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Reading the Tea Leaves

A field report on spa industry recovery

Presented by Peggy Wynne Borgman

Wynne Business Spa Consulting and Education

Your presenter



■ Peggy Wynne Borgman

- 26+ year spa operator: Preston Wynne Spa
 - SF Bay Area spa with 50 employees
- Wynne Business, 15 year old spa consulting firm
 - Turnaround and startup consulting
 - Webinars and live seminars
 - Strategic visioning for spas and spa vendors



Q1 is done. How 'bout that recovery, folks?



Recovery is still “slow and fragile”



Unemployment: the “dragging” indicator

- 8 million jobs lost in US since beginning of recession
 - “jobless” recovery means a long, slow road back
- Uncertainty = negative consumer sentiment
- Tech sector beginning to hire aggressively
 - Tech often leads the way



...so I can go back to the spa!

Consumer sentiment is erratic

- Luxury sector is doing the heavy lifting
- Broad-based consumer spending just beginning
 - WSJ this week: casual dining is back
- Sentiment doesn't mirror the bull market
 - For the first time in a long time



2009 Q4 post mortem (bad news first)

- Sales fell in travel sector by 8.7%
- Sales fell in spa sector by 6.7%
- Medical spas outperformed traditional spas



Source: Euromonitor Study

2009 post mortem (good news)

- Many spas that had dramatically lower sales over 2008 showed improvement on the bottom line in 2009
- Example: our day spa's top line dropped \$500K, bottom line ROSE by \$135K
- Spas are more profitable, doing more with less



Q-1 2010: The sales story so far



- Most spas' sales are below 2009 Q-1 or flat
- Small percentage have shown growth
 - New, aggressive marketers have moved the needle
- Hotel spas are faring worse than day spas
 - Most showing 20%+ lower than 2009



Key Consumer Trends for 2010



- Value
- Escapism
- Health & Well Being
- Home as the entertainment hub

Euromonitor Study



Trend: The Rise of the *Frugalista*

- Habits have changed permanently
- Finds sport, connection and entertainment in bargain hunting
 - Clothes-swapping parties
 - Enjoys the thrill of the chase
- Social shopping
 - Groupon, et al



The Spa Frugalista

- “Grazes” specials at different spas
 - Splurges too, for special occasions
- Bargain hunts and shares “finds” online with Friends
- Yelps/reviews online
- Well informed, increasingly buys product online
- Has high expectations



Spas are segmenting their Frugalistas



- Create offers for *them*, but don't saturate your entire clientele with offers
 - Build a separate e mailing list that is willing to receive more frequent offers
- Using Twitter, Facebook Fan ("Like") Page to communicate special offers



Trend: Value It Isn't Cheap



- “Value” doesn’t always mean low cost
- Consumers expect tangible benefits from goods and services
- “Value for money” is an issue for everyone, regardless of demographic

Consumers want lower price points, not lower service levels



- Consumers don't expect to make compromise to get lower prices
- They know you need them—they feel powerful



Trend: Eco Frugality



- Recycling
- Re-using
- Consuming less
- They don't want to spend more green for green

Trend: Leisure and Escapism

- Escapism...at home
 - Investing in better home theatre
 - Spa inspired bathrooms
- Escapism while spending less
 - Camping, staying with friends
- Escapism online
 - Social networking
- Spontaneity is important
 - Escape on a moment's notice



The P word: not dead yet



- **Pampering: Now more than ever!**
- **Consumers experience a continuum between spa pampering and spa wellness**
- **Guests are “different” customers on different visits**

Megatrend: Health and Wellness

- Consumers are clearer on the link between health and happiness
- “Middle Youth” vs. Middle Age
- Self-treating vs. self pampering
- Medical tourism
- Big retailers are getting it



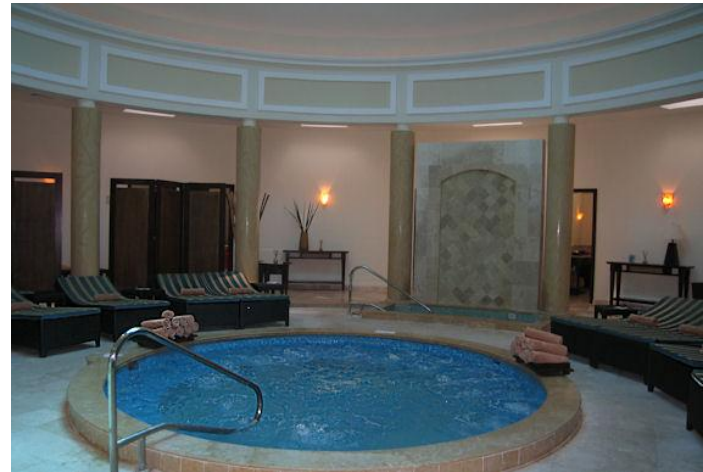
Trend: Home as Entertainment Hub



- “Staying in is the new going out”
- Power-cocooning
 - Hotels are trying to be more like people’s homes
- The New Gamers
 - Wii Fit
- Staycations

Who's recovering fastest?

- Small spas are recovering faster
- Markets with tech employers are coming back
- Hotel spas are farthest behind in recovery
- Spa market is bifurcating into luxury and economy
 - The “middle” may slowly disappear, as it has in retail



“It’s better to look good than to feel good...” -Fernando



■ **Appearance services are recovering faster**

- Waxing
- Nail Care
- Hair Care
- Millenials* very concerned about what others think of them (and their appearance)

*Current 16-33 year olds



The D Bomb

- Discounting has run amok
 - It's a hard habit to break
 - It's becoming culturally expected
 - Give added value instead
- Luxury retailers have recovered by bringing customers back to full price
 - They are offering a variety of price points
 - ...but their inventory is not as perishable as ours



“Social Discounting”



The most common reason for social networking among women is to share tips about bargains.



“My Groupon is KILLING. Phone's ringing off the hook. Today and this weekend are getting totally booked up...Lunar Massage just skipped about 5 months of customer acquisition in one day thanks to Groupon.”

***Joanna Robinson,
Lunar Massage
From the Groupon website***

Add value: you're in charge of the conversation



- A discount is NOT a conversation
- Mix up the offers
- Showcase what you do best
- Spas are adding value with
 - Premiums
 - Upgrades
 - Additional time

Making their own weather



- **Creating strong community, on and off line**
 - **Interacting with guests online**
 - Facebook “Like” Page
 - **Spa as “the third place”**
 - Memberships
 - Place to meet, hang out
 - Use spa as escape from multi-gen, crowded homes
 - **Events and classes**
 - Millennials do things in groups
 - Events keep energy flowing when business is slow



Making their own weather



- Observing how customers are using their spas and adapting to new needs. Selling more of what they sell easily.
 - Parties and events are surprisingly strong
 - Girlfriend Getaway
 - Addressing non-traditional areas of extreme need
 - Cancer treatment support
 - Detox support



Making their own weather



- These managers continue to ask for top performance from team
- They train and coach in customer service skills
 - More frequent, shorter, trainings
 - Online training
- They train and coach in sales skills
- They reward top performers
 - Balanced performance scorecard: retention, rescheduling, retail and average ticket



- **There's still a LOT of climbing to do.**
 - Some spas, weakened by the long recession, won't make it
 - Reducing saturation improves industry health
- **Upside: growing top line but holding overhead steady will ensure profitability**
 - Industry will be much better off on the other side
 - Recession showed us what was possible!



Thank you for your attention. Questions?



- We'll send you a copy of this presentation if you give us a business card
- **For more on the subject, attend "Back in the Black: How to Create Your Own Recovery," our Advanced Workshop today from 2-5 p.m. \$125**
- Contact me: pwb@wynnebusiness.com
- Wynne Business live four-day "Spa Directors Management Intensive, Saratoga, CA"
 - May 23-26
 - Lisa Starr and I co-teach