Current Research and Events in the Spa Industry

by MARY H. TABACCHI

From the start of the modern spa in the mid-twentieth century, the spa industry has grown substantially worldwide. Part of that growth involves spas of different types—each with its own business model, including day spas, hotel-based spas, resort spas, and destination spas. Regardless of the type of spa, most operations provide massage and nutrition-related services, with nutrition growing substantially in importance. Recession has trimmed the industry’s sails, but barriers to exit are substantial enough that even weakened operations might continue in business. The spa industry is widely fragmented, despite some notable consolidation. Because of the pressure on prices, some spas have been tempted to offer services in a commoditized fashion, but the most successful spas will focus on their total operation to promote their brand. It seems likely that the spa industry’s growth will resume when economies improve.

Keywords: spa industry; health and nutrition; massage and pampering; revenue management

The year 2009 has capped a momentous decade for the spa industry. Four considerable forces have coalesced to bring considerable change that will mold the spa industry in the decades to come. First, the economy looms large, and I anticipate that PKF Hotel Research’s soon-to-be-released study for 2008 will undoubtedly show lower sales for spas and salons this year. With that background, hotel spas recruit increasing numbers of local patrons to augment a drop in the number of travelers who are using their spas, day spas see stronger competition, and destinations spas seek ever more to differentiate themselves as wellness centers. Second, the economy is not the only issue, since the “new austerity” has turned the term pampering into an off-putting marketing term. Third, although industry ownership remains relatively fragmented, this year has seen substantial consolidation. Finally, at both the Global Spa Summit’s and the International Spa Association’s yearly conferences, spa leaders spoke strongly of the need for the
spa community to once more lead the way toward holistic wellness (body, mind, spirit). This wellness movement includes physical fitness and flexibility and mental and spiritual wellness through relaxation, meditation, yoga, t’ai chi, and qi gong. European spas are returning to their roots by focusing on healing by hydrotherapy, rather than promoting just massage and facials. In this article, I examine the trends that have brought the spa industry to this point.

It seems reasonable to conclude that the spa industry has begun a maturation phase, following substantial growth in the past twenty years. The consolidation that I just mentioned is part of this maturation phase. Steiner Leisure, which currently operates spas and salons on 126 cruise ships, fifty-one resort spas, and two luxury day spas, purchased Bliss World Holdings from Starwood Hotels and Resorts Worldwide on November 2, 2009, for US$100 million. The sale means that Steiner owns Bliss Spas in W Hotels and Remede Spas in St. Regis Hotels (both Starwood brands). Steiner will also own Bliss-branded products sold on the web and in catalogues and distributed in Sephora and many major upscale department stores. Steiner had already purchased Mandara’s fifty-one-plus spas.

With an estimated total worth of the spa industry in excess of US$60.3 billion (Stanford Research 2008), the global spa industry ranks only behind golf, cruise lines, and fitness clubs in terms of wallet share for leisure activities (International Spa Association [ISPA] 2002-2008). This article’s analysis of the current size, status, and prospects for the spa industry is somewhat hampered by the diversity of offerings that fall under the term, which includes one-room day spas, sixty-thousand-square-foot resort spas, and two-thousand-acre destination health spas. Further complicating the matter, one cannot compare spa usage to the hotel industry’s core concept of occupied beds or the airline’s tally of load percentage. The spa industry encompasses much more than, say, occupied massage tables.

The spa business has evolved rapidly in the past two decades, expanding from its original orientation of health and hydrotherapy to becoming an expected and valued hotel amenity in some cases and a retreat from worldly pressures in others. Until the 1970s, spas typically existed for wellness purposes, managed by physicians and built around hot mineral springs. Although many popular traditional resorts were built around their spas (including Saratoga spas, in New York; hot springs spas in California, such as Sonoma Mission Inn, Glenn Ivy, and Calistoga spas; the spas at Hot Springs, Arkansas; the Two Bunch Palms near Las Vegas; the Greenbrier in West Virginia; and the Homestead in Virginia), the spas themselves were not always expected to be profitable. Because of spas’ health focus, research in the spa field largely meant studies of medical efficacy, and in the late 1970s and early 1980s developers found banks unwilling to lend monies for spa growth, because the spa business in the United States essentially had not been separated from the traditional mineral springs health resort (M. Zuckerman, interview, Canyon Ranch, Tucson, 1990). Particularly since the turn of this century, the picture for spas has changed radically. For this discussion, I begin by looking at spas’ financial status and their effects on hotel occupancy and revenue. I review consumers’ changing attitudes toward spas and conclude with an analysis of strengths, weaknesses, opportunities, and challenges.

**U.S. Spas’ Financial Growth**

ISPA’s first attempt at gathering financial data from the spa industry was
completed in 1996 (Horgan and Tabacchi 1995). From that first study through 2008, the spa industry recorded remarkable growth (ISPA and PriceWaterhouseCoopers 2001). In that time, ISPA reports a 16 percent average annual growth of revenue for spas, a 25 percent annual growth of spa visits, and a 24 percent annual increase in number of spas. At the same time, the spa industry remained relatively fragmented, with a few large operators and no monopolies (see Exhibit 1).

Global Spa Economy Estimates
In 2007, the Global Spa Summit commissioned the Stanford Research Institute to examine not only spa revenues but spas’ financial effects on related businesses (Stanford Research 2008). Based on a study in 261 nations, Stanford Research estimated the total size of the global spa economy at $254.8 billion in 2007. This estimate included $60.5 billion in core spa sales and an additional $194.3 billion in spa-related industries such as hospitality, tourism, and real estate (see Exhibit 2).

Part of the difference between the ISPA estimates and those of the Global Spa Summit is that ISPA uses a strict definition of spa, while the summit organization applies an expanded definition that includes spa education, capital investment, media, consulting, and spa-branded products in addition to spa-related hospitality, tourism, and real estate. The Global Spa Summit also includes the fitness and fitness-products industry, beauty and wellness, and medical treatments, as well as revenues from healthful foods and nutrition-related sales.

Spa Revenue and Profit Studies in the United States
Focusing on spas in the hotel industry, PKF Hotel Research introduced its coverage of spas in 2007, with Trends in the Hotel Spa Industry (PKF Consulting 2007). PKF’s definition of spa revenues and expense classifications was based on the tenth edition of the Uniform System of
Accounts for the Lodging Industry (USALI). The PKF data are derived from a sample of 65 hotels and resorts in 2006 and 116 in 2007 (see Exhibit 3).

PKF found that average spa revenue per occupied hotel room at the end of 2006 was $133.4 for resort hotels and $116.3 for urban hotels. Spa revenue per square foot ranged from $41.8 to $183.8. In 2007, spa profit per available hotel room ranged from $85 to $2,640. By comparison, golf revenues per available room earned was about 80 percent of spa revenue per available room.

PKF found that salaries, wages, and employees accounted for 50 percent of direct operating expenses, making spas one of the more labor-intensive aspects of the hospitality industry. PKF reported profit margins for hotel and resort spas at 24 percent in 2007 and 31 percent in 2006, before deducting undistributed and fixed charges. In contrast, taking into account both day spas and destination spas, as well as hotel-based spas, ISPA calculated profit margins at 15 percent in 1999 and nearly 18 percent in 2007.

One source of the difference in the above figures arises because PKF’s figures are based on the USALI, whereas ISPA has developed a Uniform System of Accounts for the Spa Industry. The ISPA approach allows comparison of day spas with hotel spas, because it subtracts undistributed and fixed expenses, unlike the account system for hotels (ISPA 2005).

Effects of Spas on Average Daily Rate (ADR), Revenue per Available Room (RevPAR), and Occupancy

An analysis that graduate students and I conducted with researchers from Smith Travel Research (STR) examined ten of STR’s U.S. hospitality databases by comparing historical trailing twelve-month averages of occupancy, ADR, and RevPAR (Freitag et al. 2006). We found substantially stronger guest room RevPAR and ADR in luxury hotels with spas compared to those that did not feature spas. However, we acknowledge that unknown site-specific factors could have created “noise” in that analysis, including such factors as length of guest stay; property location; and spa-related variables, including quality of spa management, services available, and spa size and design. Nevertheless, it seems reasonable to suggest that top-level hotels benefit from offering a spa. Using twelve-month moving averages from 1997 to November 2007, Jan Freitag’s study found a $73.00 room-rate premium for luxury hotels with spas compared to those that did not feature spas. Another benefit is that spas have considerably higher occupancy on weekends, typically a slack time for many hotels. The study also found occupancy and ADR increases for luxury hotels within twelve to twenty-four months after opening a new spa (Freitag 2008).
Jan Freitag and I participated in a study that extended this analysis of rate and occupancy to other nations. Oddly, only in U.S. hotels was the presence of a spa correlated with higher occupancy. We examined occupancy, ADR, and RevPAR for 724 hotels in the Asia Pacific area, 125 in Australia, 348 in continental Europe, 110 in Central and South America, 87 in the United Kingdom, and 255 in the United States (Freitag 2008; Freitag et al. 2009). Outside of North America, occupancies generally ran higher for hotels without spas, but in almost all cases we found a strong premium for ADR and (consequently) RevPAR for hotels and resorts offering spas.

Tracking Spa Performance and Benchmarking

STR’s Freitag presented the Spa STAR concept at the 2009 Global Spa Summit (Freitag 2009). For this index, STR monitored the following monthly performance metrics for forty luxury hotels: treatment revenue, number of treatments, the proportion of treatment room hours available to those used, salon revenue, number of salon services, the proportion of salon station hours available to those used, and spa retail revenue.

Friedtig’s report perhaps captured the effects of economic recession, as treatment room utilization dropped from a high of 34 percent in March 2007 to a low of 22 percent in the first quarter of 2009. The report did not, however, show a pattern of steady decline. In December 2008 there was a considerable rise in both treatment room and salon station revenue—perhaps the result of gift certificates in conjunction with the December holidays. Hotel occupancy dropped that month, even as spa use increased. In spite of this favorable blip, the year-over-year comparisons were harsh. Salon services fell from near $80.00 in January 2008 to about $52.00 by January 2009. It is worth noting that treatment statistics may be a leading indicator, because the decline in treatment appeared to lead ADR decline by about six months.

The guest-capture rate for hotel-based spas seems to vary according to the hotel itself, given the wide range of guest-capture estimates—from 3 percent to 72 percent. Variables that affect this rate include the location, spa brand, hotel chain, and type of guest the hotel attracts. Despite this range, the average capture rate is likely around 30 to 40 percent, a figure most likely driven by the results in resort spas, where guests have ample time to frequent the spa. Properties that attract a substantial proportion of spa users who are not hotel guests need to reconsider their spa marketing and programming and perhaps even the spa design.

Tracking Spa Performance Internationally and Benchmarking

A study of spas internationally found relatively flat operating ratios in the past few years. Studying approximately 1,278 spas from around the globe, Intelligent Spas, Singapore, found that spa treatment room occupancy for spas ranged from 27% in the Middle East to 37% in Asia Pacific, see Exhibit 4 (Intelligent Spas, Pte. Limited, 2009). Exhibit 5 compares 2008 average annual revenues per square foot, per employee and per spa for several regions (Intelligent Spas Pte. Limited, 2009). This study includes figures from spa treatment rooms with spas that have a facility dedicated to spa use with massage, facials, body works, and water-based therapies.

Focusing on Dubai in the first quarter of 2009, Ernst and Young calculated approximately a 54 percent capture rate for hotel guests but a meager 24 percent treatment room utilization (Ernst & Young 2009; see Exhibit 6). These statistics can be useful benchmarks for hotel-based spas,
Despite the differences between Dubai’s market and that of the United States or Europe.

Although the statistics and operating ratios vary by study, in part because of the definition used by the spa analyst, the various percentages found in Exhibits 7, 8, and 9 are reasonably similar.

### Revenue Management

While spa operators have not always been quick to adopt revenue management, the current economic turmoil might well be a good time to do so. In principle, with their perishable inventory, high fixed costs, and relatively low variable costs, spa operations would be candidates for the demand-shifting principles suggested by revenue management. Kimes and Singh (2009) recommend gathering data on arrival patterns, occupancy levels, and treatment times to calculate RevPATH (revenue per available treatment hour) as a measure of revenue management effectiveness.

Standing in the way of an effective spa revenue management program are the following issues: (1) insufficient data to make forecasts, (2) lack of access to appropriate data, (3) the need to frequently revise spa menus and pricing, and (4) the challenge of training spa employees on yield management software and the possibility that the software may not interface well with other spa or hotel software databases. An additional challenge for revenue management, which might require opening and

---

**Exhibit 4:**
Global Changes in Occupancy, Productivity, Treatment Rate, and Revenue per Visit and per Treatment Room

<table>
<thead>
<tr>
<th>Global Sector</th>
<th>2008 Spa Treatment Room Occupancy</th>
<th>2008 Average Treatment Rate</th>
<th>2008 Annual Revenue per Visit</th>
<th>2008 Annual Revenue per Treatment Room</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia Pacific</td>
<td>37%</td>
<td>$77.00</td>
<td>$90.00</td>
<td>$81,980.00</td>
</tr>
<tr>
<td>Middle East and Africa</td>
<td>27%</td>
<td>$87.00</td>
<td>$104.00</td>
<td>$96,858.00</td>
</tr>
<tr>
<td>Europe</td>
<td>31%</td>
<td>$111.00</td>
<td>$117.00</td>
<td>$156,000.00</td>
</tr>
<tr>
<td>Americas</td>
<td>32%</td>
<td>$109.00</td>
<td>$119.00</td>
<td>$155,880.00</td>
</tr>
</tbody>
</table>

**Exhibit 5:**
Global Changes in Revenue per Square Foot, per Employee, and per Spa

<table>
<thead>
<tr>
<th>Global Sector</th>
<th>2008 Average Annual Revenue per Square Foot</th>
<th>2008 Average Annual Revenue per Employee</th>
<th>2008 Average Annual Revenue per Spa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia Pacific</td>
<td>$33,218.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Middle East and Africa</td>
<td>$10,406.00</td>
<td>$725,539.00</td>
<td></td>
</tr>
<tr>
<td>Europe</td>
<td>$155,880.00</td>
<td>$60,688.00</td>
<td>$2,292,258.00</td>
</tr>
</tbody>
</table>
Exhibit 6:
Key Performance Indicators: Year-to-Date, Dubai, 2009: January-March

<table>
<thead>
<tr>
<th>Key Performance Indicators</th>
<th>Dubai Overall Hotel Spas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average treatment revenue per treatment sold</td>
<td>$97</td>
</tr>
<tr>
<td>Average daily treatment revenue per treatment room</td>
<td>$239</td>
</tr>
<tr>
<td>Average daily treatment revenue generated by therapist</td>
<td>$272</td>
</tr>
<tr>
<td>Revenue per available treatment hour (RevPATH)</td>
<td>$20</td>
</tr>
<tr>
<td>Utilization of treatment rooms’ hours (as a percentage of available operation treatment hours)</td>
<td>24.0%</td>
</tr>
<tr>
<td>Utilization of therapists’ hours (as a percentage of available therapist treatment hours)</td>
<td>47.5%</td>
</tr>
<tr>
<td>Fitness and membership revenue (as a percentage of total spa revenue)</td>
<td>40.9%</td>
</tr>
<tr>
<td>Retail revenue (as a percentage of total spa revenue)</td>
<td>8.5%</td>
</tr>
<tr>
<td>Treatments booked by hotel guests (as a percentage of total treatments booked)</td>
<td>53.9%</td>
</tr>
<tr>
<td>Treatments booked by nonhotel guests (as a percentage of total treatments booked)</td>
<td>46.1%</td>
</tr>
</tbody>
</table>

Exhibit 7:
Average Revenue per Treatment

<table>
<thead>
<tr>
<th>Source</th>
<th>Average Revenue per Treatment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ernst &amp; Young International Spa Association (ISPA)</td>
<td>$97 (Dubai)</td>
</tr>
<tr>
<td>Smith Travel Research (STR)</td>
<td>$85 (mostly United States)</td>
</tr>
<tr>
<td>STR</td>
<td>$149 (luxury hotel, international)</td>
</tr>
<tr>
<td>Intelligent Spa Pte Limited</td>
<td>$84-$90 (all hotels, international)</td>
</tr>
<tr>
<td></td>
<td>$77-$111 (international, including United States)</td>
</tr>
</tbody>
</table>

Note: All figures in U.S. dollars.

Creating a conflict with revenue management tactics. Given the relatively high labor percentage for spa operation, potential operating margins are not as high as in other hotel divisions. Consequently, pricing of spa services is a sensitive matter. Creative approaches to increasing a spa’s availability may reduce the need for some revenue management practices. Depending on the type of operation, some hotels or resort spas can increase capacity by expanding to “massage on the beach” or “end-of-day” massage in closing availability for specific services, is that many spa guests are seeking a meditative state during their spa visit—potentially
guest rooms. MGM Grand, for instance, created “after-hour” services (in-room massage at 8:00 p.m.) at higher price premiums (Choi, Mancuso, and Harris-Jackson 2008).

Certain operations have embraced revenue management principles. Pitsikalis (2008) suggests two chief techniques for improving spa yield: (1) changing prices based on capacity and time and (2) adjusting availability by altering the types of services offered during peak periods. Many spa decision makers are comfortable with changing service availability. For example, Mandarin Oriental Spas have long eliminated lower-priced spa treatments on peak days, and the chain on weekends requires guests to purchase more expensive two- or three-hour spa treatments or packages. Starwood spas allowed earned points to be used only on off-peak times, while Canyon Ranch Spa Club at the Venetian hired staffing managers to be sure that scheduling of therapists occurs as suggested by yield practices. This spa also uses differential weekday and weekend pricing. Some spas encourage guests to book multiple treatments at nonpeak times by offering heavy discounts on add-on services.

The Relache spas, operated by Gaylord Hotels, apply both dynamic pricing and adjusted availability. Relache uses the following six approaches: (1) spa menus have descriptions only (no prices), (2) prices are not shown on the Relache website, (3) packages are sold during nonpeak times only, (4) pricing varies between weekdays and weekends, (5) only higher-profit services are available at peak times, and (6) staff members are carefully trained to ensure smooth transitions into the yield practices (Choi and Mancusco 2008). Gaylord estimated that additional revenues of $109,200 per year would result from these practices.

Porter Five-Force Analysis for the Spa Industry

Two Cornell graduate students analyzed the prospects for the spa industry using Michael Porter’s well-known Five-Force Analysis (Sakurabayashi and Shander 2005; Porter 1980). This includes an assessment of entry of new competitors, customer power, supplier power, substitute products, and competitive rivalry. To this, subsequent analysts have added complements, which would include services and features that augment spa operation.

Competitor Entry

With the remarkable growth of spas in recent years, barriers to entry grew steadily. Competition increased, labor supplies dwindled, and certain properties applied branding strategies. Hotel, resort, and destination spas have higher barriers to entry than do day spas due to greater capital investment. The high capital investment tends to also raise exit barriers, meaning that competition may remain higher than one would expect, as less efficient players remain and dilute the supply.

Buyer Power

Already strong before the recession, buyer power climbed as consumers cut back on “luxuries” and generally reduced spending. Given the “new austerity,” particularly among firms that have accepted

---

**Exhibit 9:**
Treatment Room Utilization

<table>
<thead>
<tr>
<th>Source</th>
<th>Treatment Room Utilization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Smith Travel Research (STR)</td>
<td>22%-34%</td>
</tr>
<tr>
<td>Ernst &amp; Young Intelligent Spa Pte Limited</td>
<td>24%</td>
</tr>
<tr>
<td></td>
<td>27%-37%</td>
</tr>
</tbody>
</table>
U.S. government assistance, one current perception is that spa treatments are an excessive expense. This phenomenon has reduced the use of spas by business travelers and groups. Depending on how this trend plays out, the spa industry may need to attract new users.

Supplier Power

Spas face three categories of supplier power: products, equipment, and labor. Product supplier power is low due to an oversupply of both suppliers and products. If spa products develop more differentiation, product supplier power may grow. If spa products become more commoditized, on the other hand, product supplier power may diminish further.

Equipment supplier power is medium, based upon high switching costs balanced with a relatively low level of differentiation. One trend among equipment suppliers is an attempt to differentiate themselves by “greenwashing” their products. While it is true that equipment is expensive (e.g., massage beds, fitness machines) and operators would indeed face high switching costs once they have committed to a purchase, the differences among many of these products are negligible.

The recession has reduced labor suppliers’ power, which had been high because demand outpaced supply. When the recession relents, we can expect that labor supplier power will once again become high. Thus, spas will need business managers who understand the spa industry and can manage therapists, profits, yield, and marketing. Not all massage and cosmetology schools produce graduates who can meet standards for therapists in all states or countries, making for a potentially tight labor market.

Substitute Products

Given the variety of substitute products, diversity of consumer drivers, and difficulty in clearly identifying all substitutes, the threat of substitutes in the spa industry is relatively high. Consumers perhaps cannot completely duplicate the spa experience, but they can use close substitutes, such as home spa products (e.g., candles, lotions, bath products, and home massage chairs), join health clubs with facilities that are similar to spas, or hire massage therapists in their own homes. Local athletic clubs are substitutes for destination and resort spas. Self-help books, yoga videotapes, and drugstore and department store face and body creams may all be substitute products. Some destination and resort spas have become so expensive that the consumer may not see their value as compared, say, to an around-the-world cruise, a safari, or some other exotic vacation.

Complements

Complements seem to present excellent opportunities for spas. For example, complementary medical services are part of destination spa experiences and so are not a threat or substitute. Complementary and alternative medicine has also become integral to the industry.

Industry Rivalry

For day spas, industry rivalry can only be described as fierce, particularly with recession-driven cutbacks in consumer spending. The day spa segment is generally fragmented, with low concentration ratios (meaning that no one spa group dominates the industry), whereas the resort- or hotel-spa segment has higher concentration ratios (fewer players with larger market shares). Consequently, there is less internal competition for hotel and destination spas than among day spas. That said, day spas and hotel spas undoubtedly compete for market share. Certainly this is true in cities, but resorts may even feel some pressure if
guests decide to trim their travel budget and patronize local spas.

Conclusions for Porter’s Five Forces

Existing spas should not rely on the perception that high barriers to entry will offset competitive pressure, for two reasons. First, once a destination or a resort spa is in operation, the exit barriers are also considerable. Thus, I would not expect a noticeable reduction in the number of competitors. Second, competition may appear from day spas, which have relatively lower barriers to entry. Consumers are being careful with their purchases, augmenting competitive pressures.

As long as the industry enjoyed a booming economy, I saw little concern over competition and industry profitability, but that picture is likely to change as 2010 unfolds. This analysis underscores the need for spas to differentiate themselves as distinctive facilities with high service levels and to resist the temptation to compete on price. A differentiation strategy will position a spa to face both future competition and future opportunities.

Consumer Studies: Consumer Segmentation

A key aspect of a differentiation strategy is to understand various segments of the consumer market. Hartman suggested the following three segments for the spa consumer market: peripheral users, midlevel consumers, and core consumers (Hartman Group 2004). An intriguing point in Hartman’s research is that it is based on focus groups and individual interviews of spa clients in Atlanta, Boston, Chicago, Houston, Los Angeles, Minneapolis, and Seattle. With the exception of Boston, views of customers in the northeastern United States (where most spa consumers live) were not part of this work. Regardless of geographic issues, these descriptions of consumer market segments provide a working model of spa consumer segments.

Peripheral consumers. These price-sensitive consumers are focused on beauty, pampering, and pleasure rather than health and wellness. They are comfortable in day spa salon settings and may not seek massage or body treatments. They can be good customers, are a sizeable market, and are relatively easy to please.

Midlevel spa consumers. Midlevel consumers look at spas as providing a necessary relaxation experience. They seek traditional massages or facials and are typically skeptical of alternative medical treatments. They are critical of a reliance on ambience; have favorite therapists; and are reluctant to spend monies on “excessive,” unusual treatments. Midlevel customers use salon-type treatments for special occasions and are otherwise rarely interested in them.

Core spa consumers. These consumers use spas as part of health and wellness lifestyles. Interested in concepts that connect mind, body, and spirit, these guests are relatively price-insensitive, but they are sensitive to superior service. In part, service is judged on whether these guests can reach a meditative state, which they believe is imperative. These consumers are goal-oriented and fairly difficult to please, as they have experienced a wide variety of spas and spa practices and have strong beliefs about both therapists and ambience.

Destination Spa Survey

In 2005, the Destination Spa Group (which includes Canyon Ranch, Rancho La Puerta, Golden Door, and Red Mountain) asked Cornell University’s Survey Research Institute to survey their consumers regarding the outcomes of a destination spa experience (Tabacchi and Miller 2005). My coauthor and I surveyed five hundred destination spa consumers by telephone.
and also interviewed five hundred comparable vacationers who did not patronize spas. Because this was a self-reported survey regarding consumers’ assessment of their personal energy and fitness levels, we wanted the non–spa customers as a comparison to the spa group. The survey found that the spa patrons rated themselves higher on levels of energy and mental ability and on perceived physical fitness following their spa visit than did those who enjoyed a vacation but not a spa experience.

Needs of the Spa Consumer

As was the case with the above study (and those of the Hartman Group and ISPA), the leading need and interest for visiting spas is to reduce stress and to relax. The second largest purpose is to regain connection between mind, body, and spirit in a place of respite. Core and midlevel spa consumers seek a place where reflection and examination can take place. A common thread among serious spa consumers is the need to escape from hectic family life, business or school demands, and all of the “must dos” of the world.

Consumer Interests and Needs

Spa guests are willing to travel to achieve superior spa experiences. In the case of day spas, the majority of consumers reported that they are willing to travel more than thirty minutes for a spa experience, and 61 percent of resort or destination spa goers say that they will travel almost anywhere in the world for a worthwhile experience. As I said above, most spa guests define this experience as relaxation and massage (Tabacchi 2003). In that regard, massage and body wraps are treatments most sought after. When asked specifically about food and health, however, almost 50 percent of spa goers sought to improve their nutritional health. Many preferred à la carte services over packages.

I generally found spas goers to be pleased with the quality of their spa experiences, a finding that both surprised and pleased spa owners and operators. The question of whether spas could use a rating system remains open. Some 35 percent of day spas users liked the idea of a rating system (e.g., AAA, Forbes, Michelin), while only 23 percent of destination spa users thought it would be useful to them. By comparison, 61 percent of owners and operators thought that a spa rating system could be useful.

The best form of marketing for spas far and away continues to be word of mouth and previous experience at a spa. Websites were a strong third choice for both consumers and operators of North America spas. Peace and Howitz (2006) found that customers in Spa Finder’s large consumer database actually preferred to book online. That is an exception, however, as many hotel spa and destination spa websites provide considerable information but do not allow online booking. Instead, many spa operators still believe that personal communication regarding a spa treatment is essential.

A similar study by the Canadian Tourism Commission and ISPA found that one-fourth of all adults have been to a spa, most of those patrons visiting day spas (52 percent) and 28 percent traveling to destination or resort spas. As in other studies, respondents reported that massage and facials were most sought after services. Taking a look at those who travel to a spa, these are core spa consumers who are likely to be frequent spa goers at home and to seek a wide variety of treatments. In an interesting counterpoint to the Peace and Howitz (2006) study, the Canadian researchers found that most spa travelers book other forms of travel online but prefer to book spa treatments in person—perhaps because most spas do not use online booking engines.
Consistent with other studies, spa travelers in the Canadian study ranked the top six benefits of a spa as follows: (1) to relax and relieve stress; (2) to break from day-to-day environments; (3) to be pampered; (4) to healthfully renew or relieve one’s mind, body, and soul; (5) to live for a few days away from a fixed schedule; and (6) to enrich one’s relationship with spouse, partner, or children.

Consumer Spending in the Spa Industry

U.S. government statistics have recorded slowing growth in spending on entertainment and reductions in consumer spending, particularly among upper-income groups (U.S. Bureau of Labor Statistics 2009; Gallup 2009). Reports from global hotel and spa companies during the Global Spa Summit in 2009 confirm that they have felt this drop in consumer spending on luxury goods and services. Interestingly, a portion of this drop seems to be connected to reductions in travel rather than to spa patronage itself. Hotel spas that cater to local consumers appear to have maintained their business better than competing hotel spas that depend on travelers. A study by Cornell students suggested that demand for spa treatments and services targeting the reduction of stress would grow in the poor economic climate, whereas expensive pampering services may not (Bahl, Koh, and Parks 2009).

Spas may also benefit from what was called the “lipstick effect,” which was noticeable during the Great Depression. As the economy sank from 1929 to 1933, sales of lipstick rose. The concept is that consumers will spend money on small luxuries during times of economic or emotional stress, even when they cut back elsewhere. This effect was noted again in the months after the 9/11 terrorist attacks in the United States, which saw lipstick sales double (Pearl 2009).

Thus, spa patronage may not drop as much in difficult times, but the types of services may change. Spa consumers may choose relatively inexpensive treatments, selecting manicures over massage, and purchasing cosmetics rather than having facials. Customers may also trade down to widely available cosmetics (e.g., Olay, Neutrogena, L’Oreal) rather than purchase prestige brands (such as Lancôme, Estee Lauder, Jurlique, and Chanel). Guests may frown on service packages and prefer a menu of services.

Finally, I have alluded to the issue that the spa industry cannot rely upon pampering and even just relaxation. I want to emphasize that spas are essentially being forced to come up with new financial, marketing, and image models. I have seen a strong movement toward prevention of illness and reduction of health care costs, similar to that espoused by Canyon Ranch, the original Golden Door, and Red Mountain. This matter was discussed in depth at the recent conventions of the Global Spa Summit and at the Leaders Circle (a subset of leaders of ISPA).

The Spa Business Model

Regardless of whether spa goers seek health-related services or continue to desire relaxation, escape, and beauty and grooming services, spas must develop a business model that does not interfere with guests’ enjoyment but controls costs to optimize profits. The studies I have discussed here point to a strategy of sticking to basics, with spa menus that are simple and straightforward. Savvy spa consumers know that spas cannot possibly do well in trying to deliver an extensive menu of more than six to eight types of treatments. Sticking to basics means offering treatments that relax, reduce stress, and are therapeutic. On the other hand, trendy but unusual procedures, such as barbecue sauce massages, will lead to guest
skepticism and perhaps guests who do not return.

Spa operators must pay careful attention to human resources, with schedules that are efficient for employees and effective for guests. Efficient employee strategies include cross-training and prevention of repetitive stress injuries. For effective management, spas might employ business-school-educated spa directors and focus on marketing in all channels. Careful scheduling and analysis of product and staff costs will be required, along with a review of so called nonrevenue spaces. Although it is tempting to urge guests to purchase spa products, the wisest course might be a gentle approach rather than pressuring spa therapists to sell products. Any sales effort must carefully balance the client’s need to relax and escape with the therapist’s need to be a giver and healer.

Last but not least, spa operators must truly know the needs and wants of the market segments they need or want to attract. Today’s young adults, for instance, may look for social interaction at spas and not appreciate the isolation that their parents or grandparents seek. In addition to generational differences, operators must consider whether and how to appeal to price-sensitive guests or to price-insensitive consumers—determining the spa’s position on the question of keeping prices low to boost volume or accepting higher operating costs for more discriminating customers. In either case, operators must avoid approaches that tend to commoditize spas and spa products. Each spa or spa chain must studiously build its own distinct position and credibility and offer consistent, excellent, caring service.

**Spa Definition**

Although most customers have some picture of a spa, the industry may do well to crystallize its image. The peripheral consumer may see the spa for little more than its manicure and pedicure, waxing, and other beauty and grooming procedures. The core user, on the other hand, views the spa as offering a full destination-spa experience, promoting fitness of body and mind and excellent local or organic, healthful cuisine. One source of confusion regarding spas is the rise of locations that offer medical procedures, including Botox, cosmetic surgery, and the like. These so-called medi-spas should not be confused with historical spas that offer preventive medical treatments, such as hydrotherapy, and often combine water-based regimens with destination spa activities (e.g., healthy lifestyle behavioral modification or improvements).

**Spa Awards**

Another issue for the spa industry to resolve is the matter of star ratings and awards. I alluded to this above. At the moment, I see little correlation between five-star spas and financial success. Indeed, some five-star spas have experienced bankruptcy. Again, some consumers care about star ratings and awards, but others do not. In this regard, I must note that many awards are based on magazine surveys where readers are urged to vote for the “best” spa—regardless of whether they have visited the spa in question. Many businesses, organizations, and conferences give as many as twenty or more awards per year—but the criteria for winning the awards are not clear.

**Spa Education**

As the need for spa personnel grows, so does the number of institutions that produce therapists, cosmetologists, and managers. Two-year community colleges now offer certificates and degrees in spa management, and corporate spa management has attracted MBA graduates from leading
universities. The position of therapist not only requires considerable training but certification, requirements for which vary from state to state in the United States and from country to country. However, spas and their customers typically seek “experienced” personnel, overlooking the considerable education investment by young people. That preference for experienced personnel created the tremendous prerecession competition for spa personnel that I mentioned above.

Spa Offerings and Philosophy

One other point of difference among spas is their core philosophy. As I mentioned at the outset, spas originally meant hydrotherapy, hot mineral-spring baths, and cold mineral beverages. The U.S. spa business took a different direction starting in the mid-twentieth century, when Deborah and Edmond Szkeley founded Rancho La Puerta. Instead of hydrotherapy, this spa’s regimen was based on clean air; moderate exercise; and fresh, homegrown, organic fruits and vegetables. Massage was added in part to ease aching muscles unaccustomed to exercise. Subsequently the Rancho La Puerta archetype was followed by a group of spas that became known as “destination spas,” including Canyon Ranch, The Golden Door, and Red Mountain. In all, just over two dozen spas in North America follow this pattern. Not based on mineral springs, these spas promoted a healthful lifestyle. Indeed, massage and spa treatments were not initially the main goal for visitors at these spas. Seeing this niche market, top-level hotels built their own spas, again focusing on exercise and a choice of healthful foods.

By contrast, European spas remained in the traditional mold, with huge bathing houses in Bath, England; Baden Baden, Germany; Bad Ragaz, Switzerland; and Montecatini, Italy. Likewise, the Japanese have long had their Onsen (bathing in hot water), the Middle East still has its bathhouses, and similar resorts are found at hot springs in Thailand and other Southeast Asian countries.

Summary and Conclusions

Thus, the modern spa industry is a diverse, fragmented industry that is only beginning to reach stages of early maturity. The industry is complex in its offerings, its philosophy, and its operations, with many different philosophical and operating approaches. Spa research is just coming of age, and the U.S. National Institutes of Health is slowly but surely studying the efficacies of spa treatments and activities.

Although recession has trimmed the industry’s sails for the moment, spas should boom again after the recession ends. In part, I expect a boomlet because times of imposed frugality are often followed by relaxed eras of luxury. In the meanwhile, spas must sell their treatments as necessary, preventive, or therapeutic rather than frivolous. The “lipstick effect” should not be ignored, and spas should promote their modestly priced procedures to allow the consumer to enjoy small indulgences.

Although the definition of a spa has been a point of discussion in the past, this may no longer be important. Consumers may simply come to realize that there are various types of spas, with different offerings that can be used for different purposes. Practices that were developed in the United States may be adopted in other nations’ spas, while the philosophy of Asian spas such as Six Senses and Banyan Tree may help redefine the resort spa experience in other locations.

Spas risk becoming commoditized with regard to some services. Some businesses offer massages and facials that are low-price and without some of the luxury
trappings but are nevertheless consistently good services. Some spas may meet that challenge by offering low-priced treatments in volume, a step toward commoditization. Other spas will focus more tightly on the full experience that defines their brand, to offset the commoditization risk. Either way, I anticipate that business and vacation travelers will expect to find a spa at their resort or top-level hotel, just as much or more as they do a pool and a fitness center. Without doubt, resorts must have a spa to remain competitive.

Regardless of their position as commodity or brand, spas will have to develop an efficient business model. Those that do not become more efficient and do not offer a differentiated product will struggle to survive. At the same time, spa customers will search for the genuine and authentic and may become more results-oriented. In particular, given the cost of medical treatment (not to mention the uncertainty of coverage), people may turn to the preventive approach offered by spas to improve their lifestyle and remain as healthy as possible. Each type of spa that I have discussed here can play a role in that effort, and so I anticipate continued overall success for the spa industry.

References


Mary H. Tabacchi, Ph.D., is a professor at the Cornell School of Hotel Administration (mht3@cornell.edu). She expresses her appreciation to the following for the research presented here: PKF, HVS, Intelligent Spas, Ernst & Young, PriceWaterhouseCoopers, the International Spa Association and Global Spa Summit documents, Smith Travel Research, the International Spa Association, the Destination Spa Group, and the Leading Spas of Canada.