time in the history of the modern spa industry.

PROJECT PIPELINE:

In the hotel arena, there are approximately 5,000 rooms in the pipeline which is a drop of around 20% from a similar time last year (STR). Below is a list of some projects and their standings:

RECENT OPENINGS

- AZ, Spa at L'Auberge, L'Auberge de Sedona, Sedona
- CA, Beauty Atrium at the Atrium Hotel, Beverly Hills
- CA, Nagomi Hair Spa, Beverly Hills
- CA, Se Spa at Se San Diego Hotel
- CA, Spa L'Auberge, L'Auberge del Mar
- CO, The Spa at Capella Telluride
- FL, Agua Spa, Mondrian Miami
- FL, Cinzia, The Spa at North Beach Plantation
- FL, Eau Spa, Ritz-Carlton Palm Beach
- FL, Lapis Spa, Fontainebleau Tower Miami Beach
- FL, The Spa at Country Inn & Suites, Country Inn & Suites, Gainsville
- GA, Bliss Spa, W Atlanta Downtown Hotel & Residences
- GA, Remede Spa, The St. Regis Atlanta
- HI, The Spa at Ko'a Kea Hotel & Resort, Kauai
- NJ, Bliss Spa, W Hoboken
- NV, Spa Mio, The M Resort, Las Vegas
- NV, The Spa at ARIA, ARIA Resort & Casino Las Vegas
- NV, Vdara Health & Beauty, Vdara Hotel, Las Vegas
- VA, Elements Spa & Salon, Great Wolf Lodge, Williamsburg
- VA, Lorien Spa, Lorien Hotel & Spa
- WI, Scooops Kid Spas, Great Wolf Lodge, Wisconsin Dells

ANTICIPATED TO OPEN IN 2009

- AZ, Bliss Spa, W Scottsdale
- CA, Spa at Terranea, Terranea Resort
- HI, The Ritz-Carlton Kapalua Spa
- NY, The Joseph Christopher for Beauty & Wellness Spa, The Allegria Hotel & Spa
- OR, The Spa at The Allison, Newberg
- UT, The Golden Door Spa, Dakota Mountain Lodge & Golden Door Spa

CONTINUING

- AZ, Renovation of The Hilton Spa Sedona, Sedona Hilton Resort
- CA, The Hotel Bel-Air Spa by La Prairie, Hotel Bel-Air, Los Angeles
- CA, The Spa at Dry Creek Inn, Healdsburg
- CA, The Spa Hotel Healdsburg, Hotel Healdsburg
- FL, Exhale, Epic Hotel, Miami
- FL, Serenity Spa, Papillon Resort
- FL, The Spa Internazionale, Fisher Island Club, Fisher Island
- IL, Various, Gansevoort Hotel Group, Chicago
- NV, City Center (at least four out of five of its hotels)
- NV, Lapis Spa, Fountainebleau Las Vegas
- NV, The Cosmopolitan, Las Vegas
- NY, NV, FL, Men's Spa
- VT, The Spa at Woodstock Inn & Resort, Woodstock Inn & Resort
- Washington DC, 1 Hotel by Starwood Capital

ON HOLD:

- AZ, Amansala Spa/Salon, Scottsdale Resort & Spa
- CA, Orient-Express' El Encanto Hotel in Santa Barbara
- CA, River Rock Casino Resort & Spa
- FL, Exhale Spa, The Traymore Hotel, Miami
- VA, The Spa at Primland, Meadows of Dan
- And myriads of others wishing to remain anonymous for now

ADAPTATION TO THE ECONOMIC CRISIS

Consumers

It's no surprise that consumers are cutting back and looking for value and expecting discounts. Some have given up spa services altogether, others have downgraded. Many are letting more time elapse between services. Consumers are cutting back on retail purchases and buying lower priced products. Discount priced spa establishments such as Massage Envy, which has expanded to 810 locations in 40 states, and Face Logic (with over 50 locations) are benefiting from this trend. Red Door Spa Holdings just launched a new more affordable spa brand, Simply Face and Body. Nectar by Sheraton is poised to bring spas to the 3- and 4-star markets.

Other trends resulting from the economic downturn seem to be an increased interest in spaing with family, exploring lower cost ethnic spas, and an emphasis on gift giving where it is still "politically correct" to gift luxury. A recent American Express study suggests that consumers are looking for "micro-pleasures". There are also indications that while consumers support sustainable practices and do not want to waste resources, neither do they want to be preached to about sustainability when they spa and travel (Travel & Leisure).

Industry

Reactions to the decrease in demand include an increase in promotion (incentives such as discounting and using added-value incentives to avoid discounting) almost across the board. Resort and hotel spas are providing incentives to in-house guests and working hard to expand their day spa business. Spa membership programs are on the rise, which work somewhat like gym memberships. The spa-goer pays a small down payment and receives discounted treatments. This keeps the client connected to their spa and discourages attrition. Other adaptations include the implementation of programs whereby philanthropy and spa is linked to soften the guilt factor, an increase in the emphasis on stress reduction, and a greater use of internet marketing because of lower costs. In addition spas are experimenting with social media sites in effort to attract a younger generation.

Some spas have shifted a bit more towards beauty (hair and waxing) as these services continue to be popular. Others are exploring fitness options. There is an increased emphasis on the importance of retail even though many spas are cutting back on ordering new stock. With more time to sell retail, some spas are reporting improved performance. Well-structured businesses are investing in quality training, continuing to look after guests, and pushing service at this time. Red Door Spa Holdings, for example, has not made any cuts in training budgets (NYSPA). Smart businesses are looking at ways to increase the value of the spa experience by extending treatment time, not just immediately before and after the service, but also before a customer arrives at the spa and continuing into the time after they leave.

Future spa builds are smaller in size. Non-revenue generating spaces and amenities are being reduced, re-created or deleted. In some cases, locker-rooms are being eliminated. New business models are being explored including the water park/spa park, Nordic, or hydro facilities where the consumer's low cost and the establishment's high volume make the profit potential greater. (Apparently Glen Ivy Hot Springs day spa in California and Spa Castle in New York are enjoying record attendance.) Of interest, Klafs, a leading manufacturer of hydro and thermal equipment just announced its partnership with Design for Leisure to form Klafs USA Ltd for the USA and Caribbean markets. In general, spas are beginning to think more like "business people" than "spa people" (HFD).

OPPORTUNITIES

It is fortunate that over the past three or four years many in our industry, including ISPA, SpaFinder, Spa Week, individual spas, and many spa brands have begun marketing the shift from "pampering" to "wellness" and from "want" to "need." In addition, a swift marketing response to the economic crisis promoted stress relief which may have halted a more serious blow to the industry. The media has picked up on these shifts and the industry has received a fair amount of positive press in the first quarter 2009 about its resiliency and the importance of spas during stressful times.

Emerging opportunities include a new spirit of co-operation within the industry and with other aligned industries. Spa and medical, for example, are beginning to work together more successfully as each stakeholder learns the value of the other. With the government economic stimulus package allocating a significant amount of money for prevention, there is prime opportunity to incorporate more in terms of programming and messaging in the spa arena.

Of interest, fitness seems to be holding its own as people realize the importance of staying in shape and reducing stress. Spas may begin to explore ways to incorporate fitness. Curves International, the world's largest fitness franchise network with nearly 10,000 fitness clubs (considered the innovators of the express fitness phenomenon), reported an 11% increase in earnings for first quarter 2009. Exhale enterprises, which has seven mind/body spas, reported an increase in Core Fusion class revenue for the first quarter, although spa treatment revenue was down (NYSPA). Some day spas are beginning to offer yoga classes in their relaxation lounges in the evening or adding hiking clubs for their clients in the morning. Others are partnering with fitness establishments in their area. Of note, more resort and hotel spas seem to be taking over the management of the fitness function of their hotels or resorts rather than leaving these to be run separately from the spa.

There is also evidence that retail will become a more important factor in future spa builds as savvy retailers with decades of experience are entering the spa market.

One cost cutting area that could benefit from creative thinking during these times is the payroll dilemma; in the U.S. spa industry around 50% (sometimes more) of revenue goes toward payroll expense.

A glimmer of hope seems to be on the horizon as the economy shows some sign of improvement and consumers begin to regain a bit of confidence. Some consultants report their phones are beginning to start ringing again. One prominent medical spa consulting company reports adding four new development projects in the past three months and has two more in the pipeline. Many who have been standing in the sidelines waiting for things to get better are beginning to put their toes in the water. However, many are predicting that an upswing won't happen until 2011 or after.

One of the greatest benefits in a challenging market is the igniting of creativity, and our industry is no exception. It is possible that we may see some very new and exciting directions emerge and maybe even a shift in fundamentals: leaning more toward medical, emphasizing eco-embedded building, addressing quality of life issues, and moving from the individual isolated spa experience to a more social and interactive experience (which connects people with each other). These shifts may, in the long run, make our industry even more relevant and robust in the future.

Citation Key

- HVS - Global Hospitality Services
- ISPA - International Spa Association
- PKF - PKF International
- SF - SpaFinder Research
- STR - Smith Travel Research

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