

Spas:

Redefining the Market

Spas have long been a part of the American hospitality scene. The definition of exactly what constitutes a spa has changed considerably in recent years—and so has the potential market

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ALMOST FROM the start, spas have been associated with the hospitality industry. Even when a spa was little more than a place where water bubbled from the ground, people visiting a spa usually required lodging and occupied their time with diversions that resembled those offered at resorts. In colonial times and through the 1800s, spas were generally constructed near mineral springs and in places with beneficial climates. While climate continues to be an important aspect of most spas, the commercial

value of natural mineral springs had declined by the 1920s. During that decade, people were more self aware, and many of them had reached a previously unattained level of prosperity, a situation similar to that of the present day. Then, as now, potential guests did not travel to these spa resorts solely for health reasons, and spas became focal points for fashionable people.

The depression and World War II left few true spas in operation until the late 1960s. While some resorts (notably those on Miami Beach) offered diet and exercise programs in the late 1950s, true spas were few and far between. Just a few of those opened in the 1940s

still operate today, including Rancho La Puerto in Tecate, Mexico (1941), and Elizabeth Arden's Maine Chance Spa in Arizona (1946). The Golden Door Spa in Escondido, California, opened in the late 1960s.

The resurgence of the spa industry has coincided with the so-called "fitness craze," which seems to be a function of increased self-awareness and prosperity, an apparent echo of market trends in the 1920s.

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California's Golden Door Spa is aimed primarily at women.

Compared to the '20s, however, Americans today have far more leisure time. Despite this increased leisure, people are more jealous of that time and insist that time spent on any activity be worthwhile.

Porter Analysis

Today, there are well over 100 spas in operation across the U.S. Many are unique, a situation that makes it difficult to develop any classification of this industry. In fact, it is challenging to develop a firm definition of what a spa is. A spa can be anything from a hot tub with mineral water to an exclusive, posh resort with body treatments and specialized food service.

In this article, we will analyze the U.S. spa industry using the strategic framework developed by Michael Porter.¹ We will examine

¹Michael E. Porter, *Competitive Strategy: Techniques for Analyzing Industries and Competitors* (New York: Free Press, 1980), p. 4ff.

five forces that affect this segment of the hospitality industry—namely, threat of new entrants, bargaining power of buyers, bargaining power of suppliers, threat of substitutes, and industry rivalry. As part of our analysis, we have attempted to classify spas along the dimensions of price and program emphasis. Price, of course, varies along a range of low to high. Programs seem to fall into one or more of three groups: cosmetic, fitness and recreation, and spiritual. We will provide profiles of selected spas to give the reader an understanding of how we have applied this classification. The information in this article is drawn from telephone interviews of 40 individuals in the spa industry.

Spas defined. We will use the following working definition of a spa. A spa is a destination resort that offers programs for guests that are

intended for physical or spiritual self-improvement. These programs can include any combination of fitness-and-recreation regimens; cosmetic treatments of facial and body wraps, manicures, and the like; and experiences that promote spiritual well-being.

Structure and Competition

We have identified six potential product groupings in our analysis of the U.S. spa industry, based on our two dimensions of price and program emphasis. These categories are as follows: high-cost beauty, high-cost fitness and recreation, high-cost spiritual, low-cost beauty, low-cost fitness and recreation, and low-cost spiritual. A problem inherent in any classification like this, however, is that many spas will fall in between the categories, effectively creating their own product grouping. Moreover, although we have created six theoretical categories, we could find no products that fit into two of them—high-cost spiritual and low-cost beauty.

Strategic groupings. We could have used many possible dimensions to group American spas, but price and program emphasis seemed to be the most important factors in the consumer's purchase decision. As the industry develops, we might see spas competing on such dimensions as product quality, brand identification, or technological leadership.

Other than technology, perhaps, spas have little besides price, program, and location on which to differentiate themselves. To date, the spa segment has little brand identification and only meager consumer perception of differences in product quality. To the extent that the consumer can judge these differences, any discrimination is probably one based on price positioning.

There are no real nationwide spa operators, although some may be



Located in Arizona, Elizabeth Arden's Maine Chance Spa is one of the oldest of contemporary U.S. spas. For women only, the spa is aimed at people interested in being beautiful.

emerging. Canyon Ranch is planning to build more spas in various U.S. locations. Some resort operators are also adding spas to their facilities, including Marriott, Claremont, and La Costa Resort. The entrance of hotel and resort operators into the spa market should help the industry overall by building consumer recognition and visibility for spas as a group and by attracting portions of the market that have not traditionally used spas.

Spa Profiles

The following are profiles of spas fitting the four market groupings for which we could find examples.

The Maine Chance. The Maine Chance in Phoenix, Arizona, is an example of the true beauty spa. With a weekly tariff of \$2,500 per person, double occupancy, this spa is clearly on the high end of the price spectrum. Built by Elizabeth Arden in 1945 at the foot of Camelback Mountain, the Maine Chance is one of the first of the spas to fit our contemporary definition. Its philosophy is that a woman can re-

main beautiful forever through proper diet, exercise, and beauty treatments.

The spa is for women only, and just 50 guests are served during each one-week cycle. Food service is offered on the American plan, but persons who want to lose weight can follow the spa's 950-calorie daily diet program. The Maine Chance operates with a staff-to-guest ratio of two to one, and its season is September through May.

The spa offers a fitness program that includes exercise classes, tennis, and swimming-pool workouts. It also has whirlpool baths, saunas, and steam cabinets. Its focus on beauty means that the resort has extensive areas for facials, massages, Ardena wax treatments, and hair and nail care. It also offers educational classes on make-up, beauty care, and healthy cooking.

The Maine Chance's competitive strategy involves fitting into the niche for women who are concerned about their appearance and have the time and money to enter such a program.

The Golden Door. Escondido's Golden Door spa is aimed at the high-end customer who is concerned with fitness and recreation. Once again, the target market is primarily women (although men or couples are occasionally allowed), and its weekly tariff is \$3,000 per person, double occupancy. This spa features a Japanese motif in its architecture, decorations, and landscaping.

The Golden Door's facilities are all top-notch, as befits a resort in its price category. It offers a diet program of about 1,000 calories per day that features well-balanced, customized meals that are low in fat and sodium and high in fiber. The resort supplies its own organic foods and free-range chickens. In addition to tennis, the spa has two swimming pools, three exercise rooms, two saunas, a weight-resistance room, a whirlpool, an herbal-wrap room, and facial rooms. Jogging trails run past its Japanese-style gardens, and it offers mountain hiking trails.

Like the Maine Chance, the Golden Door has established itself as a high-price spa. In contrast to the Maine Chance's focus on beauty, however, the Golden Door's position is that it is the best fitness facility combined with the greatest pampering possible.

The Oaks. Farther north in California, in the Ojai Valley, is the Oaks at Ojai, a spa that caters to persons who want a week of diet and fitness without the additional pampering and amenities associated with the high-end spas. The spa's staff provides individual attention to all guests, from the beginner to the extremely fit. The Oaks emphasizes physical fitness, combined with a balance of sound nutrition and life-style education. Owner Sheila Cluff often spends time with the guests by teaching a class or joining them for meals.

The Oaks is for both men and

women, with accommodations for about 80 guests, at a tariff of \$800 per person per week, double occupancy. It offers 16 different exercise classes daily, a swimming pool, weight training, yoga, a walking program, mountain hikes, a whirlpool, sauna, beauty salon with four massage rooms, and two facial areas.

Its diet program is 750 to 1,000 calories per day, with foods high in fiber and complex carbohydrates and low in salt and fat. The resort offers three meals daily with snacks in between. In the evening, guests may attend lectures, workshops, and seminars.

The Oaks's strategy is to provide an affordable spa experience in a relaxed, casual atmosphere. Located about two hours' driving time from Los Angeles, the Oaks is positioned as a spa with excellent fitness facilities in a beautiful location.

Kripalu Center for Yoga and Health. In the midst of Massachusetts' Berkshire Mountains, the Kripalu Center is a retreat that aims for integration of mind, body, and spirit, chiefly through the practice of yoga. It combines both eastern and western philosophies, however. Able to accommodate some 40 men and women at a time, the resort's modest tariff (\$500 weekly per person, double occupancy) is an indication of the resort's focus on matters other than physical amenities. Its standard accommodations are dormitory-style, requiring guests to bring their own linens, towel, and pillow. Instead of a standard one-week module, the Kripalu Center offers a variety of programs ranging from a two-night stay up to 27 nights.

Despite its modest price, the spa offers complete physical-fitness facilities, including sauna, hot tub, solarium, and racquetball. Its seasonal activities are lake swimming, cross-country and downhill skiing, and snowshoeing. It offers yoga



Like the Maine Chance, the Golden Door aims at the high-end market. The Golden Door focuses more on the health- and diet-related aspects of the spa experience.



and meditation classes daily, and holistic-health and other educational classes are available.

The center's diet program consists of three buffet-style vegetarian meals per day, and a fasting program is also available.

It would probably be a misnomer to say that the Kripalu Center has a competitive strategy, since its focus is considerably different from most spas. For our purposes, its "strategy" is a focused niche strategy that attracts people interested specifically in applying yoga to fulfill mental, emotional, and spiritual needs.

Competition

Logically speaking, firms that fall into a given generic category would be competing directly with each other. The closer these spas are geographically, the greater the potential for direct competition. In terms of developing a competitive strategy, then, an Arizona spa might first have to demonstrate why Arizona is a better spa destination than, say, Florida, and then differentiate itself against other Arizona spas.

Spa operators we surveyed identified the following five factors that generally influence a consumer's spa choice. These factors are:

- ambience of destination,
- location (geographic preference or proximity),
- price,
- program emphasis, facilities, and structure, and
- type of guest mix.

Barriers to Entry

The chief barrier to entering most segments of the spa industry is probably the substantial capital requirements for designing and building even a small spa. A group with sufficient capital would likely next encounter the barrier known as the learning curve (i.e., gaining the requisite knowledge for run-

ning the spa). The operators would have to learn or hire staff that knew how to conduct programs in diet, nutrition, fitness, beauty care, health care, and psychology, in addition to the business savvy required to operate a resort lodging facility. A group with capital could theoretically hire an established operator to overcome this barrier.²

At this point in the industry's life, the number of competitors and availability of sites are not barriers to entry. In fact, the absence of concentration may be a barrier of its own, because operators would be virtually unable to take advantage of any economies of scale. Provided the market continues to support spas, we envision the likelihood of multi-unit spa chains that could develop economies of scale. Many of the major hotel and resort operators could develop a competitive advantage by using their name recognition and existing resources to develop a spa chain.

Intra-industry rivalry. At this writing, the rivalry among firms and properties in the spa segment is not intense. This lack of direct competition is primarily a result of the degree of industry fragmentation, the small number of spas, and the differentiation of existing spas. Florida provides an exception to this observation, because of the relative concentration of similar properties jockeying for position among travelers to Florida. As the marketplace becomes more crowded, spas may have to work harder for differentiation in the consumer's mind. We found that, despite the radical differences in the spas we examined, consumers often perceived spas as being very similar.³

²For instance, Health Fitness Dynamics, Inc., the Fitness Company, or American Leisure Corporation.

³We found that the chief influence on a spa purchase decision was word-of-mouth communication from previous users. This channel is most likely to cause an overlap in consumer perceptions of market segments.

Threat of New Entrants

Now that we have described the spa industry in some detail, let us turn to the industry analysis after Porter. The first force affecting the industry, threat of new entrants, takes into account both new spas and non-traditional competition. Porter suggested four categories of potential competitors, as follows:⁴

- (1) Firms not in the industry that could easily overcome the barriers to entry;
- (2) Firms that have an obvious synergy with the industry;
- (3) Firms that may compete through an obvious extension of their corporate strategy; and
- (4) Suppliers and buyers integrating with the industry.

Having listed these categories, we must remark that every potential competitor doesn't fit neatly into a given category. Some overlap categories, and many could already be substitutes for spas. Health clubs, for instance, can substitute for certain spa services and, with some additional investment in their capital plant (i.e., by extending their corporate strategy), could become competitors in the spa industry. Beauty salons, businesses that synergize with the spa industry, could become direct spa competitors by offering more services. Community clubs or organizations (e.g., the YMCA) also could be competitors in the spa industry by extending their strategies, as could camps, resorts, cruise ships, and health-care facilities.

As in the case of the early lodging chains, patrons have become new entrants in the spa industry. Mel Zuckerman opened his Canyon Ranch Spa because he was so taken by the benefits of his spa experience. The celebrities who have produced exercise videos and created health clubs might also become partners in a spa, relying on their name recognition for promotion.

⁴Porter, p. 50.

Industry suppliers have a high potential to become spa competitors. Suppliers of fitness equipment, beauty and food products, and spa clothing all could be potential entrants. Involvement in a spa would provide the advantages of vertical integration for such suppliers, who would push their products at their spa.

Industry Success Factors

The foremost success factor for spas today is probably a high level of recognition and publicity. The most successful spas have a strong, effective marketing strategy. Because word-of-mouth communications have a strong influence on the decisions made by a spa guest, the communication strategy must be able to stimulate and prolong word-of-mouth communication. A strong public-relations campaign is crucial to this goal. The spa must also have a clearly defined market that matches its facility, so that marketing dollars are not spent on individuals who may never visit a particular type of spa, or may never visit any spa at all. Existing spa operators find it important to identify and understand their potential clients' purchasing behavior and media habits so that their message will reach the potential spa guest.

Location. As with any hospitality operation, a spa's location is critical to its success. The spa's location must have inherent attractive qualities that attract substantial numbers of repeat guests. The spa must be in reasonable proximity to a major metropolitan area or easily accessible through normal means of transportation (e.g., airplane, automobile). Other positive aspects of location include warm weather, regional attractions, and mineral springs.

Finances. The spa's operators must have a considerable financial cushion during the start-up period. Operators we spoke to suggested

that it takes three to five years from start-up before the spa operation stabilizes. Until that time, owners will undoubtedly need excellent cash- and asset-management skills to survive.

Management. Excellent management and staff are also crucial to a spa's success, another success factor that spas share with other portions of the hospitality industry. The spa's management and staff, however, are even more specialized than that found in hotels and restaurants. In addition to the food-service and rooms business, spas must have exercise instructors, dietitians, and cosmetic clinicians whose abilities exceed those found in potentially competing businesses. If the spa's service is not exceptional, guests will see little reason for the extra expense of a spa vacation.

Buyer Bargaining Power

As with hotels, bargaining power for buyers increases as a decision maker becomes responsible for a greater quantity of room-nights. Unlike hotels, most spas do not attract the large group purchases typical of incentive travel or meetings. As more incentive and meeting planners look to spas as a possible destination for rewarding vacations or productive meetings, their buying power as a group should increase. Most of the spas that attract this business are also resorts, including the Greenbrier, La Costa, and the Norwich Inn and Spa.

Individual guests have little bargaining power to reduce prices. Someday in the future, spas may enter into frequent-traveler or other such discount programs, but none are doing so now. At the same time, guests may see the cost of switching from one spa to another as quite low, so spas may eventually need to offer incentives to build brand loyalty.

Supplier Bargaining Power

The spa industry has a substantial list of suppliers. They are primarily involved in selling cosmetics and fitness equipment and providing health and other services. Spa suppliers also sell the typical hospitality products: food and guest-room supplies. Some examples of the products and services provided to the spa industry include light and sound systems for massage rooms, herbal and seaweed wraps, high-tech fitness equipment, aerobic equipment and dance floors, circuit weight-training equipment, free weights, suntan machines, and saunas and steam rooms.

Porter argued that suppliers can be powerful if the supply is dominated by only a few companies, suppliers do not compete with substitutes, the industry is not an important customer to the supplier's business, the supplier's product or service is differentiated or has high switching costs, and the supplier group poses a credible threat of forward integration.⁵

There seems to be a credible threat of integration from several of the suppliers. One example of this possibility is Spa Health Consultants, of Cranford, New Jersey, which is part of a larger organization that harvests marine products for food, cosmetics, and fertilizers. The firm also sells and services hydrotherapy equipment and consults the spa industry for a variety of needs, including concept development, feasibility, and program design. The consulting business is an excellent source of leads for selling their products, with the further consequence of partial integration into the industry.

The suppliers of capital to the industry could be a major power that could deter the industry's expansion. The high degree of turnover in unsuccessful spa properties has

⁵Porter, pp. 27-29.

resulted in a less-than-favorable outlook for capital suppliers. Spas suffer further from the lodging industry's difficulty in obtaining capital, particularly for new entrants. Obtaining adequate capital is a major barrier to entry for many developers wishing to enter the spa industry.

We found what appears to be extensive competition among many of the suppliers. Many of those who operate in the same product or service category, such as those selling herbal wraps, are not highly differentiated and rely on the spa industry for a considerable portion of their business. In such other categories as exercise clothes and shoes, weight-training equipment, and fitness machines, the degree of competition is sufficient that there is less opportunity for a supplier to exert a high degree of bargaining power.

The supply of highly skilled professionals to work in spas is a major concern of the industry. Spa operators must discover, attract, and retain skilled individuals, who can be considered one of the most powerful supply groups, although the group does not have an organized structure. At present, most professionally trained people have just a few good spas to choose from, because they wish to work at the few "brand-name" spas and thereby build up their résumés.

Substitute Products

In our discussion of potential entrants into the spa industry, we have identified numerous substitutes for the spa product among businesses that are not direct players in the spa segment. These substitutes will play a part in how the spa industry grows, develops, and prospers over the long run. Even such unlikely substitutes as self-help books and videos on personal health and fitness could be substitutes for much of the spa product.

The Future of the Spa Industry

There is no way to ascertain how long Americans, particularly aging baby boomers, will maintain their fascination with physical fitness. While this interest is by no means universal, enough people have become interested in fitness that spas and other businesses that cater to this segment should prosper for at least the near term. The most recent and most reasonable estimate we could find for spa demand was by Jeffrey Josephs of Spa Finders, who said there were 1.2 million spa travelers in 1987. In the early 1990s, he predicted that the number may increase to as much as 30 million. Spas may become the vacation of choice for the 1990s. The more concerned people are about health and fitness, the more they will want to include spa-type activities as part of their vacations. Evidence of this interest is seen in the addition and promotion of fitness facilities at hotels and in resorts' adding spas.

We expect that level and intensity of competition to increase in all segments of the spa industry. A large number of new spas are scheduled to open in the near future. In mid-1989, Todd Allen, an associate with Temple, Barker, and Sloan, estimated that spas comprised some 14,000 beds in the U.S. This number will increase shortly, but until there is a reliable source tracking the size of the spa segment, we won't know how many spas are actually operating.

We believe the spa industry is still in the infancy stage in the product life-cycle.⁶ It should now be entering the growth stage. While it is difficult to ascertain the length of the cycle, industry experts believe this growth phase should last about ten years.

⁶See: Christopher W.L. Hart, Mark J. Lawless, and Gregory Casserly, "The Product Life-Cycle: How Useful?" *The Cornell Hotel and Restaurant Administration Quarterly*, 25, No. 3 (November 1984), pp. 54-63.

The potential for increased spa travel is high if the current interest in "wellness programs" is translated by employers into payments for disease-preventing and health-promoting activities. Many European countries have insurance coverage that pays for a doctor-prescribed visit to a spa, which is considered virtually a health-care treatment. It remains to see whether U.S. health-care procedures will move in this direction.

Looking again at the four active segments of the spa industry, we expect that the spa industry will exhibit further segmentation in the form of spas for men, couples, families, and different age groups. Spas will further refine their markets as the industry experiences greater diversification of market segments.

A national association. Diversification may pose a problem, because consumers are apparently already confused about how to choose a spa. Consumers are primarily educated about spas by visiting them, through word of mouth, and via travel brochures or the media. This level of confusion lends credence to the need for a national spa association. Spas in California have created an association aimed at promoting spas in that state. A national association would have the same purpose. In addition, such an association would create a voice for the industry. If necessary, it could define what is and is not a spa, and it certainly could compile the statistics on spa supply and demand that are now so elusive.

As the spa industry develops, the competitive forces we have identified here will change. New entrants will increase the intensity of competition—or vastly expand the potential market through new ideas. In either case, the rules of the game will be different, and spa operators will regularly need to reassess their strategies. □