
2006 Canadian Spa Sector Profile

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- **Tourism British Columbia**
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- **Atlantic Canada Opportunities Agency**
- **Leading Spas of Canada**
- **Premier Spas of Ontario**

By:



**ASSOCIATION
RESOURCE CENTRE INC.**

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Executive Summary

The Canadian spa industry has been growing at a significant pace for several years. However, prior to this study, any profiles of the Canadian industry and/or size estimates have come with significant data limitations due to small sample sizes available for Canada. Recognizing the need for statistically sound data, the Canadian Tourism Commission (CTC) and its partners engaged the Association Resource Centre Inc. (ARC) to conduct a comprehensive study of the Canadian spa industry.

This executive summary highlights the key findings from the 2006 Spa, Health & Wellness Sector Study. The report contains more detailed analysis including product/service offerings, employment and a profile by spa type, geography and tourism orientation.

How Big is the Canadian Spa Industry?

This study looks at several key measures of the size of the spa industry.

- *Spa Locations:* It is estimated that there were just over 2,300 spa locations in Canada at the time of this study (March 2006) operated by roughly 2,100 companies. Day spa is by far the largest category accounting for three quarters of all spas in Canada. The second largest segment is resort/hotel spas, followed by medical spas, destination spas, club spas and mineral springs spas. Ontario is far and away the largest province accounting for 44% of all Canadian spas. British Columbia and Quebec are the next largest (each accounting for just under one fifth of spas) followed by Alberta. Combined, the big four provinces account for nine of ten spas in Canada.
- *Revenues:* In 2005, the Canadian spa industry generated just over \$1 billion in revenues. On average, half (49%) of a spa's revenue is derived from treatment rooms. Despite accounting for three quarters of locations, day spas account for only 64% of industry revenues. Conversely, resort/hotel spas and other spa types generate higher per spa revenues and accordingly represent a greater share of industry revenues than they do spa locations.
- *Employment:* As of March 2006, there were an estimated 25,900 people employed by the spa industry. Of these, 60% are full-time, 25% are part-time and 15% are on contract. On average, spas pay 39% of their revenues to payroll.
- *Spa Visits:* In 2005, spa-goers made an estimated 14.1 million visits to Canadian spas. Half of these visits were taken to spas in Ontario and four out of five spa visits in Canada were made to day spas.
- *Square Footage:* The Canadian spa industry occupies an estimated 8.0 million square feet of indoor space. Despite accounting for only 19% of locations, resort/hotel spas account for one third (34%) of industry space. Treatment rooms account for 44% of indoor space in Canadian spas.

How Fast is the Spa Industry Growing?

Growth in the Canadian spa industry has been relatively steady over the past few years. In fact all key industry measures have been growing at a comfortable pace. Following are the key growth areas:

- *Locations:* Over the last decade, the number of spa establishments in the Canada has seen strong growth with an average annual growth rate of 17%. Importantly, the rate of growth over the last ten years has been relatively stable. While there have been some peaks and valleys, they have not been extreme. On a cumulative basis, the number of locations grew by 329% from 1996 to March 2006.
- *Revenues:* Revenue in the spa industry grew at both the per spa and aggregate levels in 2005. Specifically, per spa revenues grew by 12% while the overall industry revenue grew by 30%. Based on current projections, 2006 could see industry revenues grow by a further 24% to \$1.3 billion by the end of the year.
- *Employment:* The number of employees per spa remained fairly stable from 2004 to 2005, increasing by a moderate 4%. At an aggregate level, total industry employment increased by 20% from 19,300 in 2004 to 23,300 in 2005.
- *Spa Visits:* As in any industry, demand is the driving force that determines how well the industry performs. Between 2004 and 2005, the industry saw a 20% growth in the number of visits. This growth is primarily due to the increase in the number of spas as per spa visits remained relatively unchanged from 2004 to 2005.
- *Square Footage:* The industry saw a growth in the total indoor square footage from 2004 to 2005 of 28%. This came on the heels of a 14% growth rate from 2003 to 2004. The primary areas for renovations and expansions in the industry are treatment rooms followed by retail, beauty salons and dedicated relaxation areas.

Tourism and the Canadian Spa Industry

With emergence of resort/hotel spas as a key player in the spa industry, spas are increasingly finding themselves in the tourism spotlight. Following are some of the key tourism related findings from the study:

- *Tourism Orientation of the Canadian Spa Industry:* Approximately one third (34%) of all spas in Canada qualify as tourism-oriented. This translates into an estimated 787 tourism-oriented spas in Canada at the time of this study. Regionally, British Columbia (51%) and Quebec (47%) are by far the most tourism-oriented regions at roughly half of all spas. While all resort/hotel spas are considered tourism-oriented by definition, only 16% of day spas are considered tourism-oriented.
- *Growth of Tourism-Oriented Spas Outpaces the Overall Industry:* Since 1996 the number of tourism-oriented spas in Canada has grown by an average of 19% annually, slightly higher than the overall industry. In 2005, the number of tourism-oriented spas grew by only 11%. However, based on the first two and a half months of 2006, the results indicate a 16% growth rate by the end of the year.

- *Tourism is a key component of the Canadian spa industry:* Spas rely on tourists for 29% of visits and 25% of revenues. However, only 20% of marketing efforts are geared toward tourists. While resort/hotel spas certainly understand the importance of the segment, there is great untapped potential with this segment. To take advantage of this potential is going to require the education of spas about their potential role in the tourism sector.
- *British Columbia and Quebec are the most tourism-oriented regions.* While Ontario has the highest number of tourism-oriented spas, that number is not much higher than it is for British Columbia and Quebec. These regions are significantly smaller, but have a greater proportion of their spas being tourism-oriented and are well positioned to take advantage of lucrative tourist market.

What are the Key Trends in the Industry?

Following is a brief summary of some of the key trends outlined in this report:

- *Product Trends:* Leaders of the industry believe that “massage is still king” followed closely by facials with manicures and pedicures are not far behind. While these are still viewed as the core spa services, many in the industry are carving out new niches for themselves by introducing ‘unique’ products, services and/or packaging concepts that differentiated them from their competitors. However, some are also getting back to the basics. Many spas are capitalizing on the “health and wellness lifestyle” craze by offering weight loss programs and services, as well as health and fitness programs with a focus on “wellness.”
- *Consumer Trends:* The stress associated with consumers’ daily lives has created an increased “need for periodic pampering,” and spas are seen as a means of escaping the pressures and getting re-energized. Spa consumers are more educated than ever before about what to expect with regard to the “spa experience” and are increasingly looking for an overall experience while also getting greater value for their money. Despite ongoing attempts to entice men into the treatment rooms, it is still women who dominate the spa consumer mix.
- *Spa Tourism Trends:* The spa tourist is a consumer segment that has yet to come even close to reaching its full potential in Canada. Despite offering a spa experience that is among the best in the world, the general feeling is that the Canadian spa experience has been poorly promoted to the tourism sector and is still one of the country’s best kept secrets. Americans, followed by Europeans and the British were named by interviewees as the groups with the most “growth potential” for spa tourism in Canada.
- *Investor Trends:* While some believe that it’s easier for spa businesses to get funding today because “we have evolved into a recognized industry,” most tend to agree that “it’s still hard to raise money to build a spa” because banks are not ‘risk-takers’ by nature and are more interested in financing established businesses than they are in financing the smaller, ‘start-up’ operations that make up a significant part of the spa industry. Quebec appears to be an exception to the rule and is reportedly experiencing a significant rise in the number of independent investors looking to “set up spas” in the region.

Conclusions

A number of conclusions and industry implications can be drawn from the study findings. The following is a summary of key conclusions and implications for the Canadian spa industry.

- *Industry growth is strong and steady.* Over the past decade, the number of spas in Canada has been growing at an average rate of 17% per annum. With few peaks and valleys, growth has been steady which bodes well for stability and continued growth. Moreover, all key industry measures are growing at a comfortable rate.
- *Saturation is not widespread — yet.* There may be some markets where saturation may have been reached; however, despite some of the executive views to the contrary, it does not yet appear to be country wide. Despite the widespread view that most of the growth is taking place on the supply side and that demand is not growing at the same pace, spas are still seeing growth in their key performance indicators (e.g., revenue, visits, etc.), even if the growth is only modest. True saturation will be reached when the number of spas is still growing but per location visits and revenue decrease. This point has not been reached yet on a national basis; but there are signs that it is coming.
- *Spa tourism is one of Canada's best kept secrets.* Despite the fact that Canada has world class facilities staffed by some of the best trained professionals in the world, nobody seems to know about it. At the end of the day, the bottom line and foremost challenge for today's Canadian spa industry is clear: The spa industry needs to 'tell its story.'
- *The spa industry still needs to recruit qualified resources.* The rapid growth of the industry creates a never ending shortage of qualified staff. While the issue has begun to shift from one of quantity to one of quality, the shortages will never disappear as long as the industry grows quickly.
- *The spa industry is here to stay.* While it is still a young industry, the spa industry has proven that it is a significant industry that is not going to go away. It has surpassed the \$1 billion per year mark. The industry has moved away from an image of pampering to one that fills the need of a busy, stressed society.

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I. Introduction

Study Background

The Canadian spa industry has been growing at a significant pace for several years. However, prior to this study, any profiles of the Canadian industry and/or size estimates have come with significant data limitations due to small sample sizes available for Canada. Recognizing the need for statistically sound data, the Canadian Tourism Commission (CTC) and its partners engaged the Association Resource Centre Inc. (ARC) to conduct a comprehensive study of the Canadian spa industry. This report summarizes the key study findings.

Purpose and Objectives

The primary objective of the study is to develop a statistically reliable profile of the spa, health and wellness sector in Canada. This includes an assessment of the true size and scope of the sector, supply and demand and operating characteristics. The primary objectives of the research were to:

- Estimate the size of the spa industry in Canada in terms of revenues, number of visits, number of establishments, square footage and employment;
- Determine how quickly the industry is growing;
- Determine the size and growth of the tourism-oriented sector of the spa industry;
- Develop a profile of the Canadian spa industry including regional distribution, spa type, ownership structure, employment structure and service/product offerings;
- Obtain a basic understanding of marketing within the industry; and
- Determine current and future industry trends and challenges.

Research Method

To fully address the objectives of the study, three distinct approaches were undertaken:

- *Qualitative Executive Interviews:* The Association Resource Centre Inc. conducted ten in-depth executive interviews across Canada to explore views and opinions regarding the state of the spa industry, determine the current competitive landscape, identify important industry trends and challenges (including legal and regulatory challenges) and to identify new products and services. The interviews (30 to 45 minutes each in length) were conducted with spa owners/managers, industry association presidents and government industry specialists in March 2006.

- *Develop a Comprehensive Spa Inventory:* In 2005, ARC conducted a spa industry census for the International SPA Association (ISPA) in which ISPA's entire Canadian database of spas (approximately 70% of the industry) was qualified and classified. With ISPA's permission, this database was used as the basis for the inventory for this study. An extensive search was conducted to update the inventory. Once compiled, the inventory was cleaned to ensure that only those meeting the ISPA spa type definitions (see Chapter V for spa definitions) were included. During the survey period, attempts were made to contact all "new" records that were not contacted as part of ISPA census to verify at a minimum that the contact was valid (i.e., in business, working phone number).
- *Quantitative Survey:* The Association Resource Centre Inc. conducted a telephone survey of 603 spa owners and managers in March 2006. The telephone interviews lasted approximately 20 minutes each. The survey was also offered via internet where another 100 spa owners and managers participated for a total sample of 703 participating spas or approximately 30% of the Canadian industry. The data in this report have been weighted to more accurately reflect the true distribution of the industry population. Data were weighted by type of spa as defined by the International SPA Association and by region. Definitions of spa categories are provided in Chapter V.

Study Limitations

When interpreting results from this study, it is important to keep in mind the following limitations:

- The number of spas represents our estimate as of March 2006 and was based on our spa search. Estimates were extrapolated by 7% based on survey results to account for spas missing from the inventory.
- Industry averages and estimates (including revenue, employment, square footage, spa visits, etc.) as well as other data were based on survey responses and are only as accurate as the data provided by survey respondents.
- Estimates of growth are based on year established. Bankruptcies were not accounted for due to a lack of prior data. Closures were assumed to be minimal.
- While the overall industry results have a low margin of error, results and estimates for most sub-groups (e.g., spa type and region) should be interpreted with caution due to small sample sizes.

II. Size of the Canadian Spa Industry

This section discusses the overall size of the Canadian spa industry in terms of five key measures: the number of spas, industry revenues, employment, the number of spa visits and square footage. In addition to the overall size of the Canadian industry, the measures are also broken down by region and spa type.

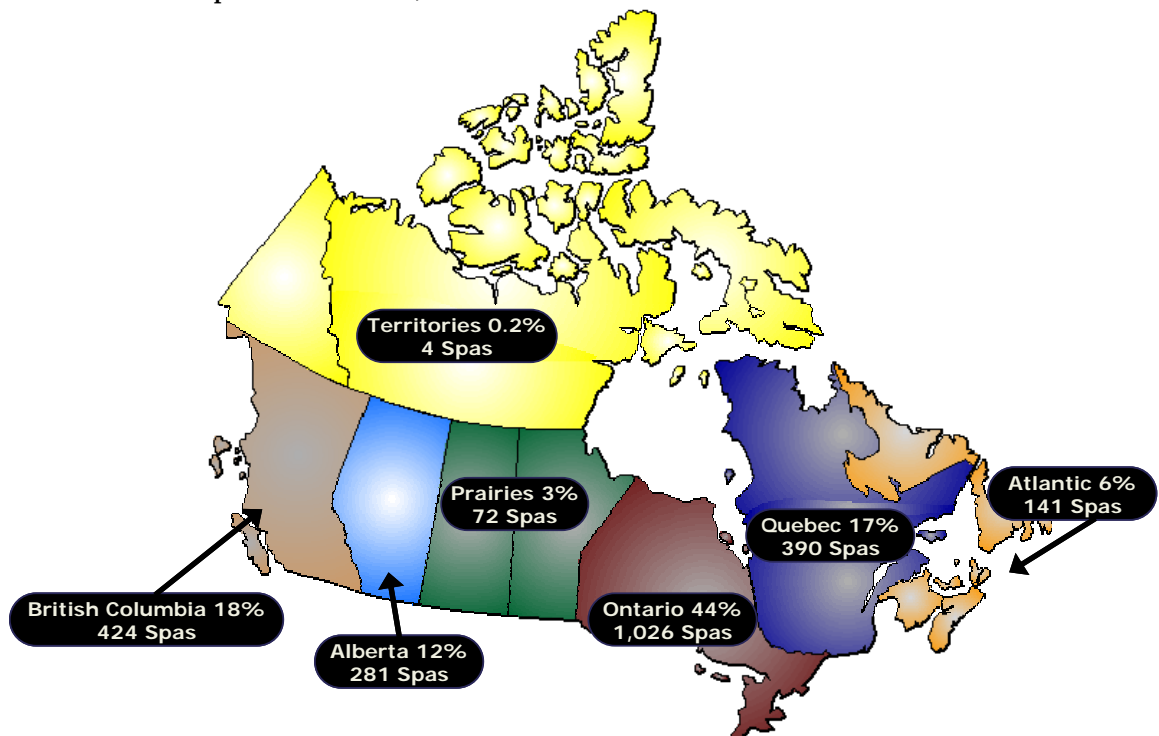
NOTE: The data in this chapter represents a snap shot of the industry size at the time of the study. For changes in industry size, readers should refer to Chapter III.

How Many Canadian Spas Are There?

It is estimated that there were over 2,300 spa locations in Canada at the time of this study (March 2006). As seen in previous North American studies, the industry is dominated by single location operations. In fact, the 2,300 spa locations in Canada are operated by roughly 2,100 companies. The distribution of spas by region is presented in **Exhibit 2-1**.

Exhibit 2-1 – Number of Spas in Canada as at March 2006 by Region

Total Number of Spas in Canada – 2,338

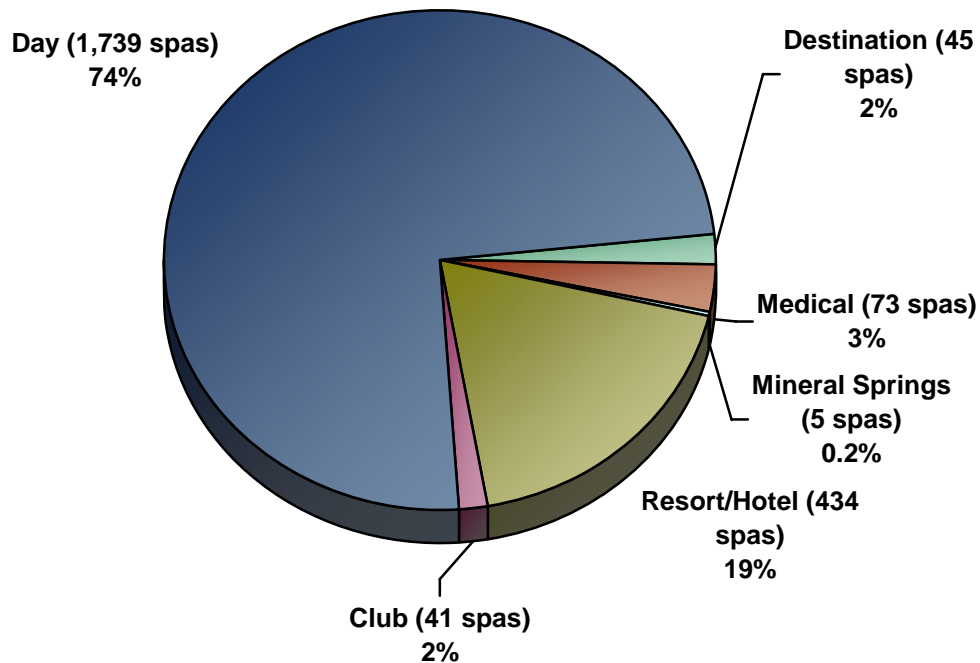


Not surprisingly, Ontario has the largest number of spas by a wide margin. In fact, with 44% of the country's spas, the number of locations in Ontario is more than double that of any other region. British Columbia (18%) and Quebec (17%) are the second largest regions, each accounting for close to one fifth of the country's spas followed by Alberta at 12%. Combined, the four big provinces account for 91% of all spa locations in Canada. The number of spas in Atlantic Canada (6%) and the Prairies (3%) is considerably smaller.

While the distribution of spa locations across the country generally maps to the population distribution, there are some deviations. Specifically, the portion of spas in Ontario and British Columbia is significantly higher than their respective proportions of the population. In other words, there are more spas on a per capita basis in Ontario and British Columbia. On the other hand, the share of spas in Quebec and the Prairies is much lower than their share of the population.

The breakdown of spas by spa type is shown in **Exhibit 2-2**. The Canadian spa industry is dominated by day spas, which account for just over 1,700 spas or three quarters (74%) of all spas in Canada. With 19% of spa locations (or 434 spas), the other significant segment in the industry is resort/hotel spas. The remaining four segments are considerably smaller accounting for between 0.2% and 3% of the locations in the industry. While the segment is relatively small, it is worth noting that there are an estimated 45 destination spas in Canada (or 2% of spas). This is roughly double what was expected before the study began.

Exhibit 2-2 — Number of Spa Establishments in Canada by Type of Spa



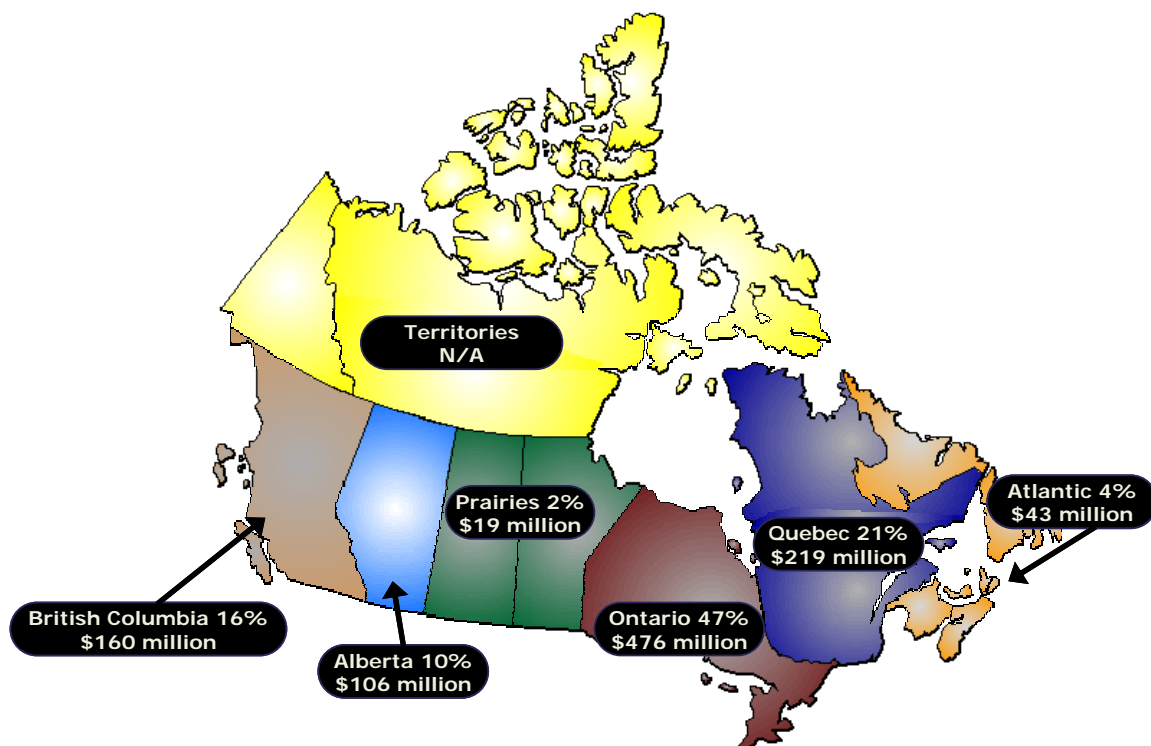
Note: Spa type definitions can be found in Chapter V.

How Much Revenue Did the Industry Generate in 2005?

It is estimated that the Canadian spa industry generated just over \$1 billion in revenue in 2005. Just under half (47%) of this revenue was generated in the province of Ontario. At 21% of the national total, Quebec is the second largest province in terms of revenue followed by British Columbia (16%) and Alberta (10%). Combined, the big four provinces accounted for 94% of all spa revenues in Canada in 2005. At 4% and 2% respectively, the Atlantic and Prairies regions are relatively small contributors to the overall Canadian industry revenue. The distribution of spa revenues by region is shown in **Exhibit 2-3**. The exhibit also shows the confidence interval (or degree of error) associated with the overall industry estimate.

Exhibit 2-3 – Regional Distribution of Spa Revenues in Canada in 2005

Total 2005 Spa Industry Revenue in Canada – \$1 Billion



Spa Revenue Confidence Interval*

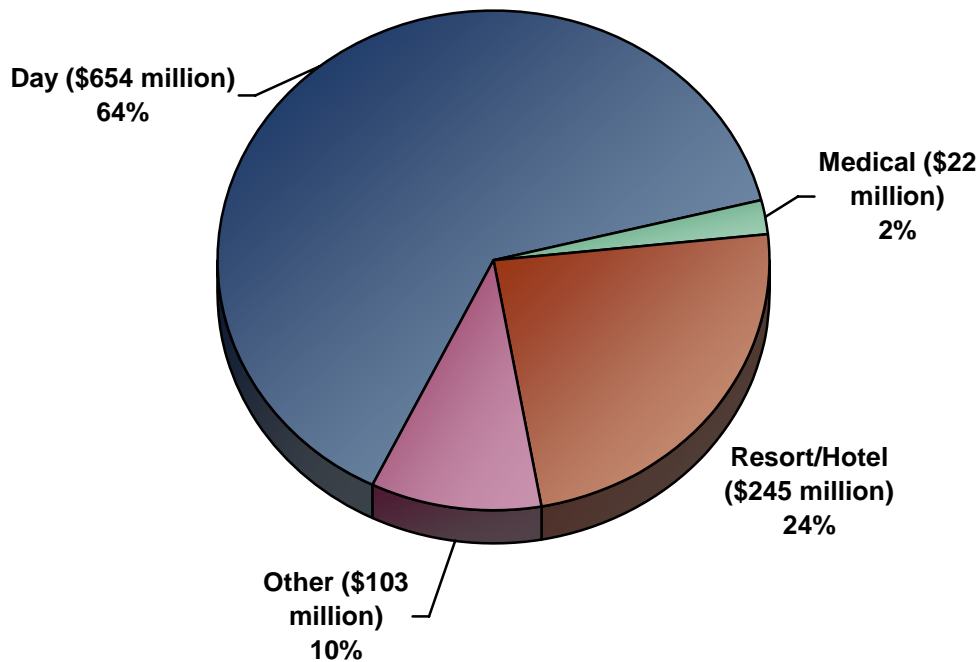
	Low	Estimate	High
Spa Revenue Confidence Interval	\$825,942,300	\$1,023,338,626	\$1,220,734,952

Notes: Interpret results for regions with caution due to small sample sizes.

* Estimates are, by nature, subject to error. The confidence interval represents the range in which the true industry revenue falls. The level of confidence used was 95%.

Industry revenue by spa type is summarized in **Exhibit 2-4**. The two largest segments (day spas and resort/hotel spas) in the industry accounted for 88% of the industry's total revenue in 2005. As seen in the U.S. industry, resort/hotel spas are emerging as a dominant player in the Canadian spa industry. Moreover, they account for only 19% of the spa locations in Canada, but amassed one quarter (24%) of the industry's revenues for 2005. By comparison, the day spa sector accounts for 74% of locations, but only 64% of revenues. In other words, resort/hotel spas earn more per spa than day spas. Revenues for medical spas sit at 2% of the industry which is roughly equal to their share of locations while the portion of revenues attributable to other spa types is quite a bit higher than their share of locations.

Exhibit 2-4 – Spa Revenues in Canada by Spa Type



*Notes: Interpret results for spa types with caution due to small sample sizes.
Due to small sample sizes, destination spas, mineral springs spas and club spas have been grouped under "other".*

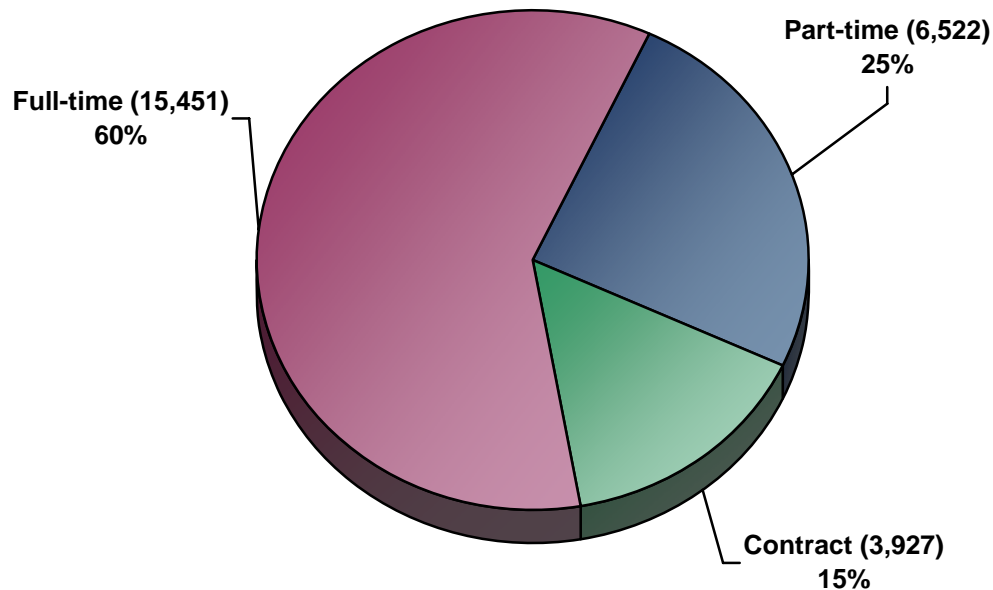
How Many People Are Employed in the Spa Industry?

At the time of this study (March 2006), the Canadian spa industry employed an estimated total of 25,900 people. Sixty percent (60%) of employees in the spa industry are full-time while one quarter (25%) are part-time. The remaining 15% work on a contract basis.

Exhibit 2-5 shows the distribution of employees by level of employment.

Exhibit 2-5 – Total Industry Employment in Canada

Total Employees in Canada – 25,900



Spa Employment Confidence Interval*

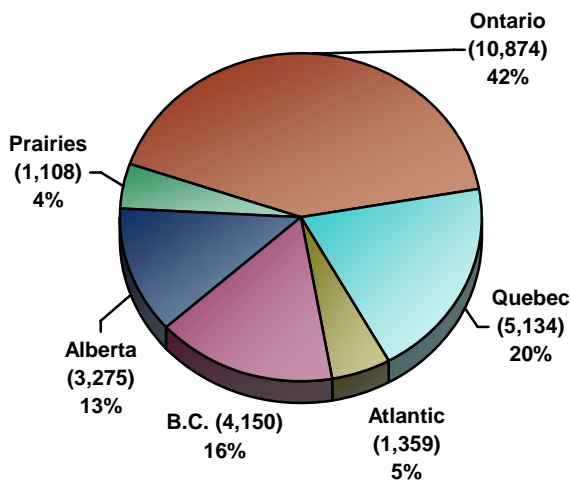
	Low	Estimate	High
Total Spa Employment Confidence Interval	23,269	25,900	28,531
Full-time employment confidence interval	14,079	15,451	16,823
Part-time employment confidence interval	5,786	6,522	7,257
Contract employment confidence interval	3,404	3,927	4,451

Note: * Estimates are, by nature, subject to error. The confidence interval represents the range in which the true industry employment falls. The level of confidence used was 95%.

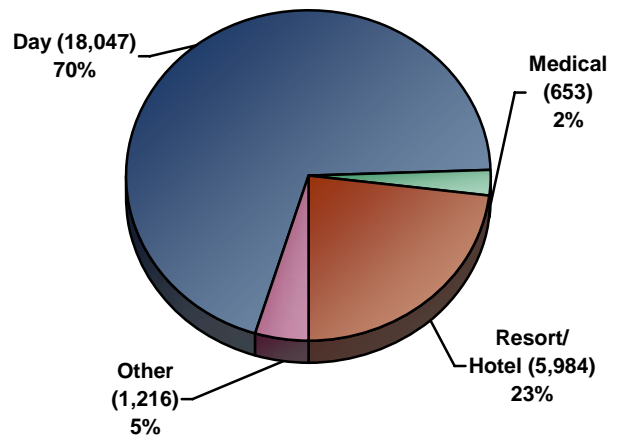
Exhibit 2-6 illustrates the distribution of employees by region and spa type. Unlike other key statistics, the distribution of employees by region maps almost exactly to the distribution of spa locations. The few variances that do exist are quite minor. The same cannot be said for spa types. At 70% of employees, the day spa sector is slightly under-represented compared to its proportion of spa locations. Conversely, resort/hotel spas account for a disproportionately high share of the industry's employees at 23% relative to their share of locations. The shares of employees for medical and other spas are roughly equal to their share of locations.

Exhibit 2-6 – Number of Employees by Region and Spa Type

Employees by Region



Employees by Spa Type



*Notes: Interpret results for regions and spa types with caution due to small sample sizes.
 Due to small sample sizes, destination spas, mineral springs spas and club spas have been grouped under "other".*

How Many Client Visits Did Spas Experience in 2005?

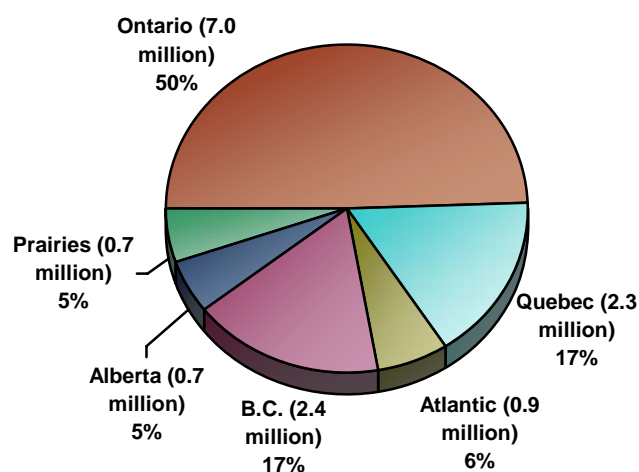
Spas in Canada saw a total of 14.1 million visits from clients in 2005 (see **Exhibit 2-7**). Half (50%) of all spa visits in Canada occurred in Ontario. Ontario is the only region with a disproportionately high share of visits. Alberta on the other hand saw only 5% of total national spa visits in 2005 – significantly lower than its share of spas. For other regions, the share of visits is generally equal to their share of spas.

Interestingly, spa visits is the one area where day spas out-produced other spa types. Specifically, day spas account for 81% of all spa visits compared to only 74% of spa locations. Conversely, despite having a disproportionately high share of industry revenue, resort/hotel spas have a disproportionately small share of industry visits. In other words, they see fewer clients on average but generate significantly more revenue per client. The remaining spa types account for a share of visits roughly equal to their share of establishments.

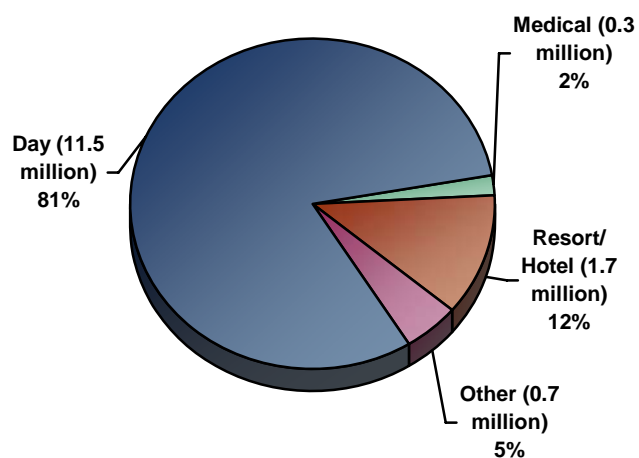
Exhibit 2-7 – Number of Spa Visits in Canada in 2005 by Region and Spa Type

Total Spa Visits in Canada in 2005 – 14.1 Million

Visits by Region



Visits by Spa Type



Spa Visit Confidence Interval*

	Low	Estimate	High
Spa Visit Confidence Interval	11,292,678	14,102,959	16,913,241

Notes: Interpret results for regions and spa types with caution due to small sample sizes.

Due to small sample sizes, destination spas, mineral springs spas and club spas have been grouped under "other".

* Estimates are, by nature, subject to error. The confidence interval represents the range in which the true spa visit volume falls. The level of confidence used was 95%.

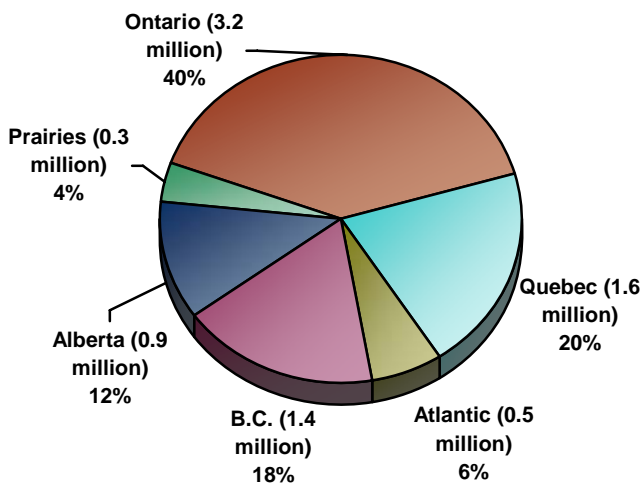
How Much Space Do Spas in Canada Occupy?

As shown in Exhibit 2-8, spas in Canada occupy an estimated 8 million square feet of indoor space. On a regional basis, the share of space is generally the same as the share of locations with Quebec being slightly overstated and Ontario being somewhat understated. As seen in the U.S., day spas tend to be significantly smaller in size than other spa types. Accordingly, despite accounting for three quarters of establishments, they only occupy slightly more than half (54%) of total indoor space in Canadian spas. Resort/hotel spas on the other hand account for one third (34%) of industry space compared to only 19% of locations. Other spa types also tend to be bigger than day spas which again equates to a disproportionately large share of industry space.

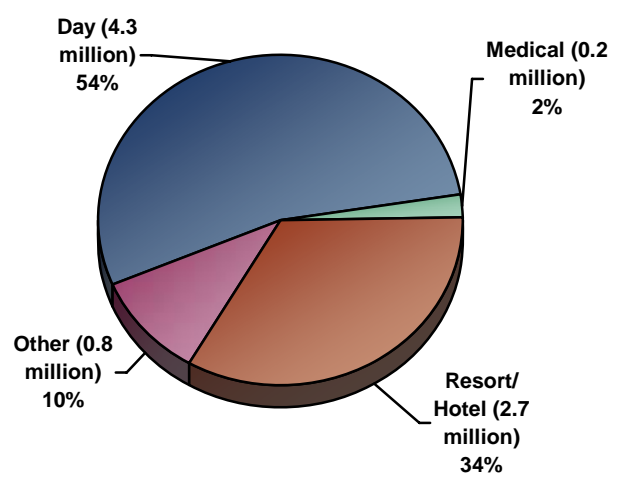
Exhibit 2-8 – Indoor Square Footage in Canada Spas by Region and Spa Type

Total Indoor Square Footage in Canada – 8.0 Million Sq. Ft.

Sq. Ft. by Region



Sq. Ft. by Spa Type



Square Footage Confidence Interval*

	Low	Estimate	High
Square Footage Confidence Interval	6,862,476	8,043,031	9,223,586

Notes: Interpret results for regions and spa types with caution due to small sample sizes.

Due to small sample sizes, destination spas, mineral springs spas and club spas have been grouped under "other".

* Estimates are, by nature, subject to error. The confidence interval represents the range in which the true industry square footage falls. The level of confidence used was 95%.

III. Industry Growth

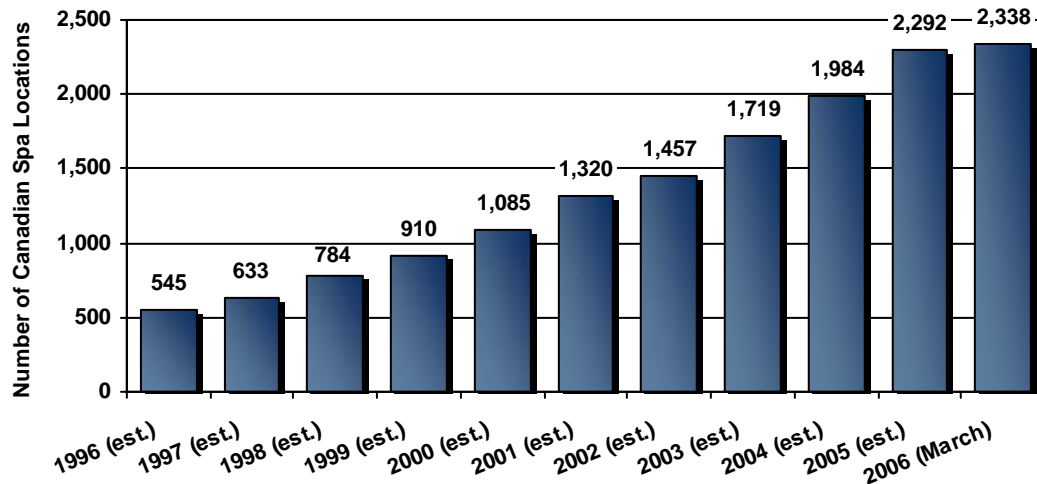
The previous section presented a current snapshot of the size of the Canadian spa industry. The discussion now turns to how these numbers have been changing over the past few years and how they might continue to change in 2006 based on the first two and a half months of the year. Changes are analyzed in each of the five key areas — number of locations, revenues, employment, number of spa visits, and square footage.

NOTE: The data in this chapter illustrates the change in industry size. For a more detailed picture of current industry size, readers should refer to Chapter II.

The Number of Spa Locations is Growing Steadily

Over the last decade, the number of spa establishments in Canada has seen strong growth with an average annual growth rate of 17%. Importantly, the rate of growth over the last ten years has been relatively stable. While there have been some peaks and valleys, they have not been extreme. The annual growth rates have ranged from a low of 10% to a high of 24%. A steady growth rate bodes well for industry stability. On a cumulative basis, the number of locations grew by 329% from 1996 to March 2006. In other words, the number of spas in Canada has more than quadrupled since 1996. Growth in the number of spa locations is presented in Exhibit 3-1.

Exhibit 3-1 — Growth in the Number of Canadian Spa Locations



Establishment Growth Rate

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006*
Annual	16%	16%	24%	16%	19%	22%	10%	18%	15%	16%	2%
Cumulative	-	16%	44%	67%	99%	142%	168%	216%	264%	321%	329%

Notes: Industry growth is based on year established. Bankruptcies have not been accounted for due to a lack of prior data. Closures have been assumed to be minimal.

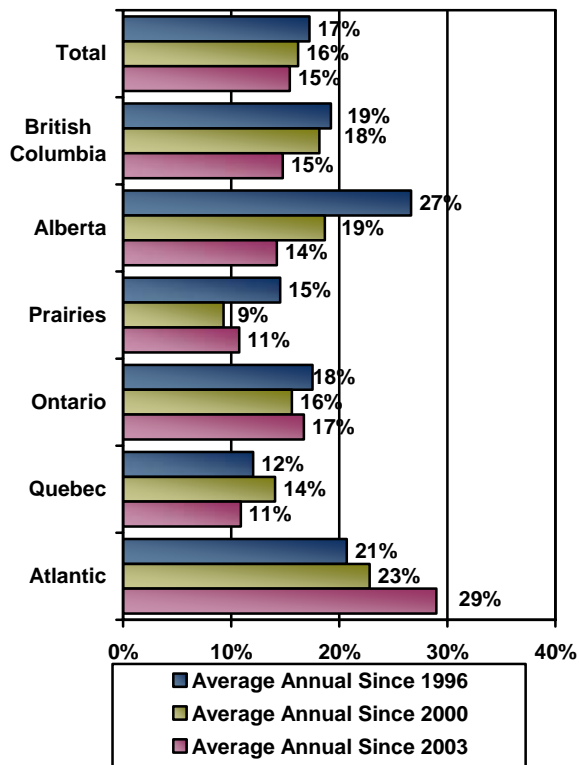
** Growth rate for year 2006 represents growth for the first 2.5 months of the year.*

The industry continued to grow in the first 2.5 months of 2006 leading up to this study. If the growth rate in the first 2.5 months of 2006 holds, the industry could see 10% growth in number of locations to 2,530 by the end of the year.

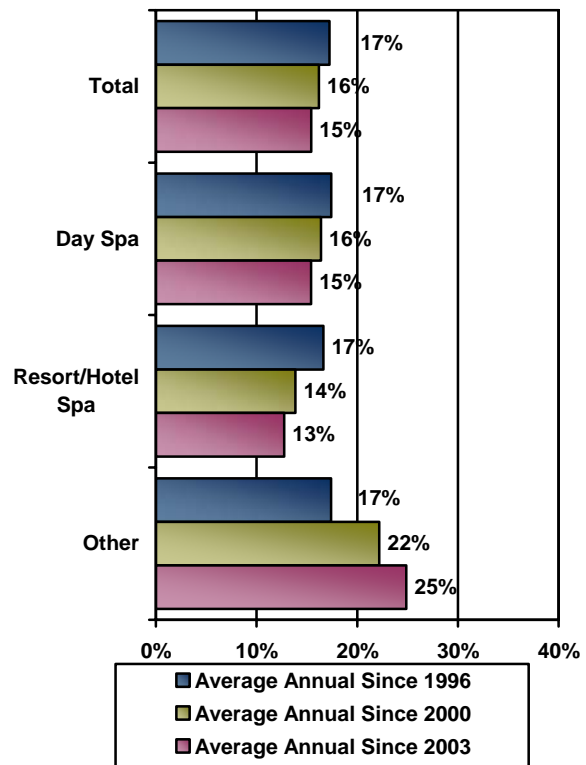
Average annual growth in the number of locations since 1996, 2000 and 2003 by region and spa type is presented in **Exhibit 3-2**. Since 1996, the strongest growing region, in terms of locations has been Alberta (note: this is largely due to a spike in 1998 – without 1998, the average rate would be 20% per annum). Surprisingly, since 1996 the slowest growing market has been Quebec at an average of 12% per annum. While many in the industry felt that the industry in Quebec was surging, it was found that much of the “perceived” growth is due to related businesses (i.e., salons and beauty parlours) adding some spa services (or new businesses with these services) but not offering enough to qualify as full spas. Moreover, the spa qualification rates within the spa inventory were much lower in Quebec than elsewhere in the country.

Exhibit 3-2 – Average Annual Growth in Spa Locations by Region and Type of Spa

Average Annual Growth by Region



Average Annual Growth by Spa Type



Notes: Interpret results for regions and spa types with caution due to small sample sizes.
Other types of spa includes medical spas, club spas, mineral springs spas and destination spas.

Since 2000, most regions have been growing at roughly the same rate. The exception is the Atlantic region where growth was a bit quicker than the rest of the country at 23% per annum. In the two years leading up to this study, the Atlantic region continued to be the fastest growing at 29% per year while other regions are closer to the national average.

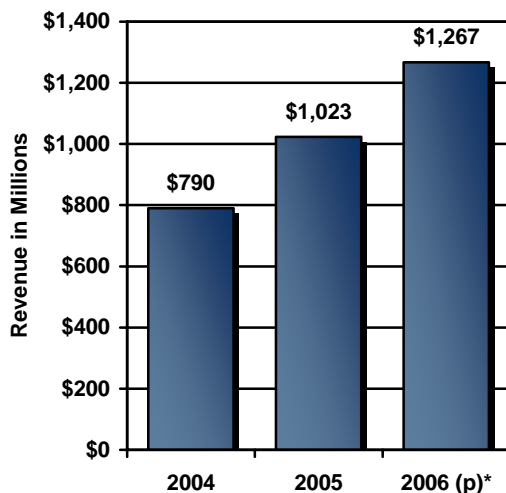
Another surprise in the level of growth in the industry is that since 1996, the number of day spas, resort/hotel spas and other spas has been growing at the same rate – 17%. Since both 2000 and 2003 the average annual growth rates for day spa and resort/hotel spa locations has been roughly equal to the national average. On the other hand, other spa types have been growing a bit quicker at an average of 22% since 2000 and 25% since 2003. When interpreting these growth rates, it is important to remember that day spa and resort/hotel spa are large segments while the “other” category represents only a handful of spas. In other words, while the growth rate (percentage) is higher, the actual number of spas entering the industry is much lower among “other” spas.

The Spa Industry is Experiencing Strong Revenue Growth

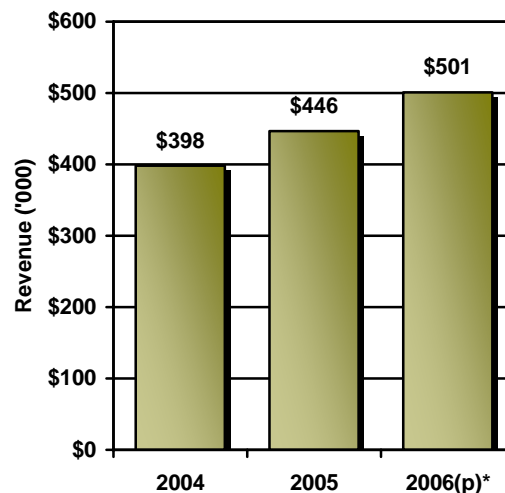
As illustrated in Exhibit 3-3, revenue is growing both for the industry overall and on a per location basis. At the overall industry level, revenue grew by 30% from \$790 million in 2004 to just over \$1 billion in 2005. This strong growth rate is the result of strong growth in both the number of spa locations as well as the increase in the average revenue per spa. On a per location basis, spa owners saw a 12% increase in their revenue from 2004 to 2005.

Exhibit 3-3 – Spa Industry Revenue Growth

Industry Revenue (in millions)



Revenue Per Establishment



Note: *Projected revenue per establishment assumes operations achieve their own projected revenues for the year. Projected industry growth is the projected per establishment revenue multiplied by the projected number of establishments for year-end 2006. The number of establishments is projected to grow at 10% based on the growth rate in the first 2.5 months of 2006.

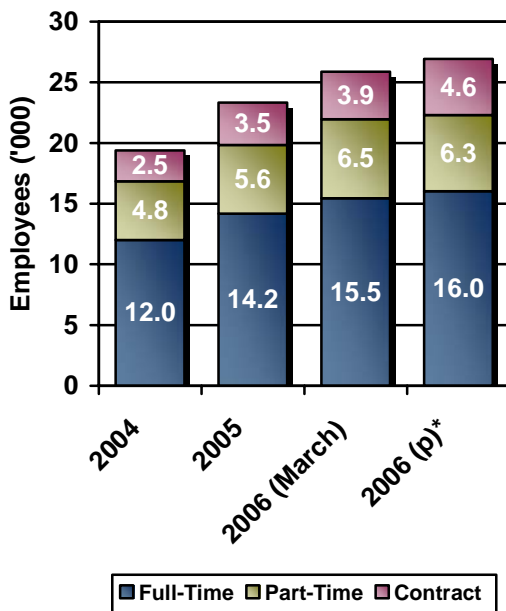
Looking ahead, spas owners and managers in Canada are anticipating a 12% increase in revenue for 2006. In addition, as mentioned earlier, growth in the first two and half months of 2006 suggests the number of locations in Canada could increase by 10%. If both of these growth rates were to hold, overall industry revenue would grow by 24% in 2006 to just under \$1.3 billion.

Spa Employment Is Stable

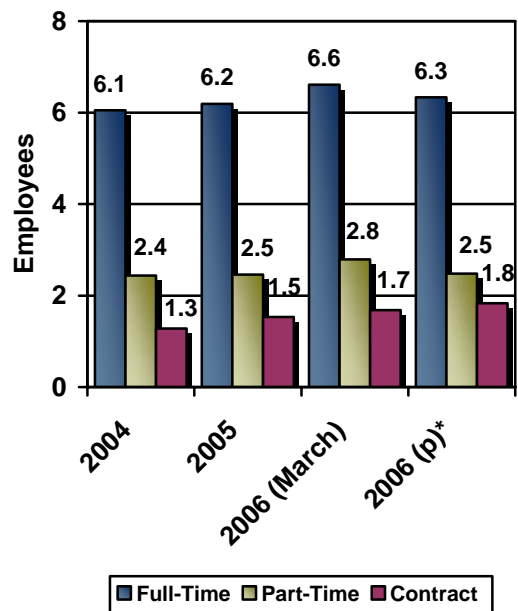
While overall employment in the spa industry has grown, the number of employees per spa has remained relatively unchanged. As seen in **Exhibit 3-4**, total employment in the spa industry grew by 20% from 19,300 in 2004 to 23,300 in 2005. However, this strong growth is primarily attributable to the increase in the number of spa locations. On a per location basis, employment grew by only 4% from 9.8 employees on average in 2004 to 10.2 employees in 2005.

Exhibit 3-4 – Growth in Employment

Spa Industry Employment (000s)



Employment Per Establishment



Note: *Projected employment per establishment assumes a growth rate per establishment for 2006 that is equal to growth in 2005. Projected industry growth is the projected number of per establishment employees multiplied by the projected number of establishments for year-end 2006. The number of establishments is projected to grow at 10% based on the growth rate in the first 2.5 months of 2006.

At the time of this study, the results indicated that there had already been an 9% increase in the number of employees per location since the end of 2005. However, this could be partially due to seasonality effects. For projection purposes, it was assumed that the growth in per location employees by the end of 2006 would be the same (4%) as experienced in 2005. Under this assumption, and assuming the projected growth in spa locations is achieved, the number of people employed in the spa industry could reach almost 27,000 by the end of 2006.

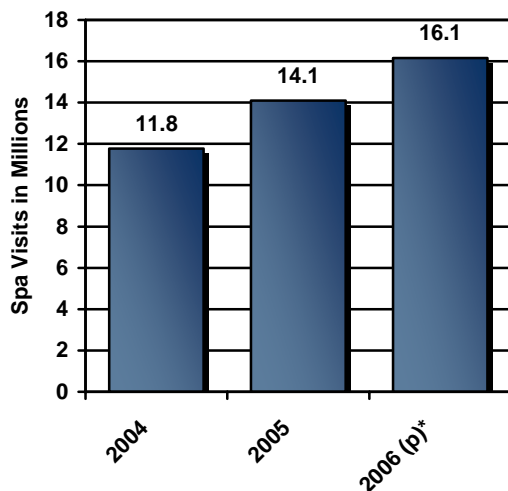
In terms of structure, the mix of full-time, part-time and contract employees remained unchanged from 2004 to 2005.

Industry Growth is Dictated by Consumer Demand

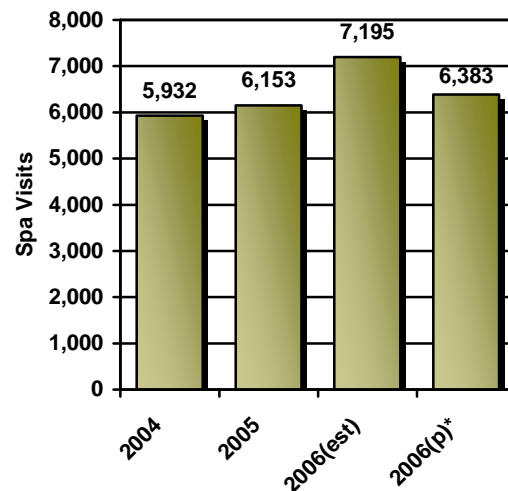
As in any industry, it is consumer demand that dictates the growth and success of the sector. Growth in the number of spa visits both at the industry level and at the individual spa level are shown in **Exhibit 3-5**. The spa industry saw a 20% growth rate in the number of visits from 11.8 million in 2004 to 14.1 million in 2005. Like employment, this is primarily due to the increase in the number of spa locations as per locations visits grew by only 4% from 2004 to 2005. As long as spas manage to maintain their number of visits despite a growing number of locations, the industry will continue to grow. However, at some point, the industry will become saturated and per location demand will start to fall off as more spas share the same number of visits.

Exhibit 3-5 — Growth in Consumer Demand

Spa Industry Visits (in millions)



Visits Per Establishment



Note: *Projected visits per establishment assumes a growth rate per establishment for 2006 that is equal to growth in 2005, whereas the 2006 (est.) is the average of the anticipated 2006 visits by existing owners. Projected industry growth is the projected number of per establishment visits multiplied by the projected number of establishments for year-end 2006. The number of establishments is projected to grow at 10% based on the growth rate in the first 2.5 months of 2006.

As seen in the exhibit, existing owners are projecting significant growth in the number of visits to their establishments. Owners are predicting that visits to their spas will increase by 17% in 2006. However, with new spas entering the industry throughout the year, the final growth in per spa visits is likely to be closer to the 4% experienced in 2005. Assuming a 4% growth in per spas visits and a 10% growth in locations, 2006 would see a total of 16.1 million spa visits for the current year.

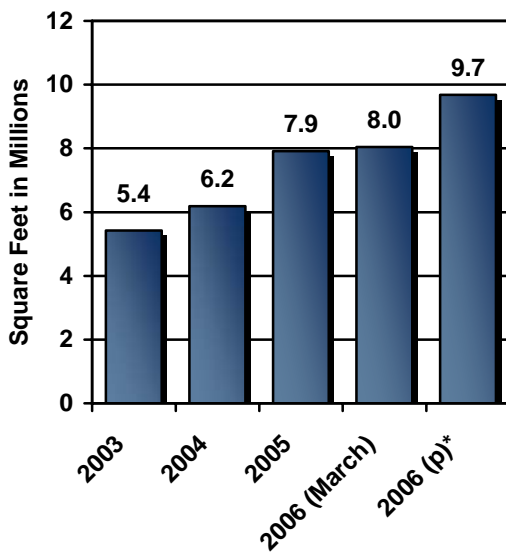
Growth of Indoor Space in Canadian Spas

The results suggest fairly steady growth in the amount of indoor space in the Canadian spa industry. As seen in **Exhibit 3-6**, total industry square footage experienced a growth rate of 28% from 6.2 million sq. ft. in 2004 to 7.9 million sq. ft. in 2005. This was on the heels of a 14% growth rate from 2003 to 2004. On a per spa level, the average in space remained virtually the same from 2003 to 2004 before growing by 11% in 2005.

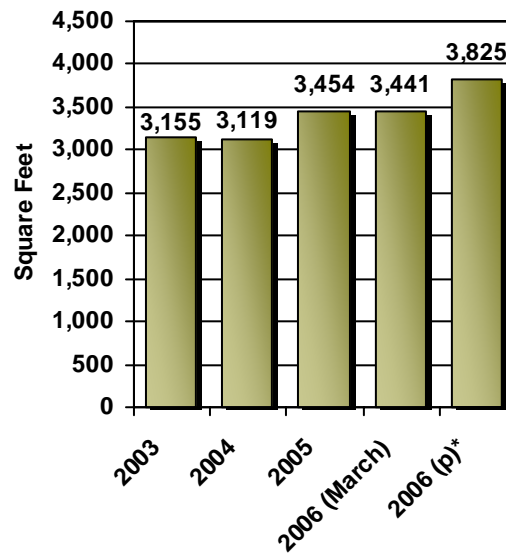
Assuming per spa indoor space grows at the same rate in 2006 as it did in 2005, the average size of spas by the end of 2006 would be approximately 3,825 sq. ft. Should the number of spas grow at a rate of 10% (as suggested by the first two and half months of 2006), the total indoor space in the Canadian spa industry could reach 9.7 million sq. ft.

Exhibit 3-6 – Growth in Square Footage of Canadian Spas

Industry Square Footage (in millions)



Square Footage Per Establishment



Note: *Projected square footage per establishment assumes a growth rate per establishment for 2006 that is equal to growth in 2005. Projected industry growth is the projected per establishment square footage multiplied by the projected number of establishments for year-end 2006. The number of establishments is projected to grow at 10% based on the growth rate in the first 2.5 months of 2006.

Among those surveyed, 27% have renovated their facilities in the last two years, 5% have expanded and 19% have both renovated and expanded. Looking ahead, 16% plan to renovate in the next five years while 14% plan to expand and 32% plan to do both.

A summary of the changes spas have made in the past two years and/or expect to make in the next two years is presented in **Exhibit 3-7**. Among those who have renovated and/or expanded, by far the top area of focus has been the industry’s primary service offering (discussed later in this report), treatment rooms. Over four fifths of all renovations (87%) and/or expansions (83%) affected the spa’s treatment room space. Two other core services areas, retail and beauty salons, also rank at the top of the renovation/expansion list, but significantly behind treatment rooms. Another area of focus has been on dedicated relaxation space. While it is a non-revenue generating part of the spa, it is certainly a key element to creating the overall “spa” atmosphere.

Looking ahead to the next five years, it appears to be more of the same. However, expansions will see a somewhat greater focus on dedicated relaxation areas, locker rooms, educational/nutritional classes and exercise programs/facilities. Educational/nutritional classes will also see a greater focus in future renovations.

Exhibit 3-7 – Renovations and Expansions in the Spa Industry

Past Renovations and Expansions (Past Two Years)

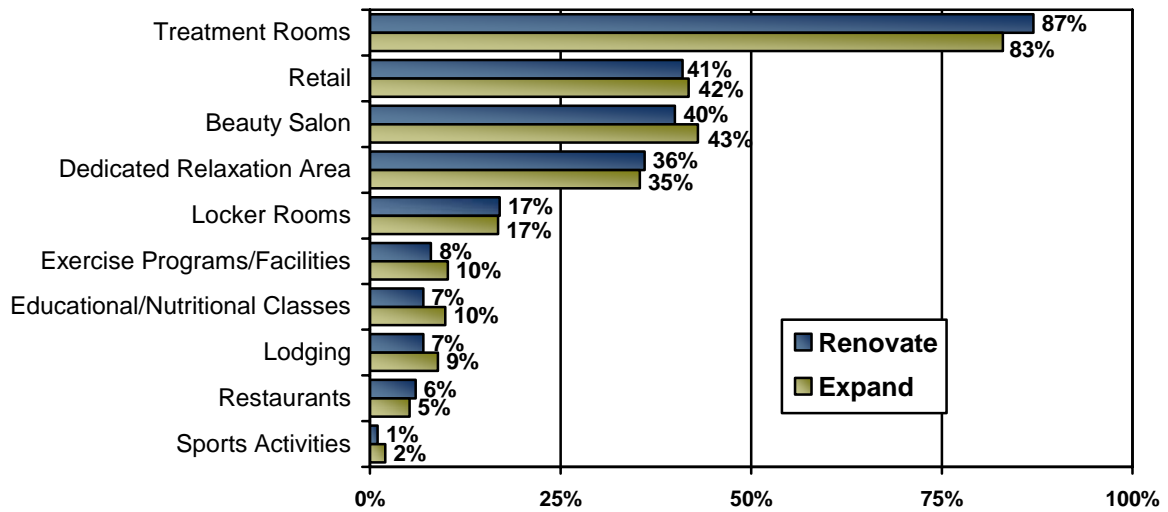
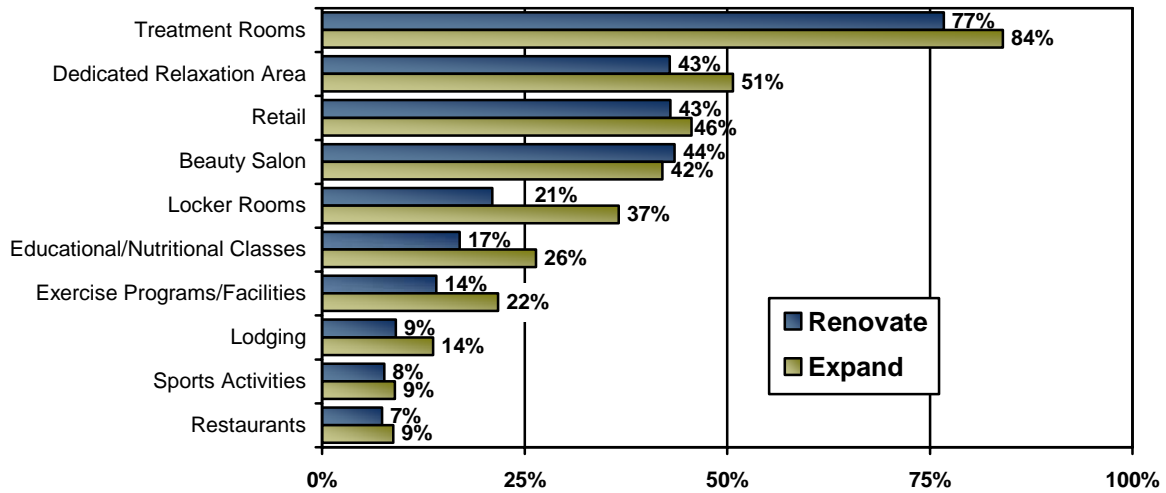


Exhibit 3-7 – Renovations and Expansions in the Spa Industry

Future Renovations and Expansions (Next Five Years)



Note: Base is those who have expanded/renovated for past two years or plan to during the next five years.

IV. Tourism and the Canadian Spa Industry

With emergence of resort/hotel spas as a key player in the spa industry, spas are increasingly finding themselves in the tourism spotlight. “Tourism-oriented spas” are defined as spas that:

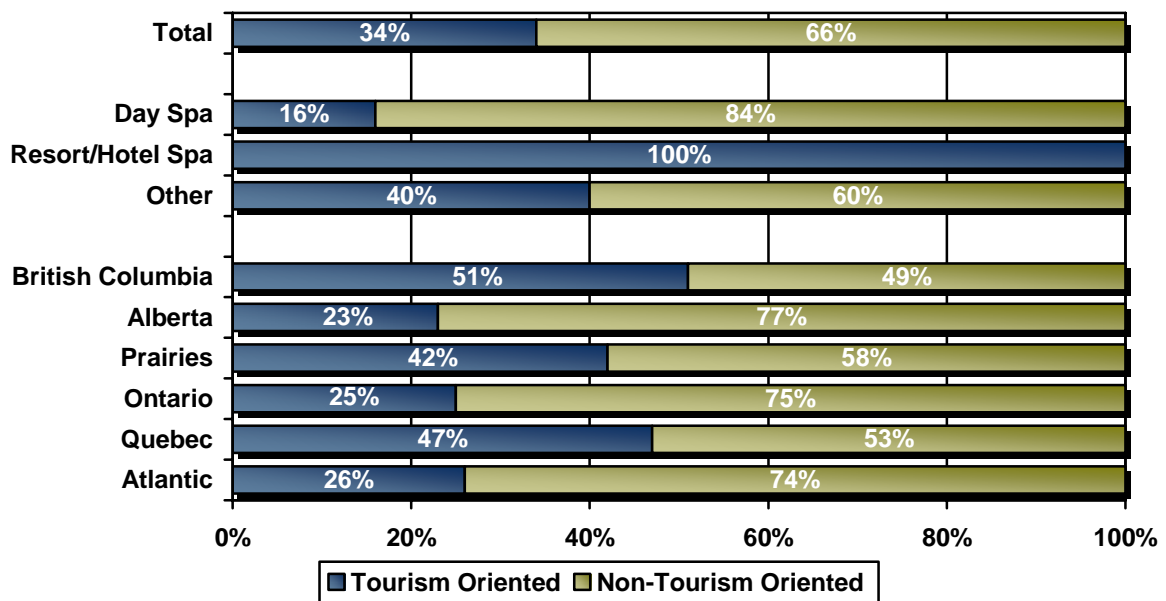
- offer health and wellness programs administered by professionally trained medical personnel;
- have fixed accommodations or accommodations offered through a cooperation agreement with a stand-alone accommodation facility; and/or,
- have tourism visitation that accounts for at least 10% of its gross revenues.

This chapter looks at the level of tourism orientation within the spa industry and the extent to which the industry relies on tourism to survive. **NOTE: Throughout this report, a tourist is defined as residing 80 km or more away from the spa while a local resides within 80 km.**

Tourism Orientation of the Canadian Spa Industry

As illustrated in **Exhibit 4-1**, approximately one third (34%) of all spas in Canada qualify as tourism-oriented. This translates into an estimated 787 tourism-oriented spas in Canada at the time of this study. There are however, significant differences among spa types and regions.

Exhibit 4-1 – Tourism Orientation of Spas by Spa Type and Region



Notes: Interpret results for regions and spa types with caution due to small sample sizes.

Other type of spa includes medical spas, club spas, mineral springs spas and destination spas.

Only 16% of day spas are considered tourism-oriented while two fifths (40%) of “other” spas are tourism-oriented. One of the reasons for this difference is that the “other” segment includes destination spas which are tourism-oriented by definition. All resort/hotel spas are considered tourism-oriented by definition.

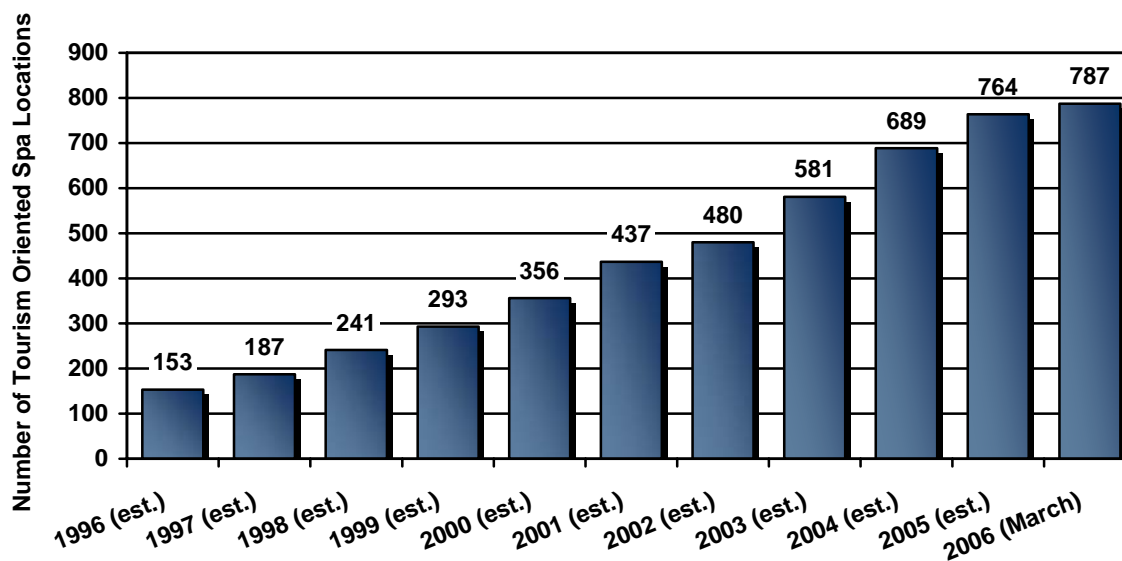
Regionally, British Columbia (51%) and Quebec (47%) are by far the most tourism-oriented provinces at roughly half of all spas. The Prairies region also appears to be more tourism-oriented; however, the Prairie results should be interpreted with caution due to small sample sizes. In the remaining three regions, roughly one quarter of all spas are considered tourism-oriented. When interpreting these results, it is important to remember that these are percentages of the market. The actual number of tourism-oriented spas is highest in Ontario even though the percentage is lower because Ontario has twice as many spas as any other region.

Growth of Tourism-Oriented Spas Outpaces the Overall Industry

Since 1996 the number of tourism-oriented spas in Canada has grown by an average of 19% annually. This is slightly higher than the 17% experienced industry-wide. For the most part, the growth rate has been fairly steady; but there was a dip in 2005 to only 11%. However, the results point to a 16% growth rate for 2006 based on the first two and a half months of the year. If this growth rate holds, there would be approximately 883 tourism-oriented spas in Canada by the end of 2006. On a cumulative basis, the number of tourism-oriented spa locations grew by 413% from 1996 to March 2006. In other words, the number of tourism-oriented spas in Canada has grown five-fold since 1996. Growth in the number of tourism-oriented spa locations is presented in **Exhibit 4-2**.

It should be noted that the growth rate presented here assumes that these spas have been tourism-oriented since they opened. The number of tourism-oriented spas can grow through both the addition of new spas as well as the conversion of existing spas. One of the keys to converting existing spas is to help spas realize that they are part of the tourism sector. For example, any spa located in the downtown of a city could potentially attract tourists.

Exhibit 4-2 – Growth in the Number of Tourism-Oriented Spa Locations



Establishment Growth Rate

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006*
Annual	10%	22%	29%	22%	22%	23%	10%	21%	19%	11%	3%
Cumulative	-	22%	57%	91%	132%	185%	213%	278%	349%	398%	413%

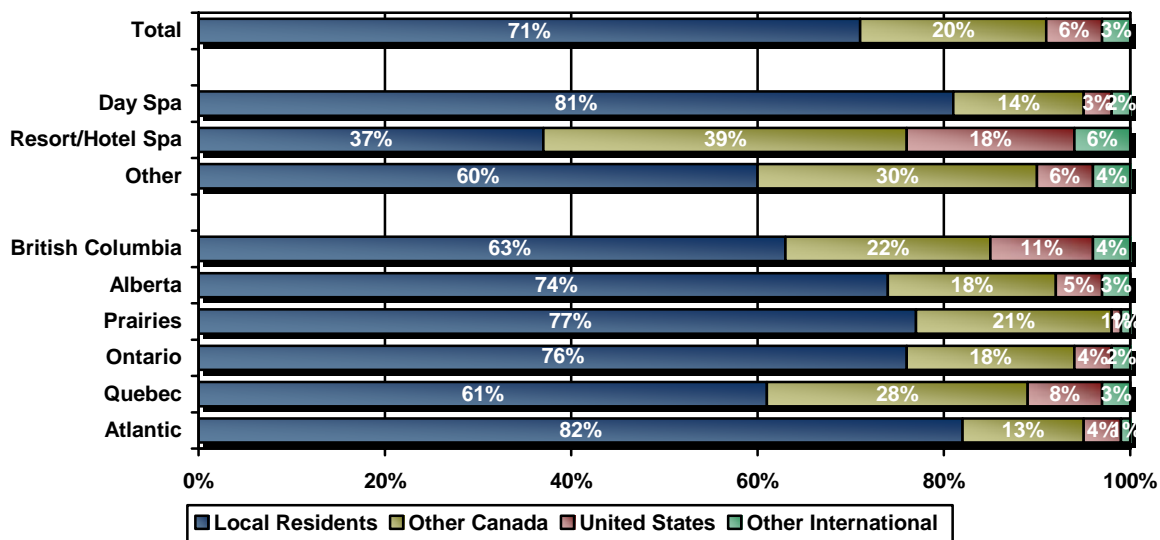
Notes: Industry growth is based on year established. Bankruptcies have not been accounted for due to a lack of prior data. Closures have been assumed to be minimal.

* Growth rate for year 2006 represents growth for 2.5 months.

Importance of Tourism to the Spa Industry

When asked where their patrons originate from, spas indicated that an average of 29% of all spa visits are from outside the spa's local market (80 km away from the spa). This translates into an estimated 4.1 million tourism generated spas visits for 2005. Of these visits, the lion's share is from people originating from other parts of Canada (20% of spa visits). Visits from people residing outside Canada account for 9% of all visits including 6% from the U.S. and 3% from other international regions. The breakdown of spa visits by origin is illustrated in Exhibit 4-3.

Exhibit 4-3 – Origin of Spa Visits by Spa Type and Region



Notes: Interpret results for regions and spa types with caution due to small sample sizes.

Other type of spa includes medical spas, club spas, mineral springs spas and destination spas.

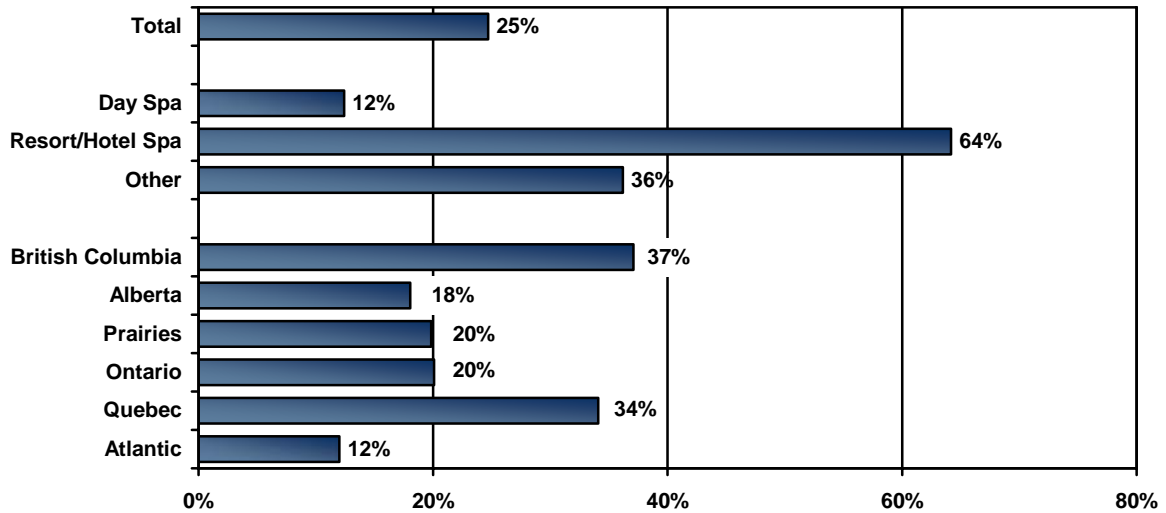
Local residents are those that reside within 80 km of the spa. Other Canada reside in Canada but more than 80 km from the spa.

Not surprisingly, resort/hotel spas have a greater reliance on tourists. Two thirds of resort/hotel spa visits originate from outside the local market. In addition to the 39% from other parts of Canada, a significant portion of the resort/hotel spa tourists are from the U.S (18% of visits). However, resort/hotel spas still have a significant reliance on the local market at one third of visits (37%). On the other end of the scale, only 19% of day spa visits are from tourists. "Other" spas fall in between these two groups with 40% of their visits from tourists.

Given that a greater portion of spas in Quebec and British Columbia are tourism-oriented, it is not surprising that these are the provinces with the highest proportion of visits from tourists (39% in Quebec and 37% in British Columbia). In Alberta, the Prairies and Ontario, roughly one quarter of visits are from tourists. The Atlantic region has the lowest ratio of tourists at only 18%.

In 2005, spa operators in Canada estimated, on average, that one quarter (25%) of their spa's revenue came from tourists. Performing the simple calculation indicates that tourists accounted for approximately \$250 million in revenue in 2005. A summary of tourist revenue percentages in the spa industry is presented in **Exhibit 4-4**.

Exhibit 4-4 – Share of Revenue Generated by Tourists by Spa Type and Region



Notes: Interpret results for regions and spa types with caution due to small sample sizes.

Other type of spa includes medical spas, club spas, mineral springs spas and destination spas.

Tourists are those who reside more than 80 km from the spa.

Looking at the spa types and regions, it is more of the same. Resort/hotel spas are the group to most heavily rely on tourists, claiming that two thirds (64%) of their revenue is from tourists while day spas only see 12% of their revenue from this source. Regionally, British Columbia (37%) and Quebec (34%) are on top at one third of revenues from tourists while Atlantic Canada sees only 12% of revenues from this source.

V. Industry Profile

This chapter provides an overview of the characteristics of the spa industry: ownership structure, number of years in business, product offerings, revenue, visits from male clients, etc. The first section presents an overview profile of spas in Canada and its various regions. The sections that follow present the same profile information, but for the different spa types and tourism-oriented segments. It is important to note that the analysis presented in this chapter reflects the typical spa establishment for each sub-group. A profile of the full industry in Canada was provided in Chapter II.

Geographic Profile of Spas in Canada

Exhibit 5-1 below summarizes key spa statistics such as average size, revenues, number of employees and breakdown of visits by region.

EXHIBIT 5-1 – Key Spa Statistics by Region							
	Total Canada	British Columbia	Alberta	Prairies	Ontario	Quebec	Atlantic
Number of Locations Owned - Mean	1.2	1.2	1.1	1.3	1.2	1.4	1.1
Number of Locations Owned - Median	1	1	1	1	1	1	1
Revenues - Mean	\$446,500	\$374,800	\$379,200	\$456,600	\$459,500	\$558,800	\$296,900
Revenues - Median	\$175,000	\$175,000	\$175,000	\$350,000	\$175,000	\$175,000	\$175,000
Profit Margin - Mean	12%	12%	17%	4%	8%	23%	12%
Profit Margin - Median	10%	15%	9%	18%	7%	15%	12%
Full-Time Employees - Mean	6.6	6.0	7.3	10.2	6.2	7.3	6.5
Full-Time Employees - Median	4	4	4	9	4	3	4
Part-Time Employees - Mean	2.8	2.5	2.3	3.1	2.8	3.7	2.1
Part-Time Employees - Median	2	2	2	2	1	1	2
Contract Employees - Mean	1.7	1.3	2.1	0.9	1.7	2.2	1.1
Contract Employees - Median	0	0	0	0	0	0	0
% of Revenue to Payroll - Mean	39%	36%	33%	55%	40%	41%	44%
Indoor Square Footage - Mean	3,400	3,400	3,300	3,500	3,200	4,200	3,700
Indoor Square Footage - Median	2,000	1,800	1,700	3,000	2,000	2,000	2,400
Annual Spa Visits - Mean	6,200	5,800	2,700	N/A	6,800	6,000	6,300
Annual Spa Visits - Median	2,500	2,500	1,500		2,500	2,000	3,000
% Visits by New Clients - Mean	45%	49%	47%	42%	42%	51%	42%
% Visits by Male Clients - Mean	20%	22%	23%	15%	17%	28%	15%

EXHIBIT 5-1 – Key Spa Statistics by Region

	Total Canada	British Columbia	Alberta	Prairies	Ontario	Quebec	Atlantic
TOURIST BREAKDOWN:							
Locals (within 80 km)	71%	63%	74%	77%	76%	61%	82%
Other Canada	20%	22%	18%	21%	18%	28%	13%
United States	6%	11%	5%	1%	4%	8%	4%
Other International	3%	4%	3%	1%	2%	3%	1%
% Revenues by Tourists - Mean	25%	37%	18%	20%	20%	34%	12%
% Revenues by Tourists - Median	10%	20%	5%	10%	10%	20%	5%
Average Price Per Service - Mean	\$64	\$77	\$65	\$58	\$62	\$61	\$56
Average Price Per Massage - Mean	\$70	\$79	\$68	\$56	\$71	\$64	\$65
Average Price Per Facial - Mean	\$71	\$79	\$72	\$63	\$72	\$62	\$67

Notes: Means represent the average values for the given item while medians represent the midpoint (i.e., 50% of responses fall below the median and 50% are above the median).
Interpret results for regions with caution due to small sample sizes.

Exhibit 5-2 provides a summary of spa characteristics categorized by geographic location.

Exhibit 5-2 – Spa Profile By Region

	Total Canada	British Columbia	Alberta	Prairies	Ontario	Quebec	Atlantic
ESTABLISHMENT PROFILE							
SPA TYPE:							
Club Spa	2%	1%	2%	0%	2%	2%	1%
Day Spa	74%	64%	81%	69%	82%	60%	79%
Destination Spa	2%	3%	0.3%	0%	2%	2%	3%
Medical Spa	3%	4%	3%	1%	4%	0.5%	4%
Mineral Springs Spa	0.2%	0.4%	0.3%	0%	0.1%	0.2%	0%
Resort/Hotel Spa	19%	28%	13%	30%	10%	35%	13%
TOURISM ORIENTATION:							
% Tourism-Oriented***	34%	51%	23%	42%	25%	47%	26%
OWNERSHIP STRUCTURE:							
Sole Proprietor	50%	43%	43%	26%	51%	55%	69%
Small Corporation	29%	37%	30%	43%	28%	23%	16%
Partnership	15%	13%	23%	26%	15%	12%	16%
Major Corporation	4%	6%	3%	5%	4%	5%	0%
Family Business/Owned	1%	1%	0%	0%	1%	1%	0%
Other	1%	1%	1%	0%	1%	4%	0%

Exhibit 5-2 – Spa Profile By Region

	Total Canada	British Columbia	Alberta	Prairies	Ontario	Quebec	Atlantic
YEARS IN BUSINESS:							
One Year or Less	15%	10%	18%	11%	17%	13%	19%
Two Years	11%	16%	8%	11%	11%	7%	21%
Three Years	11%	9%	14%	11%	11%	12%	9%
Four Years	6%	10%	6%	0%	5%	7%	2%
Five Years	10%	12%	13%	5%	8%	11%	13%
Six to Ten Years	26%	26%	31%	36%	28%	19%	21%
More than Ten Years	20%	17%	10%	25%	20%	32%	16%
<i>Mean Years</i>	6.3	6.0	5.1	7.2	6.3	7.8	4.8
<i>Median Years</i>	4	4	4	6	4	5	3
PRODUCT OFFERING							
SERVICES OFFERED:							
Treatment Rooms	94%	96%	96%	100%	92%	90%	98%
Retail	80%	82%	77%	88%	80%	76%	92%
Beauty Salon	70%	52%	67%	73%	75%	71%	90%
Dedicated Relaxation Area	68%	60%	65%	89%	65%	82%	66%
Locker Rooms	36%	24%	28%	50%	32%	61%	31%
Educational/Nutritional Classes	21%	25%	21%	19%	21%	16%	30%
Exercise Programs/Facilities	17%	17%	11%	40%	16%	18%	20%
Lodging	15%	18%	7%	26%	11%	27%	11%
Restaurants	13%	13%	5%	26%	11%	25%	10%
Sports Activities	11%	13%	8%	16%	9%	18%	10%
Non-Owned Food Service	5%	8%	3%	6%	3%	11%	5%
Non-Owned Lodging	4%	7%	3%	5%	1%	11%	4%
MEDICAL TREATMENTS							
Currently Offer	8%	5%	6%	0%	12%	3%	11%
Plan to Offer**	12%	10%	4%	18%	18%	4%	5%

Notes: Interpret results for regions with caution due to small sample sizes.

***Base is those who do not currently offer medical treatments.*

****See Chapter IV for a definition of tourism-oriented.*

Overview of Spas in Canada

Following are highlights of the key characteristics of the spas in Canada (see Exhibits 5-1 and 5-2 for details):

- More than two fifths (44%) of Canadian spas are located in the province of Ontario while British Columbia (18%) and Quebec (17%) each account for one fifth of spas. Alberta is the fourth largest region at 12%. Combined, the four big provinces account for nine out of every ten spas in Canada.
- Two spa types account for 93% of all spa locations in Canada – day spas (74%) and resort/hotel spas (19%). The other four spa type segments are considerably smaller at 3% or less.
- Roughly one third (34%) of spas in Canada can be classified as being tourism-oriented.
- The Canadian industry is comprised primarily of smaller players. More specifically, half (50%) of all spa locations are operated as a sole proprietorship and a further 29% or operated by a small corporation. Only 4% are owned by major corporations.
- The average age of a spa location in Canada is 6.3 years. Given the strong growth rate in the industry, it is not surprising that one quarter (26%) of locations are new within the last two years and a further 11% have only been around for three years. On the whole, this is a young industry.
- With 94% of spas offering them, treatment rooms are clearly (and not surprisingly) the bread and butter service area of the industry. Retail (80%) and beauty salons (70%) are also core service/product areas of the industry. While not a service offering per se, dedicated relaxation areas are certainly a key element of the spa experience. Accordingly, 68% of spas report that they have such an area in their spa. Locker rooms are available in one third (36%) of all Canadian spas. Self-awareness and self-improvement activities such as educational/nutritional classes (21%) and exercise programs/facilities (17%) are also important product offerings, but are not core products.
- At the time of this study, 8% of Canadian spas offered medical treatments at their spas. Among those who do not offer medical treatments, 12% plan to in the next twelve months.
- Most spas in Canada are single locations. On average, spa locations are one of 1.2 that are owned by the same owner.
- The average revenue per spa in Canada in 2005 was \$446,500. This average is somewhat inflated because of the handful of larger spas (in terms of revenue) in the industry. Moreover, the median revenue is \$175,000, meaning that half of all spas had revenues of \$175,000 or less. The average profit margin before taxes in the spa industry is 12%.

- Canadian spas employ an average of 11.1 people, approximately 60% of which are full-time employees. Part-time employees make up one quarter (25%) of the typical spa's workforce while contract employees make up the remaining 15%. Spas in Canada spend an average of 39% of their revenues on payroll costs.
- Spas in Canada occupy an average of just over 3,400 square feet of indoor space. The median square footage is somewhat lower at 2,000 square feet.
- The typical Canadian spa experienced 2,500 visits in 2005. The larger spas bring the average to 6,200 visits. Of these visits, spas report that an average of 45% of visits are made by new clients meaning that while spas are benefiting from repeat business, they are also generating a significant amount of new business. It should be noted that a new client is only new to the spa, not necessarily a new spa goer.
- Not surprisingly, spas still rely primarily on female clientele. Spas in Canada report that only one fifth (20%) of visit to their spas are from male patrons.
- While spas rely primarily on the local market for business, a significant portion of visits come from tourists. Twenty-nine percent (29%) of spa visits are made by tourists, the bulk of which (20% of all visits) are from the domestic (other Canada) market. Patrons from the United States account for 6% of spa visits in Canada while those from other international places account for 3%. Overall, spas report that tourists account for an average of 25% (or a median of 10%) of their revenues.
- The average price of a spa treatment in Canada is \$64. The average cost per massage is \$70, while the average cost per facial is \$71.

Profile by Region

The following summarizes some key differences between Canadian regions (note that only significant differences are reported):

- *British Columbia:* British Columbia has a greater proportion of resort/hotel spas (28%) than other regions and a lower proportion of day spas (64%) than some other regions. Spas in British Columbia are less likely to offer beauty salons (52%). While they have the highest prices in Canada, spas in British Columbia tend to have lower than average overall revenues (\$374,800). They are also among the lowest in terms of average number of employees at 9.8. As the most tourism-oriented region (51% are tourism-oriented) spas in the province see an average of 37% of their visits and 37% of revenues from tourists.
- *Alberta:* Spas in Alberta are more likely to be operated under a partnership (23%) than in other regions. Alberta is one of three provinces/regions where roughly four fifths (81%) of the industry is made up of day spas. The province has one of lowest average years in business at 5.1 years. Its spas also have the lowest average number of visits at 2,700. Spas in Alberta allocate a lower portion of their revenues to payroll (33%) than any other region in Canada.

- *Prairies:* Following is a brief summary of key differences for the Prairies region. However, the sample size for the Prairies is extremely low. As such, the results are not necessarily representative and the comparisons to the national industry should be viewed as a qualitative assessment. Compared to the national average, the respondents from the Prairies have a higher than average number of full-time employees. Given this it is not surprising that the portion of revenues that goes to payroll for these spas is also higher than average while profit margins are lower. At 30%, spas in the Prairies are more likely to be resort/hotel spas than other regions. They are also more likely to be owned by a small corporation or a partnership.
- *Ontario:* At 82%, Ontario has one of the highest proportions of day spas of any region in the country. They are also among the most likely to offer medical services. Otherwise, the Ontario region is quite comparable to the national average.
- *Quebec:* Quebec has the highest share of any region of resort/hotel spas and is one of the two regions with the greatest proportion of tourism-oriented spas at 47%. Spas in Quebec are more likely than other regions to offer dedicated relaxation areas (82%), locker rooms (61%), lodging (27% owned and 11% not-owned) and restaurants (25% owned and 11% not owned). Spas in Quebec tend to earn more (\$558,800) and also tend to be bigger (4,200 sq. ft.). At 28% of visits, spas in Quebec have the highest share of visits coming from male clients. They also rely more heavily than other regions on tourists for visits (39%) and revenues (34%).
- *Atlantic Canada:* Atlantic Canada comprises New Brunswick, Nova Scotia, PEI and Newfoundland. Atlantic Canada is the third region with a higher than average proportion of day spas (79%). Spas in this region are more likely than in other regions to be owned as a sole proprietorship. The average years in business is lowest among spas in Atlantic Canada. Interestingly, spas in Atlantic Canada are more likely than others to offer medical services (11%) as well as beauty salons (90%). At just under \$300,000, spas in the Atlantic are the lowest revenue generators in Canada. They also employ, on average, the fewest employees (9.7) per spa. The portion of visits (18%) and revenue (12%) coming from tourists is lowest in Atlantic Canada.

Profile by Type of Spa

This section looks at the spa industry by type of spa. Exhibits 5-3 and 5-4 (on the next two pages) provide a summary of spa characteristics, establishment profiles, product offerings and spa statistics by the type of spa and tourism orientation. For the purpose of this study, medical spas, club spas, destination spas and mineral spring spas have been grouped under “other type of spa” due to the small sample sizes in these categories.

Exhibit 5-3 – Key Spa Statistics By Spa Type and Tourism-Oriented

	Total Canada	Day Spa	Resort/ Hotel Spa	Other	Tourism- Oriented***	Non-Tourism Oriented
Number of Locations Owned - Mean	1.2	1.1	1.4	1.5	1.3	1.2
Number of Locations Owned - Median	1	1	1	1	1	1
Revenues - Mean	\$446,500	\$386,300	\$591,500	\$725,800	\$511,500	\$408,400
Revenues - Median	\$175,000	\$175,000	\$180,000	\$175,000	\$175,000	\$175,000
Profit Margin - Mean	12%	14%	10%	6%	14%	11%
Profit Margin - Median	10%	10%	10%	15%	12%	7%
Full-Time Employees - Mean	6.6	6.4	7.7	6.1	7.3	6.3
Full-Time Employees - Median	4	4	5	3	4	4
Part-Time Employees - Mean	2.8	2.5	3.7	3.6	3.2	2.6
Part-Time Employees - Median	2	1	2	2	2	1
Contract Employees - Mean	1.7	1.5	2.4	1.8	2.3	1.4
Contract Employees - Median	0	0	1	1	1	0
% of Revenue to Payroll - Mean	39%	40%	38%	30%	37%	40%
Indoor Square Footage - Mean	3,400	2,600	6,500	6,200	5,300	2,600
Indoor Square Footage - Median	2,000	1,700	3,111	3,000	2,900	1,700
Annual Spa Visits - Mean	6,200	6,900	4,100	5,400	5,100	6,900
Annual Spa Visits - Median	2,500	2,600	2,400	1,900	2,500	2,600
% Visits by New Clients - Mean	45%	40%	64%	47%	55%	40%
% Visits by Male Clients - Mean	20%	18%	29%	20%	26%	17%
TOURIST BREAKDOWN:						
Locals (within 80 km)	71%	81%	37%	60%	49%	84%
Other Canada	20%	14%	39%	30%	33%	13%
United States	6%	3%	18%	6%	13%	2%
Other International	3%	2%	6%	4%	5%	1%
% Revenues by Tourists - Mean	25%	12%	64%	36%	48%	4%
% Revenues by Tourists - Median	10%	5%	75%	20%	35%	3%
Average Price Per Service - Mean	\$64	\$59	\$81	\$73	\$74	\$59
Average Price Per Massage - Mean	\$70	\$66	\$83	\$77	\$78	\$66
Average Price Per Facial - Mean	\$71	\$69	\$81	\$75	\$77	\$68

Notes: Means represent the average values for the given item while medians represent the midpoint (i.e., 50% of responses fall below the median and 50% are above the median). Interpret results for spa types with caution due to small sample sizes. Other types of spa includes medical spas, club spas, mineral springs spas and destination spas.

***See Chapter IV for a definition of tourism-oriented.

Exhibit 5-4 — Spa Profile By Spa Type and Tourism-Oriented

	Total Canada	Day Spa	Resort/ Hotel Spa	Other	Tourism- Oriented***	Non-Tourism Oriented
ESTABLISHMENT PROFILE						
REGIONAL DISTRIBUTION:						
British Columbia	18%	16%	27%	20%	27%	13%
Alberta	12%	13%	9%	10%	8%	14%
Prairies	3%	3%	5%	1%	4%	3%
Ontario	44%	48%	23%	51%	33%	50%
Quebec	17%	13%	32%	12%	23%	13%
Atlantic	6%	6%	4%	7%	5%	7%
TOURISM ORIENTATION:						
% Tourism-Oriented***	34%	16%	100%	40%	100%	0%
OWNERSHIP STRUCTURE:						
Sole Proprietor	50%	54%	38%	37%	44%	53%
Small Corporation	29%	27%	31%	40%	30%	28%
Partnership	15%	16%	16%	10%	15%	16%
Major Corporation	4%	3%	11%	6%	7%	3%
Family Business/Owned	1%	0%	2%	0%	1%	0%
Other	1%	0%	3%	8%	3%	1%
YEARS IN BUSINESS:						
One Year or Less	15%	16%	12%	20%	12%	17%
Two Years	11%	11%	12%	16%	14%	10%
Three Years	11%	11%	14%	8%	13%	10%
Four Years	6%	7%	3%	6%	6%	6%
Five Years	10%	10%	9%	13%	10%	10%
Six to Ten Years	26%	26%	30%	17%	28%	26%
More Than Ten Years	20%	20%	21%	21%	18%	21%
<i>Mean Years</i>	6.3	6.3	6.2	6.2	5.8	6.5
<i>Median Years</i>	4	4	5	4	4	4

Exhibit 5-4 – Spa Profile By Spa Type and Tourism-Oriented

	Total Canada	Day Spa	Resort/ Hotel Spa	Other	Tourism- Oriented***	Non-Tourism Oriented
PRODUCT OFFERING						
SERVICES OFFERED:						
Treatment Rooms	94%	94%	93%	93%	93%	94%
Retail	80%	81%	80%	76%	77%	82%
Beauty Salon	70%	75%	55%	59%	61%	75%
Dedicated Relaxation Area	68%	67%	73%	61%	71%	66%
Locker Rooms	36%	29%	60%	36%	45%	31%
Educational/Nutritional Classes	21%	19%	15%	61%	19%	22%
Exercise Programs/Facilities	17%	9%	41%	44%	30%	11%
Lodging	15%	3%	59%	29%	41%	2%
Restaurants	13%	3%	46%	33%	33%	3%
Sports Activities	11%	3%	39%	25%	25%	4%
Non-Owned Food Service	5%	2%	18%	9%	11%	3%
Non-Owned Lodging	4%	1%	20%	2%	12%	1%
MEDICAL TREATMENTS						
Currently Offer	8%	8%	2%	26%	5%	10%
Plan to Offer**	12%	13%	7%	6%	9%	13%

Notes: Interpret results for spa types with caution due to small sample sizes. Other types of spa includes medical spas, club spas, mineral springs spas and destination spas.

**Base is those who do not currently offer medical treatments.

***See Chapter IV for a definition of tourism-oriented.

Spa industry segments are defined as follows:

- **Club Spa.** A facility whose primary purpose is fitness and which offers a variety of professionally administered spa services on a “day use” basis.
- **Cruise Ship Spa.** A spa aboard a cruise ship providing professionally administered spa services, fitness and wellness components and spa cuisine menu choices.
- **Day Spa.** A spa offering a variety of professionally administered spa services to clients on a “day use” basis.
- **Destination Spa.** A spa whose sole purpose is to provide guests with lifestyle improvement and health enhancement through professionally administered spa services, physical fitness, education programming and on-site accommodations. Spa cuisine is served exclusively.

- *Medical Spa.* Individuals, solo practices, groups and institutions comprising medical and spa professionals whose primary purpose is to provide comprehensive medical and wellness care in an environment which integrates spa services, as well as conventional and complementary therapies and treatments.
- *Mineral Springs Spa.* A spa offering an on-site source of natural mineral, thermal or seawater used in hydrotherapy treatments.
- *Resort/Hotel Spa.* A spa located within a resort or hotel providing professionally administered spa services, fitness and wellness components and spa cuisine menu choices.

The following summarizes the key differences between the different types of spas (only significant differences are reported):

- *Day Spa:* In many ways, the profile of day spas is similar to that of the industry as a whole, which is not surprising given that they represent almost three quarters of the industry. There are, however, some notable variances. Day spas are by far the least likely to be tourism-oriented at only 16%. Despite having the highest number of visits, they tend to be smaller than other spas in terms of revenue (\$386,000), employees (10.4) and square feet (2,600). Interestingly, they have the lowest average prices, but a higher than average profit margin at 14%. Not surprisingly, they are the least likely to rely on tourists for visits (19% of visits) and revenue (12% of revenue).
- *Resort/Hotel Spa:* Resort/hotel spas are the most likely to be located in British Columbia (27%) or Quebec (32%). By definition, resort/hotel spas are tourism-oriented. While still not a very large proportion, resort/hotel spas are more likely to be owned by a large corporation (11%) than other spas. When it comes to services, they are less likely than day spas to offer beauty salons (55%). On the other hand, they are more likely to offer exercise programs/facilities, sports activities, lodging (owned and not owned) and restaurants (owned and not owned). On average, resort/hotel spas tend to be larger (6,500 sq. ft.), employ more people (13.8) and earn more (\$591,500) than day spas but have fewer visits (4,100). With these results, it is not surprising that their services cost more on average. Given the nature of resort/hotel spas, it only makes sense that they have the highest proportion of visits (63%) and revenue (64%) from tourists. Resort/hotel spas also see a higher share of visits coming from male patrons (29%).
- *Other Spas:* Other spa types include medical spas, mineral springs spas, club spas and destination spas. As a group, these spas are more likely than average to offer education/nutrition classes (61%) and exercise programs/facilities (44%) and less likely than average to offer beauty salons (59%). Given that the group includes medical spas, it is not surprising that they are the most likely to offer medical services (26%). Interestingly, this group earns more (\$725,800) on average than other groups, but they have the lowest average profit margin at only 6%. They also have a higher than average square footage (6,200) and number of visits (5,400).

Profile of Tourism-Oriented Spas

Also presented in Exhibits 5-3 and 5-4 is a comparison of tourism-oriented spas to non-tourism oriented spas. Following are the key differences between these two groups.

Tourism-oriented spas:

- Tend to be slightly newer on average (5.8 years vs. 6.5).
- Are less likely to offer beauty salons (61% vs. 75%).
- Earn more revenue (\$511,500 vs. \$408,400) and have a higher profit margin (14% vs. 11%). They also tend to have higher prices.
- Tend to be bigger in terms of employees (12.8 vs. 10.3) and square footage (5,300 vs. 2,600) but have fewer visits (5,100 vs. 6,900).
- Not surprisingly rely more heavily on tourist clients. Tourists account for 51% of visits (vs. 16%) and 48% of revenues (vs. 4%).
- See a higher proportion of new clients (55% vs. 40%) and male clients (26% vs. 17%).

VI. Product and Service Offerings

This chapter provides a summary of the products and services offered in the Canadian spa industry. It begins with an overview of what products and services are offered and how space and revenue are divided among them. The rest of the chapter presents a more detailed look at each of the key product/service offerings.

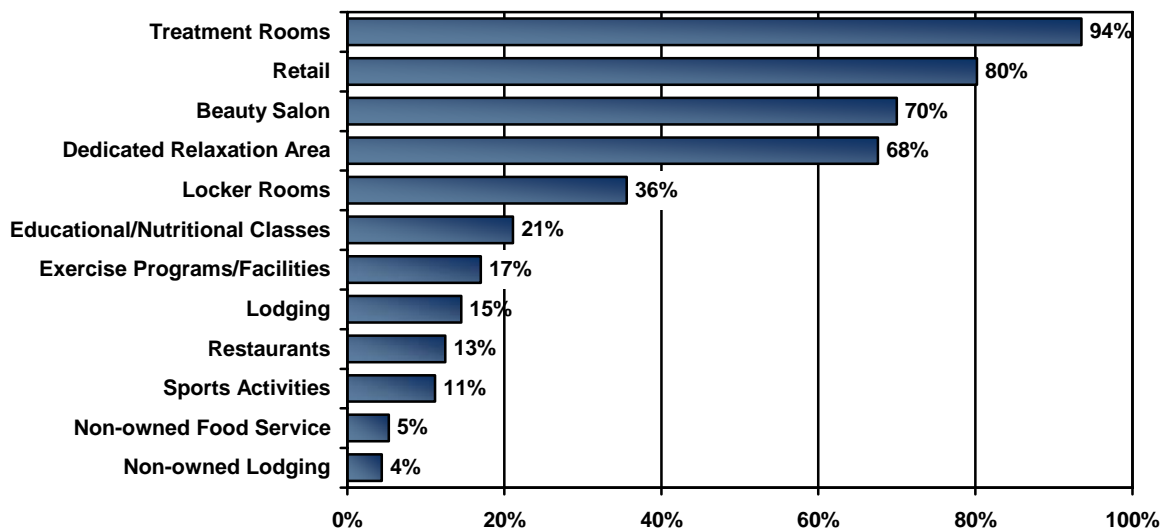
Overview of Spa Product and Service Offerings

What Products/Services are Spas Offering?

Not surprisingly, the results show that the bread and butter service of the Canadian spa industry is treatment rooms (where massages, facials and wet treatments usually take place). In fact, almost all (94%) spas in Canada have treatment rooms. Retail (80%) and beauty salon services (70%), which are also offered by a large majority of spas, comprise the other core services of the industry. These are the same services that have topped the list in other North American research. Products and services offered by Canadian spas are summarized in **Exhibit 6-1**.

Self-enhancement activities such as educational/nutritional classes (21%) and exercise programs/facilities (17%) are offered by considerably fewer spas. They are secondary, albeit important, services for the spa industry. Sports activities are the least common service with only one in ten (11%) spas in Canada offering them.

Exhibit 6-1 – Products/Services Offered



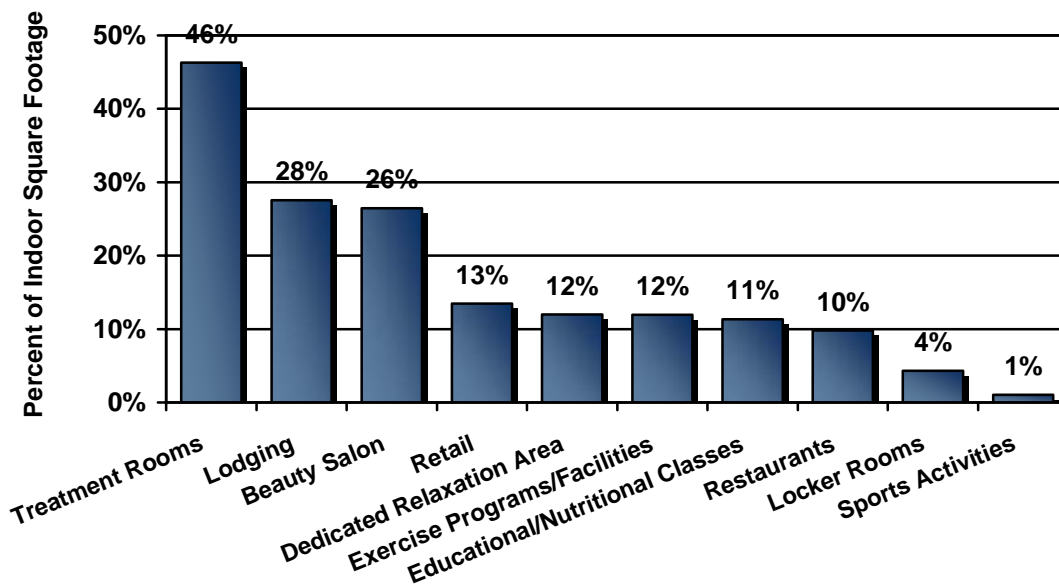
Lodging and restaurants are both offered by approximately one fifth of spas in Canada. However, in some cases, the spa and the lodging and/or restaurant services are not owned and operated by the same management. Roughly 15% of spas indicated they offer lodging through the same ownership/management groups. Thirteen percent (13%) of spas offer restaurant services in the same way. When combined with the portion who offer these services through an affiliate (5% for restaurant and 4% for lodging), the results indicate that lodging and restaurant services are becoming a key component of the industry. It should be noted that the portion offering these services through a partnership is likely understated as the question was only asked to those who reported that they offer the services (i.e., a resort/hotel spa that did not mention lodging as one of their service offerings would not be included).

Spa owners and managers were also asked to indicate if they offer two key non-revenue generated spa components – relaxation areas and locker rooms. Dedicated relaxation space can be a key to creating that relaxing ambiance that spas are known for. Accordingly, dedicated relaxation areas are offered by two thirds (68%) of Canadian spas making it a core component of the industry. On the other hand, only one third (36%) of spas offer their guests locker rooms. Clearly the majority of the industry does not see this type of space as critical to their success.

How is Indoor Space Used?

The percentage allocation of square footage by product/service among those who offer the service is shown in **Exhibit 6-2**. With treatment rooms being the bread and butter of the industry, it comes as no surprise that, when offered, they account for the most space at an average of 46% of space among those who offer it. Lodging (28% of space) and beauty salons (26%) also account for a very significant share of space among those who offer them, but they are a distant second to treatment rooms. With the exception of locker rooms (4%) and sports activities (1%), the remaining services each account for 10% to 13% of indoor space among those who offer them.

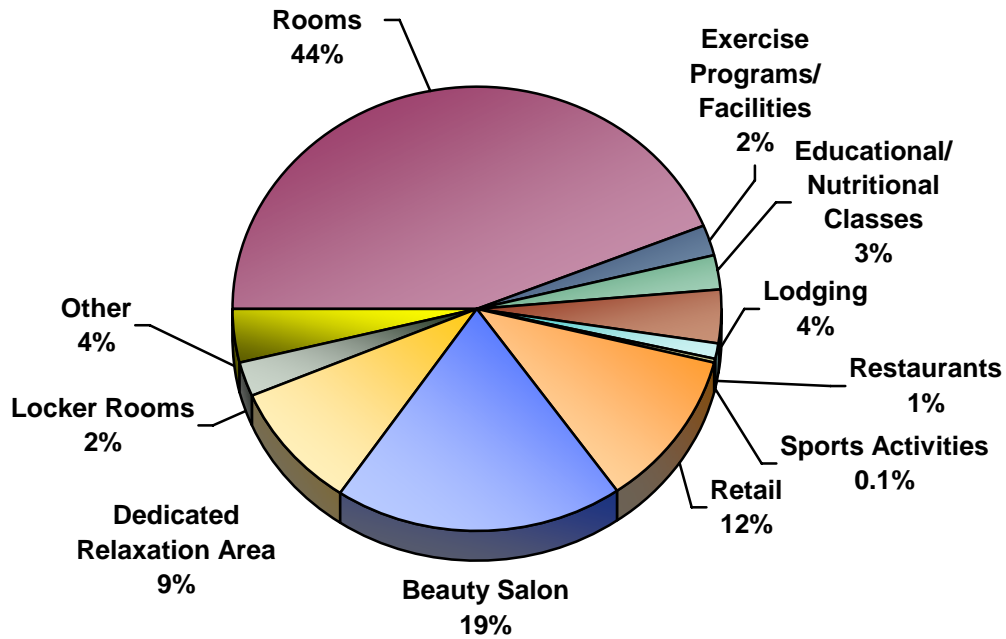
Exhibit 6-2 — Percentage of Indoor Space Used by Service Offering



Note: Base is those who offer each product/service.

Exhibit 6-3 shows, on average, how indoor space is utilized among the different product/service offerings for the overall industry. At an average of 44% of industry space, treatment rooms, as anticipated, account for the largest share of indoor space. Beauty salons are a distant second at 19% of industry space followed by retail (12%) and dedicated relaxation areas (9%). As seen in other North American research, lodging accounts for a very large portion of space among those who have it, but accounts for a relatively small portion of space (4%) in the overall industry. The remaining services/products all account for relatively small shares of industry space (4% or less).

Exhibit 6-3 – Average Percentage of Indoor Space Used For Entire Industry



Space Allocation by Spa Type

	Day Spa	Resort/Hotel Spa	Other
Treatment Rooms	45%	41%	40%
Exercise Programs/Facilities	1%	2%	13%
Educational/Nutritional Classes	2%	1%	13%
Lodging	0.2%	19%	9%
Restaurants	0.4%	5%	1%
Sports Activities	0%	0.3%	1%
Retail	13%	7%	6%
Beauty Salon	23%	5%	8%
Dedicated Relaxation Area	9%	10%	5%
Locker Rooms	2%	4%	2%
Other	4%	6%	3%

Notes: Interpret results for spa types with caution due to small sample sizes.

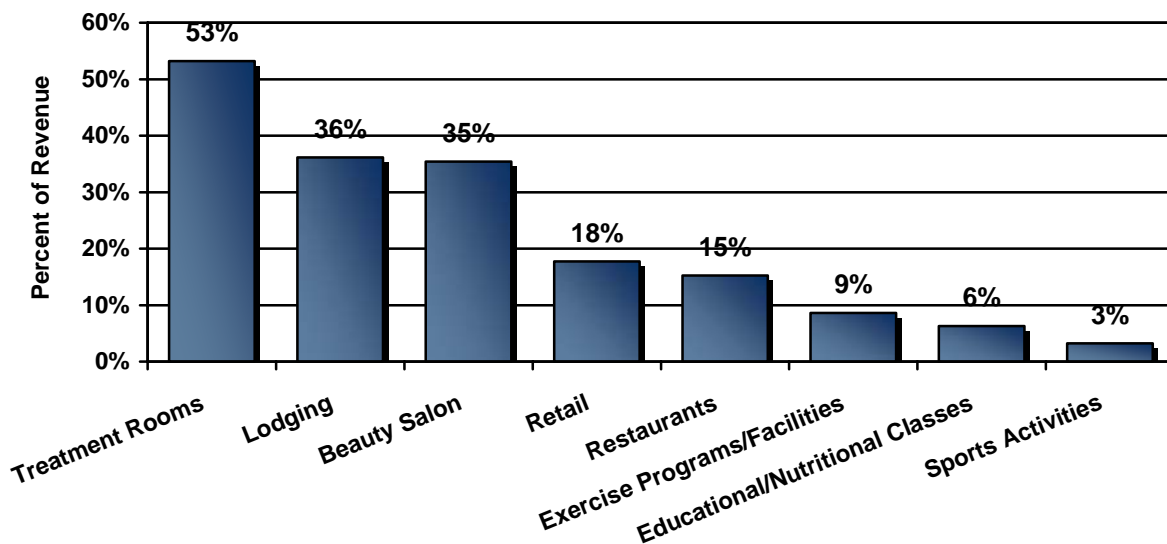
Other types of spas include medical spas, club spas, mineral springs spas and destination spas.

Also presented in the exhibit is the distribution of industry space by spa type. For the most part, the space distribution is similar for both day spas and resort/hotel spas. However, there are three notable, and expected, differences. Resort/hotel spas obviously have more lodging space (19% vs. 0% for day spas) and restaurant space (5% vs. 0%). Day spas on the other hand have more beauty salon space (23% vs. 5% for resort/hotel spas). Other spa types (which include club spas, medical spas, destination spas and mineral springs spas) have a higher than average proportion of space allocated to exercise programs/facilities and educational/nutritional classes.

Where is the Money Made?

As seen with space distribution, treatment rooms also lead the way in terms of revenue share among those who offer them. On average, spas who offer them indicated that over half (53%) of their revenues come from treatment rooms. Lodging (36% of revenues) and beauty salons (35%) are the second largest contributors among those who offer the service/product followed by retail (18%) and restaurants (15%). **Exhibit 6-4** shows the percentage of revenues allocated to each of the different product offerings among those who offer the product.

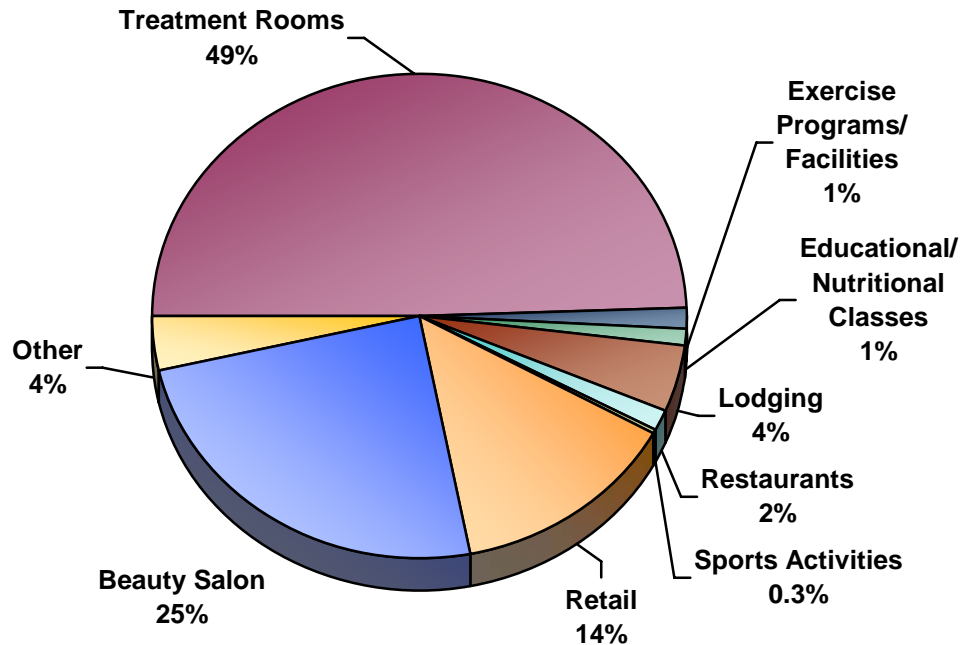
Exhibit 6-4 – Percentage of Revenue By Service Offering



Note: Base is those who offer each product/service.

Looking at the industry as a whole, treatment rooms account for half (49%) of all industry revenues. The other significant contributors in the industry are beauty salons (25%) and retail (14%). **Exhibit 6-5** examines how revenue is divided, on average, among products/services in the industry as a whole.

Exhibit 6-5 — Average Percentage of Revenues For Entire Industry



Revenue Allocation by Spa Type

	Day Spa	Resort/Hotel Spa	Other
Treatment Rooms	50%	48%	45%
Exercise Programs/Facilities	1%	1%	7%
Educational/Nutritional Classes	1%	1%	4%
Lodging	0.1%	22%	10%
Restaurants	0.1%	8%	1%
Sports Activities	0%	1%	2%
Retail	15%	9%	13%
Beauty Salon	30%	7%	11%
Other	3%	4%	7%

Notes: Interpret results for spa types with caution due to small sample sizes.

Other types of spas include medical spas, club spas, mineral springs spas and destination spas.

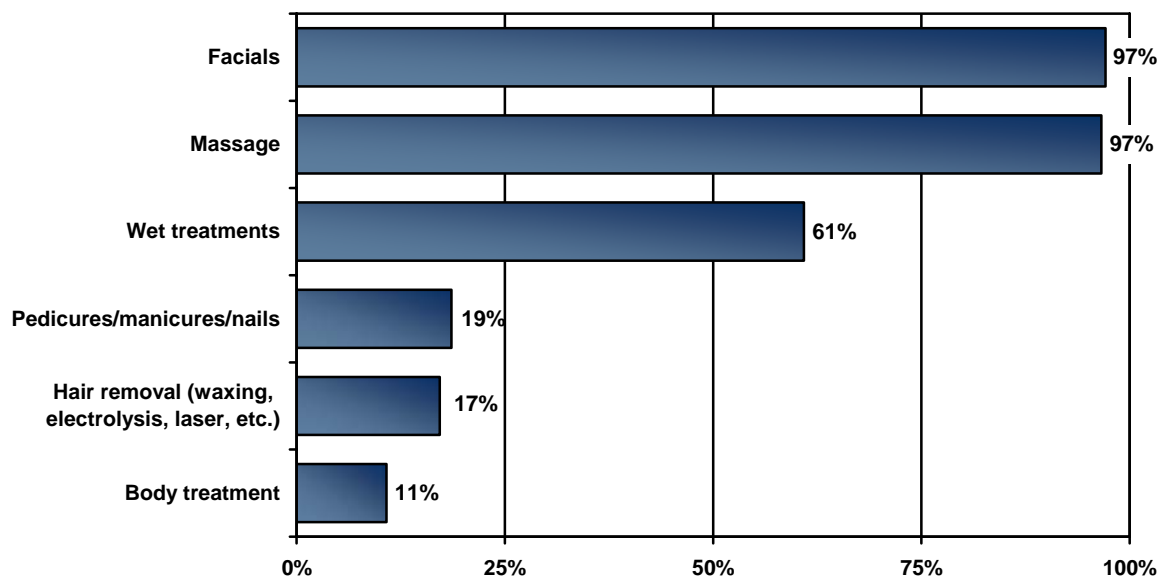
As seen for industry space, the key difference among spa types is that resort/hotel spas have a greater share of revenue coming from lodging (22% vs. 0% for day spas) and restaurants (8% vs. 0%) while day spas see a greater share from beauty salons (30% vs. 7% for resort/hotel spas).

Treatment Room Service Offerings

As mentioned in the previous section, treatment rooms are the staple product of the industry. This only makes sense given that the industry’s defining services tend to be delivered in treatment rooms. As seen in **Exhibit 6-6**, almost all Canadian spas (with treatment rooms) offer facials (97%) and massages (97%) while three fifths (61%) offer wet treatments. These are all core services of the spa industry. In fact, with only a handful of exceptions, businesses must offer at least two of these services to be considered a spa.

In addition to these core services (which were listed as choices on the survey), respondents were given the opportunity to specify other services that they offer as part of treatment rooms. The other top mentions include pedicure/manicure/nails (19%), hair removal (17%) and body treatments (11%). It should be noted that pedicures, manicures and nail services are considered part of beauty salon services for the purposes of this study and as such were not specifically covered in the treatment room section of the survey.

Exhibit 6-6 – Treatments Offered



The bottom three items on the chart were mentioned unprompted. Other items were listed on the survey.

Treatments Offered by Spa Type

	Day Spa	Resort/Hotel Spa	Other
Massage	96%	100%	98%
Facial	98%	97%	92%
Wet treatments	57%	74%	73%

Notes: Interpret results for spa types with caution due to small sample sizes.

Other type of spa includes medical spas, club spas, mineral springs spas and destination spas.

Base is those who offer treatment rooms.

The exhibit also shows the top three treatments by spa type. The results show that the portion of spas offering facials and massages is almost the same for each spa type category. For wet treatments, day spas are somewhat less likely to offer them than other spa types.

Those offering massages, facials and/or wet treatments were asked to indicate the degree of variety they offer by indicating how many different types of treatments are offered under each service category. The results (see **Exhibit 6-7**) indicate that the most variety is available for facials where offering spas provide, on average, a selection of six (6) different types. Massage is next at 4.6 types followed by wet treatments at 4.3 types. When looking at the different spa types, day spas offer the greatest variety of facials (6.3) while resort/hotel spas offer the largest selection of massage (6). The lowest variety of wet treatments is found at “other” spas (3.9).

Exhibit 6-7 – Number of Treatments Offered by Treatment Type

	Total	Day Spa	Resort/Hotel Spa	Other
Massage	4.6	4.2	6.0	4.8
Facial	6.0	6.3	5.3	5.9
Wet Treatments	4.3	4.3	4.6	3.9

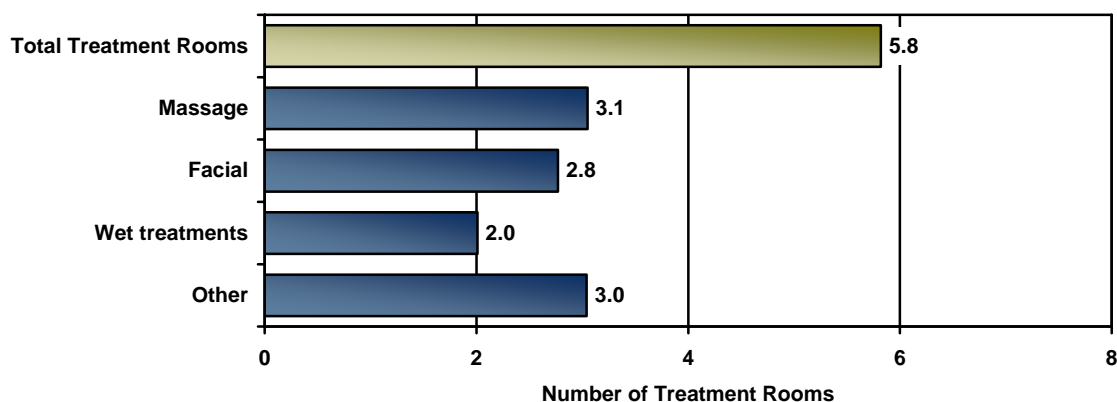
Notes: Interpret results for spa types with caution due to small sample sizes.

Other type of spa includes medical spas, club spas, mineral springs spas and destination spas.

Base is those who offer treatment rooms and offer each service.

On average, spas in Canada have 5.8 treatment rooms. Among these, 3.1 get used for massage, 2.8 are used for facials, 2 are used for wet treatments and 3 are used for other treatments. It should be noted that one room can be used for more than one type of treatment. A summary of the number of rooms by treatment type is presented in **Exhibit 6-8**. A look at the different spa types reveals that resort/hotel spas tend to have the most treatment rooms at an average of 7.4 while day spas have the least at 5.4.

Exhibit 6-8 – Number of Treatment Rooms



Number of Treatments Rooms by Spa Type

	Day Spa	Resort/Hotel Spa	Other
Total Number of Treatment Rooms	5.4	7.4	6.8

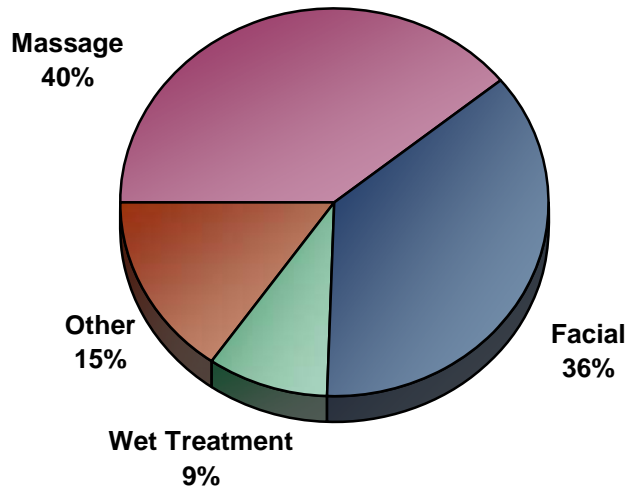
Notes: Interpret results with caution due to small sample sizes.

Other types of spas include medical spas, club spas, mineral springs spas and destination spas.

Base is those who offer treatment rooms.

Those offering treatment rooms were asked to indicate what portion of their treatment room revenues were derived from each of the top three treatments. Their responses are summarized in **Exhibit 6-9**. The two primary treatment room services lead the way with massage accounting for 40% of all treatment room revenue and facials accounting for 36%. Wet treatments account for only 9% of treatment room revenue.

Exhibit 6-9 – Allocation of Treatment Room Revenue

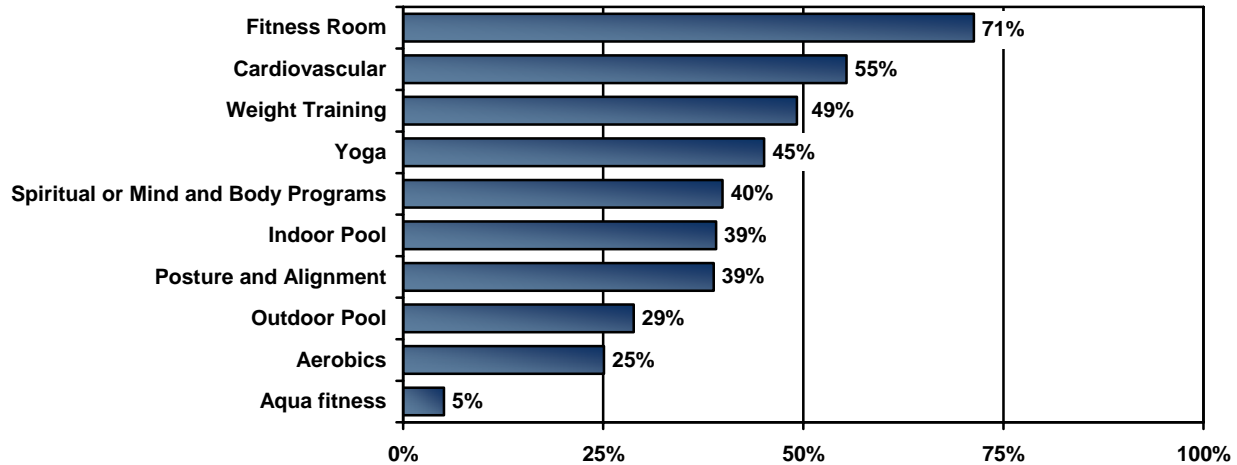


Note: Base is those who offer treatment rooms.

Exercise Program and Facility Service Offerings

The 17% of spas who offer exercise programs and facilities as part of the spa experience were asked to identify the specific products and services they offer in this area. Their responses are summarized in **Exhibit 6-10**.

Exhibit 6-10 — Exercise Programs and Facilities Offered



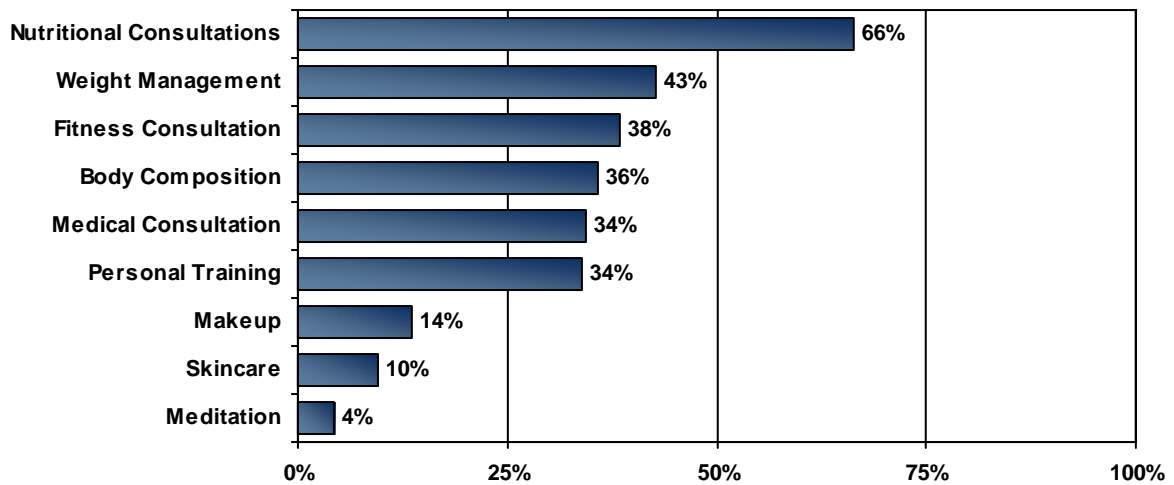
Note: Base is those who offer exercise programs and facilities.

With 71% of those who offer exercise programs/facilities offering them, fitness rooms are the most common component by a wide margin. Other key components include cardiovascular (55%), weight training (49%) and yoga (45%). Spiritual or mind and body programs (40%), indoor pools (39%) and posture and alignment (39%) are also not far behind.

Educational and Nutritional Classes Offered

As presented earlier, approximately 21% of Canadian spas offer educational and nutritional classes. The most popular educational/nutritional class product offering (see **Exhibit 6-11**), among those who offer them, is nutritional consultations (66%). Secondary product offerings include weight management (43%), fitness consultation (38%), body composition (36%), medical consultation (34%) and personal training (34%).

Exhibit 6-11 – Educational and Nutritional Classes Offered

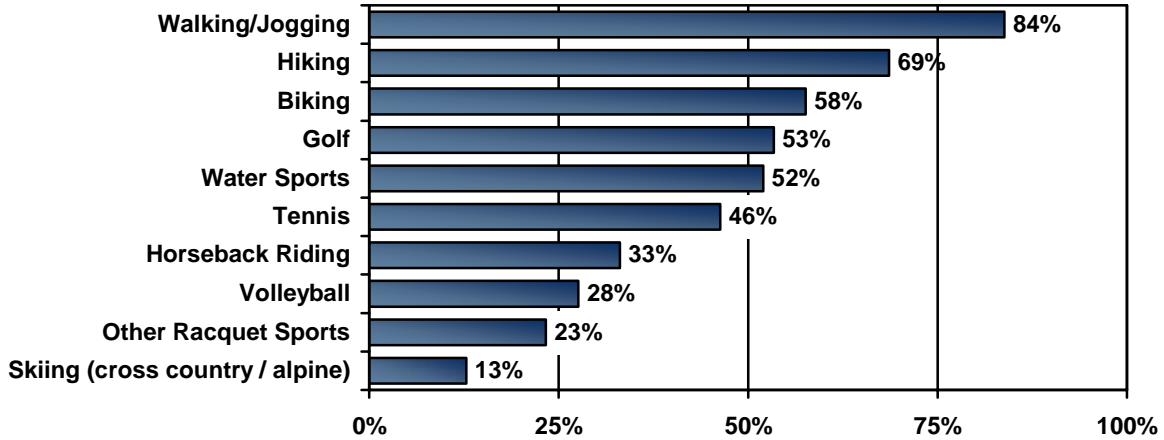


Note: Base is those who offer educational and nutritional classes.

Sports Activity Product Offerings

Specific sports activities offered by the 11% who offer them are presented in **Exhibit 6-12**. The top activity offered by 84% of those with sports activities is walking/jogging. Hiking is a distant second at 69%. Secondary sports offerings include biking (58%), golf (53%), water sports (52%) and tennis (46%).

Exhibit 6-12 – Sports Activities Offered

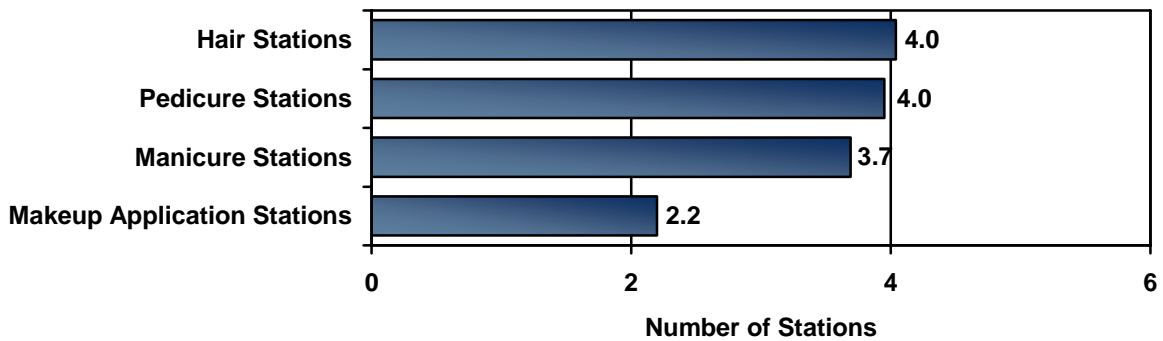


Note: Base is those who offer sports activities.

Beauty Salons

Exhibit 6-13 shows the average number of beauty salon stations by service among the 70% of spas who offer beauty salon services. As seen in the exhibit, the average number of stations used is almost the same for the top three offerings. Spas report an average of 4 stations used for each hair services and pedicures and 3.7 stations used for manicures. At only 2.2 stations, considerably less space is used for makeup application. It should be noted that one station could be used for multiple services (i.e., both manicure and pedicure).

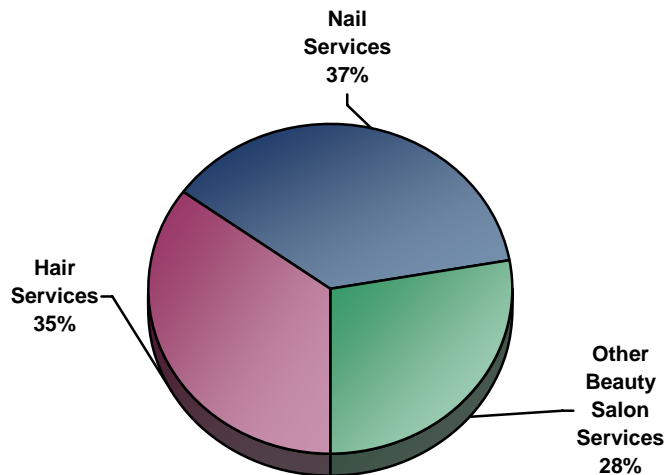
Exhibit 6-13 – Number of Beauty Salon Stations Among Those Who Have Them



Note: Base is those who offer beauty salons.

When asked for the breakdown of beauty salon revenue by service, those who offer these services indicated that hair and nail services account for equal share of revenue (see Exhibit 6-14). Each of these service areas, on average, accounts for just over one third of beauty salon revenue.

Exhibit 6-14 – Allocation of Beauty Salon Revenue



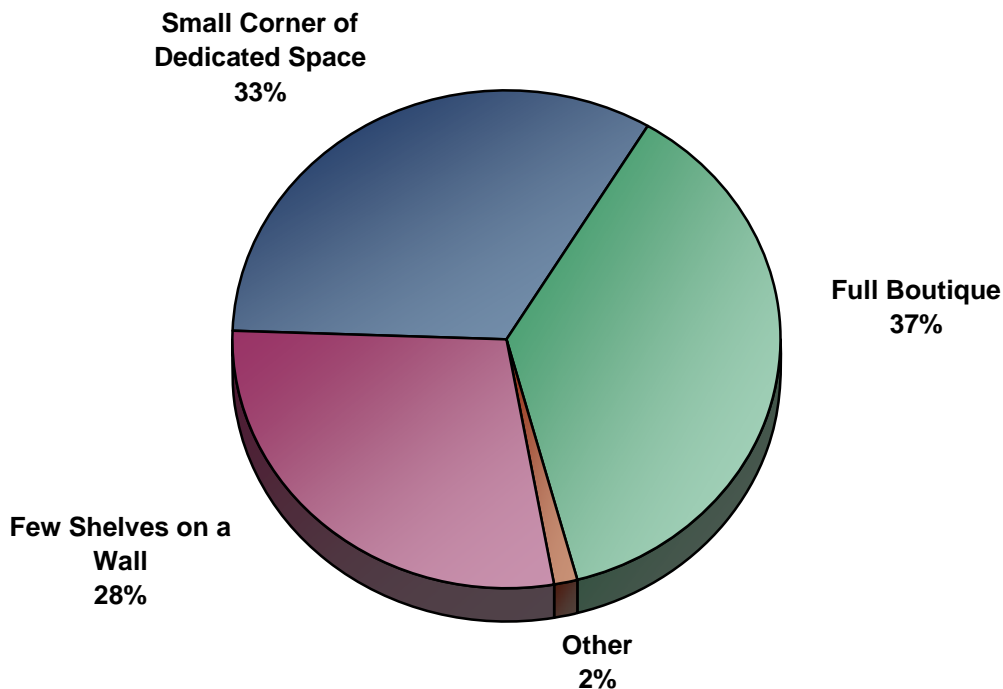
Note: Base is those who offer beauty salons.

Retailing in the Spa Industry

Retailing has been a hot topic in the spa industry for a number of years. Accordingly, four out of every five spas in Canada has a retailing component to their spa. This section summarizes some of the key aspects of their retail operations.

As seen in **Exhibit 6-15**, more than one third (37%) of retailing spas do so through a full boutique setup while a further third (33%) have a small corner of their spa that is dedicated to retail. In other words, roughly 70% of retailing spas have a reasonably significant retail operation as part of its spa. A significant portion (28%) of retailing spas have also gone with the bare minimum of offering only a few shelves for retail in their spa.

Exhibit 6-15 – Retail Setup



Retail Setup by Spa Type

	Day Spa	Resort/Hotel Spa	Other
Few shelves on a wall	28%	27%	32%
Small corner of dedicated space	32%	37%	32%
Full boutique	38%	35%	36%
Other	2%	2%	0%

Notes: Interpret results for spa types with caution due to small sample sizes.

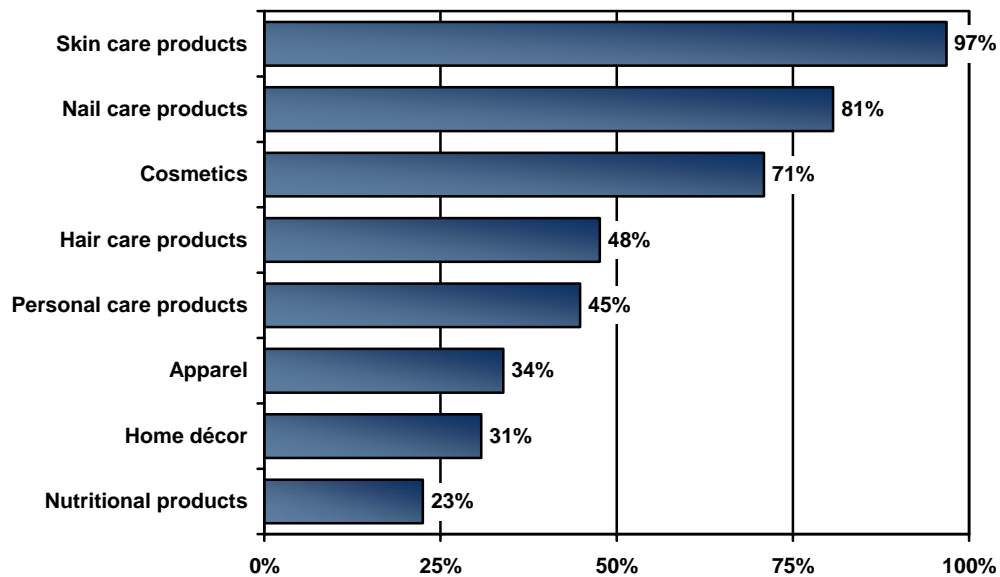
Other type of spa includes medical spas, club spas, mineral springs spas and destination spas.

Base is those who offer retail.

Also shown in the exhibit are the breakdowns by spa segment. Interestingly, there is no significant difference in the retail setups among different spa types.

Almost all retailing spas (97%) in Canada sell skin care products, making this the most common product sold. The two other products to be sold by a large majority of retailing spas in Canada are nail care products (81%) and cosmetics (71%). Hair care product (48%) and personal care products (45%) are also offered by a significant portion of retailing spas. A summary of retail products sold is presented in **Exhibit 6-16**. Interestingly, the top retail products in the industry are those that are related to its services. The remaining products, which are not as widely sold, are not directly related to the spa industry's services.

Exhibit 6-16 – Retail Products Sold



Top Retail Products by Spa Type

	Day Spa	Resort/Hotel Spa	Other
Skin care products	97%	97%	98%
Nail care products	82%	78%	74%
Cosmetics	73%	62%	69%
Hair care products	51%	36%	46%
Personal care products	45%	46%	38%
Apparel	32%	44%	33%
Home décor	30%	35%	28%
Nutritional products	20%	21%	55%

Notes: Interpret results for spa types with caution due to small sample sizes.

Other type of spa includes medical spas, club spas, mineral springs spas and destination spas.

Base is those who offer retail.

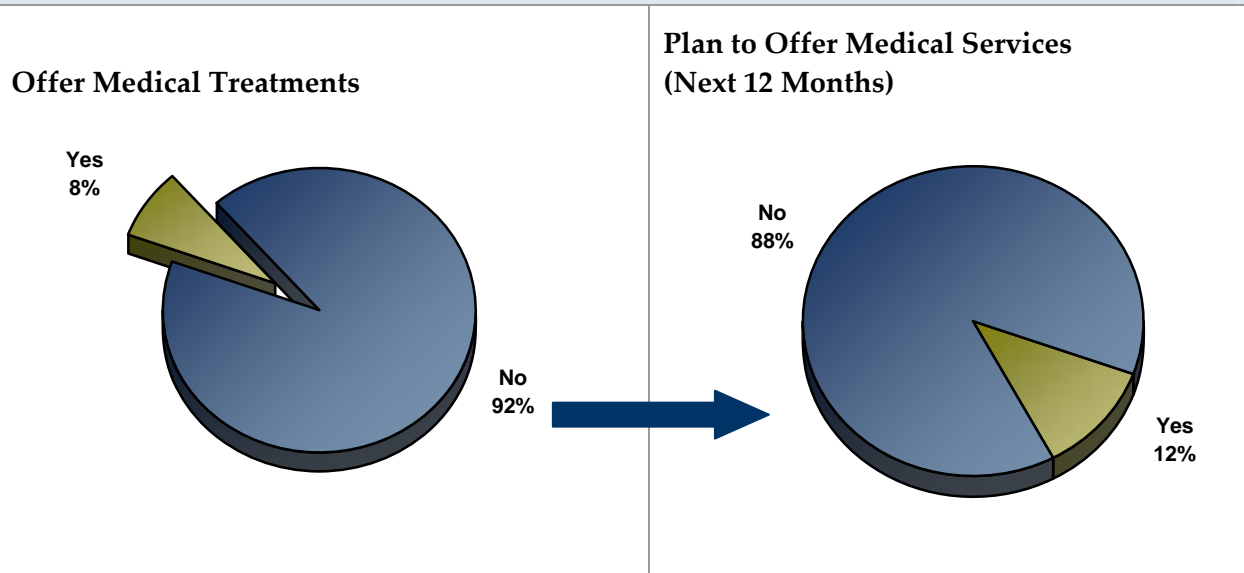
Product Definitions: Apparel - clothing, robes, slippers, jewellery; Skin care products - moisturizer, cleansers, sun-protection/tanning products; Nutritional products - vitamins, power bars or drinks; Personal care products - neck massager, foot warmers, lavender scented eye pillows; Home décor - candles, fountains, wind chimes.

A look at the findings by spa type reveals that resort/hotel spas are less likely than other spas to sell hair care products and cosmetics and more likely to sell apparel. Other spas are more likely to offer nutritional products in their retail operation.

Medical Treatments

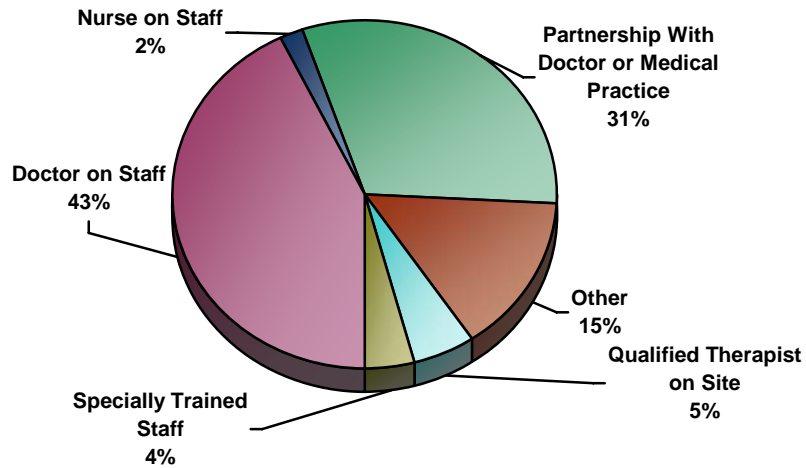
Only 8% of spas indicated that they currently offer medical services and among those who do not, 12% plan to add them within the next twelve months. While there is much speculation about how the medical sector has been growing in the spa industry, it is clearly far from being a core component. However, if those planning to add the services actually do so, it may not be far off becoming one. These results are summarized in **Exhibit 6-17**.

Exhibit 6-17 – Offer Medical Treatments



Importantly, the results show that the majority of the industry is administering medical treatments through proper channels (see **Exhibit 6-18** on the next page). Specifically, almost three quarters (74%) report that treatments are given either by a doctor on staff (43%) or through a partnership with a medical practice (31%). Another 11% indicated that they have other trained staff on site. The issue of ensuring that medical treatments are administered by qualified medical staff has been a concern in the spa sector ever since the service area started growing. This concern is justified as the failure to use qualified staff reflects poorly on the industry. Fortunately, the results indicate that most are following the rules.

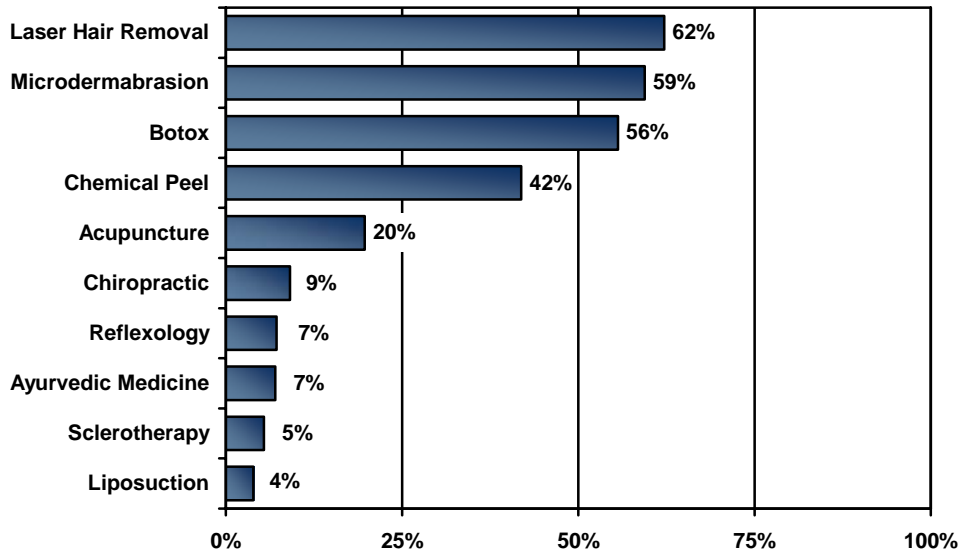
Exhibit 6-18 — How Medical Treatments are Offered



*Notes: Base is those who offer medical treatments.
Interpret results with caution due to small sample sizes.*

By far, the most common medical services offered by spas are laser hair removal (62%), Microdermabrasion (59%) and Botox (56%). Chemical peels are also quite common at 42%, but are secondary to the top services. At 20%, acupuncture rounds out the top five medical treatments offered. A summary of medical treatments offered by spas is presented in **Exhibit 6-19**.

Exhibit 6-19 — Medical Treatment Offered



*Notes: Base is those who offer medical treatments.
Interpret results with caution due to small sample sizes.*

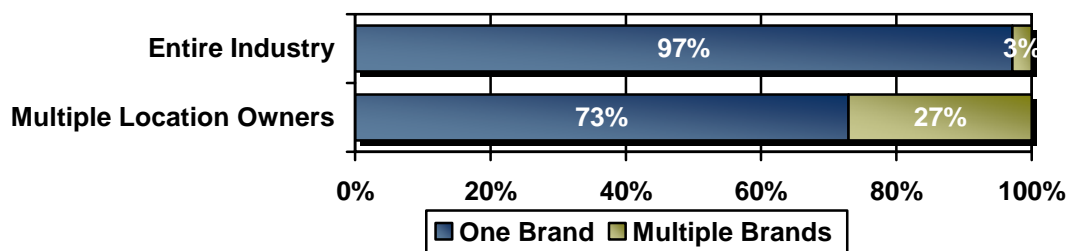
VII. Branding

Branding is a key element to many businesses in many industries, including the spa industry. While the concept of branding is in its infancy within the spa industry, it does exist. This section discusses the presence of both location and product branding within the spa industry.

Branding of Spa Locations

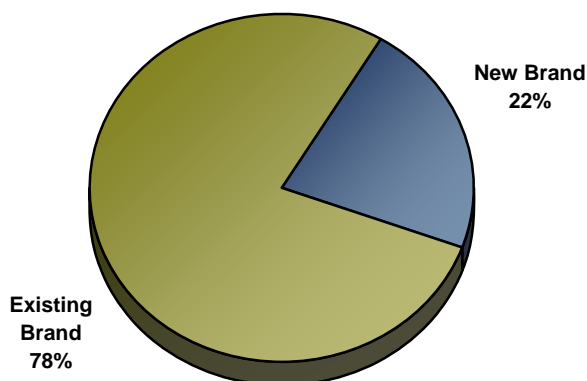
What is branding in the spa industry? The purpose of branding for spas is to create a consistent image, feel and method of service delivery across all owned spas. By using a consistent brand, a group of spa locations gains greater marketing recognition among consumers. Given that the majority of spas in Canada are operated as single locations, it is not surprising that almost all (97%) spas in Canada have only a single brand. However, when looking at spas owned by multiple location owners, three quarters (73%) report that all locations operate under a single brand. Clearly a consistent image is seen as quite important in the spa industry. Interestingly, there is no spa type that has a significant number of multiple brand owners. In fact, the resort/hotel segment is highest at 7%.

Exhibit 7-1 – Number of Spa Establishment Brands



Among multiple spa location owners who have opened a new location in the past two years, the majority (78%) did so under an existing brand. Again, the vast majority value the importance of consistency that a brand can bring. The branding of new spa locations is presented in **Exhibit 7-2**.

Exhibit 7-2 – Branding of New Locations

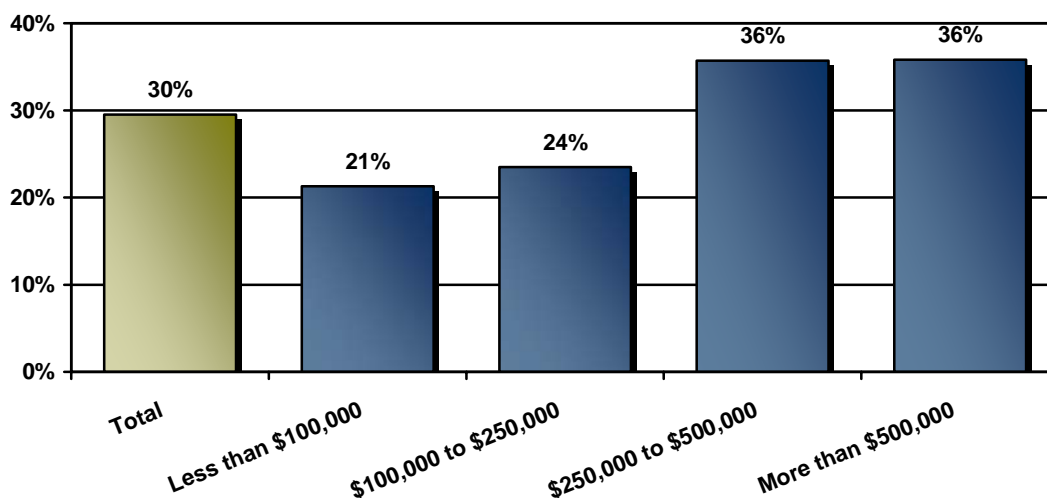


Note: Base is multiple spa owners who have opened a new location in the past two years.

Branding of Retail Products

Another type of branding in the spa industry is that of retail products sold where spas will have their logo added to products produced for them or may even have products (i.e., soaps, creams, oils, etc.) specially made for their spa. In Canada, 30% of all retailing spas sell branded products (with the spa's name on the product). While the gap is not as big as what has been seen in other North American research, the results do indicate that the higher the spa's revenue, the more likely it is to sell branded retail products. More specifically, only one fifth (21%) of spas earning less than \$100,000 offer branded products compared to one third (36%) of those earning more than \$500,000. The percent of spas selling branded retail products by spa revenue is shown in Exhibit 7-3.

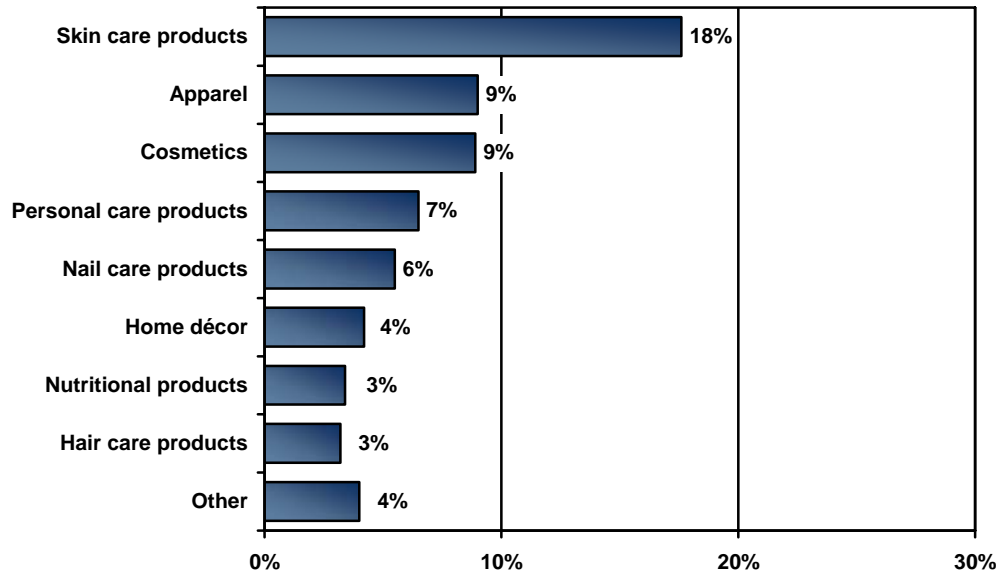
Exhibit 7-3 – Percentage of Spas Offering Branded Retail Products by Spa Revenue



Note: Base is those who sell retail products.

A summary of the branded products sold by retailing spas is presented in **Exhibit 7-4**. Given that skin care products are the most common retail product sold by spas, it comes as no surprise that it is also the most common product to be branded. One fifth (18%) of retailing spas sell skin care products branded under their spa name. Other products where a significant portion of spas brand them include apparel (9%), cosmetics (9%), personal care products (7%) and nail care products (6%).

Exhibit 7-4 – Branded Retail Products Sold



Notes: Base is those who sell retail products.

Product Definitions: Apparel - clothing, robes, slippers, jewellery; Skin care products - moisturizer, cleansers, sun-protection/tanning products; Nutritional products - vitamins, power bars or drinks; Personal care products - neck massager, foot warmers, lavender scented eye pillows; Home décor - candles, fountains, wind chimes.

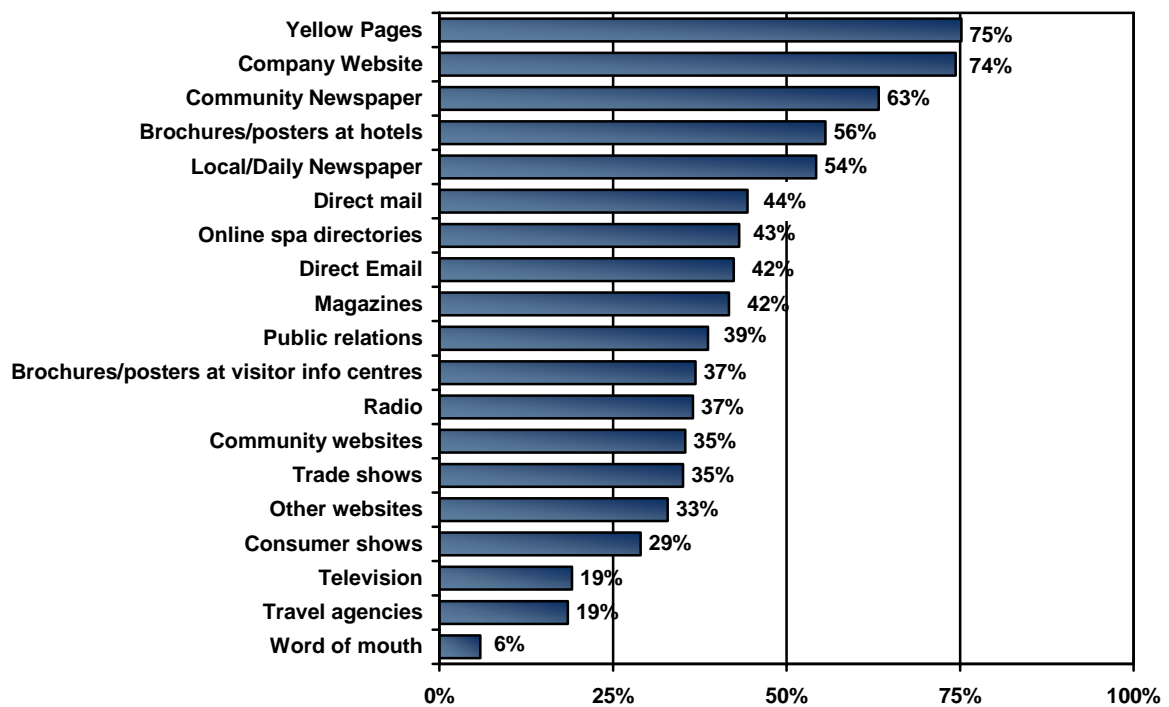
VIII. Marketing of the Spa Industry

In order to survive, especially in such a competitive environment, business must do some sort of marketing to both alert potential clients to their existence and to tell clients why they should choose one spa over another. This section discusses a number of aspects of marketing including marketing channels, resource allocation by geographic market, packaging and use of, and interest in, marketing partnerships.

Marketing Channels

Spas have an endless number of marketing options available to them to get the word out to current and prospective clients. A summary of marketing channels used by spas is presented in **Exhibit 8-1**. The two marketing channels that top the list come as no surprise. The tried and true Yellow Pages (75%) and the spa's own company website (74%) are used as marketing channels by three quarters of all spas in Canada. While the majority of spas do have an online presence, it is surprising that only 43% indicated that they are listed in an online spa directory. Other key marketing channels, used by more than half of all spas, are community (or neighbourhood) newspapers (63%), brochures/posters at hotels (56%) and local daily newspapers (54%).

Exhibit 8-1 – Marketing Channels Used



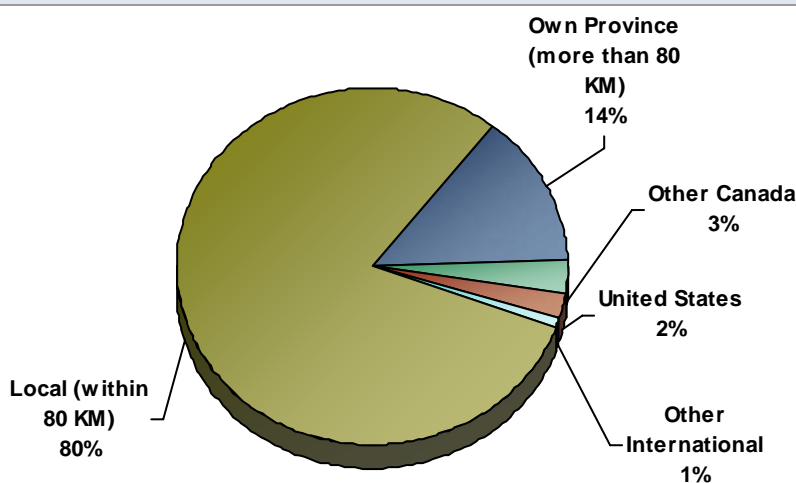
Note: Percentages do not sum to 100% due to multiple responses.

Direct to consumer marketing channels are also fairly common in the spa industry. Almost three fifths (59%) of spas in Canada use a direct to consumer channel for marketing purposes. This includes 44% that use direct mail and 42% that use direct email with a significant portion using both.

Where Spas Are Focusing Marketing Efforts

As discussed elsewhere in this report, tourism is an important component of the spa industry in Canada. Accordingly, while the vast majority of marketing efforts are focused on the local market (within 80 km of the spa), a significant share of marketing resources are devoted to attracting tourists (more than 80 km from the spa). As seen in **Exhibit 8-2**, spas focus an average of 20% of their marketing efforts on attracting tourists to their spa. However, the lion’s share (14% of marketing efforts) of tourist marketing is focused within the spa’s own province. In other words, spas focus their efforts on the “driving” market.

Exhibit 8-2 – Allocation of Marketing Efforts



Allocation of Marketing Efforts by Spa Type

	Day Spa	Resort/Hotel Spa	Other
Local (within 80 KM)	89%	40%	73%
Own Province (more than 80 KM)	8%	39%	16%
Other Canada	2%	9%	5%
United States	1%	8%	5%
Other International	0.2%	3%	1%

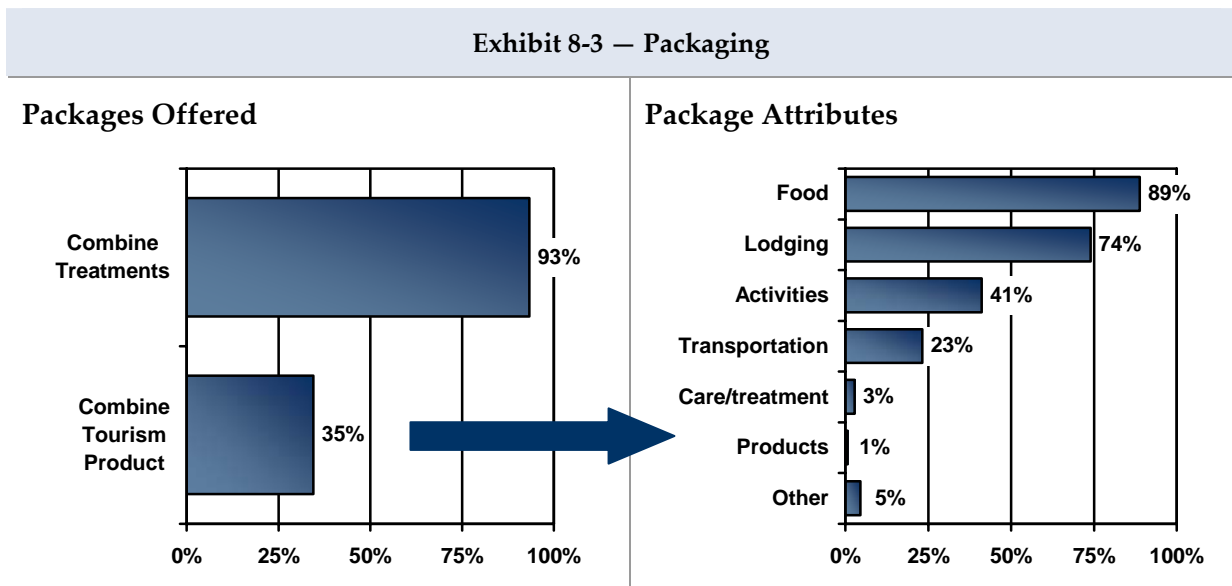
Notes: Interpret results for spa types with caution due to small sample sizes.

Other type of spa includes medical spas, club spas, mineral springs spas and destination spas.

Not surprisingly, the share of marketing efforts directed at tourists varies greatly among spa types. Specifically, day spas focus an average of only 11% of marketing efforts on tourists. On the other hand, the more tourism-oriented resort/hotel spa sector focuses 60% of its marketing efforts on tourists. Again, most of this effort is intra-provincial (39%); however, resort/hotel spas do focus a significant amount of marketing resources on inter-provincial (9%) and U.S. (8%) tourists. Despite the tourism orientation, it is interesting to note that resort/hotel spas still focus an average of two fifths (40%) of their marketing resources on the local market.

Packaging

While almost all (93%) spas offer their clients packages that combine multiple treatments, only one third (35%) offer packages that combine tourism type products with spa treatments. Among those that do offer packages that include tourism related services, the most common package attribute is food at 89% followed closely by lodging at 74%. Only a handful of spas (23% of those offering tourism related packages) offer packages that include transportation. These results are summarized in Exhibit 8-3.



Use of Packaging by Spa Type

	Day Spa	Resort/Hotel Spa	Other
Combine Treatments	94%	93%	92%
Combine Tourism Product	20%	87%	48%

Notes: Interpret results for spa types with caution due to small sample sizes.

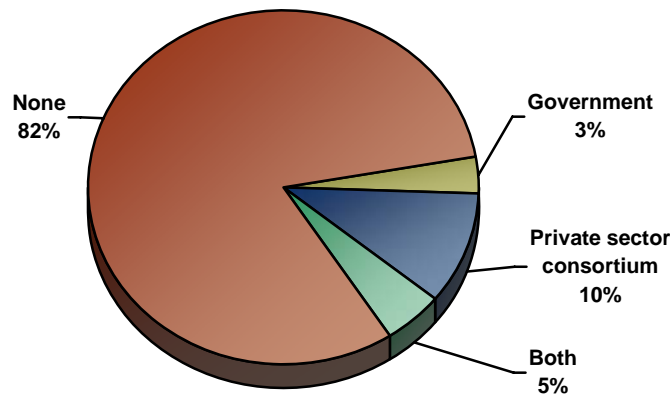
Other type of spa includes medical spas, club spas, mineral springs spas and destination spas.

When it comes to combining multiple treatments in a package, all spa types are equally likely to do so. Conversely, there are significant differences between groups in the portion offering tourism related packages. The vast majority of resort/hotel spas (87%) offer spa packages that include tourism attributes such as food and lodging. In other words, most resort/hotel spas try to take advantage of the fact that they offer all these services under one roof. On the other hand, only one fifth of day spas (20%) offer tourism related spa packages. The “other” group, which includes some tourism-oriented spa types, falls in between these two segments with half (48%) offering tourism related packages.

Public and Private Sector Partnership Opportunities

As illustrated in **Exhibit 8-4** on the next page, just under one fifth (18%) of spas in Canada report that they participate in a marketing consortium. Those who do cooperative marketing are more likely to do so as part of a private sector consortium (15% in total – includes 10% exclusively and 5% in both private sector and government). Approximately 8% of spas report that they participate in a government marketing partnership.

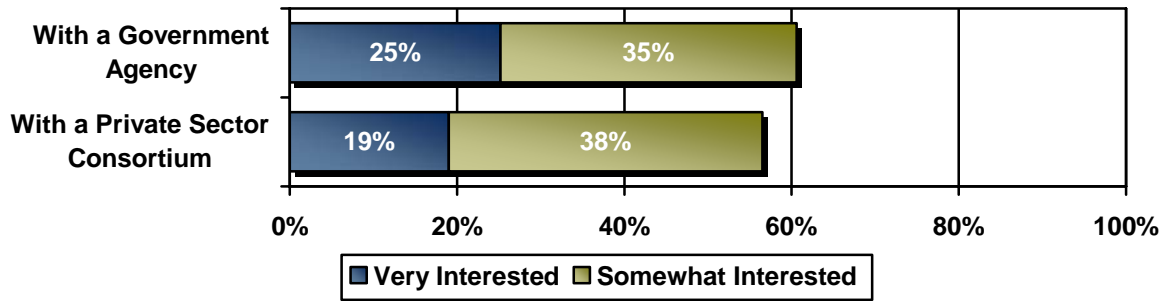
Exhibit 8-4 – Existing Marketing Partnerships



Among those not currently in a government and/or private sector marketing partnership, there is a fair degree of interest in participating. Sixty percent (60%) of spa owners/managers (not currently in a government partnership) are interested in a partnership with a government agency and 57% (of those not currently in a private sector partnership) are interested in being involved in a private sector marketing partnership. These results are presented in **Exhibit 8-5**.

While there is a strong base of spas that are “very interested” in participating in marketing partnerships, the significant portion that are only “somewhat interested” indicates that getting these types of groups going is no simple task. For successful partnerships to be formed, it will be necessary for someone to step up and drive the process of organizing and promoting these partnerships.

Exhibit 8-5 — Interest in Participating in Marketing Partnerships



Note: Base is those not currently in a marketing partnership with the group in question.

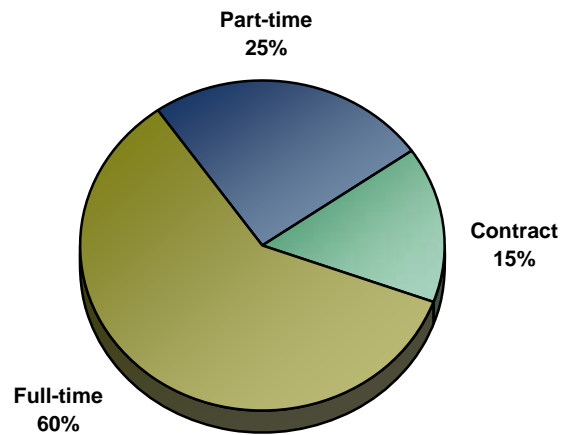
IX. Employment in the Spa Industry

The spa industry is very labour-intensive. This chapter examines the employment and compensation structure of spas in Canada.

Employment Structure

On average, spas in Canada employed 11 people at the time of this study. As seen in **Exhibit 9-1**, the majority of employees in the spa industry are full-time. More specifically, 60% of industry employees are full-time while one quarter (25%) are part-time and 15% work on a contract basis.

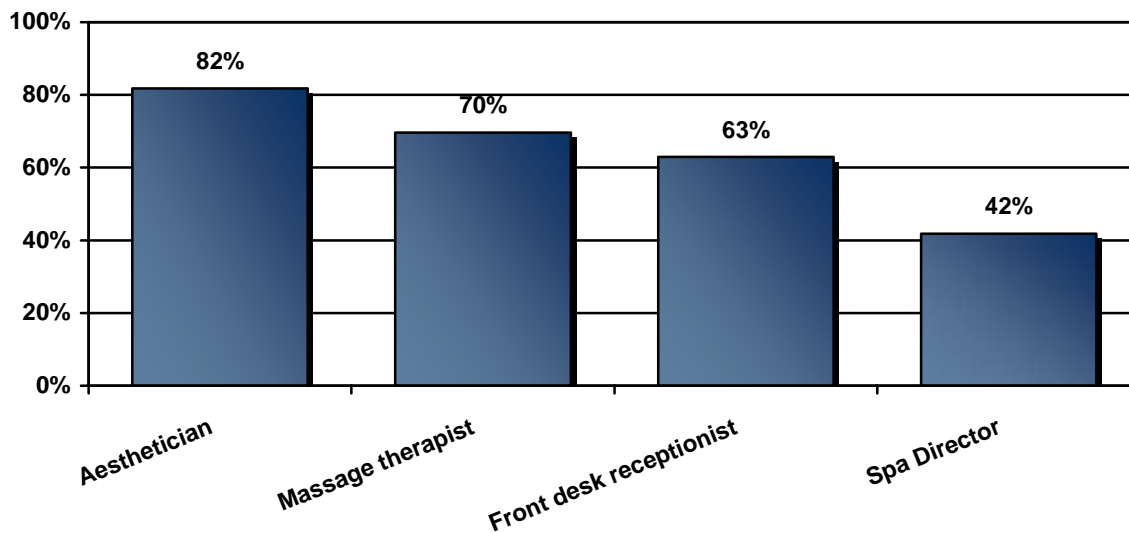
Exhibit 9-1 – Breakdown of Employees by Type of Employment



Employment Positions

With almost all spas having treatment rooms, it comes as no surprise that the vast majority have staff in positions associated with this product offering. Specifically, four in five spas (82%) have an aesthetician and 70% have a massage therapist. A summary of select positions held in spas is provided in **Exhibit 9-2**. While the majority of spas have spa directors, it is far from universal in the Canadian industry. Only two fifths of spas in Canada have a spa director (42%); while two thirds have a receptionist (63%).

Exhibit 9-2 – Select Employment Positions Held in Spas



Employment Positions by Spa Type

	Day Spa	Resort/Hotel Spa	Other
Aesthetician	84%	74%	75%
Massage Therapist	65%	85%	78%
Receptionist	61%	69%	66%
Spa Director	38%	51%	55%

Notes: Interpret results for spa types with caution due to small sample sizes.

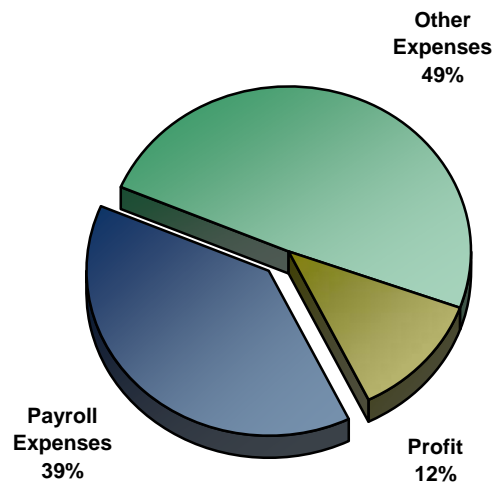
Other type of spa includes medical spas, club spas, mineral springs spas and destination spas.

The exhibit also presents a summary of positions by spa type. Interestingly, there is only a moderate difference in the percentage of spas with a receptionist and aesthetician among spa types. On the other hand, day spas are less likely than others to have a massage therapist (65% for day spas compared to 85% for resort/hotel spas and 78% for others). The results also indicate that they are less likely to have a spa director.

Compensation in the Spa Industry

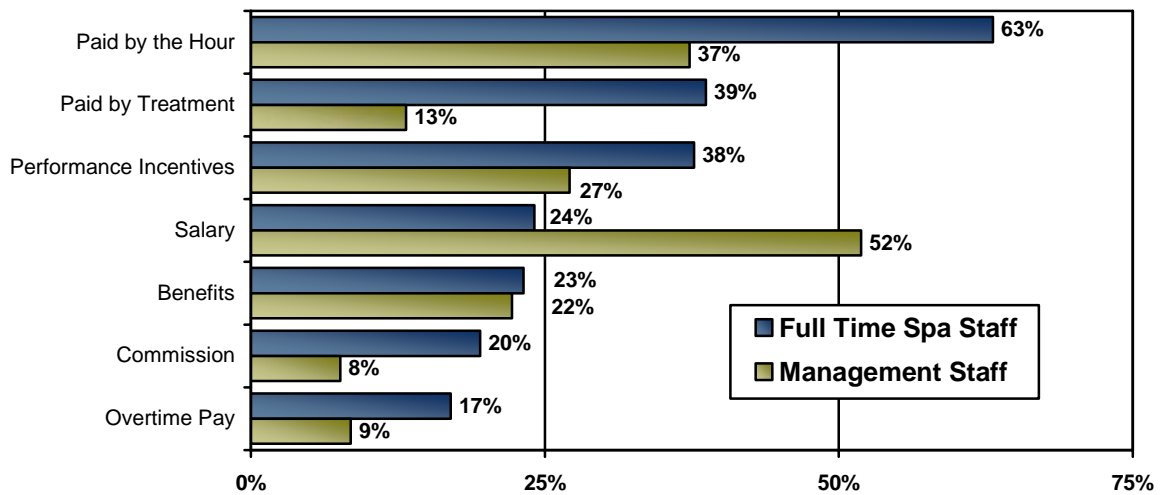
As can be seen in **Exhibit 9-3**, in the labour-intensive spa industry, payroll expenses amount to 39% of revenues, by far the single largest expense (other expenses include marketing, rent, utilities, etc.). As a result, this is an important area for spa owners to monitor and ensure they are within industry norms. However, at the same time it is important to make sure compensation is competitive in the market in order to attract new people to the industry.

Exhibit 9-3 – Labour Compensation



The specific types of compensation offered to full-time staff and management staff are shown in **Exhibit 9-4**. For full-time spa staff, by far the most common payment method is by the hour. Two thirds (63%) of spas pay full-time spa staff by the hour. At slightly more than one third each, payment per treatment (39%) and performance incentives (38%) are also well used methods of paying full-time spa staff, but are significantly lower than paying by the hour. One quarter of spas reported offering full-time spa staff salaries (24%) and/or benefits (23%) while 20% pay commission and 17% offer overtime pay.

Exhibit 9-4 – Types of Compensation Offered to Staff



Note: Percentages sum to more than 100% due to multiple responses.

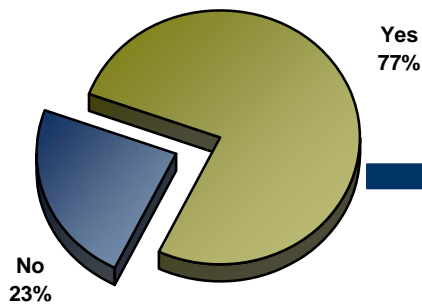
The picture is quite different for management staff where just over half (52%) of all spas offer their management employees a salary and one third (37%) offer pay by the hour. The only other types of compensation offered to management staff by a significant portion of spas are performance incentives (27%) and benefits (22%).

Training and Certification

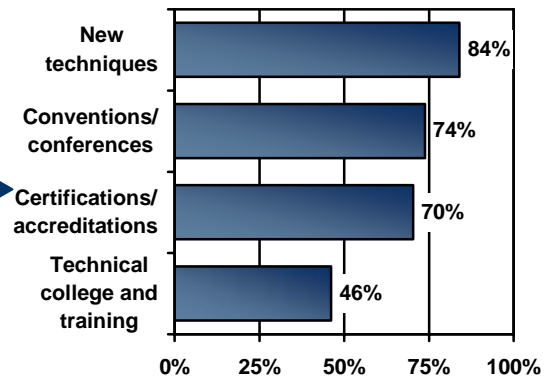
Over three quarters (77%) of spas in Canada pay for their employees to receive training. The types of training supported by spas is illustrated in **Exhibit 9-5**. As seen in the exhibit, the most common type of training supported by spas that pay for training is new techniques (84%). This is followed closely by conventions/conferences (74%) and certifications (70%). While supported by a significant portion of spas, technical college and training at only 46% lags far behind the top three.

Exhibit 9-5 – Staff Training

Spa Pays For Training

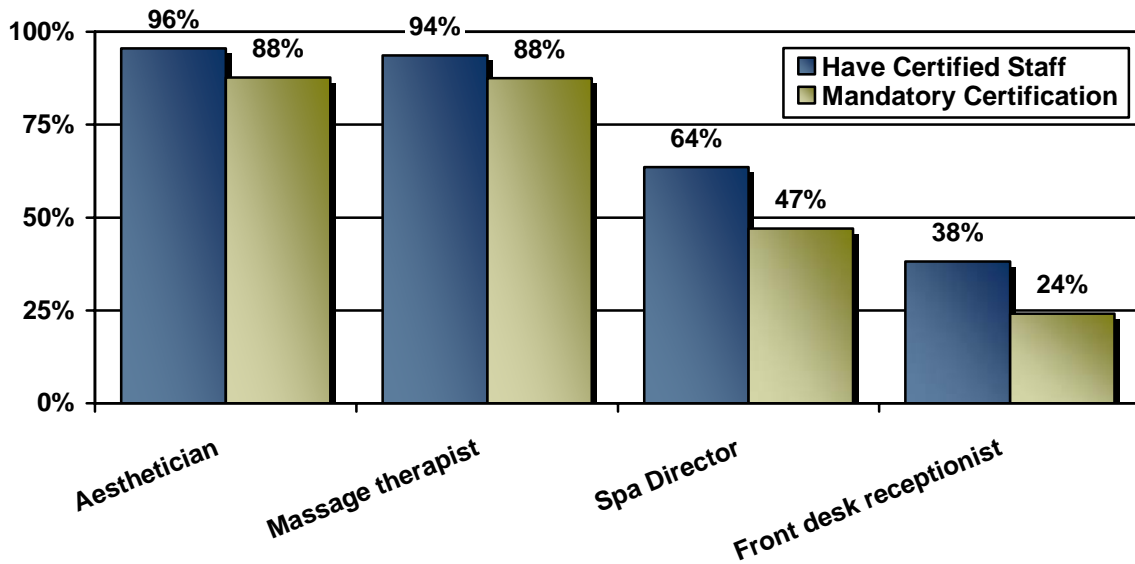


Types of Training Supported



As seen in **Exhibit 9-6**, almost all spas who employ aestheticians (96%) and/or massage therapists (94%) reported having certified staff in these positions. In fact, the vast majority indicated that it is a requirement for their aestheticians (88%) and massage therapists (88%) be certified. There seems to be a concerted effort within the industry to ensure that those performing the service delivery are of the highest calibre. This is an important step to alleviating concerns in the industry about the lack of qualifications among these positions.

Exhibit 9-6 – Certification of Positions



Note: Base is spas who have the position.

Clearly, spas place less importance on certification for those not directly involved in the service delivery. Two thirds (64%) of spas (with a spa director) report that they have certified staff in the spa director position; but only 47% indicated that certification was mandatory. Not surprisingly, the incidence of certification is even lower for receptionists where only one third (38%) of spas reported that they had certified staff in the position and only 24% indicated that it was mandatory.

Human Resource Challenges

Canadian spa professionals are amongst the most highly-trained and sought after in the world and yet spa businesses across the nation are struggling to find the number of qualified and reliable staff necessary to run their facilities. The executive interview process identified a number of issues that are contributing to the ongoing human resource challenges currently affecting the Canadian spa industry:

- The industry is experiencing a “continuous expansion of facilities” and there are simply not enough qualified professionals to take up the slack.
- Many spa professionals tend to see their work more as ‘just another job’ and less as a career. The typical pay structure, often based on fixed contracts or hourly wages, further contributes to this sense of non-permanence among many spa professionals. While some spas are now taking steps by offering salaried pay, larger training budgets and networking with schools and potential students to turn this image around, this “lack of committed labour” continues to create high staff turnover rates in many facilities.
- According to some interviewees, there is a disconnect “between the industry and education” which is also contributing to the lack of qualified people moving up the ranks to work in the spa sector. Many feel there needs to be more of a connection with the educational community to position the spa industry as “a great profession within which to pursue a career.” The current curriculum also needs to be revisited according to some interviewees. They feel it focuses too much on meeting government requirements and does not do enough to “meet the needs of the industry.”

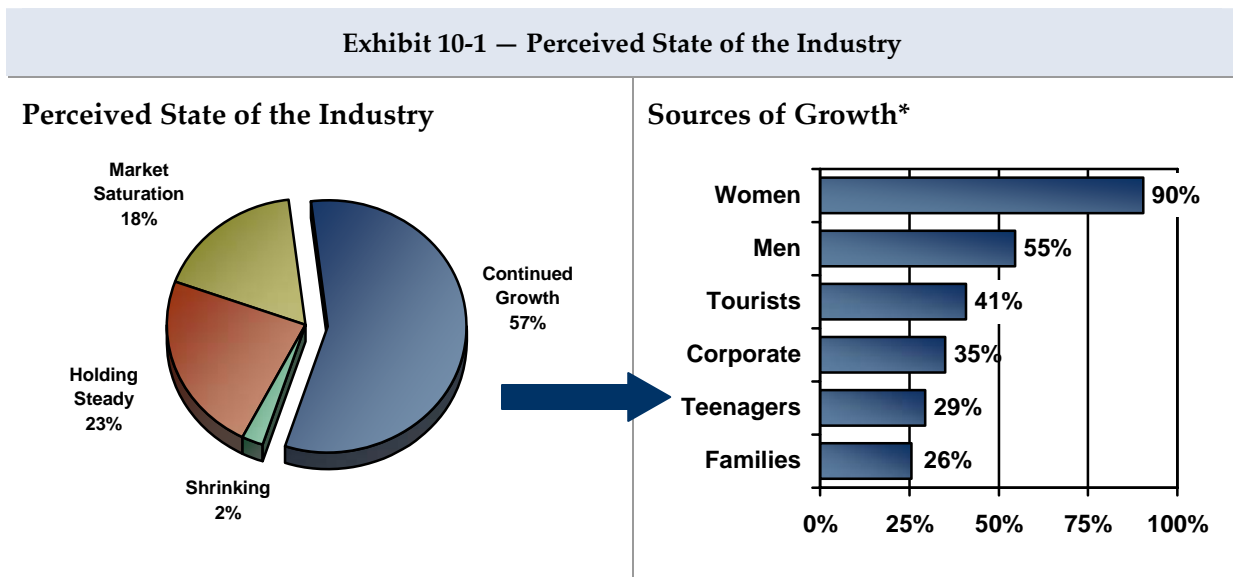
The spa industry is relatively young. The rapid growth of the industry will inevitably lead to a shortage of qualified staff in the short term. However, eventually the growth will slow down and the challenges will shift from those related to quantity to those related to quality. The shift is already being seen within the industry.

X. Industry Trends and Issues

This chapter explores the key trends currently dominating the spa sector in this country. It is based on the survey results as well as the interviews conducted with Canadian spa industry leaders. In addition to exploring emerging products and services, this section also addresses consumer, retail and investor trends as well as the current legal and regulatory environments. The industry's top priorities and issues are also discussed.

Industry Growth

As seen in **Exhibit 10-1**, while there are some mixed opinions about the current state of the industry, more than half (57%) feel it is and will continue to grow. However, significant portions also feel the market is holding steady (23%) or has reached saturation (18%).



Notes: *Responses do not sum to 100% due to multiple responses.

Base is those who feel the market is growing.

Among those who feel the market is still growing, 90% feel that it is fuelled by women – the traditional spa segment. However, over half (55%) feel that the male demographic is also a key driver while 41% cited tourists. Among those citing tourists as a key segment fuelling the growth, 82% feel that their own province will be a source for those tourists. Other parts of Canada (63%) and the U.S. (61%) also ranked as key sources followed by Europe (43%), Asia (22%) and Australia (17%).

Product Trends

From the interviews, we heard that “massage is still king” and that this is followed closely in second place by facials. Manicures and pedicures are not far behind. While these are still viewed as the core spa services, we also talked to some spa owners who were carving out new niches for themselves by introducing ‘unique’ products, services and/or packaging concepts that differentiated them from their competitors.

Competitive differentiation it would appear, can come in many forms. For one spa, it might be having sole access to underground mineral water. For another, it might be the packaging of spa services with tourist attractions. And for others, it might be the introduction of brand new spa experiences or simply being the first major spa to be built in a new, under serviced part of the country.

Many spas are capitalizing on the “health and wellness lifestyle” craze by offering weight loss programs and services, as well as health and fitness programs with a focus on “wellness.” A unique concept we were told about in Quebec is the rapidly expanding network of Nordique spas. Based on the original Scandinavian experience, a Nordique spa is a unique “combination of extremely hot, hot tubs and saunas, combined with a swim in a cold pool or cold river”. We were told that this concept has literally taken the province of Quebec by storm.

While some spas are building market share by product and service differentiation, others have quite literally, gone ‘back to their roots.’ Not only have all-natural and ‘non-toxic’ products become the norm, but spas are also starting to offer more services and products based on ancient cultures, medicines and therapies.

“Non-invasive rejuvenation” is fast becoming another key phrase among Canadian spas with many facilities working hard to accommodate a growing demand for “paramedical treatments that replace the need for surgery.” At the same time as many spas are jumping on the ‘botox bandwagon,’ others are steering clear out of concern for the undiscovered “negative health implications that could come back and bite the practitioners” who offer them.

Consumer Trends

In our increasingly hectic and urbanized environment, more consumers are seeing spas as places where they can de-stress, re-energize and take care of their bodies and their souls all at once. Key findings from the interviews carried out for this study subsequently suggest that, more than ever, Canadians are ‘buying into’ the spa experience:

- The stress associated with consumers’ daily lives has created an increased “need for periodic pampering,” and has nurtured a consumer base that now recognizes the “benefits of escaping the pressures and getting re-energized.”

- Spa consumers are more educated than ever before about what to expect with regard to the “spa experience.” In addition to their increased knowledge of products and services, consumers are also more on the lookout than ever before to get as much “value as possible for the dollars” they spend.
- Increasingly, consumers are looking for an ‘overall’ experience when they go to the spa. “Health and wellness” is subsequently a top priority for many who want not only to “look good,” but to “feel good” as well.
- Despite ongoing attempts to entice men into the treatment rooms, real success stories, we were told, are few and far between. Women continue to dominate the spa consumer mix. This trend is fairly consistent across the nation with the notable exception of Quebec, where some spas have reported significant growth in the male consumer sector.
- While the financially stable women of the ‘baby boomer’ generation continue to “fuel the growth of the market,” women in their 20’s and 30’s are increasingly being seen as a group which is ‘holding its own’ as a spa consumer base. In addition, spa visits by teen and “tween” girls is also on the rise, with a growing number of spas providing specialized services like spa birthday parties, often with mixed results.

Half (49%) of survey respondents indicated that they had seen or experienced new consumer trends over the past 18 months. **Exhibit 10-2** lists their top mentions, which fall into three main groups – changing consumer attitudes, increasing visits from different demographic groups and increasingly popular products.

Exhibit 10-2 – Consumer Trends Experienced in the Past Eighteen Months

- | | |
|--|--|
| ■ More men/men getting more services (10%) | ■ More couples (3%) |
| ■ Interest in healthy treatments/well being (7%) | ■ More groups/getaways/social aspect (3%) |
| ■ More consumer awareness/interest (6%) | ■ More younger clients (3%) |
| ■ Medical spas/treatments (5%) | ■ Homeopathic/organic/natural treatments/products (3%) |
| ■ Hair removal/laser treatments (4%) | ■ Microdermabrasion/anti-aging treatments (3%) |
| ■ Massages (i.e., back to the core service) (4%) | ■ New/improved products/services/techniques (3%) |

Retail Trends

When asked, 29% of retailing spas indicated that they had seen retail trends in the past 18 months. **Exhibit 10-3** lists the top trends mentioned. Generally, the theme is increasing sales or demand for specific types of products with skin care products, organic/natural products and new products leading the way.

Exhibit 10-3 – Retail Trends Experienced in the Past Eighteen Months

■ Skin care (6%)	■ People are more informed/awareness (3%)
■ Increase in sales/more shopping/spending (4%)	■ Anti-aging/anti-wrinkle products (2%)
■ Organic/natural products (4%)	■ Hair products (2%)
■ New products (4%)	■ Medical/health products (2%)

Spa Tourism Trends

The spa tourist is a consumer segment that has yet to come even close to reaching its full potential in Canada. Most of those interviewed were of the opinion that the Canadian spa experience is among the best in the world, but nobody knows about it. The general feeling is that the Canadian spa experience has been poorly promoted to the tourism sector and is still one of the country's best kept secrets.

Following are some of the trends currently dominating this sector:

- In a struggle to differentiate their facilities from those offered by other spa destinations, some facilities are cross-marketing spa treatments and spa holidays in conjunction with other types of experiences. As a result, side trips to casinos, wineries, and other local attractions, are fast becoming commonplace offerings within the spa tourism sector. Some go as far as to offer discount coupons to local tourist attractions.
- Americans, followed by Europeans and the British were named by interviewees as the groups with the most "growth potential" for spa tourism in Canada. The 2 million spa goers that live and work within Canada's borders are also seen as a spa tourism segment that has yet to be sufficiently tapped into.

Investor Trends

While some believe that it's easier for spa businesses to get funding today because "we have evolved into a recognized industry," most tend to agree that "it's still hard to raise money to build a spa." This is attributable to several possible factors:

- Banks are not 'risk-takers' by nature and are more interested in financing established businesses than they are in financing the smaller, 'start-up' operations that make up a significant part of the spa industry.
- The banks, according to those interviewed, continue to adhere to "outdated" lending models that typically require "significant real estate as collateral". This does not bode well for the spa industry, where reinvesting in the business is vital in order to stay competitive.
- The current lending system, while it benefits the resort/hotel spas that have "real estate and hotels as security," continues to make things difficult for smaller, start-up operations that struggle to secure funds.
- Quebec appears to be an exception to the rule and is reportedly experiencing a significant rise in the number of independent investors looking to "set up spas" in the region. While this trend has yet to stretch beyond the borders of Quebec, it is spurring growth in that region and is expected to continue over the next 3 to 5 years.

Legal and Regulatory Trends

While there are several industry players, associations and other stakeholders that play important roles in moving the Canadian spa industry forward, the spa sector is still lacking in nationally consistent standards and regulations. A "coming together" of these key stakeholders to provide a unified sense of leadership to the industry will be a key challenge in the years to come. Following are some areas to watch for:

- In our increasingly litigious society, the evolution of insurance and the changing trends in liability are expected to play an increasing role in the day-to-day affairs of spa businesses across the country.
- As natural resources become increasingly scarce, the licensing of commonly used spa resources, such as water, has the potential to become a serious issue for spa businesses.
- Unions, while they are not common within the spa industry, do exist in a few select Canadian regions. There is some concern, particularly in the case of an economic slowdown in Canada, that "the spa sector could be a logical target."

Top Issues and Priorities for the Spa Industry

When asked to rank their top priorities for the spa sector, the industry leaders we spoke with were united on the areas of utmost concern. According to them, these should be the industry's top priorities going forward:

Human Resources: The lack of high quality educational programs, current contract and hourly-based compensation structures, as well as a severe market over-saturation of spas in some parts of the country has put the Canadian sector in a potentially devastating situation with regard to finding and keeping qualified staff. The industry is looking for leadership from its associations and the educational community to help resolve some of these problems.

Leadership: In addition to the establishment of a body responsible for developing and overseeing industry regulation and quality standards, there needs to be a concerted "marketing effort" among industry players to "reach the consumer so that they can really understand what we (Canadian spas) have to offer."

Market Over-Saturation: The number of facilities, particularly with regard to the resort/hotel spa sectors, has grown exponentially over recent years and is fast leading to a perilous over-saturation in the spa marketplace. In many regions, the "supply is growing faster than the demand."

Over the past year, there has been little doubt that the spa industry has been growing. This has had a number of effects, both positive and negative, on the industry as a whole:

- Growth is occurring across the spa sectors, particularly on the resort/hotel side. This sector is significantly out-pacing the day spa market in terms of revenue.
- Spa tourism is also beginning to experience growth, although it has yet to really 'take off' in Canada.
- Aesthetics and medical spas, particularly in the major urban centres, is also an area that is "starting to grow" and will be a spa segment to watch in the near future.
- The growth curve in the United States spa industry has recently turned downwards and there is a strong consensus that the same thing is likely to happen in Canada.
- The oversaturated market has made the spa industry "much more competitive." In some areas, the environment is fast becoming one dominated by the "survival of the fittest."
- Smaller day spas are starting to have difficulty competing with the growing number of large, independent investors, resorts and hotels. Because their pockets are not as deep, they are the ones expected to be hit the hardest in the case of an economic slowdown.

The Role of Government in Health and Wellness

Those we spoke with during the executive interview process agreed that the government should be more involved with the spa industry. To what extent this involvement should be, however, remains an issue to be determined. Following are some of the possible roles the government could play within the spa sector.

- Taking on a leadership-type role by forming “a common set of goals and objectives for the health and wellness spa industry,” and developing “a national strategy” to address the industry’s labour issues is one possible role for the government with regard to the spa sector. Providing this leadership without taking away from the autonomy of the spa sector, however, is a challenge not to be underestimated if such an objective is undertaken.
- While it is felt that Canada has some of the best facilities and spa professionals in the world, no-one seems to know about it. The government should take a more active role to help “get the message out,” both internationally and at home. Promoting partnerships between the spa sector and other industry and government players is one way the government could assist in the successful marketing of the spa industry, both domestically and abroad.
- Finding “sustainable ways to provide market research support to the sector” is also something industry associations and government entities like the CTC could be working on together.
- Helping to “level out the regulatory playing field across the country” by enacting national legislation and standards is another role the government could play with regard to the spa industry. Once again, however, balance is the key and determining just how much control to exercise is something to be examined in further detail before steps are taken in this direction.
- Providing the financial support and resources necessary to move the sector forward without “influencing the direction of the industry” is seen as a final possible role for the government in the development of the spa sector.

XI. Conclusions

A number of conclusions and industry implications can be drawn from the study findings. The following is a summary of key conclusions and implications for Canadian spa industry.

- *Industry growth is strong and steady.* Over the past decade, the number of spas in Canada has been growing at an average rate of 17% per annum. With few peaks and valleys, growth has been steady which bodes well for stability and continued growth. Moreover, all key industry measures are growing at a comfortable rate.
- *Saturation is not widespread — yet.* There may be some markets where saturation may have been reached; however, despite some of the executive views to the contrary, it does not yet appear to be country wide. Despite the widespread view that most of the growth is taking place on the supply side and that demand is not growing at the same pace, spas are still seeing growth in their key performance indicators (e.g., revenue, visits, etc.), even if the growth is only modest. True saturation will be reached when the number of spas is still growing but per location visits and revenue decrease. This point has not been reached yet on a national basis; but there are signs that it is coming.
- *Day spas are the largest industry segment in terms of number of establishments; but other spa types are more dominant.* At 74% of all spas locations, day spas are by far the largest industry segment. These spas also have a higher average number of visits. However, it is resort/hotel spas and other spas that are on top where it counts — revenue. With higher average revenues, these segments represent a disproportionately high share of overall industry revenue.
- *Tourism is a key component of the Canadian spa industry.* Spas rely on tourists for 29% of visits and 25% of revenues. However, only 20% of marketing efforts are geared toward tourists. While resort/hotel spas certainly understand the importance of the segment, there is great untapped potential with this segment. To take advantage of this potential is going to require the education of spas about their potential role in the tourism sector.
- *British Columbia and Quebec are the most tourism-oriented regions.* While Ontario has the highest number of tourism-oriented spas, that number is not much higher than it is for British Columbia or Quebec. These regions are significantly smaller, but have a greater proportion of their spas being tourism-oriented. While these regions are smaller than Ontario, they are well positioned to take advantage of lucrative tourist market.
- *Spa tourism is one of Canada's best kept secrets.* Despite the fact that Canada has world class facilities staffed by some of the best trained professionals in the world, nobody seems to know about it. At the end of the day, the bottom line and foremost challenge for today's Canadian spa industry is clear: The spa industry needs to 'tell its story.'
- *The spa industry still needs to recruit qualified resources.* The rapid growth of the industry creates a never ending shortage of qualified staff. While the issue has begun to shift from one of quantity to one of quality, the shortages will never disappear as long as the industry grows quickly.

■ *The spa industry is here to stay.* While it is still a young industry, the spa industry has proven that it is a significant industry that is not going to go away. It has surpassed the \$1 billion per year mark. The industry has moved away from an image of pampering to one that fills the need of a busy, stressed society.