

TRENDS[®]

IN THE HOTEL

SPA

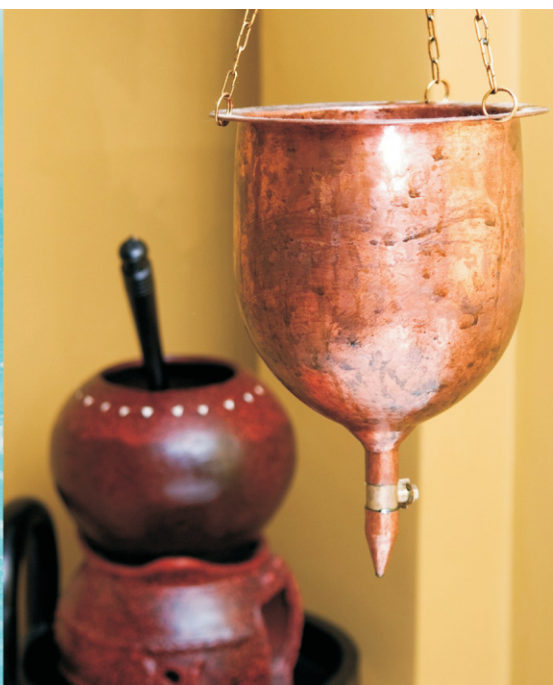
INDUSTRY

2011 Edition

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Publisher's Message Benchmarking Your Recovery



PKF Hospitality Research (PKF-HR) and PKF Consulting USA (PKFC) have a 75 year legacy of providing the hospitality industry with valuable information that allows hotel owners, operators, and other interested parties to benchmark the performance of their operations to industry-wide measurements. In 2007, PKF introduced *Trends® in the Hotel Spa Industry* in response to the spa industry's rapid expansion and its relevance to the bottom line. The goal was to provide hotel spa operators with the means to compare their performance against that of similar facilities, or against industry averages, and to identify their level of operating efficiency and competitiveness. We are pleased to have completed our fifth edition of the study, featuring data from 151 hotel spas and valuable insight from industry leaders.

The national economy is moving along the recovery from the worst recession the hospitality industry has experienced since the Great Depression, and is recapturing occupancy and slowly increasing average daily rate. However, the economy continues to struggle with high unemployment levels, continued uncertainty in the stock market, and little transparency with continued short booking windows. Demand is returning and spending through rate is slowly increasing, but it is step-by-step growth we are experiencing.

Despite aggregate increases in both occupancy and RevPAR of 5.5 percent for the Top 50 U.S. Markets in 2010 compared to 2009, recovery was not experienced in hotel spas. As is presented in the data and narrative herein, the recovery of hotel spas is shown to lag the recovery of occupancy, food and beverage revenue, and average daily rate. We believe this is related to the priority order of hotel spa patronage behind travel itself and spend in food and beverage, as spa is considered either a luxury or a benefit to personal wellness as opposed to a basic corporate travel, group or leisure necessity. The industry responded to the decrease in demand with new marketing efforts and special offers to attract new customers. Additionally, performance in 2010 did vary between resort spas and urban spas, which are indicative of differing demand patterns among the hotel's market segments and local patrons.

Based on reports from our clients, we anticipate 2011 to show increases in hotel spa revenues and profitability over 2010 levels, driven by upper-tier chain-scales leading the lodging industry recovery (in which most hotel spas operate) and increases in spending on "health and personal" purchases as income levels start to rise.

To produce this report, PKF-HR has relied on the spa department revenue and expense data as reported by hotels that submitted their 2010 financial statements for our firm's 2011 *Trends® in the Hotel Industry* survey. Excluded from this spa *Trends®* report are data from destination spas, day spas, and medical spas. To present comparable benchmarking data,

PKF-HR relied upon the spa department revenue and expense classifications as defined by the tenth edition of the *Uniform Systems of Accounts for the Lodging Industry*. A glossary of terms is provided in this report to aid readers.

Producing this report was a great effort that would not have been possible without the hard work and assistance of several people. Within the PKF family, recognition needs to be given to Robert Mandelbaum, Viet Vo, Gary McDade and Stephanie Peek at PKF Hospitality Research (PKF-HR) in Atlanta.

We would also like to thank the International Spa Association (ISPA) for contributing a summary of their 2011 U.S. Spa Industry Study, which summarizes spa performance for 2010 and through March 2011. The content of the report is further enhanced by articles submitted by our guest authors. Stephanie Perrone Goldstein, Vice President of Sales and Marketing for Coyle Hospitality, shares spa consumer behavior and preferences from their Global Spa Report to help you attract and retain the new spa consumer. Susie Ellis, President of SpaFinder, Inc., the leading global spa media and marketing company, and founder of the Global Spa Summit, shares key trends in hotel/resort spa branding, marketing, experiences, and what is anticipated going forward in our industry.

And last, but certainly not least, we want to acknowledge and express our appreciation for a very special person in the spa industry, Mary Tabacchi, Associate Professor of Spa Development and Management at Cornell University's School of Hotel Administration. Professor Tabacchi has been a champion of spa and wellness in our industry for decades and an avid supporter of our industry publications and our *Trends® in the Hotel Spa Industry* report since the mid-2000's. She is a regular contributor to this report, but this year following the loss of her dear husband of 45 years, Guy Tabacchi, who was also a champion of the spa and wellness industry, Mary's involvement has been her continued support and enthusiasm. We wish to extend her our sincere thanks and appreciation.

PKF Hospitality Research and PKF Consulting USA make every effort to compile and analyze data in ways that are useful to the industry. Please contact PKF Hospitality Research in Atlanta at (404) 842-1150, extension 223, with ideas for enhancing future editions of spa *Trends®*, or for assistance in interpreting the data presented in this report. We welcome your feedback.

Sincerely,

A handwritten signature in black ink, appearing to read 'AKM', followed by a long horizontal flourish.

Andrea Foster
Vice President; National Director of Spa Consulting
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A Message From Professor Mary Tabacchi, Cornell Hotel School



PKF Consulting USA (PKFC) is to be congratulated for providing the first, accurate, comprehensive data concerning spa performance in hotels. From the beginning their methodology was well planned, reliable and valid – the acid test for trusted and useable data. Their research has been invaluable for the past six to seven years for academic analysis and for industry benchmarking. Developers and consultants rely heavily on PKFC and their *Trends® in the Hotel Spa Industry* report for feasibility studies and to determine the size, layout and design of spas. For years, analysts searched for such hotel spa data before the advent of PKFC's work in this aspect of the industry. PKFC has stimulated much research from academics and other research companies due to their persistence and their pioneering work.

* * * * *

Mary H. Tabacchi
Associate Professor, Spa Development and Management
Cornell University, School of Hotel Administration



TRENDS®

IN THE HOTEL SPA INDUSTRY

Fifth Edition 2011

Trends® in the Hotel Spa Industry is a statistical review incorporating operating and financial data on hotel spas in the United States. The data represent voluntary contributions by accommodations establishments. This publication is designed as a reference and a management or operational aid for managers of hotels, resorts, and agencies or associations involved in the lodging and spa industries. It should not be construed as setting standards on policies or actions for any individual hotels, companies, associations, or agencies - or their professional managers. Readers are advised that PKF Consulting USA (PKFC) and its affiliates do not represent the data contained herein to be definitive or all-inclusive. PKFC and its affiliates believe the information to be reliable, but are not responsible for errors in revenue or expenditure figures, or in other reported source information. Quotation and reproduction are not permitted without the written consent of PKFC. Please address inquiries to (404) 842-1150, ext 223.

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SPA Glossary

Spa Trends® in the Hotel Industry

SPA Classifications

Hotel Spa: A spa owned by and located within a resort or hotel providing professionally administered spa services, fitness and wellness components, and a possible spa cuisine component. In addition to the leisure guest, this facility caters to business travelers and meeting attendees who wish to take advantage of the spa experience while away from home. In many cases resort/hotel spas also act as day spas for local clientele and may offer special rates to people who live in the community.

Urban Hotel Spa: Spa facilities located within metropolitan areas. Surrounded by offices and urban residences, these spas may also generate local demand similar to a day spa. Urban hotel spas are generally smaller than resort spas and destination spas, unless a significant percentage of their usage is generated from a local membership base. In this instance, the size of the spa would be larger as it would include an extensive fitness center and related facilities.

Resort Spa: Frequently larger than an urban hotel spa, this spa often generates more usage from its guests than does an urban hotel spa. This can be directly attributed to the higher percentage of leisure travelers to resorts compared to urban hotels, who tend to have more time available for recreational activities and experience, including spa. Like in urban hotel spas, spa treatments are purchased in an “a la carte” or package manner whereby there is an additional charge over and above the room rate to partake in a spa experience.

Facility Definitions

Treatment Room: Room in a spa facility where spa treatments are performed, such as massages, facials, and other body work services, etc.

Square Footage: Square footage for spas is based on indoor, air-conditioned space as reported by hotel brands and spa operators.

Total Spa Department Revenue Includes

Massage: Revenue derived from fees charged to customers for massage services.

Skin Care and Body Work: Revenue derived from health treatments, such as facials, body wraps, and mud packs. Does not include massage revenue.

Salon Treatment: Revenue derived from hair and nail services.

Daily Facility Use: Revenue derived from fees charged to customers for daily use of the spa and its associated facilities.

Fitness and Personal Training: Revenue derived from both group and individual exercise programs.

Health and Wellness Services: Revenue derived from programs, such as nutritional cooking classes, spiritual guidance, and personal life counseling.

Retail Revenue (Merchandise and Clothing): Revenue derived from sales of items in the spa, such as clothing, skincare products, exercise mats, herbal supplements, etc.

Other Revenue: Revenue derived from any other services not previously specified.

Allowance: A reduction in revenue due to a service problem.

Membership Fees: Revenue derived from charging customers a periodic fee, usually annual or monthly, for unlimited daily use of the spa's facilities.

Cost of Goods Sold

Retail Cost of Goods Sold: Costs of items sold to customers of the spa, as well as inventory losses due to damaged or missing items.

Labor Costs Includes

Salaries, Wages, and Bonuses: Includes only earnings paid to an employee for duties that relate to the operation of the spa, such as regular pay, overtime pay, shift differential pay, bonuses, and incentive pay. Also includes contract or leased labor, such as individuals brought in to fill a shortage of massage therapists or spa service technicians.

Payroll Related Expenses: Includes payroll related expenses, such as payroll taxes, employee benefits, holiday pay, vacation pay, and sick pay.

Total Operating Expenses Includes

Ambience and Decorations: Includes the cost to provide the sensory environment within the spa, including background music, candles, aromatherapy oils, and diffusers. Also includes the cost of decorative items used in spa areas for holidays and special events.

Professional Products (Health and Beauty): Includes the cost of items directly related to massage, spa treatment, and salon treatments, such as nail polish, facial cleansers, shampoo, and massage oils.

Laundry and Dry Cleaning: Includes the cost of laundry and dry cleaning services, whether in-house or contracted to an outside company.

Linen: The costs of towels, face cloths, bath mats, bathrobes, sheets, blankets, and covers used in the spa.

Operating Supplies: Includes the cost of operating and general office supplies that are not included in the other specific supply line items, the cost of printing and stationary, the cost of cleaning supplies, and the cost of gym equipment and supplies for fitness classes.

Uniforms: Cost of employee uniforms, whether purchased or rented. Also covers uniform repair and cleaning.

All Other Expenses: Includes miscellaneous spa expenses such as complimentary services and gifts, contract services, licenses and permits, equipment rental, telecommunication costs, travel by spa personnel, training, and spa expenses that do not apply to the aforementioned line items.

Management Fees: Fees charged by an organization (other than the hotel's management company) to manage the spa operations.

Royalty Fees: Costs associated with branding or franchising the spa or individual spa treatments.

Note to Readers

Excluded from our analysis were revenues and expenses associated with hotel health clubs and fitness facilities that do not offer spa services.

Unless otherwise noted, the data presented in this report were calculated based on the total survey sample, regardless of whether or not the revenue and expense line item was reported by all properties in the sample.

The data presented in this report reflects the performance of hotel spas for which we have two years of comprehensive data. Because of the voluntary nature of the survey, the 2009 data presented in this report may differ from the 2009 data presented in the 2010 edition of *Trends® in the Hotel Spa Industry*.

The *Uniform System of Accounts for the Lodging Industry* was used to identify revenues and expenses that should be categorized within an operated department, as opposed to an undistributed department or fixed charge. Departmental profit is calculated before deductions for the undistributed and fixed charges of a hotel.

Readers should be advised that the International SPA Foundation of ISPA has developed the *Uniform System of Financial Reporting for Spas*, a financial reporting system for all types of spas. Additional resources from the ISPA Foundation include the *ISPA Compensation Workbook* and *Financial Management for Spas* (published in 2009). For more information, please visit the ISPA website at www.experienceispa.com.

Financial Data Tables

The following data tables display the 2010 financial performance of hotel spas sorted by:

Location

Spa Department Revenue

Square Feet

Number of Treatment Rooms

Number of Hotel Guest Rooms

For Internal Use Only

Hotel Profile - SPA Survey Sample

By Spa Location				By Spa Revenue			
All Hotel Spas	Urban Hotel Spas	Resort Hotel Spas		Spa Revenue Greater Than \$3 Million	Spa Revenue From \$1 To \$3 Million	Spa Revenue Less Than \$1 Million	
151	54	97	Number of Properties	13	64	74	
380	308	421	Average Guest Rooms	509	415	328	
62.3%	65.5%	61.0%	2010 Occupancy	61.9%	63.6%	61.0%	
7.1%	9.3%	6.1%	<i>Percent Change from Prior Year</i>	7.4%	7.8%	6.2%	
\$224.32	\$254.65	\$211.03	2010 ADR	\$287.82	\$239.77	\$189.13	
-1.3%	1.3%	-2.9%	<i>Percent Change from Prior Year</i>	-3.1%	-1.5%	-0.6%	
\$139.73	\$166.82	\$128.68	2010 RevPAR	\$178.08	\$152.48	\$115.32	
5.7%	10.8%	3.1%	<i>Percent Change from Prior Year</i>	4.0%	6.3%	5.5%	
\$38,852,291	\$35,232,302	\$40,867,542	2010 Total Hotel Revenue Per Property	\$74,690,416	\$45,914,981	\$26,448,131	
5.0%	8.3%	3.5%	<i>Percent Change from Prior Year</i>	6.8%	5.5%	3.5%	
12,313	8,123	14,646	Square Feet Per Spa Facility	28,357	13,903	8,119	
12	9	13	Spa Treatment Rooms Per Property	22	14	8	
6	5	7	Salon Stations Per Property	11	7	4	

2010 Average Dollars Per Spa

Hotel Spas By Location					Hotel Spas By Total Spa Revenue							
All Hotel Spas	Change From Prior Year	Urban Hotel		Change From Prior Year	Resort Hotel Spas	Change From Prior Year	Spa Revenue Greater Than \$3 Million		Change From Prior Year	Spa Revenue Less Than \$1 Million		Change From Prior Year
		Spas	From Prior Year				Spa Revenue \$1 Million to \$3 Million	Change From Prior Year		Spa Revenue \$3 Million	Change From Prior Year	
\$ 1,404,932	-10.5%	\$ 1,089,641	-1.1%	\$ 1,580,455	-13.6%	\$ 4,091,323	-8.8%	\$ 1,763,911	-14.3%	\$ 622,531	-1.9%	
\$ 95,320	-2.1%	\$ 90,822	0.1%	\$ 97,824	-3.2%	\$ 187,018	8.3%	\$ 115,107	-6.5%	\$ 62,097	0.3%	
\$ 1,309,613	-11.0%	\$ 998,819	-1.2%	\$ 1,482,631	-14.2%	\$ 3,904,305	-9.4%	\$ 1,648,803	-14.7%	\$ 560,434	-2.2%	
Total Spa Department Revenue												
Total Cost of Goods Sold												
Gross Operating Profit												
Labor Costs												
Salaries, Wages, and Bonuses												
Payroll Related Expenses												
Total Labor Costs												
Total Operating Expenses												
Total Labor and Operating Expenses												
Department Income (Loss)												
\$ 604,242	-2.9%	\$ 488,608	-3.3%	\$ 668,616	-2.7%	\$ 1,599,613	-6.7%	\$ 769,776	-1.0%	\$ 286,215	-3.4%	
\$ 192,704	-6.3%	\$ 157,158	-7.9%	\$ 212,493	-5.6%	\$ 428,869	-19.9%	\$ 260,960	-1.5%	\$ 92,184	-4.6%	
\$ 796,946	-3.8%	\$ 645,765	-4.5%	\$ 881,109	-3.5%	\$ 2,028,482	-9.8%	\$ 1,030,736	-1.1%	\$ 378,399	-3.7%	
\$ 192,686	-4.9%	\$ 156,082	4.5%	\$ 213,063	-8.2%	\$ 645,680	-0.1%	\$ 227,317	-9.6%	\$ 83,155	1.2%	
\$ 989,632	-4.0%	\$ 801,848	-2.9%	\$ 1,094,172	-4.4%	\$ 2,674,162	-7.7%	\$ 1,258,053	-2.8%	\$ 461,554	-2.8%	
\$ 319,980	-27.4%	\$ 196,972	6.2%	\$ 388,459	-33.4%	\$ 1,230,142	-13.1%	\$ 390,750	-38.9%	\$ 98,880	1.0%	

2010 Average Dollars Per Spa

Hotel Spas By Square Feet											Hotel Spas By Number of Treatment Rooms													
Spa Square Feet Greater than 15,000					Spa Square Feet from 6,000 to 15,000					Treatment Rooms Greater Than 20					Treatment Rooms from 10 to 20					Treatment Rooms Less Than 10				
	Spa Square Feet Greater than 15,000	Change From Prior Year		Spa Square Feet from 6,000 to 15,000	Change From Prior Year		Spa Square Feet Less Than 6,000	Change From Prior Year		Treatment Rooms Greater Than 20	Change From Prior Year		Treatment Rooms from 10 to 20	Change From Prior Year		Treatment Rooms Less Than 10	Change From Prior Year							
	\$ 2,500,858	-15.7%		\$ 995,677	-4.9%		\$ 774,157	0.7%		\$ 3,520,635	-2.0%		\$ 1,542,785	-17.8%		\$ 818,820	-0.8%							
	\$ 120,314	-5.6%		\$ 92,298	0.3%		\$ 53,475	-1.7%		\$ 153,175	-5.8%		\$ 93,677	-3.9%		\$ 84,946	1.5%							
	\$ 2,380,544	-16.1%		\$ 903,378	-5.3%		\$ 720,682	0.9%		\$ 3,367,460	-1.9%		\$ 1,449,108	-18.5%		\$ 733,873	-1.0%							
	Labor Costs																							
	\$ 1,054,884	-2.7%		\$ 432,633	-3.4%		\$ 359,328	-1.7%		\$ 1,333,950	-4.9%		\$ 694,071	-2.3%		\$ 357,915	-2.5%							
	\$ 311,680	-8.0%		\$ 149,181	-4.4%		\$ 120,281	-6.3%		\$ 404,970	-12.5%		\$ 213,331	-4.6%		\$ 126,799	-4.8%							
	\$ 1,366,564	-4.0%		\$ 581,814	-3.6%		\$ 479,610	-2.9%		\$ 1,738,920	-6.8%		\$ 907,402	-2.9%		\$ 484,714	-3.1%							
	\$ 383,105	-7.5%		\$ 119,113	-1.2%		\$ 93,809	1.0%		\$ 547,121	-3.1%		\$ 215,418	-8.0%		\$ 94,875	1.0%							
	\$ 1,749,669	-4.8%		\$ 700,927	-3.2%		\$ 573,418	-2.3%		\$ 2,286,041	-5.9%		\$ 1,122,820	-3.9%		\$ 579,589	-2.5%							
	\$ 630,875	-37.0%		\$ 202,451	-12.0%		\$ 147,264	15.5%		\$ 1,081,419	8.1%		\$ 326,287	-46.5%		\$ 154,284	4.8%							
	Department Income (Loss)																							

2010 Percent of Total Spa Department Revenue

Hotel Spas By Location			Hotel Spas By Total Spa Revenue			
All Hotel Spas	Urban Hotel Spas	Resort Hotel Spas	Revenue / Expense Category	Spa Revenue Greater Than \$3 Million	Spa Revenue \$1 Million to \$3 Million	Spa Revenue Less Than \$1 Million
100.0%	100.0%	100.0%	Total Spa Department Revenue	100.0%	100.0%	100.0%
6.8%	8.3%	6.2%	Total Cost of Goods Sold	4.6%	6.5%	10.0%
93.2%	91.7%	93.8%	Gross Operating Profit	95.4%	93.5%	90.0%
			Labor Costs			
43.0%	44.8%	42.3%	Salaries, Wages, and Bonuses	39.1%	43.6%	46.0%
13.7%	14.4%	13.4%	Payroll Related Expenses	10.5%	14.8%	14.8%
56.7%	59.3%	55.8%	Total Labor Costs	49.6%	58.4%	60.8%
13.7%	14.3%	13.5%	Total Operating Expenses	15.8%	12.9%	13.4%
70.4%	73.6%	69.2%	Total Labor and Operating Expenses	65.4%	71.3%	74.1%
22.8%	18.1%	24.6%	Department Income (Loss)	30.1%	22.2%	15.9%

2010 Percent of Total Spa Department Revenue with Comparison to 2009

Hotel Spas By Location						Hotel Spas By Total Spa Revenue					
2010 All Hotel Spas	2009 All Hotel Spas	2010 Urban Hotel Spas	2009 Urban Hotel Spas	2010 Resort Hotel Spas	2009 Resort Hotel Spas	2010 Spa Revenue Greater Than \$3 Million	2009 Spa Revenue Greater Than \$3 Million	2010 Spa Revenue \$1 Million to \$3 Million	2009 Spa Revenue \$1 Million to \$3 Million	2010 Spa Revenue Less Than \$1 Million	2009 Spa Revenue Less Than \$1 Million
100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
6.8%	6.2%	8.3%	8.2%	6.2%	5.5%	4.6%	3.8%	6.5%	6.0%	10.0%	9.8%
93.2%	93.8%	91.7%	91.8%	93.8%	94.5%	95.4%	96.2%	93.5%	94.0%	90.0%	90.2%
Revenue / Expense Category											
Total Spa Department Revenue											
Total Cost of Goods Sold											
Gross Operating Profit											
Labor Costs											
Salaries, Wages, and Bonuses											
Payroll Related Expenses											
Total Labor Costs											
Total Operating Expenses											
Total Labor and Operating Expenses											
Department Income (Loss)											
70.4%	65.7%	73.6%	74.9%	69.2%	62.6%	65.4%	64.6%	71.3%	62.9%	74.1%	74.8%
22.8%	28.1%	18.1%	16.8%	24.6%	31.9%	30.1%	31.6%	22.2%	31.1%	15.9%	15.4%

2010 Dollars Per Available Guest Room

Hotel Spas By Location						Hotel Spas By Number of Hotel Rooms											
All Hotel Spas		Urban Hotel Spas		Resort Hotel Spas		Hotel Rooms Greater Than 700		Hotel Rooms from 300 to 700		Hotel Rooms Less Than 300							
	Change From Prior Year		Change From Prior Year		Change From Prior Year		Change From Prior Year		Change From Prior Year		Change From Prior Year						
\$	3,694	-10.5%	\$	3,538	-1.3%	\$	3,758	-13.6%	\$	2,312	-12.2%	\$	3,415	-18.5%	\$	6,109	2.2%
\$	251	-2.2%	\$	295	-0.1%	\$	233	-3.3%	\$	119	-7.6%	\$	243	-2.3%	\$	439	-0.2%
\$	3,444	-11.1%	\$	3,243	-1.4%	\$	3,526	-14.2%	\$	2,193	-12.5%	\$	3,172	-19.5%	\$	5,669	2.4%
Revenue / Expense Category																	
Total Spa Department Revenue																	
Total Cost of Goods Sold																	
Gross Operating Profit																	
Labor Costs																	
Salaries, Wages, and Bonuses																	
Payroll Related Expenses																	
Total Labor Costs																	
Total Operating Expenses																	
Total Labor and Operating Expenses																	
Department Income (Loss)																	
\$	1,589	-3.0%	\$	1,586	-3.5%	\$	1,590	-2.8%	\$	835	-4.0%	\$	1,571	-2.6%	\$	2,618	-3.3%
\$	507	-6.4%	\$	510	-8.1%	\$	505	-5.7%	\$	270	-7.2%	\$	502	-5.2%	\$	829	-7.8%
\$	2,096	-3.8%	\$	2,097	-4.7%	\$	2,095	-3.5%	\$	1,105	-4.8%	\$	2,073	-3.2%	\$	3,447	-4.5%
\$	507	-5.0%	\$	507	4.2%	\$	507	-8.2%	\$	483	-9.9%	\$	438	-4.7%	\$	684	-0.3%
\$	2,602	-4.1%	\$	2,604	-3.1%	\$	2,602	-4.5%	\$	1,588	-6.4%	\$	2,511	-3.5%	\$	4,131	-3.8%
\$	841	-27.5%	\$	640	5.9%	\$	924	-33.4%	\$	605	-25.2%	\$	660	50.7%	\$	1,539	23.8%

2010 Dollars Per Occupied Guest Room

Hotel Spas By Location						Hotel Spas By Total Spa Revenue											
All Hotel Spas		Change From Prior Year	Urban Hotel Spas		Change From Prior Year	Resort Hotel Spas		Change From Prior Year	Spa Revenue Greater Than \$3 Million		Change From Prior Year	Spa Revenue \$1 Million to \$3 Million		Change From Prior Year	Spa Revenue Less Than \$1 Million		Change From Prior Year
\$	16.25	-16.5%	\$	14.80	-9.7%	\$	16.89	-18.6%	\$	35.60	-15.5%	\$	18.33	-20.3%	\$	8.53	-8.0%
\$	1.10	-8.7%	\$	1.23	-8.6%	\$	1.05	-8.9%	\$	1.63	0.3%	\$	1.20	-13.0%	\$	0.85	-5.9%
\$	15.15	-17.0%	\$	13.56	-9.8%	\$	15.84	-19.2%	\$	33.97	-16.1%	\$	17.13	-20.7%	\$	7.68	-8.2%
Total Spa Department Revenue																	
Total Cost of Goods Sold																	
Gross Operating Profit																	
Labor Costs																	
Salaries, Wages, and Bonuses																	
Payroll Related Expenses																	
Total Labor Costs																	
Total Operating Expenses																	
Total Labor and Operating Expenses																	
Department Income (Loss)																	

2010 Dollars Per Square Foot

Hotel Spas By Location						Hotel Spas By Total Spa Revenue					
All Hotel Spas	Change From Prior Year	Urban Hotel Spas	Change From Prior Year	Resort Hotel Spas	Change From Prior Year	Spa Revenue Greater Than \$3 Million	Change From Prior Year	Spa Revenue \$1 Million to \$3 Million	Change From Prior Year	Spa Revenue Less Than \$1 Million	Change From Prior Year
\$ 114.10	-10.5%	\$ 134.15	-1.1%	\$ 107.91	-13.6%	\$ 144.28	-8.8%	\$ 126.88	-14.3%	\$ 76.67	-1.9%
\$ 7.74	-2.1%	\$ 11.18	0.1%	\$ 6.68	-3.2%	\$ 6.60	8.3%	\$ 8.28	-6.5%	\$ 7.65	0.3%
\$ 106.36	-11.0%	\$ 122.97	-1.2%	\$ 101.23	-14.2%	\$ 137.68	-9.4%	\$ 118.60	-14.7%	\$ 69.02	-2.2%
Total Spa Department Revenue											
Total Cost of Goods Sold											
Gross Operating Profit											
Labor Costs											
Salaries, Wages, and Bonuses											
Payroll Related Expenses											
Total Labor Costs											
Total Operating Expenses											
Total Labor and Operating Expenses											
Department Income (Loss)											
\$ 49.07	-2.9%	\$ 60.15	-3.3%	\$ 45.65	-2.7%	\$ 56.41	-6.7%	\$ 55.37	-1.0%	\$ 35.25	-3.4%
\$ 15.65	-6.3%	\$ 19.35	-7.9%	\$ 14.51	-5.6%	\$ 15.12	-19.9%	\$ 18.77	-1.5%	\$ 11.35	-4.6%
\$ 64.72	-3.8%	\$ 79.50	-4.5%	\$ 60.16	-3.5%	\$ 71.53	-9.8%	\$ 74.14	-1.1%	\$ 46.60	-3.7%
\$ 15.65	-4.9%	\$ 19.22	4.5%	\$ 14.55	-8.2%	\$ 22.77	-0.1%	\$ 16.35	-9.6%	\$ 10.24	1.2%
\$ 80.37	-4.0%	\$ 98.72	-2.9%	\$ 74.71	-4.4%	\$ 94.30	-7.7%	\$ 90.49	-2.8%	\$ 56.85	-2.8%
\$ 25.99	-27.4%	\$ 24.25	6.2%	\$ 26.52	-33.4%	\$ 43.38	-13.1%	\$ 28.11	-38.9%	\$ 12.18	1.0%

2010 Dollars Per Square Foot

Hotel Spas By Number of Treatment Rooms						Hotel Spas By Square Feet					
Treatment Rooms Greater Than 20	Change From Prior Year	Treatment Rooms from 10 to 20	Change From Prior Year	Treatment Rooms Less Than 10	Change From Prior Year	Spa Square Feet Greater than 15,000	Change From Prior Year	Spa Square Feet from 6,000 to 15,000	Change From Prior Year	Spa Square Feet Less Than 6,000	Change From Prior Year
\$ 131.53	-2.0%	\$ 106.26	-17.8%	\$ 117.17	-0.8%	\$ 112.85	-15.7%	\$ 106.85	-4.9%	\$ 210.96	0.7%
\$ 5.72	-5.8%	\$ 6.45	-3.9%	\$ 12.16	1.5%	\$ 5.43	-5.6%	\$ 9.90	0.3%	\$ 14.57	-1.7%
\$ 125.81	-1.9%	\$ 99.81	-18.5%	\$ 105.01	-1.0%	\$ 107.42	-16.1%	\$ 96.94	-5.3%	\$ 196.38	0.9%
Labor Costs											
\$ 49.84	-4.9%	\$ 47.81	-2.3%	\$ 51.22	-2.5%	\$ 47.60	-2.7%	\$ 46.43	-3.4%	\$ 97.92	-1.7%
\$ 15.13	-12.5%	\$ 14.69	-4.6%	\$ 18.14	-4.8%	\$ 14.06	-8.0%	\$ 16.01	-4.4%	\$ 32.78	-6.3%
\$ 64.96	-6.8%	\$ 62.50	-2.9%	\$ 69.36	-3.1%	\$ 61.66	-4.0%	\$ 62.43	-3.6%	\$ 130.69	-2.9%
\$ 20.44	-3.1%	\$ 14.84	-8.0%	\$ 13.58	1.0%	\$ 17.29	-7.5%	\$ 12.78	-1.2%	\$ 25.56	1.0%
\$ 85.40	-5.9%	\$ 77.34	-3.9%	\$ 82.94	-2.5%	\$ 78.95	-4.8%	\$ 75.22	-3.2%	\$ 156.26	-2.3%
\$ 40.40	8.1%	\$ 22.47	-46.5%	\$ 22.08	4.8%	\$ 28.47	-37.0%	\$ 21.73	12.0%	\$ 40.13	15.5%
Department Income (Loss)											

2010 Dollars Per Treatment Room

Hotel Spas By Location						Hotel Spas By Total Spa Revenue											
All Hotel Spas		Change From Prior Year	Urban Hotel Spas		Change From Prior Year	Resort Hotel Spas		Change From Prior Year	Spa Revenue Greater Than \$3 Million		Change From Prior Year	Spa Revenue \$1 Million to \$3 Million		Change From Prior Year	Spa Revenue Less Than \$1 Million		Change From Prior Year
\$	120,195	-10.5%	\$	125,728	-1.1%	\$	118,199	-13.6%	\$	189,278	-8.8%	\$	126,701	-14.3%	\$	77,685	-1.9%
\$	8,155	-2.1%	\$	10,479	0.1%	\$	7,316	-3.2%	\$	8,652	8.3%	\$	8,268	-6.5%	\$	7,749	0.3%
\$	112,041	-11.0%	\$	115,248	-1.2%	\$	110,883	-14.2%	\$	180,626	-9.4%	\$	118,433	-14.7%	\$	69,936	-2.2%
Revenue / Expense Category																	
Total Spa Department Revenue																	
Total Cost of Goods Sold																	
Gross Operating Profit																	
Labor Costs																	
Salaries, Wages, and Bonuses																	
Payroll Related Expenses																	
Total Labor Costs																	
Total Operating Expenses																	
Total Labor and Operating Expenses																	
Department Income (Loss)																	
\$	51,694	-2.9%	\$	56,378	-3.3%	\$	50,004	-2.7%	\$	74,003	-6.7%	\$	55,293	-1.0%	\$	35,717	-3.4%
\$	16,486	-6.3%	\$	18,134	-7.9%	\$	15,892	-5.6%	\$	19,841	-19.9%	\$	18,745	-1.5%	\$	11,504	-4.6%
\$	68,181	-3.8%	\$	74,511	-4.5%	\$	65,896	-3.5%	\$	93,844	-9.8%	\$	74,037	-1.1%	\$	47,220	-3.7%
\$	16,485	-4.9%	\$	18,009	4.5%	\$	15,935	-8.2%	\$	29,871	-0.1%	\$	16,328	-9.6%	\$	10,377	1.2%
\$	84,665	-4.0%	\$	92,521	-2.9%	\$	81,831	-4.4%	\$	123,716	-7.7%	\$	90,365	-2.8%	\$	57,597	-2.8%
\$	27,375	-27.4%	\$	22,728	6.2%	\$	29,052	-33.4%	\$	56,910	-13.1%	\$	28,067	-38.9%	\$	12,339	1.0%

2010 Dollars Per Treatment Room

Hotel Spas By Square Feet												Hotel Spas By Number of Treatment Rooms																	
Spa Square Feet greater than 15,000						Spa Square Feet from 6,000 to 15,000						Treatment Rooms Greater Than 20						Treatment Rooms from 10 to 20						Treatment Rooms Less Than 10					
Spa Square Feet Greater than 15,000		Change From Prior Year		Spa Square Feet from 6,000 to 15,000		Change From Prior Year		Spa Square Feet Less Than 6,000		Change From Prior Year		Treatment Rooms Greater Than 20		Change From Prior Year		Treatment Rooms from 10 to 20		Change From Prior Year		Treatment Rooms Less Than 10		Change From Prior Year							
\$	135,514	-15.7%		\$	103,493	-4.9%		\$	133,475	0.7%		\$	135,409	-2.0%		\$	112,261	-17.8%		\$	124,968	-0.8%							
\$	6,519	-5.6%		\$	9,594	0.3%		\$	9,220	-1.7%		\$	5,891	-5.8%		\$	6,816	-3.9%		\$	12,964	1.5%							
\$ 128,995		-16.1%		\$ 93,900		-5.3%		\$ 124,256		0.9%		\$ 129,518		-1.9%		\$ 105,444		-18.5%		\$ 112,003		-1.0%							
Revenue / Expense Category																													
Total Spa Department Revenue																													
Total Cost of Goods Sold																													
Gross Operating Profit																													
Labor Costs																													
Salaries, Wages, and Bonuses																													
Payroll Related Expenses																													
Total Labor Costs																													
Total Operating Expenses																													
Total Labor and Operating Expenses																													
Department Income (Loss)																													
\$	57,161	-2.7%		\$	44,969	-3.4%		\$	61,953	-1.7%		\$	51,306	-4.9%		\$	50,504	-2.3%		\$	54,625	-2.5%							
\$	16,889	-8.0%		\$	15,506	-4.4%		\$	20,738	-6.3%		\$	15,576	-12.5%		\$	15,523	-4.6%		\$	19,352	-4.8%							
\$	74,050	-4.0%		\$	60,475	-3.6%		\$	82,691	-2.9%		\$	66,882	-6.8%		\$	66,027	-2.9%		\$	73,977	-3.1%							
\$	20,759	-7.5%		\$	12,381	-1.2%		\$	16,174	1.0%		\$	21,043	-3.1%		\$	15,675	-8.0%		\$	14,480	1.0%							
\$ 94,810		-4.8%		\$ 72,856		-3.2%		\$ 98,865		-2.3%		\$ 87,925		-5.9%		\$ 81,702		-3.9%		\$ 88,457		-2.5%							
\$	34,185	-37.0%		\$	21,043	-12.0%		\$	25,390	15.5%		\$	41,593	8.1%		\$	23,742	46.5%		\$	23,547	4.8%							

Spa Revenue As A Percent of Total Hotel Revenue

Hotel Spas By Location			Hotel Spas By Total Spa Revenue		
All Hotel Spas	Urban Hotel Spas	Resort Hotel Spas	Spa Revenue Greater Than \$3 Million	Spa Revenue \$1 Million to \$3 Million	Spa Revenue Less Than \$1 Million
3.6%	3.1%	3.9%	5.5%	3.8%	2.4%
4.2%	3.4%	4.6%	6.4%	4.7%	2.5%
			2010 Spa Department Revenue		
			2009 Spa Department Revenue		

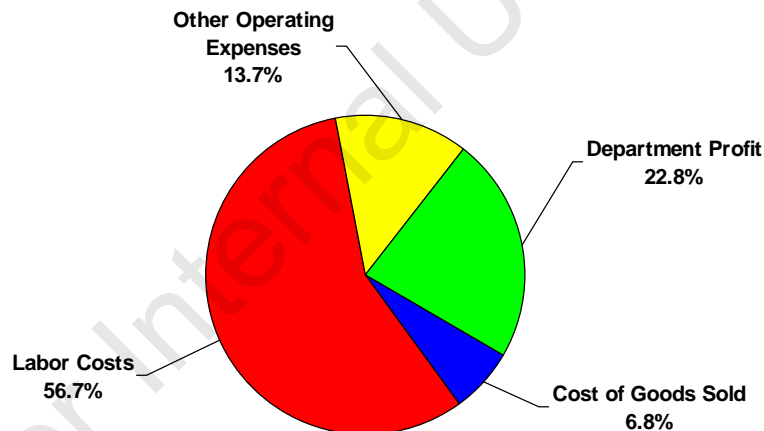
Spa Revenue As A Percent of Total Hotel Revenue

Hotel Spas By Square Feet			Hotel Spas By Treatment Rooms		
Spa Square Feet Greater than 15,000	Spa Square Feet from 6,000 to 15,000	Spa Square Feet Less Than 6,000	Treatment Rooms Greater Than 20	Treatment Rooms from 10 to 20	Treatment Rooms Less Than 10
4.6%	3.3%	1.8%	4.1%	4.5%	2.4%
5.7%	3.6%	1.9%	4.5%	5.6%	2.6%
			2010 Spa Department Revenue		
			2009 Spa Department Revenue		

Financial Highlights

The following pages contain a series of charts and graphs that highlight the financial performance of hotel spas in the year of 2010.

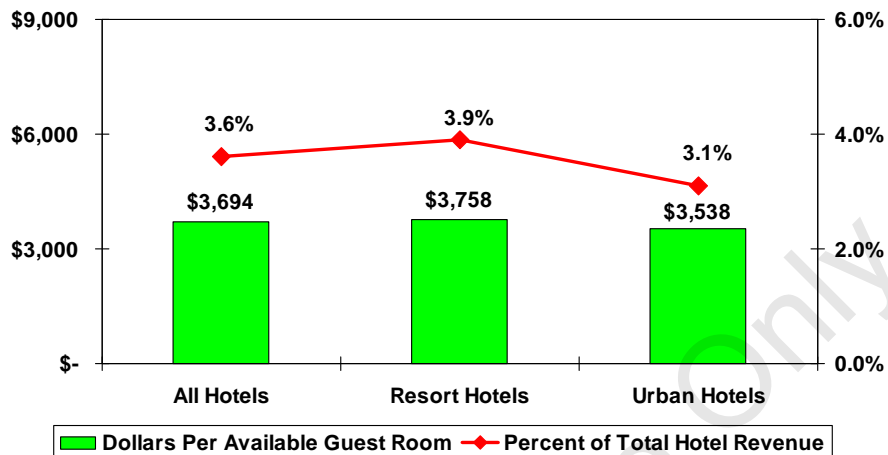
Where Hotel Spa Dollars Go? Percent of Total Spa Department Revenue ALL Hotels – 2010 Data



Source: PKF Hospitality Research – 2011 *Trends® in the Hotel Spa Industry* report

HOTEL SPA REVENUE

Dollars Per Available Guest Room By Property Type – 2010 Data



Source: PKF Hospitality Research – 2011 *Trends® in the Hotel Spa Industry* report

HOTEL SPA REVENUE

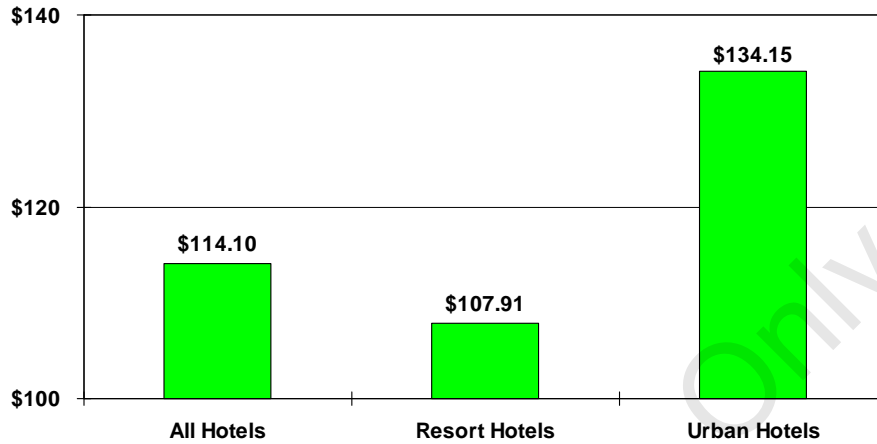
Dollars Per Occupied Guest Room By Property Type – 2010 Data



Source: PKF Hospitality Research – 2011 *Trends® in the Hotel Spa Industry* report

HOTEL SPA REVENUE

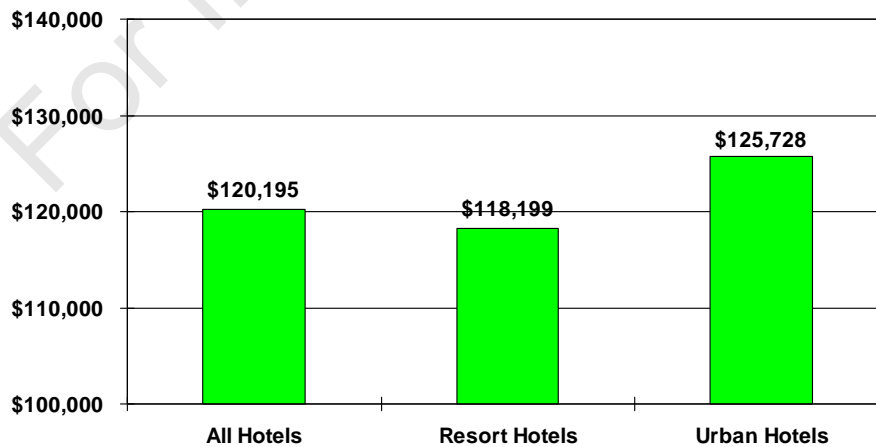
Total Departmental Revenue Per Square Foot By Property Type – 2010 Data



Source: PKF Hospitality Research – 2011 *Trends® in the Hotel Spa Industry* report

HOTEL SPA REVENUE

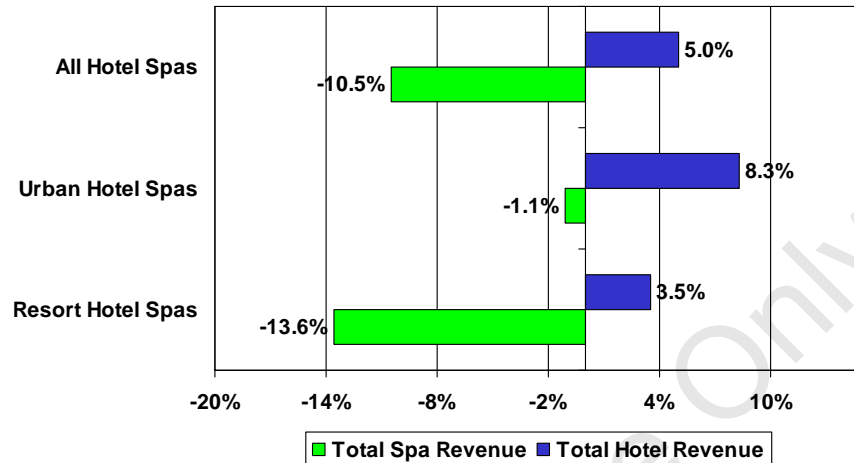
Total Departmental Revenue Per Treatment Room By Property Type – 2010 Data



Source: PKF Hospitality Research – 2011 *Trends® in the Hotel Spa Industry* report

SPA REVENUE COMPARISON

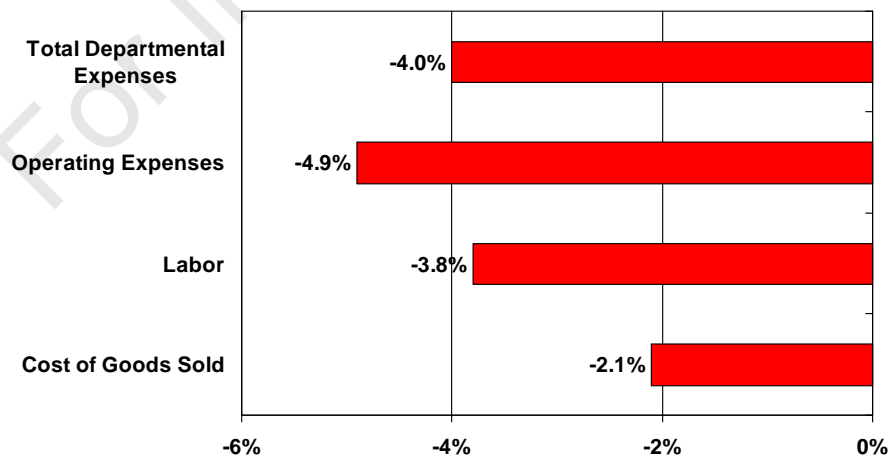
Total Hotel Revenue vs. Total Spa Revenue Change from 2009 to 2010



Source: PKF Hospitality Research – 2011 *Trends® in the Hotel Spa Industry* report

SELECT HOTEL SPA EXPENSES*

Change from 2009 to 2010

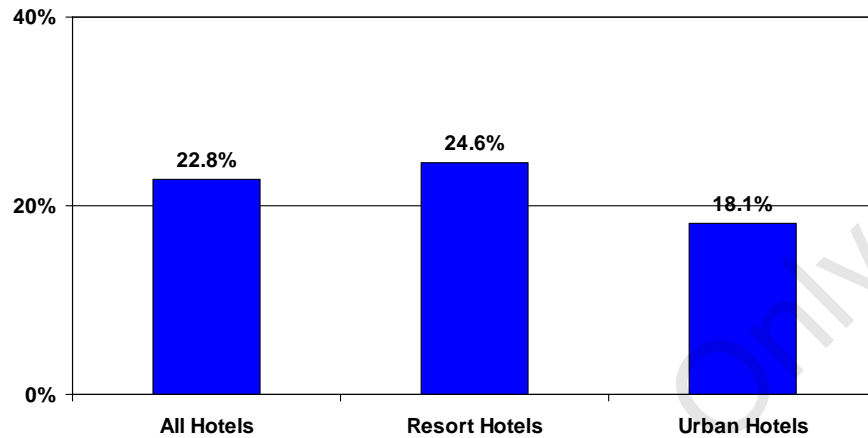


Note: * Does not include undistributed or fixed charges of hotel.

Source: PKF Hospitality Research – 2011 *Trends® in the Hotel Spa Industry* report

HOTEL SPA PROFIT MARGINS*

Percent of Department Revenue By Property Type – 2010 Data

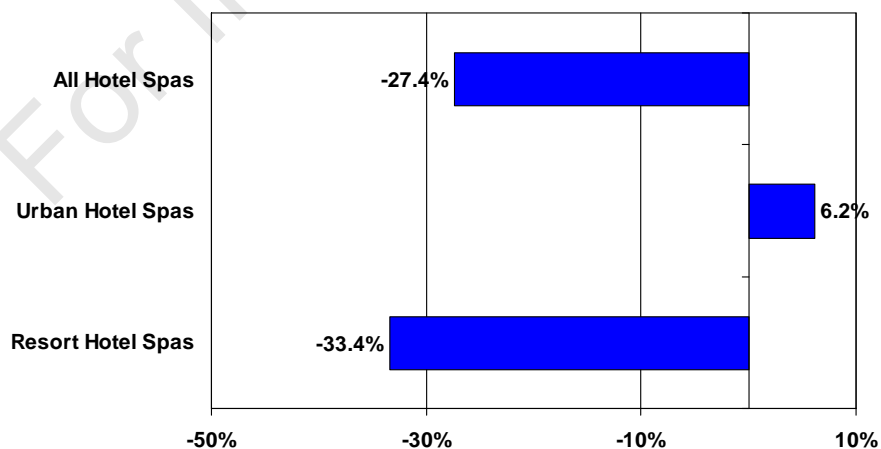


Note: * Before deducting undistributed and fixed charges of hotel.

Source: PKF Hospitality Research – 2011 *Trends® in the Hotel Spa Industry* report

HOTEL SPA DEPARTMENT PROFITS*

Change from 2009 to 2010



Note: * Before deducting undistributed and fixed charges of hotel.

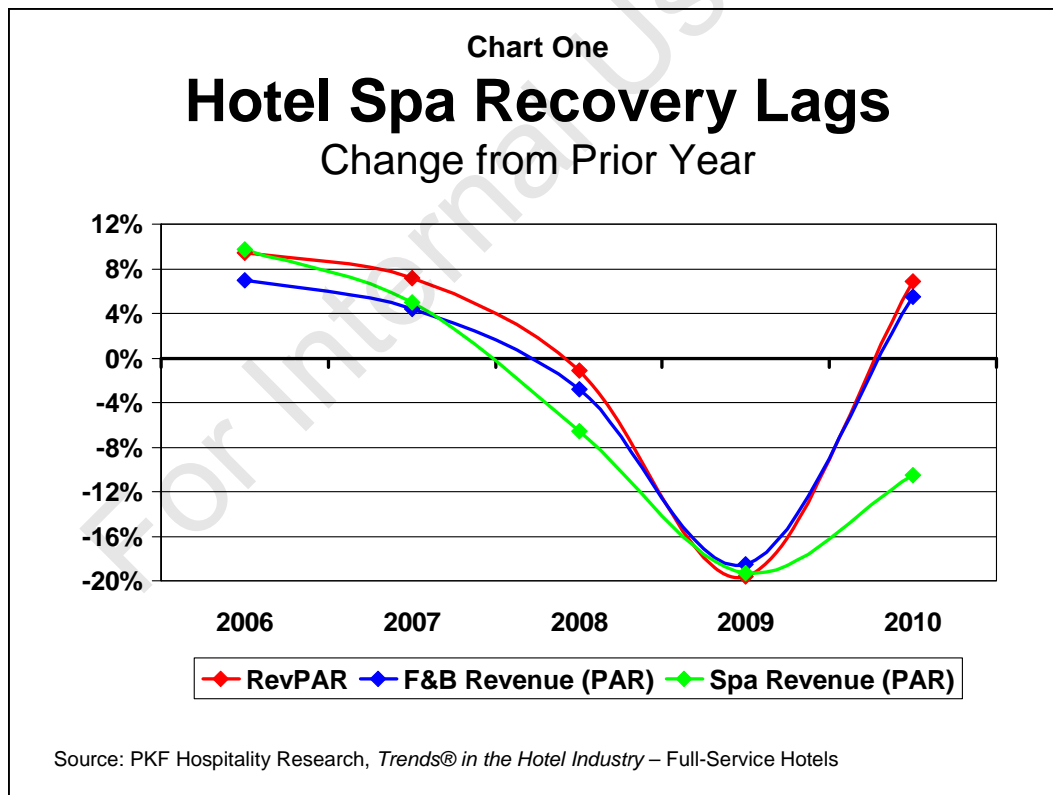
Source: PKF Hospitality Research – 2011 *Trends® in the Hotel Spa Industry* report

Hotel Spas Lag Industry Recovery, But Will Lead In “Healthier” Times

By PKF Hospitality Research

Over the years, PKF Hospitality Research (PKF-HR) has analyzed the cyclical nature of the lodging industry. Most recently, much attention has been paid to the pace of recovery from the depths of the industry recession in 2009. Typical of historical recovery sequences, lodging demand and occupancy levels bounced back strongly in 2010, followed by real increases in average daily room rates (ADR) in 2011.

When analyzing changes in hotel spa revenue since 2006, we see a pattern that one might expect given the perceived luxurious nature of spa services (see Chart One). In the prosperous years of 2006 and 2007, the annual change in unit-level hotel¹ spa revenue was comparable to the changes in RevPAR and greater than the growth in food and beverage revenue. However, concurrent with the economic recession, spa revenue declined at a greater pace than other hotel revenue sources in 2008 and 2009, and did not post a year-over-year increase in 2010 as was observed for RevPAR and food and beverage.



Since 2007, PKF-HR has surveyed the financial performance of U.S. hotel spas for its annual *Trends® in the Hotel Spa Industry* report. The 151 hotels that submitted their 2010 data for the 2011 edition of the survey averaged 380 guest rooms in size and achieved an average occupancy of 62.3 percent and an ADR of \$224.32. The sample was limited to spas that are operated by the hotel. Leased spa operations, day spas, destination spas, and hotel spas with less than \$300,000 annual revenue were excluded from the survey sample.

¹ PKF-HR *Trends® in the Hotel Industry* – full service hotels.

The following paragraphs summarize the findings of our 2011 *Trends® in the Hotel Spa Industry* report.

Revenues

On average, the hotel spas in our sample suffered a 10.5 percent decline in departmental revenue in 2010 (see Chart Two). Urban hotel spas experienced less of a drop in revenue (-1.2 percent) compared to the spas at resort hotels (-13.6 percent). We attribute the relative strength of urban hotel spa performance to the faster recovery of large metropolitan hotel markets compared to resort locations, and the ability of urban hotel spas to supplement hotel guest demand with patrons and members from the local community.

Spa revenue declined 11.1 percent in 2010 when measured on a dollar-per-available-room basis, but declined 17.0 percent on a dollar-per-occupied-room basis. The potential reasons for this inequity are that a lower percentage of hotels guests purchased spa services in 2010 compared to 2009, the dollars spent per hotel guest were less in 2010, or local residents comprised a greater share of hotel spa customers. The latter two potential reasons are likely driven by the broad availability of spa deals on “flash” sites online and creative marketing efforts to capture new business into hotel spas.

In general, smaller spa operations suffered less of a decline in revenue in 2010. Hotel spas with less than a \$1 million in revenue, and those with fewer than 10 treatment rooms saw their revenue decline less than one percent from 2009 to 2010. Hotel spas with less than 6,000 square feet actually achieved a 0.7 percent increase in revenue, the only sub-category to enjoy a rise in sales. This performance statistic suggests that a base of hotel spa demand comes from regular hotel guests, “die hard” spa patrons, or local members, thus larger hotel spas are more susceptible to fluctuations in behavior and spending patterns from additional demand sources, as they have larger spas to fill.

The greatest declines in spa department revenue were observed in operations with sales between \$1 million and \$3 million, and those with 10 to 20 treatment rooms. These spas saw their revenues decline by 14.3 percent and 17.8 percent respectively. Large spas with greater than 15,000 square feet endured a 15.7 percent decline in revenue in 2010, but still achieved a very significant average of \$2.5 million in sales.

A possible reason for the significant decline in the medium-size spa group is overbuilding. Medium-sized spas are often found in hotels that likely should have a spa as a guest amenity, but the property is not specifically known for its spa facility or experience. Therefore, it is neither an intimate, boutique spa nor is it a grand showcase spa for the property’s marketing and reputation. Additionally, the spa facilities may have been built as a ratio of spa treatment rooms to total guest rooms, rather than built to an actual projection of hotel spa demand and capture. Either individually or combined, these factors result in a greater potential negative impact on spa revenues during recession and early recovery periods.

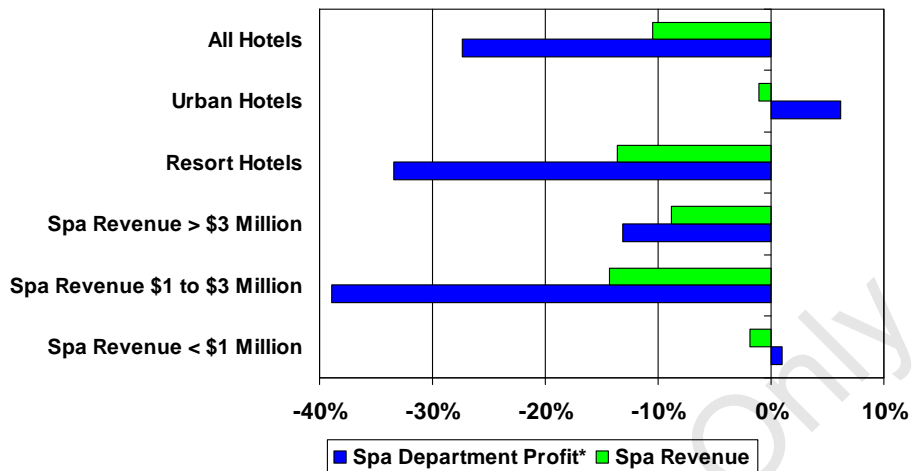
Expenses

Facing a decline in revenues, hotel spa managers were able to control the expenses within their department. From 2009 to 2010, spa managers reduced their total direct departmental operating expenditures by 3.9 percent. Given the variable nature of most spa department expenses, particularly labor, the reduced volume of business certainly contributed to the cost reductions.

Chart Two

Hotel Spa Department Performance

Change from 2009 to 2010



Note: * Before undistributed expenses.

Source: PKF Hospitality Research, 2011 *Trends® in the Hotel Spa Industry*

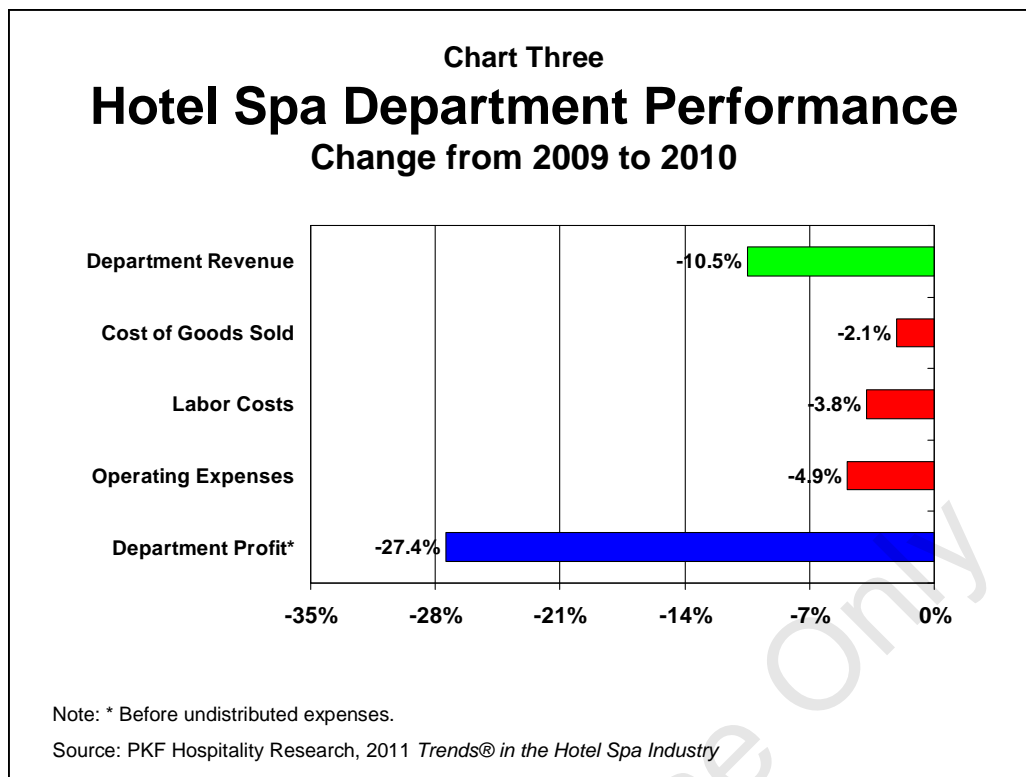
Despite having the greatest levels of staffing and use of supplies, hotel spas with the greatest revenue, square feet, and treatment rooms were also the operations that were able to most effectively control their costs. Conversely, the lowest changes in operating costs were observed in the smallest hotel spas. These phenomena are certainly largely driven by the significantly greater revenues to offset the expenses, however part can also be attributed to differences in management expertise. Larger spas with greater revenue streams can afford to carry the expense of a seasoned spa director, while smaller spas often do not have that luxury. Therefore, expenses may be more carefully and creatively managed in larger hotel spas.

The greatest cost reductions (-4.9%) were achieved by cutting the amount spent on such operational expenses as ambience and decorations, health and beauty products, laundry, linen, and uniforms (see Chart Three). Even labor costs, notoriously difficult to control within spas, were cut by 3.8 percent in 2010.

Profits

Despite the best efforts of managers to control their costs, hotel spa department profits declined by 27.4 percent in 2010. This follows a 13.9 percent decline in hotel profits in 2009. With profits declining to a greater degree than revenues, the average spa department's profit margins declined from 28.1 percent in 2009 to 22.8 percent in 2010. Per the Uniform System of Accounts for the Lodging Industry, hotel spa department profits are calculated before the deduction of undistributed expenses and fixed charges.

When analyzing changes in profits by property type, we find a sharp contrast in the 2010 experience of spas located in urban hotels versus those operating within resort properties. Facing less of a decline in revenue (-1.2%), but still accomplishing a 2.6 percent cut in expenses, urban hotel spas enjoyed a 6.2 percent increase in departmental profits. On the other hand, a 4.3 percent cut in operating expenses at resort spas was not enough to offset the 14.2 percent fall off in revenue. The net result was a significant 33.4 percent decline on the bottom-line for resort spas from 2009 to 2010.



Contrasts in hotel spa department profitability were also apparent when analyzing the data based on revenue levels and size. Smaller spa operations appear to have performed relatively well on the bottom-line just like they did on the top-line. Spas with revenues less than \$1 million, less than 6,000 square feet and fewer than 10 treatment rooms all achieved an increase in department profits. On the other hand, spas with revenues between \$1 million and \$3 million, greater than 15,000 square feet and 10 to 20 treatment rooms suffered the greatest declines in department profits.

While the resort spas did suffer more than urban spas in 2010, it should be noted that these operations achieve superior departmental profits compared to urban hotel spas. In 2010, the average resort spa in our survey achieved a department profit of \$388,459, or 24.6 percent of department revenue. This compares favorably to urban spas which averaged \$196,972, or 18.1 percent of department revenue. Further, spa department revenues represent a larger portion of total hotel revenue at resort properties (3.9%), compared to the revenue contribution at urban hotels (3.1%).

Future

Anecdotally we have heard from our clients that spa revenues began to grow in 2011 over their 2010 levels. In addition, we know that the upper-tier chain scales are leading the lodging industry recovery, and these are the properties in which most hotel spas operate. Finally, from a demographic point of view, a greater share of household expenditures is being spent on "health and personal" purchases, so as income levels start to rise (as forecast by Moody's Analytics), so too will people's budgets for health and wellness expenditures.

According to the December 2011 edition of *Hotel Horizons®*, PKF-HR is forecasting annual RevPAR levels for U.S. hotels to increase between 4.7 and 5.3 percent from 2012 through 2015. As we enter a period of prosperity for the lodging industry in 2012 and beyond, we believe spa revenues will repeat their historical trend and lead the pace of revenue growth.

U.S. Spas Keep Pace with Recovery

Nationwide Study Reveals Spa Industry is Experiencing Moderate Growth and Increased Employment

By Colin McIlheney

***ISPA Research Advisor and Global Research Director,
PricewaterhouseCoopers***



Spa operators across the U.S. are holding their own in the modest economic recovery; hiring new staff and adapting to meet changing consumer needs, according to the International SPA Association (ISPA) 2011 U.S. Spa Industry Study.

This report, based on a comprehensive survey of 905 spa operators nationwide (which include day spas, hotel/resort spas, medical spas, club spas, destination spas, and mineral springs spas), provides a snapshot of the industry during 2010 and into the first half of 2011. The study places particular emphasis on the industry's performance as the U.S. economy emerged from the recession, focusing on progress over the course of 2010 and into mid-2011. Its aim was to measure the extent to which the spa industry has proceeded along the road to recovery, by examining the change in revenues, spa visits, number of locations, floor space and staffing levels. In addition, the report looks at the key factors driving recovery and identifies the challenges facing spas during the recovery phase and beyond.

Road to Recovery

In 2009, the spa industry felt the full impact of the 2008-09 recession; for the first time since the ISPA began conducting industry research, the spa industry registered declines across all major indicators: falling revenues and visits, a drop in the number of locations and reduced staffing levels. In 2010, the U.S. economy recovered to grow at a 3 percent pace. The evidence from the latest ISPA study is that the spa industry has kept pace with the moderate rate of expansion in the wider U.S. economy, reversing the recessionary declines in revenues, visits and staffing numbers.

In 2010, total spa industry revenues rose by an estimated 4.3 percent, or 2.6 percent after adjusting for inflation, bringing the total to \$12.8 billion, up \$0.5 billion from 2009. Per spa, the average revenue was up by 8 percent, bringing the average to \$642,000. With average spend per visit remaining unchanged at \$85, the main factor driving the increase was a 5 percent rise in total visits, from 143 million by year end 2009 to 150 million by year end 2010. Though not back to the pre-recession peak of 160 million recorded in 2008, this still marks an important step towards recovery.

Further encouraging signs include total square footage holding steady and an estimated 2 percent rise in employment. As of May 2011, a total of 338,600 people were working in the spa industry, with the number of full-time employees up by 8 percent compared to 2010. This expansion in full-time staffing has been the driver of employment increase and indicates a measure of confidence as spas bounce back from the 2008-09 recession.

However, the recovery has not been enough to prevent a further fall in the number of spa locations (-3 percent), which dipped for the second year running. Partly, the rate of new spa openings fell sharply in 2010. Of the spas surveyed for the ISPA study, 2.5 percent said they had opened in 2010, suggesting a drop in the spa opening rate which ranged from six to eight per-

cent and above in previous years. Also, an estimated 5.8 percent of spas closed in 2010; this figure is likely to be elevated due to the lingering effects of the recession. The fall in the number of spa locations may also represent a consolidation in the industry following rapid expansion in the decade prior to the onset of recession in 2008.

By the end of 2010, the total number of locations stood at 19,900. The composition of the industry remains broadly unchanged on previous years. Day spas remain in the majority (78 percent), followed by resort/hotel spas accounting for nine percent of the total; medical spas (8.7 percent); club spas (2.8 percent); destination spas offering seven-day wellness programs (0.4 percent); and, mineral spring spas (0.3 percent).

Overall, the spa industry recovery reflects the national picture and similar experiences in comparable leisure industry sectors.

Strategies for Growth

National economic developments have been the single most important factor shaping the pace of growth in the spa industry, through the recession and into the recovery phase. In response, spas have adopted a range of strategies to manage the effects of the downturn and position themselves for future growth as the economy picks up.

The current upturn in fortunes can be attributed to a mix of spa activities and economic factors. These can be summed up as the four 'P's: pick-up in demand, promotions and marketing, pricing and profitability.

Demand on the Up and Up

For the majority of spas, the pick-up in demand observed in 2010 has continued into 2011. Most operators reported increased visits and revenue in the six-month period from September 2010 to March 2011, compared to the same period one year prior. Six in ten spas reported an increase in spa visits by their clients. A similar proportion (61 percent) said revenues had risen over the preceding six-month period. Spas were less likely to have noted increased client spending per visit (45 percent), indicating that the rise in demand has been driven more by an increase in client visits.

Across all spa types, trends in revenues reported by the spas surveyed showed a distinct improvement between September 2010 and March 2011 over the preceding six-month 2009-2010 period. In the 2009-2010 period, 46 percent of spas said revenues were climbing, versus 61 percent for the period September 2010 to March 2011. Spas were also more likely to say they were increasing staffing levels, marking a sharp turnaround in the employment trend.

Creative Promotion and Marketing

Spas have adopted imaginative and proactive approaches to sustain and grow their businesses, seeking to attract new clients, build loyalty and increase revenue amongst their existing clientele. Their strategies show a keen awareness that consumer disposable income remains tight; clients are wary about spending and are increasingly conscious of value and sensible use of their money.

A key aim of the current marketing approach is to counter perceptions of spa treatments as 'luxury' or 'indulgent pampering' experiences. Many spas, through their marketing and product offering, are now positioning their services as part of a healthy lifestyle, promoting wellbeing and marketing their treatments as beneficial to people living busy, stressful lives.

Almost all spas (97 percent) use online services to reach and motivate consumers; 95 percent have their own websites and 81 percent use social media. Online reviews (52 percent) and directories (51 percent) also play an important role. Deal of the day websites (28 percent) and flash sale websites (8 percent) are used to a much lesser extent.

Spa operators reported that their own website had the greatest impact on sales compared to other online services. Almost three in four spas (73 percent) reported a 'major' impact on revenues from their own website. Less than half of spas saw a major impact on revenues from any other online service. The reported impact on revenues was most likely to be described as 'minor' in relation to online social media, by 72 percent of spas using online social media to help increase revenue.

Rewards and promotions continue to be featured in attracting spa-goers. In 2010, 72 percent of spas surveyed said they offered gift card promotions, ranging from 58 percent of resort/hotel spas to 73 percent of day spas and 75 percent of medical spas. While innovative promotion ideas were popular, many spas were reluctant to go down the deep discount route, believing it devalued the brand and made it difficult to maintain standards. They also felt this tactic did not generate customer loyalty. Discounting too, is likely to restrain growth in prices.

Almost all spas (96 percent) are also connecting more with their local communities in various ways: donating products and services (85 percent), hosting events such as an open house (69 percent) and charity benefits (62 percent). Such activities are likely to have an indirect effect on building business, by providing profile-raising opportunities and educating customers on the benefits of the spa experience.

The rise in spa visits would suggest this mix of marketing approaches is paying dividends.

Pricing Holds Steady

Average prices for primary spa services held steady or declined slightly in 2010. This reflects the moderate uplift in consumer demand, and the use of rewards and some discounting to encourage visits.

Profitability

Boosted by increasing demand due to economic recovery, many spas have reported an improvement in profits (49 percent). However, a substantial proportion has yet to see profits recover. Nearly one in four spas said their profitability decreased from September 2010 to March 2011, compared to the previous twelve month period.

Improving profitability looks set to remain a key challenge for many spas, against a backdrop of flat trends in prices and average client spend.

Looking Ahead

The ISPA research reveals that the spa industry continues to face a number of important challenges as it moves towards recovery and beyond, including:

- The pace of growth in the wider economy;
- Finding the right balance between quality and pricing (including the use of discounting) to build demand;
- Educating consumers to appreciate the health and wellbeing benefits from spa treatments, and
- Recruiting and retaining qualified, committed and professional staff.

Research Findings in Detail

ISPA is recognized worldwide as the professional organization and voice of the spa industry, representing providers in more than 70 countries and encompassing all aspects of the spa experience, from facilities through to instructors, professional practitioners and product suppliers. Its role is to advance the industry by providing educational and networking opportunities, promoting spas and fostering professionalism and growth.

To gain more in-depth industry understanding, ISPA commissioned the first U.S. Study in 2000, followed by updates in 2002, 2004, 2006, 2007 and 2010. Shorter tracking studies documented 2003, 2005, 2008 and 2009 performance.

The full ISPA 2011 U.S. Spa Industry Study, prepared by PricewaterhouseCoopers, covers in detail:

- Industry size and the road to recovery
- Spa industry profile
- Size and geography by type of spa
- Facilities including indoor square footage
- Services and product offering
- Prices and the composition of revenue
- Spa staff.

ISPA members may download a complimentary copy of the ISPA 2011 U.S. Spa Industry Study and nonmembers may purchase copy of the study at experienceispa.com.

* * * *

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Attracting and Retaining the New Spa Customer

By Stephanie Perrone Goldstein
Vice President of Sales and Marketing
Coyle Hospitality Group



Coyle Hospitality Group is a market leader providing mystery shopping, brand quality assurance, and market research services exclusively to hospitality companies worldwide: specifically hotels, spas, restaurants, cruise lines and venues. Coyle's team is made up of hospitality experts in guest experience consulting and management with expertise in serving boutique, lifestyle and independently owned companies as well as global, upscale and luxury hospitality groups.

Coyle's unique, worldwide model of network evaluators enables Coyle to tap into the consumer perspective on a large scale and provide feedback to clients on a very granular level from people already in their client demographic. In 2010, global spa leaders approached Coyle, asking for insights to better understand what drives the spa consumer, and the Coyle Global Spa Report was born.

The 2011 Global Spa Report, completed in March of 2011, was comprised of 1,025 consumers worldwide. They represented 34 countries on six continents, with 89 percent from North America and 81 percent between 30 and 50+ years of age (relatively even distribution amongst all decade groups).

The Evolved Market

As hospitality professionals, you are faced with an ever-changing marketplace where the way consumers communicate is evolving daily. The rapid evolution of word-of-mouth feedback and recommendations, and our response with social media monitoring, and in some cases, social media manipulation (where your competition may be incentivizing positive comments or fabricating them), is both time-consuming and important to watch.

Additionally, we are facing a 'changed' consumer: one who is deal savvy and educated on how to find these deals. Many would argue this consumer is less loyal. Based on our research, we would counter that loyalty can be solidified when consumers place a higher value on every penny they spend; not wanting to waste on the unknown or sub-par experience. We believe the data presented herein will help illustrate this.

High-end hotels with spas face yet another obstacle as more and more lower-priced day spas pop up in their markets. The loyal local consumer who previously did not mind paying \$200 for a 60-minute massage (after gratuities) is now reconsidering as the market sees talented providers moving toward busy bargain spas nearby and securing loyal clientele at less than half the price.

At the lowest points of the economic downturn, in 2009 and 2010, we saw many spas scrambling for whatever business they could garner. Our continued recommendation is to get back to marketing basics: know your consumer, market to that consumer, and do everything in your power to ensure their experience is extraordinary, thus earning their return visit and/or their advocacy of your brand to their 'network'.

Below is a brief summary of the findings of our study, which is only a selection of those represented in the full complimentary report, found at:

<http://www.coylehospitality.com/2011-global-spa-report/>.

Hotel vs. Local Guests

Why do consumers go to spas? As one might expect, Relaxation and Stress Management was a primary reason cited by 88 percent of respondents. This should be music to the ears of hoteliers. Not only are the typical guests of a hotel tired and stressed from traveling, they are usually on-site to either vacation (to relax) or to conduct business (often a source of stress). Either way, there are opportunities to market to this captive audience who are more likely to walk in their robe from their guestroom to your spa between meetings or prior to their romantic dinner, than go off-site for a spa experience.

Pre-stay calls or emails to guests suggesting spa services, or perhaps a value-added spa promotion, can help guests plan their relaxation time in advance and schedule around it. Also, targeted calls or personalized mobile messages once on-site can convert a potential spa user into a definite one.

Other prevalent reasons to visit a spa were those related to beauty maintenance including hair, nails, waxing; improving appearance; and skin care. Each of these garnered between 59 percent and 37 percent of respondents citing them as primary reasons to visit a spa. These treatments tend to be ones consumers entrust to a local provider whom they see regularly, thus creating an obstacle for hotel spas marketing to transient guests. However, by learning guest needs such as that they are preparing for a wedding or event during their stay, or were time-pressed prior to the visit, can result in relevant suggestive selling and increased business. Additionally, if your market allows, marketing locally for these services can yield a loyal following.

Each market has its own pockets in business, slow seasons or shoulder seasons. For some they come on a weekly basis (weekends are quiet while business travel is abound on weekdays, or vice versa) and for others there are long stretches (due to weather changes or cyclical business patterns). Hotels depend on the local guest to fill these off-peak times, however, discounting need not be the only approach. Promoting what consumers cannot get at the bargain spa down the street – a beautiful facility and water features, pools, spa lunch, or whatever other unique experiences your spa offers – at a ‘local rate’ or with a bonus gift can certainly aid in bringing in traffic of the ‘right’ kind. Or, apply yield management practices as you do daily with rooms. Take off-peak times and dates and adjust the rate of services or do a value-add promotion. Those customers with flexible schedules will fill your gap times, while others will pay the premium out of convenience or necessity.

Also interesting for hotels is that 31 percent of respondents cited a ‘Gift’ as a primary reason for visiting a spa and 19 percent cited a ‘Social Experience’. Again, trying to capitalize on the local market, promoting parties for brides and moms-to-be, social groups and other organizations can help source and retain new business. Additionally, promoting gift cards and packages or having a reach-out program for hotel guest birthdays, anniversaries, etc. to suggest giving the gift of spa can all be effective ways to grow business.

Attraction and Retention

This year, we asked consumers which marketing methods they utilized to prompt their recent spa visits. The results follow.

Quite promising is that 59 percent of the people surveyed said they had tried a spa because it was in the hotel/resort/location they were near and they were in need of a spa. Capitalizing on this captive audience is key to hotel spa success.

Method	Massage	Facial	Nail Service	Hair Service	Waxing/Hair Removal	Makeup Application	Medical Treatment	N/A
Direct Mail Print Ad with Deals or Coupons	16%	3%	5%	3%	2%	0%	0%	70%
Direct E-Mail Ad with Deals or Coupons	18%	6%	4%	3%	2%	0%	1%	66%
Online Deal Site with limited time deal (ie. SpaWeek, Groupon, Living Social, etc.)	30%	9%	7%	5%	4%	1%	2%	44%
Word-of-Mouth Recommendation	33%	10%	10%	8%	6%	1%	2%	31%
It was in the hotel/resort/location I was near and I was in need of a spa	42%	7%	5%	2%	2%	1%	0%	41%
Reputation - Branded Spa	20%	9%	2%	3%	4%	0%	1%	61%
Read about it in a Third Party Publication (ie. spa finder, etc.)	7%	4%	2%	1%	2%	0%	1%	83%
Found it on a web search (google, bing, yahoo, etc.)	13%	6%	5%	3%	2%	0%	1%	70%

Additionally, we asked the survey respondents who said they visited a spa for one of these reasons, if they had returned or not. Below are their responses.

Method	Returned	Have Not Returned
Direct Mail Print Ad with Deals or Coupons	65%	35%
Direct E-Mail Ad with Deals or Coupons	69%	31%
Online Deal Site with limited time deal (ie. SpaWeek, Groupon, Living Social, etc.)	63%	37%
Word-of-Mouth Recommendation	85%	15%
It was in the hotel/resort/location I was near and I was in need of a spa	45%	55%
Reputation - Branded Spa	80%	20%
Read about it in a Third Party Publication (ie. spa finder, etc.)	53%	47%
Found it on a web search (google, bing, yahoo, etc.)	64%	36%

Again, the results should be quite promising for hoteliers with 39 percent of respondents citing that they visited a spa based on its reputation or branding, with a retention rate of 80 percent of those consumers. Reputation building with existing guests, publications and others brand-wide is imperative. Partnering with a well-known spa brand could also prove highly effective in attracting and retaining business for branded hotels and independents alike.

Additionally, word of mouth recommendations prompted 70 percent of the consumers surveyed to visit a spa and resulted in an 80 percent retention rate. This speaks, most importantly, to creating the extraordinary guest experience mentioned earlier. In order to attract and retain guests, then gain their recommendation via whatever networking method they choose, the spa must deliver consistently on its value proposition.

The other results are also quite telling. With 30 percent of respondents utilizing a spa based on a web search and 64 percent returning, it is baffling to see that some hotel spas don't have a full website and are not search-optimized. Also compelling are the deal sites and traditional email/direct mail marketing, which could effectively assist in growing business if done with yield management techniques and the correct target market in mind (limiting the scope of the offer and its distribution), as the retention rate is much higher.

Summary

This is just a sampling of key insight into Coyle's 2011 Global Spa Report report, available at <http://www.coylehospitality.com/2011-global-spa-report/>. In it, you will find much more spa research relevant to the consumer, marketing, web usage, social networking, and more.

There are many ways to market to both hotel guests and local consumers to improve your spa's business. It requires creativity, and perhaps some trial and error but, based on the consumer response to our study, the retention rates could certainly prove worth it. However we would be remiss not to note that even the most brilliant marketing efforts could yield zero retention should the spa experience not match guest expectations. Whether the spa is outsourced to a respected brand or managed internally, execution on this brand promise is crucial to retention.

* * * *

Stephanie Perrone Goldstein is VP of Sales and Marketing for Coyle Hospitality Group.

For Internal Use Only

SpaFinder's Look At the Hotel/Resort Spa Market

By Susie Ellis
President of SpaFinder, Inc.



Introduction

SpaFinder's annual *Spa Trends Report*, entering its ninth year, is designed to spotlight new ideas and approaches that are poised to shape the experiences of both spa consumers and spa businesses in the future. The mission of each forecast is to get consumers excited about emerging spa concepts, while helping individual hotel/resort spas stay a step ahead in shaping their own offerings, to continue to create new, meaningful and successful guest experiences.

The following report first analyzes five top 2011 trends specifically impacting U.S. hotel/resort spas, and concludes with a snapshot of a few key trends the hotel/resort spa industry should keep their eye on in 2012. The report's second section, analyzing results from SpaFinder's 2011 "State of Spa Marketing" survey, delves into hotel/resort spas' current marketing spend and strategies, which channels are delivering the highest ROI and where marketing budgets are headed in 2012.

SpaFinder's trends forecast for U.S. hotel/resort spas is based on analyses from a large team of experts who visit hundreds of hotel/resort spas each year, interviews with top industry stakeholders and data derived from the company's relationships with over 15,000 spa/wellness establishments and 20,000 travel agents worldwide. The 2011 "State of Spa Marketing" report is based on a survey conducted in October 2011 with 436 day, hotel, destination and medical spa respondents. For this report, data from the 139 U.S. hotel/resort spa respondents was analyzed.

I. SpaFinder's 2011 Top Hotel/Resort Spa Trends

1. The Hotel Spa Brandwagon

It wasn't long ago that you could count on one hand the number of hotels/resorts with their own spa brand across multiple U.S. (or global) locations. The debates once preoccupying hotel/resort management: Should I develop/operate my *own* spa, or outsource it? Should my spa brand be distinct from my hotel/resort's brand?

Now the debate is getting settled, and it is tilting heavily in one direction: towards *branding*. An unprecedented "hotel/resort spa brandwagon" is underway: Whether it is U.S.-based companies like Starwood Hotels & Resorts expanding its existing spa brands at home and abroad (especially in explosive markets like Asia), or brand-new hotel/resort spa brand concepts charging to market (i.e., Hilton's Eforea or Sheraton's Shine spas). And successful day spa brands are increasingly being integrated into U.S. hotel/resort properties: Exhale spas at trendy Gansevoort Hotel properties; Red Door Spas at Hyatts, Westins, etc.; L'Occitane's recent migration into Club Med; and Woodhouse Day Spa just beginning to move into hotels.

In the ever-raging hotel/resort "brand battles" (i.e., who's got the best bed or rewards program), spa brands are becoming the newest weapon in attracting customers.

The trend also encompasses branded hotel/resort spa *management*. One example is the recent launch of Trilogy Spa Ventures, whose stated objective is to “select 100 leading, high-end hospitality properties over the next decade, and make them Trilogy-managed spas.” Trilogy, which has already taken over the Guerlain Spa at the Waldorf-Astoria, is, notably, U.S. focused, while so many brand players have their eyes on Asia.

Fueling the trend: Sheer globalization; a much vaster, mainstream spa market; a strengthening economy; and the significant advantages that economies of scale bring to large enterprises like hotel chains. And with 3,000-plus hotel/resort spas across North America¹, travelers will embrace the know-ability factor (à la Starbucks). But unlike faceless “McBrands,” these new spa brands are working overtime to create unique identities, and the spa “brandscape” is stratified, offering real choice at diverse price-points, whether it is a hip, urban Exhale spa, or the over-the-top luxury of a Mandarin Oriental. And if many of the new three- or four-star hotel spa brands (i.e., Hilton’s Eforea), revolve around greatly simplified and sub-branded menus, such as a handful of “signature spa journeys,” they’re also balancing turnkey menus/design with meaningful nods to local specificity (i.e., regional treatments, etc.).

Westin Hotel & Resorts’ recent re-branding, with its “For a Better You” campaigns spotlighting its hotels’ many “Elements of Well-Being” (i.e., the branded Heavenly Spas, Heavenly Bed, Westin WORKOUT, healthy SuperfoodsRX menu), sheds a brighter, wider light on the global spa brand march in general. Essentially, Westin has infused spa and wellbeing messages and offerings across its entire brand/properties. One could say that “spa and wellness” itself is the overarching “brand,” while Heavenly Spa is *its* branded proposition.

The hotel spa brandwagon will race ahead in 2012 because spa and wellness casts a uniquely positive, attractive halo over hotel properties. It sends a timely, powerful message to guests: We care deeply about your health and wellbeing, and when you leave, you’ll feel better than when you checked in. So, get ready for even *more* hotel spa brands telling their *brand-new* brand stories next year.

A Few Examples:

- ◆ ESPA (in 50-plus countries) was the first to un-riddle the hotel/spa brand equation, championing consistently high levels of service throughout its entire portfolio.
- ◆ Steiner Leisure, which manages numerous hotel spa brands, including Bliss, Elemis, Mandara and Remède – along with the majority of cruise ship spas - expanding into more properties.
- ◆ Red Door Spas (the first, century-old spa brand) opening new locations in Westin, Marriott, Hyatt and Harrah’s hotels.
- ◆ Hilton’s Eforea spas set for 80 global properties by 2013.
- ◆ Sheraton’s Shine spas set for all global properties by 2012.
- ◆ Travaasa’s expanding its ‘experiential’ spa resorts: from Austin to Hawaii

2. Embracing the Local Market

As the post-recession data rolled in, one fact was clear: Day spas didn’t suffer as much as hotel/resort spas did. The reasons: travel, of course, experienced significant declines and day spas, more nimble than their corporate-layered hotel/resort spa equivalents, were quicker to respond with offers and incentives.

As a result, these last four years have served as a wake-up call to hotel/resort spas to take a

longer, more serious look at the value of their local market. And even with the economy and travel slowly strengthening, hotel/resort spas will get more aggressive in courting the backyard “day spa” consumer.

SpaFinder’s recent survey of U.S. hotel/resort spas² reveals that while 97 percent report they’re now actively interested in attracting the local/day-visit customer, industry success remains quite polarized: Forty-four percent report that local customers represent less than 20 percent of their spa’s total revenue, while 32 percent claim that it represents 40-plus percent. (Seventeen percent claim it accounts for an impressive 60-plus percent of revenues.) And, while urban/rural geographical realities play their part, 78 percent plan to increase their hotel/resort spa’s campaigns to attract the local market in 2012, with another 17 percent holding steady on that outreach.

Look for more hotel/resort spas to ramp up the core strategies that work to draw the local consumer: membership programs, national gift certificate programs, special events and strategic “daily deal” campaigns. As hotel/resort spas become more sophisticated with revenue management, they’re more successfully slotting local customers at off-peak times, and are able to offer them deeper discounts than regular hotel/resort guests.

SpaFinder estimates roughly one in eight hotel/resort spas now offers some version of a local membership/loyalty program. Not only does this model keep guests close (and less likely to be swayed by the avalanche of local spa offers being blasted into their in-boxes), it increases revenue beyond treatments with membership fees/dues. And our research also shows that local clients spend, on average, roughly 20 percent more *after* they become members.

Urban hotel spas like the Peninsula NYC and Intercontinental San Francisco launched successful programs even before the recession. But, more recently, hotel membership programs are getting even more creative and expansive: The Rosewood Crescent Hotel in Dallas offers a slate of memberships (individual, corporate, just for people aged 25-35, social, etc.), while Berkeley, California’s Claremont Hotel *Club* and Spa (previously named “Resort & Spa”) invites locals to join what is essentially a “wellness country club” program, packaging events, tennis/pool usage, classes, spa treatments and children’s day camps. Many urban hotel spas are now opening with membership programs in place, rather than adding them as an afterthought.

With the latest research³ showing that a staggering 31 percent of all spa visits are generated by gift certificate redemption, more hotel/resort spas will continue to join “universal” gift certificate programs to attract local spa gift redeemers. In 2009, only 27 percent of hotel/resort spas on SpaFinder’s marketing program accepted the company’s gift certificates, but that jumped to 56 percent in 2010, and 75 percent in 2011.⁴

More hotel/resort spas will hold special community events, whether yoga or wellness weeks, or inviting specialty practitioners, educators and local luminaries into the spa. And more hotel/resort spas will continue to experiment with “daily deal” programs that can quickly pull in local customers...if the deal parameters and the quality of the customer are a fit.

Some argued the “staycation” was a fad (because the word is faddish); however, successful local hotel/resort spa packages will continue to prove them wrong. Americans are deeply time- and cash-crunched (taking fewer vacation days than ever), so more people will seek local hotels and resorts and their spas to decompress on the quick. If executing that balance between the local and hotel/resort guest is still more art than science, the sheer potential profitability of this customer (who is perfectly positioned for repeat visits) means that finding smart ways to attract the local market will be a critical skill set for hotel/resort spa managers moving forward.

² SpaFinder’s 2011 “State of Spa Marketing” Survey

³ Coyle Hospitality Research, 2011

⁴ SpaFinder Research, 2011

3. New Group Celebrations

In SpaFinder's 2011 (and 2010) "State of Spa Travel" report, U.S. travel agents surveyed reported that "social spa-ing" – or people hitting hotel/resort spas en masse for special occasions like weddings, anniversaries or the big '0s' – essentially tied as the number-one emerging spa travel trend, along with people traveling to spas with specific health/wellness goals in mind.

The social/group spa-ing concept was born at the day spa, with its long tradition of "girlfriend" and bachelorette parties, but it will continue to migrate to the hotel/resort spa arena in the future. Hotel/resort spas began more aggressively incentivizing "group celebration travel" during the recession to stem losses from their meetings business, and the concept's traction just keeps growing, while encompassing many new types of celebrations and groups. No longer just about "girlfriend getaways," spas are increasingly targeting and attracting groups spanning everything from multigenerational family parties (i.e., grandmother/mother/daughter), reunions, retirements, graduations, athletic groups/teams, parties of teens – even community groups like book clubs. (SpaFinder Gift Certificate purchase analysis shows that "Happy Birthday" is the top message requested throughout the year.) And one sign that the spa getaway is moving beyond the couple: the rise of spa hotel/resort suites accommodating three or four people.

The old staple, the wedding/bridal business, has easily doubled in just the last five years,⁵ as spas have become firmly branded as the perfect environment to prepare for the stressful modern wedding, with luxury accommodations and fine dining for the bridal party, and the requisite menu of social beauty/relaxation treatments before the big day. And new kinds of nuptials have, of course, emerged: W Hotel NYC and Emerson Resort & Spa quickly jumped on the gay wedding/spa opportunity, when New York state legalized gay marriages.

It certainly makes sense that more groups are choosing spas for celebrations. As the very concept of "spa" continues to undergo a radical shift from its once-narrow association with (rich) women, luxury and pampering to a much more expansive, democratic concept of pursuing health and wellness, spas are *uniquely* natural destinations to affirm the various chapters of one's life. And in the current economic and moral climate, more people are investing in *experiences* (and health and happiness) than *things*.

More people will continue to take over large parts of hotel/resort spa properties for weddings, birthdays and many new breeds of celebration. And more families will hit the spa to do a little "relationship wellness." This is a macro, ongoing and utterly crucial trend that really gives hotel/resort spas (and their bottom line) something to celebrate, too.

4. "Deals Gone Wild" - Taming the Beast

Just a few years ago, coupons were unfashionable things people snipped out of newspapers, spa deals were mostly found on chalkboards near reception and the vast majority of hotel/resort spas refused to even use the dirty word "deal." Flash (mob) forward to 2010: In marched Groupon, and "daily deals" morphed into the hottest online industry trend.

Spa and wellness deals quickly became a *mainstay* of generic sites like Groupon and LivingSocial (where roughly one in five deals are spa-related). And this new marketing model/mania quickly had a powerful, if mixed, impact on the spa industry: On the one hand, discounting pressures have been heavily ratcheted up – but, more positively, millions of people have tried new spas and spa experiences they simply wouldn't have without the "50 percent off."

At the cusp of 2012, the "deal" landscape is shifting again, with new developments unfolding across this once Groupon-defined, but now crowded market. With 600 group-buying sites in the

⁵ SpaFinder Research, 2011

⁶ BIA/Kelsey Research, 2011

U.S. today, developments impacting hotel spas include Facebook and Yelp pulling out of “daily deals” in 2011; Google getting ready to launch new platforms; and first-mover Groupon attempting to expand beyond its generic, lower-end model by targeting niches like “getaways.” The daily deals market is still expected to double, soaring to \$4.2 billion from 2011 to 2015⁶ – so while forecasts remain very bullish for the online group-buying industry, the conversation around this marketing model is distinctly more rational, and less over-hyped, today.

Developments on the horizon:

* **Consolidation.** A “dot-deal” shakeout looms, given the sea of generic Groupon-clones. Hotel/resort spas and consumers will still have a huge number of deal platforms to choose from, but meaningfully *differentiated* models, and those that best target people based on their location and interests will be the likely shakeout winners.

* **More personalized, high-end, travel- and spa-specific deals.** With the original Groupon model, spa deals were thrown in between specials on car maintenance, etc. But new personalization software, and the rise of luxury-focused and spa-specific deal platforms (i.e., a Gilt City or SpaRahRah!), means targeting more discriminating travelers and spa-goers, with more relevant, high-end deals, is on the rise. And now that higher-quality customers *can* be targeted, many hotel/resort spas (that once avoided these deals like the plague) have dipped their toes in this year. Smaller, vertically focused companies are honing in on affluent consumers seeking credible spa and travel deals at destinations where they actually want to go (not that \$39 strip-mall massage). Groupon knows this, and that’s why it has just launched “Groupon Reserve,” billed as “exclusive offers for premium restaurant experiences.” (It remains unclear if Groupon’s upscale moves will expand to the hotel/resort spa world.)

* **More manageable, well-structured deals.** “Flash-mob” deals that had tiny day spas selling thousands of massages led to well-publicized horror stories for both the businesses and their customers. That model was never a match for hotel/resort spas, so the new, higher-end deal sites (and the industry generally) will increasingly let hotel/resort spas exert far greater control over their deal parameters: routinely setting caps of, for instance, just dozens of deals, and welcoming more realistic, brand-protecting discounts – for example, 30 percent off a weekend stay/spa/dine package that can still run to \$3,000. And hotel/resort spas will continue to get smarter about optimizing their online deals, restricting usage to low-occupancy months or days of the week, with offers on treatments that *are not* standard massages, and the like.

* **Focus on retention.** Spas originally embraced group deals to attract hordes of new customers, but going forward there will be a much more intense focus on quality over quantity. And customer retention will continue to be a much bigger priority, with hotel/resort spas implementing the processes and technology that can re-engage that customer post-deal.

SpaFinder’s new “State of Spa Marketing” survey reveals that the once “no-deal” hotel/resort spa industry has quickly evolved: Thirty-four percent of hotel/resort spas have now worked with an online daily deal site, and another six percent plan to. The survey further showed that the industry’s perception of the *value* of this marketing channel is divided; that the deals industry needs to keep improving customer quality; and that spas need to keep improving their retention strategies. Forty percent of hotel spas agree that online group-buying sites “result in a significant improvement in the number of customers and sales,” but 60 percent disagree. Thirty-six percent report that the customer “spent significantly more than the value of the deal booked,” but only one in four hotel spas report “the customer became a repeat customer/booked further appointments.” Interestingly, despite reservations from the majority, the hotel/

⁷ Coyle Hospitality Research, 2011

⁸ SpaBooker Research, 2011

⁹ Coyle Hospitality Research, 2011

Hotel / Resort Spa Internet Initiatives, 2011

	<u>Use</u>	<u>Plan to Adopt</u>
Facebook presence	88% (55% in 2009)	7%
Twitter presence	65% (32% in 2009)	12%
Sell gift certificates online	62%	17%
Online reputation management	59%	12%
Online video	43%	15%
Blog	40%	12%
Online contests	37%	9%
Sell retail products online	36%	19%
Online deal sites	34%	6%
Mobile marketing	28%	17%
Web-based management systems/live appt. booking	21%	23%

resort spa industry is now slightly more positive on its overall results with online deal campaigns than the day spa industry.

All signs indicate that it is "full deal ahead" for the spa industry in 2012...but the focus will continue to shift to truly manageable, well-structured deals, and targeting and retaining the customer you actually want.

5. The Totally Online Spa

While the Internet has been around for 15-plus years, it is only now that the spa industry's virtual presence is reaching a radical tipping point. Hotel/resort spas are embracing an unprecedented number of online channels to reach and engage their customers, and those customers are connecting with spas online in powerful new ways.

Ninety-three percent of spa-goers now turn to the Web when specifically seeking spa information⁷. The number of people booking spa appointments online has doubled each year for the last two years, with 45 percent of spa-goers reporting they have already booked a massage online. People are busy printing out online spa gift certificates; shopping virtual spa retail stores; being deeply influenced by consumer reviews at Google Places or Yelp; spending inordinate amounts of time on Facebook and Twitter; snapping up online daily deals for local spas; and essentially demanding instant, 24/7 info-gratification about a spa's services and specials.

The "State of Spa Marketing" survey reveals which exact Internet initiatives hotel/resort spas are now embracing, and how the industry is now moving fast to better connect with its totally "wired" customer.

Mobile. U.S. mobile adoption has hit critical mass, with 82 million Americans now owning smartphones.¹⁰ And roughly four in five frequent business travelers now use mobile to plan the various aspects of their trip.¹¹ The affluent hotel/resort spa consumer is overwhelmingly a smartphone user, and hotel/resort spas will increasingly get smarter about this opportunity, optimizing their websites for mobile, making sure they're "found" via the many location-based apps, embracing text communications and so on. If only roughly one in four hotel/resort spas is currently embracing mobile, expect to see this increase.

Spa apps. In 2010 SpaFinder unveiled the first spa app, making it possible for a person anywhere in the world to pinpoint a nearby spa, and learn about services, prices and book an

¹⁰ comScore data. 2011

¹¹ PhocusWright Research, 2010

online appointment on the fly. (Fifteen percent of online spa booking now comes through mobile phones.¹²) The spa apps will only continue to spawn: if you can now hold up your smartphone and it can physically point you to a nearby restaurant, why not to nearby spas?

More hotel/resort spas (especially those with multiple locations) will develop their own iPhone apps like destination spa Rancho La Puerta. These custom apps can deliver high-touch virtual tours introducing people to the property and spa, while allowing guests to remain hyper-connected during their stay (with class schedules; weather; event and appointment alerts; even wellness reminders).

Cloud-based software. Hotels/resort spas will continue to abandon archaic software for new, cloud-based, software-as-a-service (SAS) technologies, to more easily and cost-effectively manage their entire spa operations, whether for revenue/yield management, selling online retail products or reordering supplies.

The online health connection. There are many new high-tech gadgets that allow people to easily monitor their health and fitness, vital signs and every calorie consumed and burned. This data can be automatically uploaded online for access by a spa or doctor.

The Internet and mobile phones provide uniquely powerful platforms for spas to stay connected with their former guests, and it is a trend just taking flight. While promotional reminders are typically the overwhelming focus of all spa follow up, virtual technologies (i.e., email, Skype, webinars, text alerts) provide effective ways to keep the health connection going. At the moment, large private enterprises and destination spas are taking the lead in this arena.

Corporations are already starting to put diverse aspects of their wellness/fitness programs online. And more hotel/resort spas may ultimately follow the direction of a destination spa like Canyon Ranch with its “Follow Up at Home” program, which involves 30- to 50-minute phone, email and Skype coaching sessions with nutritionists, fitness trainers and “life managers” to help clients stay on track.

Today you can almost “spa online,” but of course nothing replaces human touch. So while spas have never been more wired, they may also serve as the ultimate countertrend to the world’s online obsession.

II. A Look Ahead – A Few Emerging Trends Hotel and Resort Spas Should Put on Their Radar for 2012

The “wow” factor. As a direct result of the strong branding trend we noted for 2011 – and given current consumer perceptions that one hotel/resort spa too often looks like any other – new hotel/resort spas are attempting to pile on the “wow” factor, with eye-popping design; futuristic, blow-your-mind amenities; and truly unique treatments. And many hotel/resort spas will attempt to achieve the “wows” without heavy investment. So look for more creative ways to capture the consumer’s and the media’s attention, such as The Setai New York’s (an a Capella Managed Hotel) “Spa in a New York Minute” menu emphasizing express spa services. Another example is JW Marriott Grand Rapids, which only had one massage room, and recently brought in an innovative mobile spa cart system, Suite Spa®, which brings massage, facials, wraps, pedicures and even hot stone therapies right into guest rooms, and which is rapidly franchising to more hotel properties.

Dine, wine & spa. Many hotel/resort spas, of course, do very fine food and very fine spa, but they’ve rarely been yoked together – paired – savored - packaged – curated - and marketed – *together*. That’s changing dramatically. It is a strong trend and powerfully attractive to consumers:

¹² SpaBooker Data, 2011

The ultimate, logical, sensory, “lifestyle” combination that’s a huge draw for romantics, pleasure-seekers and true connoisseurs. The trend is unabashedly about healthy hedonism, and these dine/wine/spa weeks and weekends represent a very sophisticated and profitable re-imagining of the once less-than-glamorous “all-inclusive vacation.”

The “kiddie” spa craze. Hotel/resort spas have traditionally been retreats for grown-ups to relax and revitalize – away from children. But now there is growing traveler demand to be able to bring teens, tweens, and even tots, along for the spa experience. Now that spas are broadly associated with health and wellness, rather than “grown-up” pampering, far more families (many concerned about the childhood obesity epidemic) want to take spa vacations *together*. Hotels/resorts will need to reevaluate age restrictions in fitness and spa areas, welcome tweens (and younger) into the spa/salon, and continue their rollout of robust teen/kids’ day programming, incorporating fitness activities and even some spa services.

Coaching. This trend is everywhere: “Health Coaching,” “Weight Loss Coaching,” “Wellness Coaching” – yes, even “Eyebrow Coaching.” While it started percolating at destination and day spas, the concept also gives hotel/resort spas a new, unique opportunity to stay *ultra-connected* and *profitably engaged* with both their traveling and day guest customers. And it can galvanize their club membership program, or spark one if it doesn’t already exist.

III. Hotel/Resort Spa Marketing Spend and Trends

SpaFinder’s “State of Spa Marketing” survey measures where hotel/resort spas are currently dedicating their marketing dollars, which channels are proving most effective, and where that spend is headed in the future.

Dollars to spend. Spas were questioned about what percentage of their yearly revenue is earmarked for marketing – and it should be noted here that for hotels/resorts, of course, marketing is typically an undistributed operating expense, not charged directly back to the spa department. Hence, percentages reported below may represent subjective estimates.

Twenty-two percent of spas report spending less than one percent of annual revenues on marketing, while the largest bloc of respondents (46 percent) spends one to three percent. (Eighteen percent spend four to six percent, while 14 percent spend over seven percent.) If the average U.S. hotel/resort earmarks roughly 4.5 to 5.5 percent¹³ for marketing, one can see that where the hotel/resort spa distributes its often more modest budget, and with what results, is critical. ISPA estimates the average hotel spa generates \$1.46 million in annual revenues¹⁴, so, a two percent marketing spend would represent roughly \$29,000 per year.

Current budget allocation. Hotel/resort spas were asked to rank where their current marketing dollars are being spent.

- 1.) Traditional Internet channels, including display advertising, email campaigns, partner marketing and gift certificate relationships, etc.
- 2.) Public relations
- 3.) Social media (Facebook, Twitter, etc.)
- 4.) Traditional advertising (newspaper, TV, etc.)
- 5.) Search marketing (pay-per-click and SEO)
- 6.) Events
- 7.) “Other”

¹³ PKF Hospitality Research Data, 2001-2009

¹⁴ ISPA: 2010 U.S. Spa Industry Study

If the spa industry historically has trailed most industries in online marketing, the data clearly reveals *that was then, this is now*. Online platforms now represent two of the top three line items in U.S. hotel/resort spas' budgets, with the top three channels (including public relations) indexing significantly higher than the other tactics.

As point of comparison, the day spa industry is even more Web-focused, with traditional Internet channels, social media and search marketing claiming the top three spots. And while traditional advertising takes the fourth spot for hotel/resort spas, it ranked last for day spas.

Marketing spend ROI. Hotel/resort spas ranked marketing channels by overall effectiveness/Return on Investment (ROI).

- 1.) Traditional Internet channels: display, email campaigns, partner marketing, etc.
- 2.) Social media
- 3.) Public relations
- 4.) Search marketing
- 5.) Traditional advertising
- 6.) Events
- 7.) "Other"

Online platforms (traditional Internet advertising like display/email and social media campaigns) convincingly indexed as the two marketing channels delivering the highest ROI to hotel/resort spas. And while hotel/resort spas report spending slightly more on public relations, social media leapfrogs that line item in effectiveness.

Hotel/resort spas are certainly on board with social media, with 97 percent now engaging in some form. And the survey's collective data on social media's ROI reveals a positive, if notably divided, industry. Sixty-four percent of hotel spas report social media campaigns have led to measurable improvements in customers/sales, while a significant 36 percent report it has had little impact. Combining *that* data with the fact that social media ranks an impressive #2 for overall marketing effectiveness, we see that while the majority of hotel/resort spas perceive they're doing very well with social media, roughly one in three are not seeing the results. But online marketing experts concur that success with social media is largely a "you get back what you put in" story, and campaign effectiveness is directly tied to how robust and engaging a spa's social communications are, and how well content production/sharing is managed.

Marketing budgets 2012. Hotel/resort spas reported on which marketing campaigns they plan to increase/decrease next year.

	<u>Increase</u>	<u>Decrease</u>
Social media	67%	3%
Traditional Internet channels	64%	3%
Public relations	62%	3%
Events	44%	8%
Search marketing	41%	10%
Traditional advertising	8%	48%

(All percentages not accounted for represent spas planning the same budget for that line-item in 2012)

With the economy/travel slowly improving, hotel spa marketers are clearly optimistic for 2012: Five of six of the core marketing channels are slated for significant increases next year. Notably, only traditional advertising is pegged for significant cuts. And hotel/resort spas' current experienced ROI is informing their 2012 marketing directions nicely – the top-three most effective marketing channels also represent the ones that will see the biggest planned budget increases.

Almost “nothing but net.” Hotel/resort spas' current and planned (2012) marketing expenditures – and those currently delivering the highest ROI – while not “nothing but net,” are getting awfully close. Perhaps that's why, when asked whether they agreed with this statement – “The Internet has become the most important and results-producing marketing channel for the hotel/resort spa industry” – more than four in five respondents reported...**yes!**

IV. Conclusion: Hotel/resort spas back to the business of innovation

In 2011 the hotel/resort spa industry began emerging from three very challenging years of recession. And in SpaFinder's ongoing communications with thousands of spas, one can feel this industry exiting survival or business-as-usual mode, and refocusing on growth and innovation. Whether it is trends like the powerful expansion of new spa brands – or spas' rapid adoption of new technologies and forms of consumer engagement – one sees an industry squarely back to the business of imagining things anew. Each 2011 hotel/resort spa trend either innovates a new form of customer connection, or the engagement of a new breed of customer. And the innovations ahead in 2012 will span the very serious (i.e., new ways to improve guests' long-term health transformations) to those pushing the experimental and “fun” envelope.

* * * * *

Susie Ellis is recognized worldwide as an authority on the global spa industry and as one of the most prescient forecasters of emerging spa, wellness, beauty, fitness and lifestyle trends. President of SpaFinder, Inc., she is also a founder and board member of the Global Spa Summit, and a member of the board for the Center for Medical Tourism Research (CMTR) and the Advisory Board for the University of California, Irvine's Spa and Hospitality Management Program. A regular contributor to NewBeauty Magazine, she is also frequently featured in prominent media, from The New York Times to The Daily Telegraph. Ms. Ellis holds an MBA from UCLA.

SpaFinder, Inc. is the leading global spa media and marketing company, working with over 15,000 spa/wellness businesses. Its web property Spafinder.com is the most-visited spa information site in the world.

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