



GHN SPECIAL REPORT

HFD'S 2003 – 2004 SPA ECONOMICS RESEARCH

A GLOBAL PERSPECTIVE ON RESORT-BASED SPAS

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SUMMARY OF TOP-LINE FINDINGS

The lodging-related spa industry is growing at a phenomenal pace. Almost every new four or five star resort under development has a spa. Existing resorts are adding spas or expanding or upgrading their current spas in order to stay competitive. This is happening on a world-wide basis. When guests are selecting a resort or are at a resort, whether it be for business or pleasure, the spa facilities, services and experiences are an important part of their visit.

Resort developers, owners, operators, investors and/or asset managers are faced with a challenging situation. They know they need to have a spa in order to be competitively positioned so they can sell room nights and/or lifestyle real estate. They build their spa then they realize that the spa is not making as much money as they thought. Perhaps they did not have realistic expectations regarding the spa financial statement. It is important for people to understand the economics of spa development as well as spa operations.

In an effort to create some reliable spa operating financial benchmarks, Health Fitness Dynamics, Inc. (HFD), a US based spa consulting company decided to conduct a global economic research study to examine the economic realities of spa operations. While the sample size was smaller than we had hoped, there are some interesting findings.

Spas were categorized as either US (United States) or Non US (international) Among the key findings of the self-reported data from year 2004:

Non US spas have a higher Spa-Specific Revenue per Occupied Hotel Room (RPOR). For every occupied hotel room, the spa contributes an average of \$49 verses \$40.

Operating Expenses as a Percentage of Spa Gross Revenues is about the same in the US than in other areas of the world. Operating expenses are about 16% of gross revenues.

Non US spas have a significantly lower Spa-Specific Payroll as a Percentage of Spa Gross Revenues. Spa payroll is about 32% verses 52%.

US spas have a slightly higher Net Operating Profit. Profit is about 27% in the US verses 25%.

Non US spas have a higher Utilization of Treatment Rooms with an average of 43% verses 37%.

It appears that US spas and Non US spas are both tangible assets and their bottom line economics are not extremely different. While the Non US spas contribute more to the hotel on a RPOR basis, the US spas have a slightly higher profit as a business. It seems that all spas can be successful business ventures, but there is an opportunity to improve their performance.

BACKGROUND

Health Fitness Dynamics, Inc. (HFD), an established spa consulting company, conducted a worldwide spa economic study of spas within resorts entitled ***HFD's 2003/2004 Spa Financial Benchmark Research Study***. This global landmark study provides never-before released financial information that can be used as economic benchmarks for feasibility analysis, financial audits and operating forecasts.

This is one of many economic studies that HFD has funded and conducted since its inception in 1983. As more and more resorts and mixed-used developments build new spas or expand existing spas, there is an increasing need for accurate economic information. Although it costs a lot of money to build a spa, it is very expensive to operate the spa year after year. Spas are business ventures that should make economic sense in and of themselves as well as being an asset to the resort or mixed-used development. Now, more than ever, the “economic realities” are important to resort spa owners, operators, asset managers, investors, developers, etc. They want to understand the “spa business.” HFD’s spa economic research will help people understand the financial viability of spas and will give them economic benchmarks and management tools to help them manage their spa ventures.

RESEARCH PROCESS

In June 2004, HFD contacted major hotel/resort chains; management companies; asset managers; hospitality marketing organizations and associations; spa marketing organizations and associations; and independent hotels/resorts. HFD explained the nature and purpose of the study and invited them and their properties/members to participate.

A brief survey was developed which included mostly open-ended questions and was self-administered by the spas. Surveys were sent out to all participating spas via fax and e-mail in October 2004 and July 2005. As necessary, HFD made follow-up telephone calls for clarification. All information was self-reported by the participants.

All the invited participants were resort spas where the spa is defined as “a full-service facility that is part of a lodging establishment (hotel or resort). Guests at the resort may enjoy the spa as well as other recreational activities such as golf, tennis, horseback riding, skiing, water sports, etc. The spa offers a variety of treatments (massage, skin care, body, bath, hair care, nail care, make-up, etc.), fitness (exercise equipment, exercise classes) and relaxation areas (lounges, steam, sauna, whirlpool, Turkish bath, Kneipp baths, etc.). Some spa cuisine or healthy dining options are likely to be part of the resort’s F&B menu.”

The profile of participating spas is as follows:

Geographic Location:

- 60% (36) United States
- 40% (24) International/Non-US

Hotel Size:

- 40% were small hotels/resorts with less than 200 rooms
- 33% were medium hotels/resorts with 200 – 400 rooms
- 27% were large hotels/resorts with more than 400 rooms

Spa Size:

- 35% were small spas with less than 10,000 square feet of indoor spa space
- 35% were medium spas with 10,000 – 20,000 square feet of indoor spa space
- 31% were large spas with over 20,000 square feet of indoor spa space

Although our sample is only 60 spas, we believe it is well balanced and representative of the profile of the resort-spa industry. Considering that this was, to our knowledge, the first global spa economic research study, HFD was pleased with the participation. HFD plans to conduct this research on an annual basis and expects that more spas will participate, thereby adding to the number of and reliability of the benchmarks.

REPORTS

This study literally generated hundreds of reports regarding the industry as a whole as well as how each of the participating spas performed against the industry benchmarks. The data can be “sliced and diced” in terms of all of the following:

Geographical Location: United States, International (non-US) and Global/World-Wide (all spas)

Hotel Size: Total number of hotel rooms. Small is less than 200 rooms; medium is 200 – 400 rooms; large is more than 400 rooms.

Spa Size: Total square feet (SF) of indoor space in the spa. Small is less than 10,000 SF; medium is 10,000 – 20,000 SF; large is more than 20,000 SF.

Number of Treatment Rooms: Number of revenue stations for the spa and the salon. Small is less than 10 treatment rooms; medium is 10 – 20 treatment rooms; large is more than 20 treatment rooms.

Currencies & Measurements: All data supplied by participants was in their local currency and size measurements (square feet or meters). This was converted to US dollars at the current rate at the end of July 2005 and all measurements were equated to square feet.

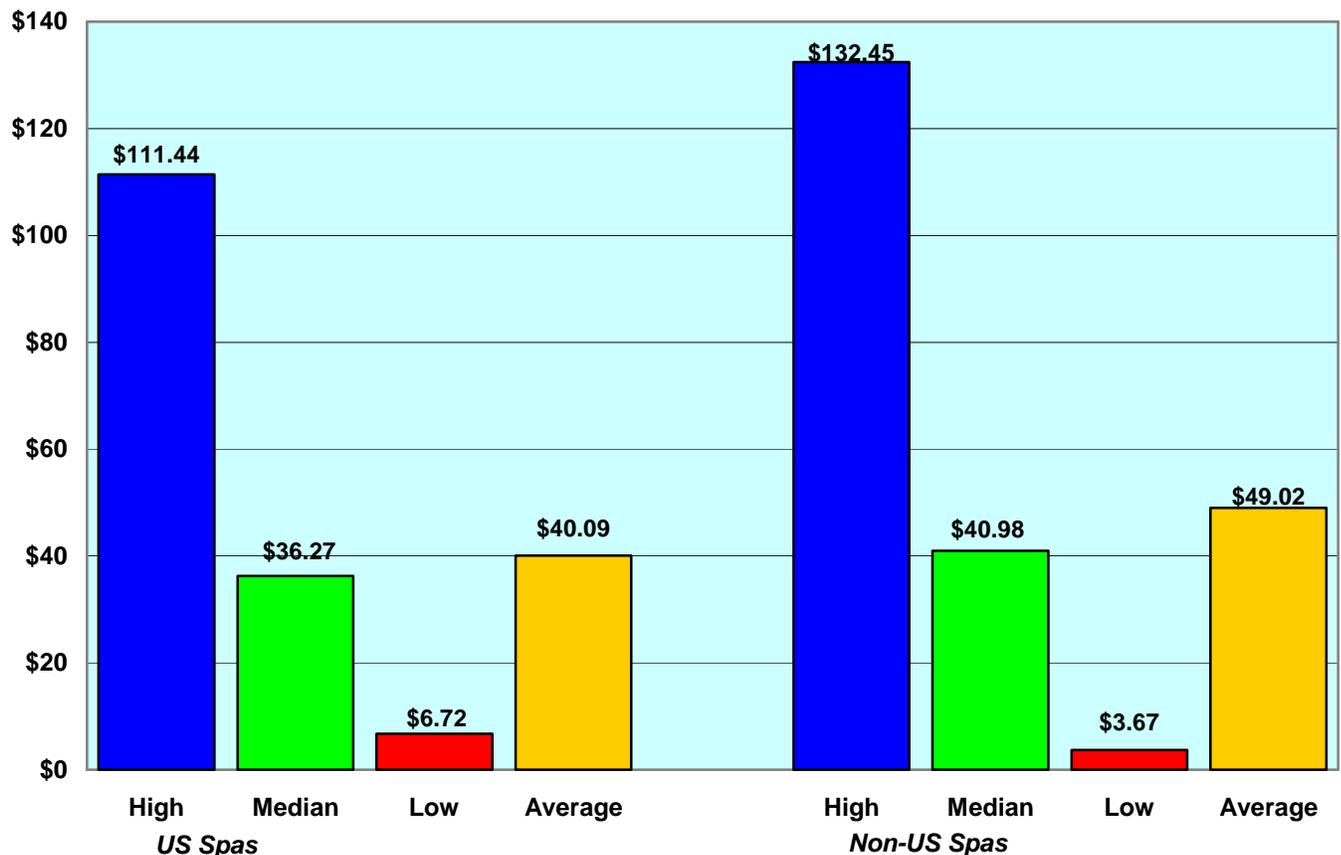
SNAP-SHOT TOP-LINE FINDINGS AND COMPARISONS

This article pertains to the Year 2004 top-line findings and comparisons of the US resort-based spas with the International/non-US resort-based spas. We always hear and see about the globalization of spas and how spas are offering treatments from around the world. With our economic research, we thought it would be interesting to look at the business side of the spa and examine the similarities and differences.

Revenues Report: Chart 1: *Indicates Spa-Specific Revenue (US\$) per Occupied Hotel Room.*

Spa-Specific Revenue includes gross spa revenues from all revenue line items on the spa financial statement: spa facility fees, treatment/fitness fees, spa retail revenues, spa F&B revenues, etc. It does NOT include membership or initiation fees or lodging.

Chart 1: Spa-Specific Revenue Per Occupied Hotel Room: Year 2004

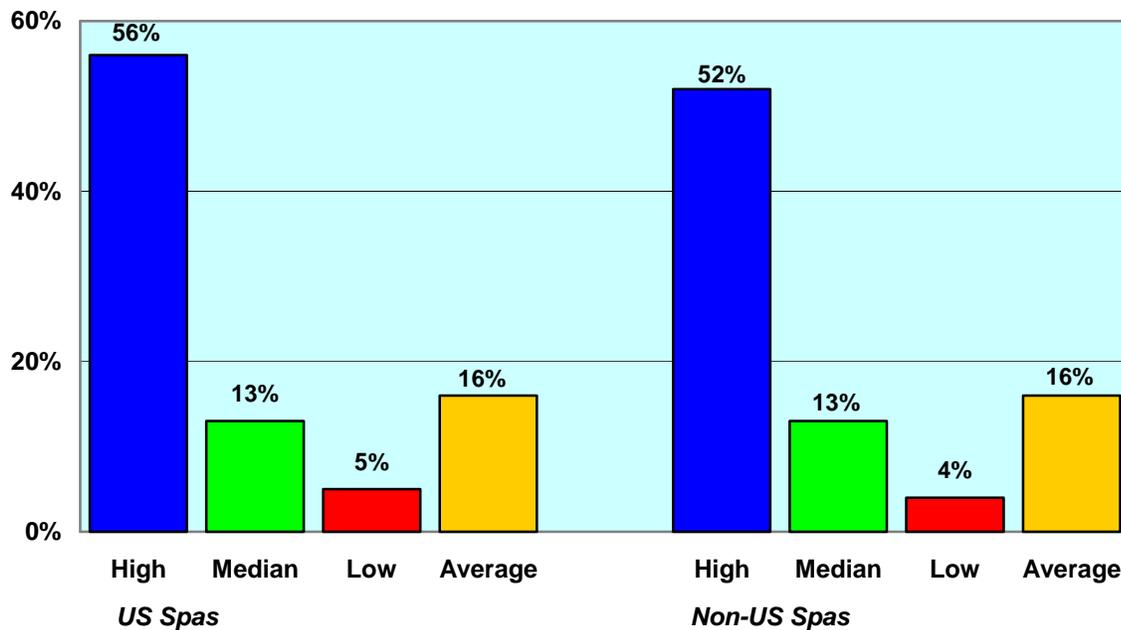


Expenses Report: Chart 2: *Indicates Operating Expenses (US\$) as a % of Gross Revenue (US\$).*

Operating Expenses include all spa-specific operating expenses other than payroll-related expenses, regardless of whether the spa is operated as a department or semi-independent business unit.

Gross Revenue includes gross spa revenues from all revenue line items on the spa financial statement: spa facility fees, treatment/fitness fees, spa retail revenues, spa F&B revenues, etc. INCLUDING membership and/or initiation fees. It does NOT include lodging.

Chart 2: Operating Expenses as a % of Gross Revenues: Year 2004

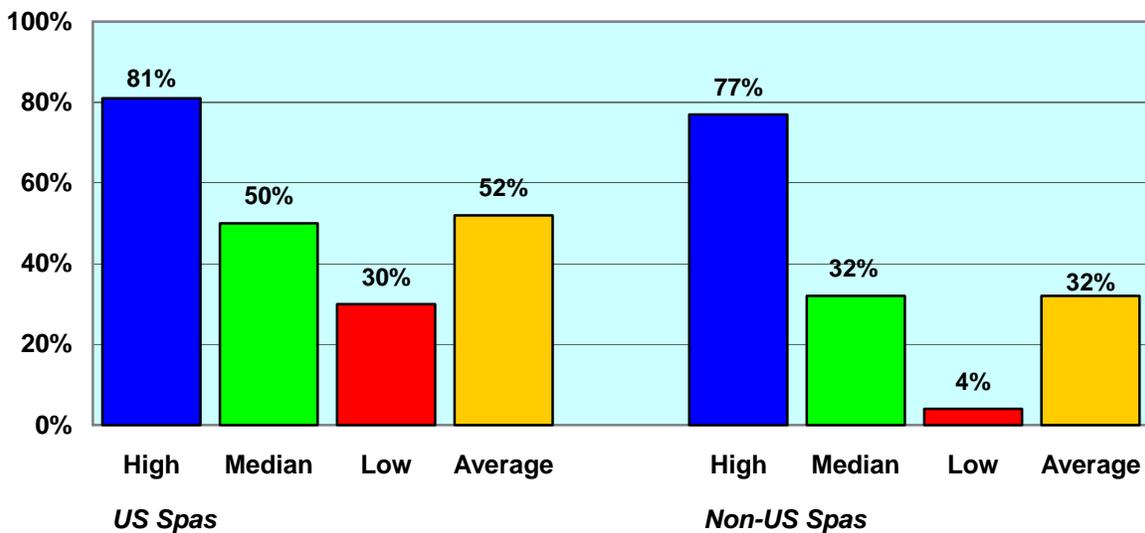


Payroll Report: Chart 3: *Indicates Spa-Specific Payroll (US\$) as a % of Gross Revenue (US\$).*

Spa-Specific Payroll refers to the total compensation for all full-time, part-time, on-call, sub-contractors, support staff and management/supervisory staff. Payroll includes wages, salaries, commissions, contract labor, taxes and benefits.

Gross Revenue includes gross spa revenues from all revenue line items on the spa financial statement: spa facility fees, treatment/fitness fees, spa retail revenues, spa F&B revenues, etc. INCLUDING membership and/or initiation fees. It does NOT include lodging.

Chart 3: Spa-Specific Payroll as a % of Gross Revenues: Year 2004



Profitability Report: Chart 4: *Indicates Net Operating Profit as a % of Gross Revenues (US\$).*

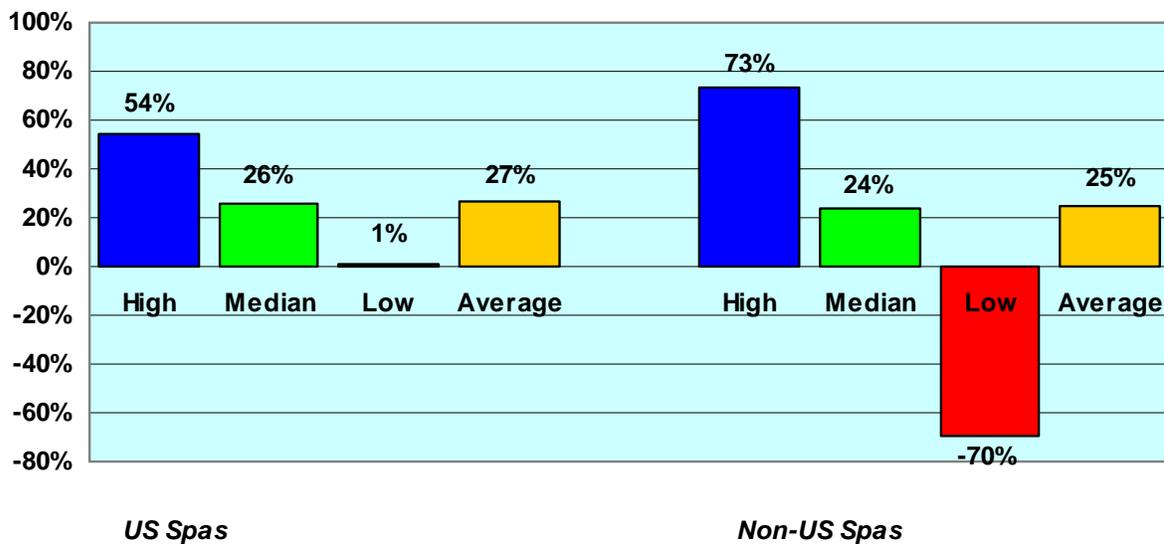
Net Operating Profit is Gross Revenues minus Spa-Specific Payroll minus Operating Expenses.

Gross Revenues include gross spa revenues from all revenue line items on the spa financial statement: spa facility fees, treatment/fitness fees, spa retail revenues, spa F&B revenues, etc. INCLUDING membership and/or initiation fees. It does NOT include lodging.

Spa-Specific Payroll refers to the total compensation for all full-time, part-time, on-call, sub-contractors, support staff and management/supervisory staff. Payroll includes wages, salaries, commissions, contract labor, taxes and benefits.

Operating Expenses include all spa-specific operating expenses other than payroll-related expenses, regardless of whether the spa is operated as a department or semi-independent business unit.

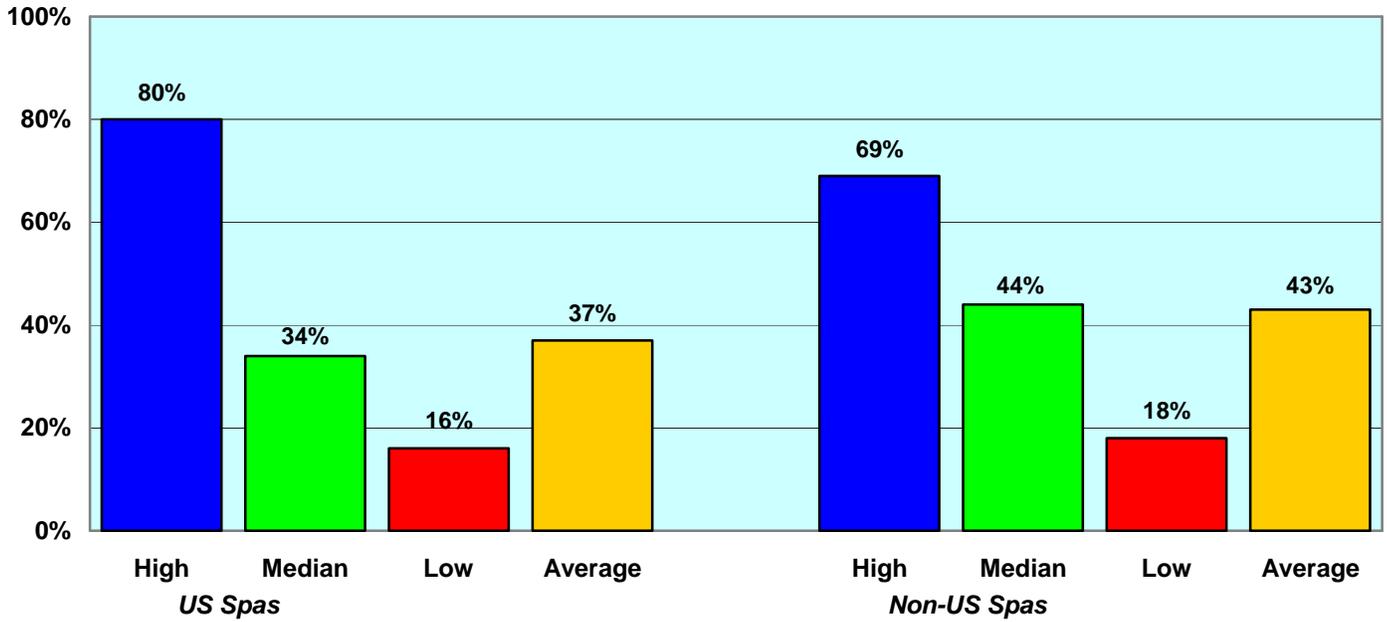
Chart 4: Net Operating Profit as a % of Gross Revenues: Year 2004



Utilization Report: Chart 5: *Indicates Utilization of Treatment Rooms.*

Utilization is the total number of treatments actually performed in a specific time period divided by the total available treatments in that time period (total number of treatment rooms x total number of available treatment periods x number of days in the time period).

Chart 5: Utilization of Treatment Rooms: Year 2004



OF SPECIAL INTEREST ---- REVENUE PER OCCUPIED ROOM (RPOR)

We thought it would be interesting to drill down and focus on RPOR in more detail. We have found this to be a key indicator for many lodging operators because it shows how the spa contributes to the resort's overall financial performance. All figures represent US dollars.

| YEAR 2004 | US Spas | International Spas ** |
|----------------------------------|----------------|------------------------------|
| AVERAGE RPOR | \$40.09 | \$49.02 |
| HOTEL SIZE (# of rooms) | | |
| Small <200 | \$35.75 | \$63.42 |
| Medium 200 – 400 | \$37.18 | \$16.22 |
| Large > 400 | \$38.38 | \$7.84 |
| SIZE OF SPA (Sq. Ft.) | | |
| Small <10,000 | \$23.54 | \$29.83 |
| Medium 10,000 – 20,000 | \$50.40 | \$22.32 |
| Large >20,000 | \$46.12 | \$102.22 |
| NUMBER OF TREATMENT ROOMS | | |
| Small <10 | \$19.83 | \$32.84 |
| Medium 10 – 20 | \$50.84 | \$52.44 |
| Large >20 | \$51.99 | \$132.45 |

** The International database was smaller than that of the US; therefore, as we became more specific, the International benchmarks may not be totally representative due to small sample size of specific report categories being analyzed.

INVITATION TO PARTICIPATE IN THE 2005 STUDY

Every year HFD would like to repeat this study and gather more information from more properties. We believe this will be of significant value in helping spas to achieve their full potential.

In order attract more spas and gather reliable information, HFD recognizes the need to make this easy for the participants. We will, therefore, continue to identify the key benchmarks that would be universally important to every spa. We will provide the definition of each benchmark along with a formula and the frequency of when the information needs to be collected. We want to make it easy for spas to collect reliable data that could then be used as industry benchmarks rather than just as internal benchmarks.

If your resort would like to participate in the next study, ***HFD's 2005 Spa Financial Benchmark Research Study***, please send your contact information to hfd@hfdspa.com. The study will be conducted in February and March 2006. All participants receive complimentary access to an electronic analysis consisting of hundreds of reports as well as the ability to benchmark your property against the collective analysis of your competition (*property names are never divulged so all information is kept strictly confidential*).