U.S. Spap Industry Returns to Growth

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U.S. SPA INDUSTRY RETURNS TO GROWTH

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The U.S. Spa Industry has returned to pre-recession levels of growth, according to the International SPA Association (ISPA)'s 2013 U.S. Spa Industry study, which was carried out in collaboration with PwC.

The report is a nationwide overview of the spa industry and provides data for 2012 and into spring 2013. The findings are the result of a large-scale survey of spa operators across the U.S. Criteria examined include financial performance, employment and growth as well as the regional distribution of spas, ownership structures, number of visits, product and service offerings and other areas of interest. In a new development, this year's study contains a detailed analysis of compensation in the industry.

This year's study found that positive news has continued from 2012, in parallel with the upturn which has been observed in the national economy.

The report shows that the industry has had its strongest year since 2007, clearly demonstrated by the five 'Key statistics': spa visits, spending per visit, revenues, staffing levels and the number of spa locations. All five of these indicators have grown over the course of the year and there is positive sentiment regarding future trends.

In addition to the detailed data for 2012, spas were also asked to give an account of the six months from September 2012 to March 2013, across four key business indicators. The results corroborate the overall message of a return to growth which can be seen throughout the study.

Looking forward, spas were asked about their confidence for future prospects and also about what uncertainties might lie ahead in the industry and the economy as a whole.

The Five Key Statistics

In this year's study, all five measures were increased from the year before which underscores the industry's recovery.

Total spa revenue is up 4.7%, at $14 billion. Compared to the pre-recession peak of $12.8 billion, this is a 9.4% increase, and highlights the extent of the recovery, in revenue terms.

Revenue-per-visit figures show that customers are spending on average $87.20 per spa visit, an increase of 1.8% on the year before and the first significant rise in four years.

The number of total spa locations continues to grow slowly; there are now 19,960 locations across the U.S., 0.5% more than the 19,850 recorded in 2011. This is positive news when set against the context of 2009-10 during which the industry witnessed two years of spa closures outpacing new locations. As of May 2013, total indoor floorspace stood at an estimated 78 million square feet, an increase of 1.1% compared to May 2012.

A breakdown of spa-types show that day spas remain the industry's mainstay, with 78.9 % of the total, followed by medical spas (8.8%), resort/hotels (8.7%), and club spas (2.9%).

A promising trend in recent years has been the pace at which the total number of annual spa visits has increased each year. This trend continued, as total visits rose by 2.8%, to 160 million.

Overall employment increased by 1.2% - a percentage point more growth than was witnessed last year- meaning that 343,500 people now work in the U.S. spa industry. However, a main talking point in the employment data was the marked shift from full-time employment (-7.2%) to part-time employment (+13.2%). This could be an indication of wider changes in American working practices or may reflect the spa industry's commitment to maintaining a flexible workforce.

More recent trends

The second section of the survey, which asked spa operators about the six months between September 2012 and March 2013, provided further evidence for the return to growth. Fifty-seven percent of respondents said they were experiencing an increase in the number of visits, more than double the amount who reported a decrease (28%). Fifty-seven percent was also the number of spas recording increased client spending per visit over the past six months, with only 14% reporting a dollar decrease. These figures explain the 60% of respondents whose revenue increased, with only a quarter (25%) decreasing.

In terms of employment, 43% reported an increase in staffing levels over the previous six months, an increase of ten percentage points from the same period in 2011. One in seven (14%) saw a decrease in headcount, but the majority (44%) made no changes in staff numbers. It is not clear to what extent this small but steady growth in staffing might be affected by the underlying shifts towards part-time work observed in the wider study.

A more in-depth comparison of the above data shows that the two categories where increases most clearly outstrip decreases are in staffing and spending per visit, both of which show significantly higher net positive balances than those reported in any of the past four years' studies.

Profitability on the rise

Increased economic demand continues to drive profitability, which accounts for the sustained growth observed across all areas of the spa industry. Excluding spas in resorts/hotels, 61% of those surveyed reported a 2012 profit percentage in excess of 10%, an increase from a total of 54% in 2011, and 49% in 2010. The proportion reporting a net loss also declined, from almost one in five (18%) to one in seven (14%).

Adapting to create demand

The ability of spas to raise prices and report increased profitability represents an increase in market demand, which is indicative of the bullish consumer sentiment witnessed across the economy. Strategically, spas continue to diversify their services in order to attract ever greater market share and cater to a market that has become more price-aware over the past five years.

Retail products offer an example of this diversification; on average, spas offer 11 different retail lines. There was variability in this data, with resort/hotels leading the way overall (18 retail lines) and ‘other’ spas (including medical) specializing in such areas as skin care products, where they offer more than double the range on offer at day spas or resort/hotels.

When asked to identify the most popular new product introduced in 2012, the variety on display was testament to the diversity spas have embraced in the wake of the recession. Traditional beauty products remain popular but have been bolstered with home goods, clothing and accessories and more specialized products such as homeopathy and ‘medical/therapeutic’ treatments.

Treatment offerings within spas have also continued to diversify; where 28% of those surveyed in 2011 offered shorter treatment times (30 minutes or less), this number has now risen to 61%.

Around half of spas now offer special discounts or promotions for the spa’s social media audience (51%), loyalty programs (47%), spa party packages (47%) and online option to book treatments (45%).

Compensation

For the first time, this year’s industry study contains a detailed section on staff compensation. The spa industry is highly labor intensive, due to the nature of the services and treatments provided. This is reflected in the portion of total revenues attributed to labor costs which averages 49% across the spas surveyed.

Overall, the industry generated $14 billion of revenue in 2012 which equates to approximately $7 billion paid out in wages, salaries and associated benefits to industry personnel. This is a key indication of the size of the spa industry nationally and underlines its economic impact to local people and communities.

A degree of variability in staffing and compensation strategies was noted across the different types of spas. Resort/hotels have far greater on emphasis on full-time staff, with 99% employing at least one full-time person, compared to one in five (19%) day-spas who have no full-time employees. However, these mainly represent owner-run locations (71%).

Resort/hotels are also more likely to employ a spa director and two-thirds of those that do pay a salary in excess of $70,000, compared to day spas, most of whom (57%) pay their directors less than $60,000.

This divergence in compensation between resort/hotels and day spas is also evident in the salaries of spa managers, estheticians and massage therapists. The policy around gratuities is also strongly dependent on spa types, with over half (51%) of resort/hotels choosing to add an automatic gratuity, compared with only 3% of day spas.

Confidence remains high

The positive news reported throughout the study is backed up by a survey of spas’ sentiments going forward; fully 78% of spas anticipated an increase in revenues over the next six months. This was across the range of spa types and is the same figure as was reported in last year’s study, indicating an industry showing reinforced confidence.

Causes for uncertainty

Survey respondents were also asked to state what they think the single biggest issue facing the spa industry is, with interesting results. The biggest single threat identified remains at a national level, with over a quarter (27%) of spas worried about uncertainties regarding prospects for the U.S. economy.

The impact of discounting and competitive pricing on the industry is the main cause of concern for 17% of spas, whilst 13% are most concerned about recruitment and retention of staff.

Staff training was also seen as important with almost one in ten spas (9%) most concerned about levels of skills and qualifications in the workforce. Many (39%) of these linked this issue to broader problems with recruitment in the industry.

Other primary concerns include the need to tackle consumer perceptions of spas as a luxury/pampering item (10%) and marketplace competition more broadly, amongst other spas and suppliers in similar sectors (9%).

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, 2010, 2011 and 2012. Shorter tracking studies documented 2003, 2005, 2008 and 2009 performance.

Topics covered in detail in the full ISPA 2013 U.S. Spa Industry study prepared by PwC include:

- Overall industry size- and its return to growth
- Industry profile – size and type of spa by geography and year of start-up.
- Services, facilities and products offered across the spectrum of spa types.
- Compensation- differences by type of spa, type of employment and role.

The full report, with technical appendix, is available at experienceispa.com. ISPA members may download a complimentary copy of the ISPA 2013 U.S. Spa Industry Study and nonmembers may purchase the report through this site.