



SPA CREATORS 2012 UK SPA MARKET ANALYSIS

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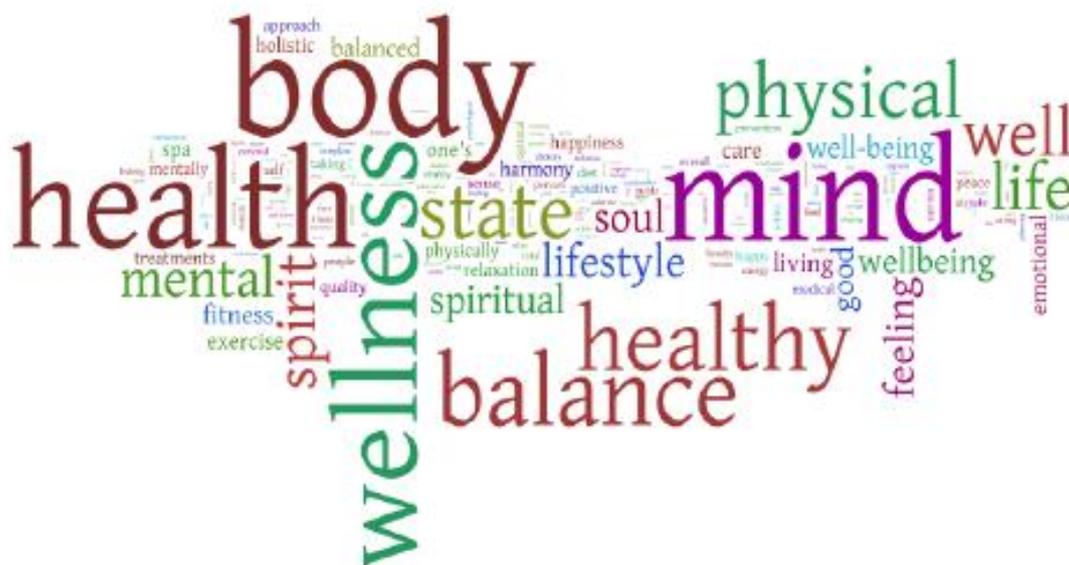
UK SPA MARKET

The following report provides a snapshot of the UK spa market and trends in 2012. The report data has been based on analysis from market research conducted by Spa Creators and research of data from recognized industry associations.

1. UK IN A GLOBAL ENVIROMENT

Whilst the last couple of years have been largely positive the future is anticipated to be more challenging. Consumers in the spa sector will be looking for both wellness and results driven treatments and products. Consumers will be making lifestyle choices and will be influenced by value and service in selecting providers and products.

The UK spa and wellness market is developing in line with the USA's spa and wellness model for holistic treatments. The European markets are influencing the development of the UK in water based treatments. As the UK spa market matures the UK is influencing the global spa market. Currently the main difference in the UK is the emphasis for 'feel good factor' with a holistic approach to relaxation and rejuvenation, drawing on elements and treatments from other parts of the world.



2. MARKET SIZE

The world spa market has over 100,000 operators with revenues in excess of \$60 billion. The UK spa market is estimated to be worth over £1.5 billion including retail and treatments (according to Diagonal Reports).

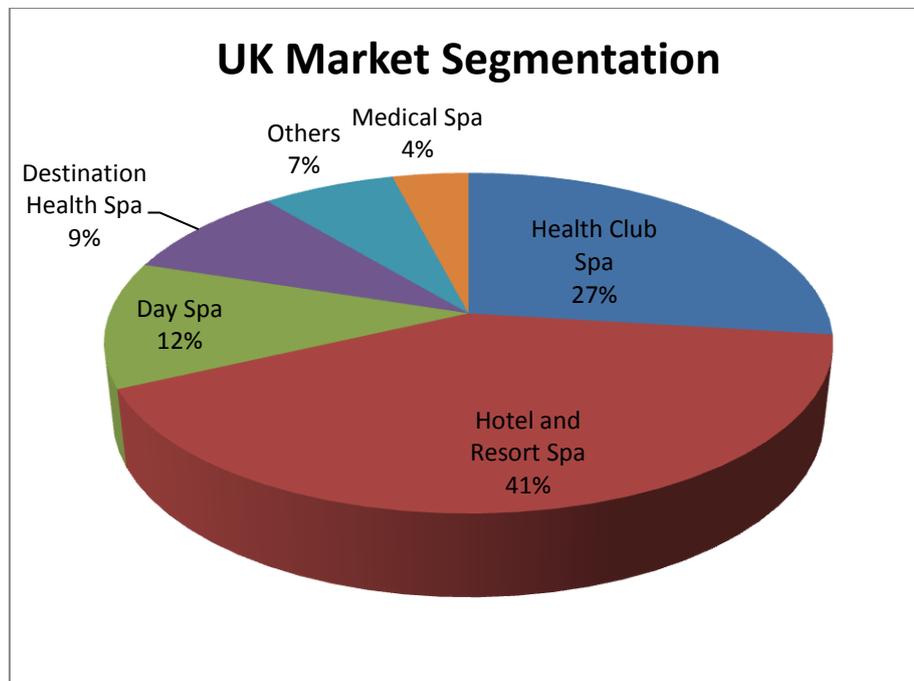
UK consumers make an estimated 6 million visits per annum to spas throughout Britain. The research estimated that there are over 4,500 therapists employed across the UK spas. The various associations believe it will be important to raise the skill levels of therapists and supporting staff to achieve the demands of the spa savvy consumer. The 6 million spa treatments purchased per annum will remain at this level with double digit growth expected to return in 2013.

It is estimated that there are over 4000 treatment rooms available for treatments, with average therapist and room occupancy levels of 65%-75%. The average treatment room income is £50,000 per year per room. Larger spas are achieving in excess of £100,000 per room per year operating at 85% - 90%.

A recent survey of a collection of 3-5 star properties can be found in Appendix 1.

3. UK MARKET SEGMENTATION

Hotel spas account for 41% of the market and spas within fitness clubs account for 27% and yet they attract, on average, 12,600 and 10,900 consumers per annum respectively. Day spas only account for 12% of the total number of spas but obviously work hard attracting twice the number of consumers that spas within fitness clubs do: on average, 20,400 consumers every year.



Many UK spa towns are recognizing the potential in the spa market and are developing spas. There are 12 spa towns and cities. Much depends of the success of Bath Thermae Spa and its efforts to provide a leisure-oriented contemporary spa that meets current demand. Initially this spa was to be opened for the millennium but hit by building delays. The spa has been operating for a number of years and has begun to demonstrate the relevance of spa tourism and is leading the way for other spa towns. Buxton Spa is one of the next significant spa town developments being developed in conjunction with Derby University.

The international spa association's (ISPA) survey of operators indicates that spa consumers are becoming more sophisticated due to travel and spa experiences in Asia and India. Consumers expect to receive authentic treatments. The spa practitioner is required to be of a high standard with a deep understanding of the treatment and its backgrounds and philosophy. Spa Business Association (SPABA) believes this will be one of the barriers to growth in the UK markets (i.e. training professional qualification). As a result we are seeing an increase in foreign therapists some of which have not got the international qualifications to perform treatments in the UK.

The significance of the hotel resort spa market is the increase in operators developing treatment room capacity. Hotels are recognizing the benefits of using the spa to increase hotel bedroom occupancy 'wellness tourism'. Visit Britain have analysed the local and international tourist markets and estimate that this trend will continue. The impact on high street treatment providers will be significant as their clients move to hotel treatment facilities which are often better equipped facilities and offer other benefits such as wet areas and parking. This will fuel additional growth within the hotel treatment sector.

Evidence demonstrates the boutique hotel market is being pushed towards adding and improving their treatment room offering to compete with similar style properties and this is improving the guest's true spa experience. This trend is similar to the 90's with operators having to improve their leisure facilities.

4. UK VERSUS EUROPEAN MARKET

Reviewing the European spa market particularly France, consumers want treatments embracing the use of water such as Vichy and Thalasso or Balneo treatments. The wellness benefits both physical and emotional are important within spas. This is being linked to wellness tourism with destination and day spas offering breaks that include a range of linked treatments dealing with stress, skin conditions and weight programmes. These treatment packages are being sold with home care regimes to extend the benefits of the treatment. It is common that the detox style treatments are seasonal and are promoted as cure treatments.

Resort spas including golf, walking and skiing see the spa and wellness market as crucial for marketing. These operators are targeting various vertical wellness markets to sell the resort and are using various detox and cure breaks as an approach. Some of the large hotel groups surveyed indicated the spa can account for between 25-30% of room sales during off peak times including mid week and seasonal lows. A survey of the large UK 4/5 star groups support these findings. In addition when asked the operators felt the spa had been a factor in choosing their hotel for the short break market. As result they were also seeing the male and youth market increasing in their wet spa facilities and in treatment sales.

Courses are sold for a collection of treatments targeting a specific condition. These are being packaged and priced with various loyalty discounts. Within Europe the health services are using spas to deliver wellness treatments and subject to the treatment are funding part or all of the treatment costs. Most treatments are hands on non machine based treatments.

With a drive to improve the state of the health of the nation, British International Spa Association (BISA) predict that the European approach to treatment delivery may be introduced into the UK markets and this was discussed recently at the Global Spa Summit in Budapest. Currently SPABA is canvassing central government for VAT relief on certain treatments adopting similar models to Europe. This might extend to weight loss programmes in the future.

5. CHANGING DEMOGRAPHICS AND CULTURAL ATTITUDES

As we look into 2012, two distinct, overarching themes emerge. One is an industry innovating creating, new sensory experiences and treatments for clients. The second is how spas are re-positioning and extending their connection to customers, moving beyond the sporadic visit, to new programs and concepts aimed at forging long-term consumer relationships providing wellness and life balance.

Growth rates within the spa markets are significant, it is predicted that the health and wellness market will continue to grow for many years to come. The main driver is the aging population and their need for 'eternal youth'. Other factors include;

- Younger consumers staying single/childless longer
- Rising disposable incomes in emerging markets
- Failing health care systems
- Attitudes to physical fitness
- Busy lifestyle and longer working hours
- Work life balance and stress related illness
- General wellbeing
- Increasingly urban populations

It is now recognized that a fit lifestyle leads to an overall better standard of life and possible career progression. In recent years, more men have shown an interest in, and become consumers of spa treatments. The research findings confirm this trend.

UK spa operators estimate that their client bases comprise 76% female and 24% male clients. Middle aged women 'empty nesters' (adults whose children have left home) are seen as the main market. In the last five years this trend has shown a significant shift towards a younger audience of 20-24 years.

Interestingly, operators recognize that some male consumers still feel uncomfortable in a spa environment. A number of the multi chain operators are focussing on the male market and seeing high returns to this receptive audience. The male gay market is also emerging strongly in this sector due to the focus on personal care and the disposable incomes in this population demographic.

For those prepared to pay for the luxury end of the spa market, the range and quality of treatments in the UK will continue to expand as more top-end spas are developed. It is important to consider the global economy remains fragile, spa owners need to continue proactively addressing the spa consumers' priorities and needs.

Some emerging trends for the future...

- Additions of innovation in feet treatments going beyond the traditional pedicure
- Fun wet areas encompassing Ice are increasing in popularity and the use of cold for treatments
- Wellness and beauty and life coaching
- Online wellness gaming creating demand to visit spas
- Move to go beyond healthy foods to fine dining experiences
- Relaxation areas have always been important, with innovation new areas are being created with Vibration, Sound, Music, Light and Colour
- Grooming and personal care treatments increase this is called the 'Glam' factor
- Proven, medical effectiveness of spa therapies is creating demand for results driven treatments
- Spas becoming more family aware introducing a younger audience earlier
- The emerging trend for teen spa
- Spas have to introduce the big Wow factor in spa experiences to define their uniqueness

A survey asked why do people go to spas? the graph below outlines the findings.



6. CONSUMER BEHAVIOR

In analysing feedback on guest experience from consumers whilst visiting spas, the graph below outlines the negative aspects of a visit.



Analysis indicates a spa visitor will travel over 50 miles and up to 1 hour for a day spa activity. This increases for a hotel break where the duration of the visits is 1 or more days. There are a number of sites that buck these trends due to the overall spa experience i.e. functionality, spa status/reputation and celebrity endorsement.

There is a large variance across the UK in the value of a spa visit; in London visitors will consider spending between £150-£400 for a spa break experience. Nirvana Spa the UK's leading day spa have a range of packages that start from as little as £45 excluding treatment sales. Average prices vary dependent on location and type of facility. The average treatment in the UK day spa sector is £60 for 60 minutes. Typically a UK Spa package in the north of England will retail for £75-£150 including F&B. The south of England pricing can be similar to the north but in most instances is closer to London pricing a clear north south divide.

In some spas pricing policies vary dependent on the time of day or day of the week. In some US facilities pricing has been driven by the experience of the therapist providing the treatment, this is similar to the hair styling market. Neither of these policies has been adopted widely in the UK markets.

In addition to the treatment income a big part of spa revenue is the retail of home spa consumer products. The average consumer secondary spend would be £35 on a retail or gift item, analysis of the voucher sector would suggest that retail spend is significantly reduced and heavily discounted spa packages receive lower secondary spend.

Research has shown that many UK spas have low retail sales. In the USA retail sales can be as high as treatment revenue; this is also applicable in the cruising spa sector. A spa should achieve a minimum of 15%-30% of treatment income in retail sales.

Emerging from the diverse treatments market are diverse retail ranges that are small niche brands developed to sit alongside styles/types of treatments. These brands are often organic using natural ingredients. The UK

market is seeing brands of this type being developed or introduced. Mainstream spa operators are adopting these brands to create uniqueness to their business. The products provide treatments and retail products and these brands are being introduced as capsule collections alongside more mainstream brands.

7. MARKETING A SPA IN TODAY'S MODERN ENVIRONMENT

Marketing a spa in the UK has changed from traditional methods of local and vertical adverts in consumer press, mail-shots etc. to a more diverse mix of marketing activities. The primary objective of marketing is awareness and brand building. The use of chatter activities are becoming extremely effective, starting with press stories and moving to consumer web based activity such as Trip adviser, Yelp etc. and the use of social media. This change to more web based technology marketing has made it difficult to establish direct marketing budgets for spas. It is anticipated from those facilities polled that direct marketing costs are approximately 5% of sales revenues.

Web marketing for spa packages and the use of 3rd party agents such as Groupon is having a significant effect on the UK Spa market. Offers are capturing consumer attention and are driving deal based consumers who have reduced brand loyalty. This client acquisition strategy is not sustainable in a high end spa environment. Often consumer drivers are not based on price, some of the reasons given in a recent survey include;

- 47% of spa consumers listed "improving appearance" as one reason they visit a spa
- 69% of those surveyed visited a spa based on word-of-mouth
- 52% of respondents have used Groupon to source spa information, a tremendous increase up from only 22% in 2010
- 66% of respondents have utilized online-deal sites to book a service

There is a backlash to 3rd party agents. A number of leading multiple site spa operators including Bannatyne Sensory Spas have reduced significantly the use of 3rd party website sales due to the high commissions and the type of client using these sites and the lack of loyalty generated. These companies are electing to use direct campaigns and loyalty driven marketing activities. Data capture of client details including their email and social media accounts is crucial for this type of activity. If consumers have had a good experience consumers are more likely to provide this information and are likely to post their views online.

A strong marketing base is crucial for a spa operator to raise their consumer awareness within the spa market both nationally and locally. Spa operators budget 5-15% of spa turnover dependent on the lifecycle of the facility for marketing activities. Findings suggest that a year 1 marketing budget for a new spa launch is closer to the 15% figure.

Coyle's 2011 Global Spa Report addressed the issues surrounding online shopping and booking, including website orientation. When asked about the most important elements on a spa website,

- 98% of respondents said it was important or very important to list the offerings and treatments available
- 97% find it important or very important to list the associated prices
- 74% (a 4% increase from 2010) of respondents said it was important or very important to have the cancellation policy listed on the website.
- Additionally, the ability to view general spa information went up 4%—now at 78%—this year.

With emerging computer technologies particularly mobile smart phones, consumers think it is important to provide online booking capabilities.

When asked why they would not book a certain treatment online, compelling responses included:

- The inability to ask detailed questions about personal treatments—especially waxing, hair colouring, or medical treatments
- The failure to get a feel for the facilities—even with photos or a video, many guests prefer the actual sensations involved in taking a walking tour of a spa.
- The lack of information about service providers and the subsequent inability to choose a specific therapist based on a recommendation

From a recent survey of a number of UK hotel operators a number indicated forward booking of treatments as an issue. In previous years bookings were made months in advance but in recent years are now less than a week it is felt that deal based websites are a factor in reducing booking times and the use of online booking providing real time availability. In addition operators believe the changing behaviour of consumers is due in part to a mindset shift in booking expectations and availability and the option to shop around within their favourite spas.

Employee wellness is becoming big business for the spa industry

The employee wellness revolution is the “next wave” opportunity for the spa industry, because spas are both a natural provider of wellness services to companies both large and small and a uniquely attractive, logical incentive to keep people on track. And employee wellness is a booming market: Revenues are set to increase roughly 10% a year through 2016.

In 2012, more spas will be reaching out to local businesses. Within spa design a key consideration will be meeting the needs of the corporate wellness market.

8. CONCLUSIONS

The spa industry is becoming recognized as a significant sector within the hospitality and leisure sector. In the past two years, the spa industry has kept pace with, and even surpassed, other major leisure activities. With the audience appetite for spas there is no signs of this slowing.

The spa industry has shown the ability to weather the challenges of a weak economy. Despite the economic downturn, the industry has continued to grow. With spa visits and treatment and retail sales showing a small growth rate over the past two years it is predicted that the spa sector will return to double digit growth from 2013 and beyond.

Resort/hotel spas continue to dominate the industry in terms of number of establishments and are the fastest growing sector. The Club Spa market will be re inventing itself in line with the industry trends to compete. The urban day spa market will continue to be under pressure due to the dominance of the Resort/Hotel and Club Spas.

In summary it is felt by operators surveyed, the opportunity in the UK spa and wellness market is positive. Investors are still showing a strong interest in funding the development of the sector looking to the long-term potential. It is forecast the global spa market will return to significant growth in 2013 and beyond.

Appendix

1. Treatment Room Income Survey

Detailed below are financial performance figures provided by a range of 3-5 star hotel properties obtained for treatment sales per year per room net of VAT.

- Q Hotels (The Pines) £72,000 Golf Resort hotel (7 rooms)
- Hand Picked Hotels £69,888 (range between 3 rooms and 10)
achieve 60% occupancy at an average rate of £50 per hour including offers.
- Carden Park £50,000 Golf Resort hotel (12 rooms)
- The Mere £81,466 Golf Resort hotel (6 rooms)
- Formby Hall £68,432 Golf Resort hotel (7 rooms)

A competitive swot analysis of a region can be completed by Spa Creators to identify local trends.

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This report has been produced by Spa Creators and was produced in spring 2012. It is based on analysis from market research conducted by Spa Creators team of experts. In addition Spa Creators team have reviewed and analysed leading industry data collected from the following data sources.

DATA SOURCES INCLUDE

- Leisure database
- Coyle
- Global Spa Summit
- Spafinder Inc.
- Spa Business Association (SPABA)
- TI Hospitality
- Euromonitor
- BISA
- International Spa Association (ISPA)

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