

SPA INDUSTRY WEAKNESSES – REDEFINING YOUR FOCUS

SPA MONACO EVENT, January 20 – 23, 2007

Presented by: Mindy Terry, President & Christi Cano, VP Spa Development

INTRODUCTION

SLIDE #1

Good afternoon, ladies and gentlemen. Christi Cano and I are grateful to be able to be part of this exciting and very important conference. I'm particularly thrilled to be in this part of the World. Europe has been very influential in shaping my personal views and philosophies of health, wellness and what the spa experience should be. I have worked with French and Swiss companies and have spent time in France, Germany, Italy, Switzerland and Austria partaking of spas and learning of the rich wellness traditions and philosophies of each Country. I have long admired and been influenced by Southern European design abilities in both architecture and product packaging. I believe the French—better than anyone—understand the power of image and how to harness that power towards enhancing value perception. I have been influenced by the efficacy of European products, treatments and varying Hydro and Thalasso therapy approaches.

Before we begin, I would like to share with you an experience I had just over ten years ago. The spa industry in the U.S. was just beginning to gain momentum. I was working for a French cosmetic company, selling seaweed to spas throughout the Southwestern states. At that time I believe that the majority of people in the U.S. spa industry thought that Europe was much more developed in the business of spa. I decided that I was going to spend a couple of weeks and visit Pornic, a thalassotherapy center located on the northern coast of French Brittany. I arrived at Pornic to find that very few, if any individuals spoke English. My ability to read or speak French was non-existent.

A colleague, who had been to Pornic previously, strongly suggested I book a massage with a particular Therapist from Laos, named Kato. My friend had been kind enough to send a fax prior to my arrival to arrange for this unique massage experience. Thai massage was not well known in the States at this time. (In fact, I did not know until several years following that that was what it was I received). I was not aware that the modality was performed on floor mats while fully clothed.

My massage was scheduled for the morning of my first day. After a breakfast of French fries, ketchup and mayonnaise (I had mistakenly interpreted "Pomme Frites" to be "apples and "fruit"), I went to see Kato in my robe and slippers. I recall walking into the room, seeing the mats on the floor and thinking to myself how unusual this seemed. But then, this was Europe things were different here. Kato's English was as non-existent as my French. He motioned for me to lie down on the mat while he stepped out of the room. I had had enough massage in my constant travels to spas in the U.S. to know exactly what to do.

I dropped my robe in the corner. True to U.S. tradition, I had nothing on underneath. I quickly looked around for a sheet to cover myself and naturally, found nothing. I reminded myself that I was in France and that the French were much more comfortable with their bodies than we were in the States. Thus, I should just relax, close my eyes and try to act like a European. I'm not sure I ever opened my eyes to find out what Kato's reaction was. All I can tell you was I proceeded to receive a two hour Thai massage, completely naked. I have no doubt that poor Kato was as uncomfortable as I was. After some time I was able to forget my total lack of modesty and somehow managed to enjoy my service. I will never know for certain how Kato felt. What I can tell you is at the conclusion he rebooked me for another service—a special massage in the Thalasso pool he had developed (what we now know in the U.S. as Watsu)—and somehow he very effectively communicated to me the need to wear my bathing suit. I take great risk in sharing this experience. I have no doubt I am now the crazy American idiot who once had naked Thai massage. In my defense, this was ten years ago.

GLOBAL MARKETPLACE

SLIDE #2

A lot has changed in ten years. In today's world, technology is transforming every aspect of our lives. Regardless of where we are in the World, we can communicate in real time via the internet and wireless data devices. Digital photography allows us to capture and transmit images instantly, video conferencing enables companies in Tokyo, Paris and New York to work together sharing ideas and strategies without the financial and time commitments once required.

Today we are operating in a Global Marketplace. I recently read a memoir written by the first woman CEO of a Fortune 20 business. Carly Fiorina served as a former CEO of Hewlett Packard. I want to share a quote from her book Tough Choices:

"I have seen firsthand the marvels of the twenty-first century, a time in humanity's journey that is different from all the history that has come before. We are now operating in a truly global economy for the first time."

The Spa Industry is no exception. Worldwide spa development is happening at a feverish rate. In the past few months alone, CSC has received inquiries for spa development projects in India, Russia, the Maldives, The Romanian Black Sea Coast, Libya, Korea, Mexico and the Caribbean. We know that Asia, Africa, the Middle East, Australia, New Zealand and many parts of Europe are also seeing record numbers of spa projects in development.

We also know that spa goers in the luxury sector are very sophisticated. These individuals have the means to travel the globe. They are educated, savvy and have high expectations. In many cases these spa goers are more knowledgeable about the World of Spa than our employees are. They know about Russian Banyas, Japanese Onsen, Turkish Hamams, French Thalassotherapy, Taking the Waters in Baden Baden, or sweating in the Tamascals of South America because they have experienced them. It is a great problem if the spa consumer is more knowledgeable than those of us working daily in spas.

This is a crucial time in the industry where we need to come together globally to share ideas, and seek to gain a greater understanding of the rich and varying spa cultures that exist. Technology has made this easier than ever to do. In preparing for today's

discussion, we spoke to more than 30 people living in six different continents. Email and translation tools made the task of gathering their insight relatively simple. Christi and I have both been involved in the U.S. beauty and wellness industry in different capacities for 16 plus years. Based on our experiences in North America and our discussion with individuals throughout the world, today we will present to you (6) six spa industry weaknesses that we believe are global issues. We will then offer keys towards progress in those areas. I will begin with the first three and then turn my time over to Christi.

Before moving forward, I want to emphasize two important points:

1. Regardless of what industry you are in—whether you are a manufacturer, in technology or spa—there remains one certainty; CHANGE. For this cause, it is likely that we will never fully solve some of these issues. New issues will evolve as the industry does. We simply must make progress towards improvements.
2. It is also important to note that the details of the weaknesses we present will vary from country to country. Because time will not allow for us to discuss the specific symptoms that these challenges cause in the different parts of the World, we ask each of you to consider how these topics affect the spa industry where you live. Further, because we know the U.S. spa market, most of our examples will be based on our experiences there. Again, we understand that the solutions for each country may be different, so please think about how this information can be adapted to your business.

GLOBAL SPA INDUSTRY WEAKNESSES

SLIDE #3

Let's take a look at the first three weaknesses. I will go into greater detail about each one following:

THE DEFINITION OF SPA

There seems to be a lot of controversy about what qualifies an establishment as a spa.

RESOURCES, DATA AND DIALOGUE

Globally speaking, we lack hard data and statistics.

DESIGN – FORM VS. FUNCTION

Although spa development and spa operations are two different disciplines, to be profitable, spas need to be both stunningly beautiful and designed with operational needs in mind.

SPA DEFINITION – DOES IT MATTER?

SLIDE #4

Coming to a consensus of what a spa is, is not our goal today. In fact, I am not sure this would be possible. I suspect that if we asked each person in this room what their personal definition of what a "spa" is, answers would dramatically vary. Each of us are individuals—no two alike. We all come from different backgrounds. Our varying life experiences, cultures, traditions and relationships with others have contributed to shape our own values and perceptions of what a spa should be. I believe that because of the diversity of humanity, there is room for diversity in what a spa experience should entail.

It is important that your Company has its own spa philosophy. You need to look for ways to set yourself apart from the competition. It is your unique view of the health and wellness experience that will help to differentiate you from others.

However, from an industry perspective, it is important that we come to some agreement as to what the definition of a spa is. Without a clear definition of what makes a spa a spa, consumer confusion is created which contributes to two key problems.

CONSEQUENCES OF CONFUSION

SLIDE #5

First, it becomes difficult to help consumers see the full value of the spa experience. For example, in the U.S. we have a lot of Hair Salons whose primary business is providing hair and nail services. They build a room in the back, employ a massage therapist and start calling themselves a Day Spa. An individual goes here for their first "spa" experience. They receive a massage with the sounds of laughter and blow-dryers in the background and the smell of acrylic nails in their nostrils. In this type of scenario, many times the first-time spa-goer determines the spa experience they have heard and read all about, is over-hyped and of little value. They do not return. This hurts the facilities that offer a true spa experience.

The second issue, lack of definition makes it very difficult to gather accurate statistical data. Let me give you an example. In 2003, the International Spa Association conducted a survey to determine how many spas there were in the U.S. I don't recall the exact number, but it was roughly around 12,000. A recent report in 2006 showed the new numbers. Again, I do not remember the specific percentage, but according to the data, it showed the numbers of spas in the U.S. had grown by maybe 10% or 15%. We knew that number had to be low. When we asked about this, we found the qualifications for what a spa was, had changed. Therefore, fewer facilities qualified as spas. In the States, individuals desiring to open a business must put together a business plan to obtain the necessary capital from a bank or investors. Lending institutions like to see hard statistics to ensure that the money they are lending is a sound investment. They want reassurance that the potential recipient not only knows what they are doing, but that the industry itself is strong and robust. In this case, these statistics would not be encouraging.

As the modern spa experience continues to develop and grow throughout the world, it is important to realize that consumer perception ultimately defines what a spa is. For example, many of us in the industry in the U.S. believe that true to tradition, a facility is only a spa if they offer some type of water component or hydrotherapy. Yet, for years Vichy showers and hydrotherapy services have been our poorest performing services. We continue to build day spas with expensive hydrotherapy equipment that goes virtually unused. (Resort spas are exceptions, hydrotherapy treatments there tend to perform better.) Our consumers do not understand the value of water-based services. We do not have the same traditions of "Salude Per Aqua" as do other parts of the world. Thus, consumers do not consider water-based therapies an important component of what they believe the spa experience to be.

Lynn Walker McNees, the president of ISPA, shared with me the most recent definition of a spa being used for research purposes:

WHAT IS A SPA?

SLIDE #6

A place of business that offers at least two of the following three kinds of services:
Full Body Massage

Skin Care Treatments
Body Treatments

I confess, when I heard this definition, I said, “Wow! No water—Spas sprung up through the womb of water and no wellness, what’s happening to our industry?” Lynne responded, “I know Mindy, it surprising. But the reality is, consumer perception drives the definition. As the industry continues to grow, it is likely the definition will continue to change.”

KEYS TO PROGRESS

SLIDE #7

1. Seek for a global spa definition

As an industry we must try to come closer to defining what a spa is. We may not be able to control the perceptions of the consumer, but as an industry we can certainly influence those perceptions. Working together globally, we will benefit from the strength found in numbers.

2. We need to continue to make conscious efforts to work with the media to get the message out.

For the most part, we feel this is being handled well. As new markets emerge, they will benefit from the ideas and success of those of us that have gone before. Again, the need for global dialogue can prove beneficial.

3. As business owners, whether we sell products or services, we must try to avoid using the term “spa” in marketing if it really doesn’t apply.

Again, I site the example of the hair salons that are calling themselves spas in the US. These types of establishments have impacted the views of the consumer in many areas of the US, and it has hurt our industry.

Let’s take a look at weakness #2

THE NEED FOR STATISTICS, RESOURCES & DIALOGUE

SLIDE #8

The need for statistical information at a global level is more important than ever. The United States, Canada, The United Kingdom and parts of Asia have all made excellent strides in the area of gathering data. Information is critical in the development process:

It makes available hard facts for better business decisions. Let us again look at the usage rates of hydrotherapy tubs and Vichy showers in the U.S. For some businesses, it does not make sense to put these in. Some companies will never see the return on investment (ROI). Had we not done the polling to find that nationwide hydrotherapy services are poor performers, we would not have known this.

Data provides insight to consumer desires. In the most recent spa-goer study conducted in the U.S., it shows that the top three areas of interest for consumers are: Home Spas, Mother and Baby Spa Experiences and Country Club or Residential Spas. For the most part, there are very few companies that offer these types of services. We now have good indication on new niche markets that are in demand.

Stats allow us to accurately estimate guest usage for financial planning purposes. They also help us understand what services consumers will participate in which helps determine the appropriate programming for a spa. This is critical information in both pre-development and architectural design stages.

From an operational perspective, statistics illuminate areas needing improvement in individual businesses by providing comparable benchmarks. I remember speaking to one spa director that felt quite proud of having achieved a 22% profit margin at her resort spa. When I shared with her that I knew of spas like hers that were able to achieve margins in the 30- 40% range, she realized she could do better and wanted to find out how.

The development of universal business tools helps spa managers and owners more efficiently and effectively run their businesses ultimately making the spa more profitable. (Or minimize the annual financial loss of the spa, in some cases.)

KEYS TO PROGRESS

SLIDE #9

1. One step to progress is that we make greater efforts towards seeking and sharing information on a global level. I believe that it is safe to say the much of the growth and industry strength in America has been a result of the efforts of the International Spa Association (ISPA). ISPA funds the majority of the spa industries studies in the U.S. and Canada. They have also developed a good number of business tools and resources. This could not have happened, without the many individuals coming together to talk about what was needed.

SOGECOS has recognized the need for International dialogue and has stepped forward to organize this event. They have initiated progress in this area. It is up to us to support and sustain this progress by participating in these types of events. Not only participating by showing up, but by speaking out, as well.

2. Better utilization of existing resources and more involvement in Associations. There are many strong Associations throughout the world that have already developed excellent tools and resources. I've already mentioned ISPA, there is Leading Spas of Canada, British International Spa Association (BISA), Singapore Spa Association, the Taiwan Spa Association to name a few. We need to look for ways to collaborate with each other to share ideas, tools and information. The sharing of useful tools and resources means that we do not have to "reinvent the wheel" in our respective markets. Simply take the information and adapt it to the specific needs of our market.

Now I think it could be argued, the U.S. is perhaps the strongest leader in the area of statistics, data and resources at this time. Again, this is due to ISPA. It should be noted that ISPA is a global organization, thus encourages members to join from around the world. As membership grows in areas throughout the globe, ISPA is able to dedicate more resources towards developing specific tools to meet the needs of varying regions.

It is important to understand that organizations like ISPA rely on industry professionals to donate their time, talent and in some cases resources to develop and grow the Association. The Board and Committee Members of ISPA are not paid. They are various industry professionals who hold day jobs outside of the organization. Through years of dedicated commitment and service of these many individuals, ISPA has grown into an organization that has the means to pay full-time staff whose role is to support the

association. Each year as ISPA grows through both the financial and intellectual support of its members, more financial resources become available to put towards the development of tools and research.

I have personally served on various committees for ISPA over the last few years. Two years ago I was one of four women that volunteered time and experience to craft a Standard Operating Manual for the spa industry. My contribution alone, involved more than 120 hours worth of work. Had my Company been developing this piece for a client the cost to the client would have been around \$36,000.00 USD.

This comprehensive manual has more than 120 pages of information such as job descriptions, health & safety policies and procedures, guest service standards, sexual harassment guidelines, grooming and appearance standards and many other necessary documents that every operating spa business should have. This manual is provided in a CD format, allowing companies to make necessary changes to any areas needed in order to adapt it to their specific business. ISPA makes this valuable business tool available to its members for \$125 USD.

Those of us that authored the manual do not receive any portion of proceeds from the sales, and again we were not compensated for development. We created and donated this item on behalf of ISPA because each of us knew that although we would not see any monetary benefits our contribution would strengthen and grow the industry which would indirectly strengthen our individual businesses by ensuring the need for our products and services over a longer period of time.

I would like to share another example of committed industry professionals in the U.S. who are donating their time towards strengthening the spa industry. Ten members of the Las Vegas Spa Association (LVSA) are currently volunteering their time and talents to develop and teach an introductory spa management course for the University of Nevada, Las Vegas.

The LVSA approached the University when they identified the need for more qualified management candidates to help run their spa operations. (The need for qualified management is another weakness globally however we did not put it on our list today, for time sake.)

Together they worked to write the course curriculum and then four of these individuals are teaching the course. (In fact, it is for this cause that Mitch Jucha was unable to speak with us at this venue. The inaugural class was last night, and Mitch stayed behind to teach.) Again, no one from the LVSA is being compensated. They understand the payoff will come in the future, as more students in the Las Vegas area leave the University with a good understanding of spa and the business skills required to run a profitable operation. Las Vegas is not the only area in the U.S. doing this. We also know of groups volunteering to assist the University of Arizona and the University of California Irvine and UC San Marcos.

There are many individuals in the U.S. and through out the world that donate their time and talents to sustaining the spa industry. We have seen very dedicated individuals in Asia who are making similar contributions to moving their regional industries forward as well. In fact, I do not doubt there are numerous examples of such individuals in this room. However, we still need more.

We need leaders in less developed spa regions throughout the world to step forward, and using a similar model, donate time and energy towards growth. It is interesting to note that the most successful individuals in the U.S. spa industry are the same individuals who have contributed back talent and resources. Coincidence, I think not. I believe credibility is built best through action, rather than word alone.

The last weakness that I will share before I turn the time over to Christi is a development related issue. FORM vs. FUNCTION

FORM VS. FUNCTION

SLIDE #10

Frank Lloyd Wright, a famous American Architect said, "Form follows function—that has been misunderstood. Form and function should be one, joined in spiritual union."

I must say that one of Europe's greatest strengths is the beauty of design. Architecture, product packaging and retail displays are what we refer to in America as "eye candy". Absolutely stunning! I love to come to Europe (especially Southern Europe) because you really understand style.

The early spas of America did not consider form in their designs. For the most part, spas were created for the sole purpose of administering health and wellness programs. As the luxury spa niche developed, more spas began to recognize the importance that a beautiful environment played in the overall experience. The most successful and profitable spas were those that provided guests a complete sensory experience—tantalizing individuals through sight, taste, sound, hearing and touch. Through the amazing talents of individuals like Robert Henry, who we heard from earlier today, the U.S. has made great strides in form.

We see both form and function being a weakness. Although for the most part, we are seeing "poor form" issues in spas being addressed through renovations. Based on our operational experience and speaking to other operators throughout the world, we know that today the bigger problem is function is being compromised. Why is this happening?

WHY IS FUNCTION COMPROMISED?

SLIDE #11

1. In many cases, spaces are being designed by individuals who lack the understanding of various functions of the operation
2. The desire to reduce costs during development (or in some cases the perception of increasing costs)
3. Another reason is simply lack of space

Let's quickly take a look at common mistakes we see in the U.S. Perhaps these will be helpful to you in your markets.

COMMON MISTAKES

SLIDE #12

Employee areas are reduced or eliminated all together. This is a very common practice. At first view, staff and support areas do not directly generate revenues. Thus, it could logically be assumed that these areas should be eliminated to allow for additional treatment rooms which do directly generate profits. Without having actually operated a

spa, you would not realize that without a common place for staff to congregate in the spa between treatments, you lose the ability to accommodate walk-in services. This will negatively impact your bottom line.

Linen flow is often overlooked. Spas generate a tremendous amount of linen. You really need to consider how you will move the linen in and out of the spa. Where will the linen be cleaned and processed? Do you want guests to see large linen carts move through the spa during operating hours? We often see linen storage areas that are placed in poor locations and are too small to adequately meet the needs of the operation.

There never seems to be enough storage in most spas. You need to consider that storage will be necessary for equipment, service and retail products, linens, robes, slippers, cleaning supplies and other amenities. Will your staff need a preparation room for certain treatments and products? How do you intend to control your inventories? Lack of inventory controls can lead to dramatic loss for a spa as employees and guests alike help themselves to company inventory.

The spa should be designed with the guest process in mind. Where will guests check-in for services? How will they get to the locker facilities? Will they be issued a robe and slippers or will these items be waiting in the lockers? Where will guests wait before and after the treatment?, etc. All of these questions along with the operational needs must be considered and answered BEFORE the design process. Failing to do so, can lead to a poorly designed facility that struggles to operate at maximum efficiency. Again, this can impact the operations ability to make maximum profits.

COMMON MISTAKES

SLIDE #13

Mechanical, Electrical and Plumbing (MEP) issues are also quite common. Slopes on floors and ceilings in wet and steam rooms are often insufficient leading to poor drainage and water collection. This can create hazardous environments making it unsafe for guests and employees alike. I have seen more than one spa turn expensive, yet poorly designed Vichy shower rooms into storage rooms. Often times we will find that facial rooms do not have sufficient electrical outlets to support all the equipment needed. Perhaps, hydrotherapy tubs fill too slowly because the circumference of the feeding pipe was not as large as it should have been.

Sound attenuation is a common oversight, as well. You do not want to place a wet room next to a massage room if it is not properly sound proofed. I heard of a spa in Dubai that took great care to ensure all treatment rooms were completely sound proofed. They knew how important a tranquil environment was to ensuring a satisfactory spa experience. They were very pleased with themselves for doing this until the fire alarms went off and nobody in the treatment rooms were able to hear them.

Wet areas create a lot of humidity. This can initiate problems for specific equipment and certain materials used in interior design. Body treatment rooms can often be too cold for guests, thus it is ideal to have each room on individual climate controls. Proper ventilation is critical for staff lounges and salons where chemicals are used for hair and nail services.

Lastly, we often see poor selection of interior finishes. Seaweeds, oils, mud and wax do not necessarily mix well with all finishes. Natural stone tiles are very porous and although

beautiful, can look old and dirty within months if used in the wrong places. Tiled hallways can create a lot of sound around treatment areas, etc.

KEYS TO PROGRESS

SLIDE #14

1. When developing spas in the luxury market, it is crucial to have a talented Architect. If you want your operation to best meet the needs of your guests and to run efficiently which will directly impact profitability, it is also critical to include an expert who understands daily operations as part of your development team.

2. You must understand that every decision in the design process has a financial implication.

We get calls regularly from individuals who are building luxury properties, and want to have a spa for marketing reasons, (they know today's luxury traveler demands it). They do not understand what a spa is, and they are not willing to allocate enough space to develop the spa correctly. In these instances, it better to not put anything in at all—spas not built properly devalue a property, they do not increase value.

We have also seen many luxury properties that have over-built or under-built spas because they do not conduct the necessary research to determine spa usage rates. Size does matter, in both cases you lose; if your spa is too small, you have to turn away business which affects profitability. If your spa is too big, you are burdened with greater than necessary capital costs and once open, higher labor costs. If you do not understand the financial implications of these types of decisions, pay the money to consult with someone who does. Your investment will absolutely pay off in the end.

3. Many properties have future plans for growth.

They intend to add additional hotel rooms or condo units. In these instances, it is important to consider that when your property grows, you spa will need to grow as well. Consider building it in such a way, that expansion will be possible.

I believe you have heard enough from me. Allow me to turn the time over to Christi for the last three weaknesses.

GLOBAL SPA INDUSTRY WEAKNESSES

SLIDE #15

The fourth, fifth and sixth weaknesses will be elaborated on. These topics are:

CODE OF ETHICS

The lack of a Code of Ethics can lead to inconsistency in business practices

STANDARDIZATION OF QUALIFICATIONS

This ensures quality services and experiences.

THE AVAILABILITY OF SPAS FOR ALL INCOME LEVELS

The ability to enjoy the benefits of health and wellness should not be bound by money. Spas need to be available to all economic groups.

CODE OF ETHICS

SLIDE #16

A Code of Ethics is a set of rules governing the behavior of members of the organization that has established this Code. Creating a Code of Ethics does not mean that there has been unethical behavior. The Code of Ethics is a statement of appropriate and expected conduct that reflects the values of the organization.

Here's an example of one of the items from the Code of Ethics of the Australian Association of Massage Therapists:

"The primary factor in all treatment decisions is the client's well-being"

THE NEED FOR CODE OF ETHICS

SLIDE #17

People are our product. We can not teach our consumers about health and well-being if we do not take care of our employees.

We need to make a greater effort in humanizing our businesses and how we think about productivity. For many places, particularly the U.S., where spas were created out of a business model rather than a medical or cultural perspective as it has been in Europe and Asia, there is huge pressure to continually increase productivity and profit margins with little regard to the other aspects of the business. A spa is not a factory with an assembly line of massage therapists and aestheticians who are to be thought of as easily trainable disposable commodities.

I'm not only referring to treatment providers, as this applies also to spa management. If Spa Directors are not living the balanced lifestyle they sell and promote, then burnout is inevitable. If leaders are not living a healthy and balanced life, is it fair to expect that they will support a healthy work environment that respects the human value brought to this industry? If the staff doesn't live this lifestyle, is it fair to expect our customers to respect us as leaders and experts in an industry that promotes health and wellness?

Let us not forget, the company isn't the only one with a responsibility. Employees have an equal responsibility to be professional and reliable and understand that in addition to the healing aspect of the work, a business is being run. Employees need to make greater efforts to show up for work on time, participate in staff meetings and trainings. They also need to agree to adhere to company policies and standard procedures to ensure consistency of quality in service.

This brings me to the second point:

Practitioners and consumers also have a responsibility to a Code of Ethics as well. In the U.S., in general, massage therapists do not have the best reputation for being responsible in a business manner. They may be wonderfully talented in a healing capacity but not always able to see the point of view of the business owner.

Here are some examples of what might be in a practitioners and consumers Code of Ethics:

For the practitioner, they might say that they will not willfully misrepresent their qualifications, training or experience. The Consumers Code may include: to communicate preferences, expectations and concerns and to give accurate health information.

Let's say that your business already has a Code of Ethics. That's great! Then, the next step is to implement a Code of Ethics to guide your staff and clients.

The third point is:

Liability issues. No matter where you are in the world, people have a human right to work in and receive treatments in a safe environment. It is truly amazing that through the evolution of U.S. spas in the past decade that there has not been more serious liability issues. With the growth of the medical spa category there is growing liability. But, that is usually a result of user error and lack of proper training and information rather than the dysfunction of products and equipment. It really all just goes back to people being our product. We must provide the staff with the necessary tools to perform their jobs in a safe environment.

We must also look into the future and see how liability issues can affect our businesses, address these issues now, and prevent as many issues as possible from developing in the future.

Where do we go from here? Let's see what some of the Keys to Solutions are:

KEYS TO PROGRESS

SLIDE #18

1. Understand the negative impact that a lack of standards has on the industry.
2. Initiate and uphold high standards in your own business. It all begins with individual commitment.
3. If needed, pursue the creation of unions and governing bodies.

From a global perspective, it is important to share this information. Not every country needs this protection but for those who do, it is important to learn from those who have gone before. We understand that in some places unions have a negative connotation which is likely a result of having too much power. We need to learn from this and at the same time implement systems to protect our employees and businesses.

We also need to learn from others as there are already organizations in our industry that have standards in place, such as Codes of Ethics. Spend your time growing your business instead of re-creating the wheel and duplicating information that already exists.

STANDARDIZATION OF QUALIFICATIONS

SLIDE #19

Why is this necessary?

Let's look at what Standardization of Qualifications means.

Using the United States as an example, every state has a different licensing requirement for Massage Therapists and Aestheticians. School curriculum and graduation requirements differ. One state may require 300 hours of schooling and the next state require 750 hours of schooling. There is a National Certification Board but most employers do not utilize a National Certification requirement. So, the states have Standardization of Qualifications, but the country does not.

There are parts of the world where not only is there no standardization, but very little qualifications. These are places that there are limited education options and no

qualifications other than providing the very basic techniques of the job. Training is rarely formal and usually provided by other employees or product vendors. For example, I've been to a spa in Asia where front desk receptionists and locker room attendants participate in a few training sessions on how to give a massage. When they can successfully prove that they have memorized the sequence of a massage, they can become a massage therapist.

Several months ago, Mindy and I were in a Spa in the Caribbean. Our breakfast waitress was trained by spa product vendors to administer manicures, pedicures, and massage. She was the one who performed our spa services. Needless to say, the outcome is not what we expected. We could have done a better job painting our nails in the dark, while walking in the jungle, dodging the bats.

We recognize that some people are just naturally talented. We also recognize that high levels of training does not always guarantee a great treatment. In fact, one of the worst massages I've ever had was during an interview with a woman who had over 1500 hours of training. And, I've had great massages in Asia by therapists with little training.

However, there are very good reasons for Standardization of Qualifications. Some of these reasons include:

First of all, the consumer receives inconsistent and sub-par treatments. This leads to the de-valuation of the spa experience in the eyes of the consumer. We know that in the U.S., most consumers do not regularly complain. They simply do not come back to the facility where they received poor service. Additionally, they tell approximately ten (10) other people about their experience. This "word of mouth" marketing can certainly negatively impact guest usage rates of a business.

Poorly trained technicians result in numerous health and safety concerns. We need to ensure the health and safety of both guests and employees. Something as basic as sanitary standard is of great importance in our industry. You would be shocked to hear how many places do not sanitize manicure and pedicure tools between clients which can lead to serious infection.

With health and safety concerns comes the possibility of property liability issues. America is a litigious nation. Consumers are regularly looking for reasons to sue companies for monetary compensation. The potential for people to become sick or injured dramatically increases when there is a lack of standards and training.

If we are an industry that is based on providing individuals with the means to achieve health and wellness, then we have a basic responsibility to general integrity. For the long term success of our businesses, we MUST individually hold ourselves to a high standard even when it is not the easiest or most profitable thing to do.

Possibly the most important reason for the standardization of qualifications is to ensure a better source of qualified technicians and management candidates are available to spa businesses. This will make the task of recruiting qualified individuals less daunting. If we raise the standards globally it will make it easier for everyone to find qualified staff and management.

So, what are some KEYS TO SOLUTIONS of Standardization of Qualifications?

KEYS TO PROGRESS

SLIDE #20

1. The Availability of Quality Education

This may mean as a company, there is a responsibility for providing education to employees when there is a lack of professional education available.

2. Consistencies in Licensing Requirements

This works hand-in-hand with globally increasing standards.

3. Refrain from hiring individuals who do not have the proper training and licensing to fulfill requirements and job duties.

Before I mention the final Spa Industry Weakness, we realize that this is a conference devoted to the Luxury Spa market. The final weakness is not applicable in this specific venue. However, it is a global weakness and ultimately will affect the sustainability of the global spa market. Therefore, it should be considered in any venue.

The last weakness is:

AVAILABILITY OF SPAS FOR ALL INCOME LEVELS

SLIDE #21

In a recent North American spa-goer study, the number one reason for not visiting a spa more often:

“They’re too expensive!”

Of the individuals polled in the U.S. 69% of the respondents provided this response while 70% of those in Canada. This equates to approximately thirty nine (39) million potential additional spa visits. 39 million people can certainly help sustain and strengthen the industry. This is just the U.S. and Canada alone. Imagine what the impact is on a global level!

If the spa industry recognizes that introducing more people to the concept of spa in general, the entire spa industry—including the luxury segment—will continually have a growing and consistent clientele.

The U.S. spa industry has seen an enormous growth in the luxury segment in the past decade. This luxury segment continues to grow in other countries and is mostly driven by the well traveled spa goer who demands it. What the U.S. has developed that is not seen in many other countries is the Day Spa segment. This is the bridge to the more affordable spa.

The evolution of any industry is that companies find ways to make products more effectively and affordable. Consider the technology industry as an example. We’re already seeing this evolution take place in the spa industry.

In the U.S., a company called Massage Envy offers a very basic, no frills spa environment and promotes \$39 massages for one hour. The Heartland Spa & Massage in Bangkok, Thailand offers a 2 hour massage for 450 baht, the equivalent of \$10 dollars U.S. The economic model in Paris is The Body Minute.

To continue to grow our industry globally and provide the health and wellness that the industry promotes, it is important to consider what it means to affect many people instead of only a few.

KEYS TO PROGRESS

SLIDE #22

1. Consider business models outside of the "luxury" mold.
2. Be creative in developing profitable business models which make available spa benefits for the masses

Let's again use the U.S. example of Massage Envy. In the ISPA definition that was provided earlier, technically speaking, they are not a spa because they only offer massage. However, their exclusive offering of the most popular spa service in the U.S., coupled with an inexpensive price will expose many individuals to the wellness benefits that massage provides. There is no doubt this will create interest for some people in other spa modalities as well as build value for the spa experience. Once value is built, people are more willing to invest in spa services because they appreciate the therapeutic values. Many of these people may not have ever been exposed to the spa experience except through price value.

3. Look for ways to make the "Spa Experience" a lifestyle choice, rather than a special occasion.

In conclusion, what we have spoken about can be overwhelming. Please keep in mind, as individuals we are not alone responsible for the entire global spa industry. First, you are responsible for yourself and your business. Take one step at a time. Some people's steps will be larger than others. Individually, each one of us makes an impact every single day. Collectively, we are a brilliant force! Our message of health and wellness in its many forms has and will continue to enhance millions of lives.

Together as a global group, we will help each other become stronger through knowledge and experience which ultimately helps improve profitability and sustainability in the global spa industry.

It is time for more industry leaders to step up, to come forward, to contribute ideas, knowledge, experience and wisdom and to move our industry forward both at home and throughout the world.

GLOBAL UNIFICATION

SLIDE #23

Henry Ford, the owner of Ford Motor Company could have been talking about the global spa industry when he said:

"Coming together is a beginning,
Staying together is progress,
And working together is "success"

May we each take a greater initiative to improve the sustainability of this great industry!

In closing, we would like to thank some key individuals who shared their knowledge, wisdom and perspectives with us toward preparing today's comments:

SPECIAL THANKS

SLIDE #24

Andrew Gibson, CEO, Raison d'Etre Spas
Antoine Gedouin, President, Phytomer
Various Board Members, International Spa Association (ISPA)
Brad Garner, VP, Smith Travel Research
Bruno Queyrel, The Monaco Spa Event
Darryll, Leiman, Director of Cruise Operations, Canyon Ranch
Fred Hoffman, Consultant, Buddha Spa
Guy Jonkman, Editor in Chief, Spa Management Journal
Jodene Shaer, President, Refined Placements
Lynne Walker McNees, President, ISPA
Philippe Allouche, President, Biologique Recherche
Professor Raymond K. Carroll, ESTT College of Natural Medicine
Stephanie Ashley, Director of Research, ISPA
Susie Ellis, President, SpaFinder and Luxury SpaFinder
Sylvia Sepielli, Owner, Sylvia Planning & Design
Verronique Preshez, Payot
Vladi Kovanic, Millenium Organisation

And of course, many thanks to all of you who took the time to listen to our message.

THANK YOU



SPA INDUSTRY WEAKNESSES –

REDEFINING YOUR FOCUS



Copyright 2006 by Creative Spa Concepts Inc.

All rights reserved. No part of this publication may be reproduced or transmitted in any form or by any means—electronic, mechanical, photocopying, recording, or otherwise—without prior written permission of the author, Creative Spa Concepts Inc.



WORLD SPA MARKETPLACE

“ I have seen firsthand the marvels of the of the twenty-first century, a time in in humanity’s journey that is different different from all the history that has has come before. We are now operating operating in a truly global economy for economy for the first time.”

~Carly Fiorina

Former CEO, Hewlett Packard





GLOBAL SPA INDUSTRY WEAKNESSES

1. DEFINITION – What is a Spa?
2. RESOURCES – Lack of global statistical data and dialogue
3. DESIGN – Form vs. Function





SPA DEFINITION: DOES IT MATTER?

- Your definition helps differentiate your spa from the competition
- However, the need as an Industry to come to a compromise is important for clarification



creativeSpaconcepts
"proven spa experts"



CONSEQUENCES OF CONFUSION

1. Consumer confusion affects spa usage rates
2. Statistical data is not accurate





WHAT IS A SPA?

A place of business that offers at least two of the following three kinds of services:

- 1) Full Body Massage
- 2) Skincare Treatments
- 3) Body Treatments (Hydrotherapy or Body Wraps)



KEYS TO PROGRESS

1. Seek for a global spa definition
2. Continue to work with the Media to get the message out
3. Avoid using the term "spa" in marketing if your product does not qualify





THE NEED FOR STATISTICS, RESOURCES & DIALOGUE

- Makes available hard facts for better business decisions
- Supplies insight to consumer desires
- Critical information towards preparing accurate financials
- Offers benchmarks for comparisons
- Efficiently improves daily operations





KEYS TO PROGRESS

1. Greater efforts made towards seeking AND sharing information
2. Better utilization of existing resources, increased collaborations, and more involvement in Associations
3. Leaders in less developed regions need to step forward



FORM VS. FUNCTION

“ Form follows function—that has been been misunderstood. Form and function function should be one, joined in spiritual spiritual union.”

~Frank Lloyd Wright

American Architect and Writer





WHY IS FUNCTION COMPRIMISED?

- Lack of operational understanding
- Desire to reduce or increase costs
- Space restrictions





COMMON MISTAKES

- Employee areas are reduced or eliminated altogether
- Linen flow overlooked
- Insufficient storage
- Poor adjacencies towards supporting guest flow and operational needs





COMMON MISTAKES

- Mechanical, Electrical & Plumbing issues (MEP)
- Sound abatement
- Climate and atmosphere controls/HVAC
- Poor selection of interior finishes





KEYS TO PROGRESS

1. During architectural stages, consult with an expert who understands operational needs
2. Understand that every decision has a financial implication—now and in the future
3. Prepare for future growth





GLOBAL SPA INDUSTRY WEAKNESSES

4. CODE OF ETHICS –
Inconsistency in business
practices
5. STANDARDIZATION OF
QUALIFICATIONS – Ensuring
quality service and experience
6. AVAILABILITY – Spas for all
income levels



THE NEED FOR CODE OF ETHICS

1. People are our product. We can not teach consumers to take care of themselves, if we do not take care of our employees
2. Inspire the improvement of Technicians' work ethic and professionalism
3. Risk of liability





CODE OF ETHICS

A set of rules governing the behavior of members of the organization that has established the Code.





KEYS TO PROGRESS

1. Understand the negative impact that lack of standards has on the industry
2. Initiate/uphold high standards in your own businesses
3. In those areas needed, pursue the creation of unions and governing bodies



STANDARDIZATION OF QUALIFICATIONS

- Consumer receives inconsistent/sub-par treatments
- Health & safety concerns
- Risk of liability
- General integrity
- Provides better source of qualified Technicians and Management candidates





KEYS TO SOLUTIONS

1. Availability of quality education
2. Consistencies in licensing requirements
3. Refrain from hiring individuals without proper qualifications / licensing



creativeSpaconcepts
"proven spa experts"



AVAILABILITY OF SPAS FOR ALL INCOME LEVELS

In a recent North American spa-goer study, the number one reason for not visiting a spa more often:

"They're too expensive!"

69% U.S. Respondents

70% Canadian Respondents



Source: ISPA 2006 Spa-goer Study



KEYS TO PROGRESS

1. Consider business models outside of the “luxury” mold
2. Be creative in developing profitable business models which offer “spa” benefits for the masses
3. Look for ways to make the spa experience a lifestyle choice, rather than a special occasion





GLOBAL UNIFICATION

“Coming together is a beginning, staying together is progress, and working together is success.”

~Henry Ford

Founder of Ford Motor Company





SPECIAL THANKS

Andrew Gibson, CEO, Raison d'Etre Spas

Antoine Gedouin, President, Phytomer

Board Members, International Spa Association (ISPA)

Brad Garner, VP – Smith Travel Research

Bruno Queyrel, The Monaco Spa Event

Darryll Leiman, Director of Cruise Ops, Canyon Ranch

Fred Hoffman, Consultant – Buddha Spa

Guy Jonkman, Editor in Chief, Spa Management Journal

Jodene Shaer, President, Refined Placements

Lynne Walker McNees, President, ISPA

Philippe Allouche, President, Biologique Recherche

Professor Raymond K. Carroll, ESTT College of Natural Medicine

Stephanie Ashley, Director of Research, ISPA

Susie Ellis, President SpaFinder

Sylvia Sepielli, Owner, Sylvia Planning & Design

Verronique Preshez, Payot

Vladi Kovanic, Millenium Organisation



creativeSpaconcepts
"proven spa experts"