



## February 22, 2009- Los Angeles, California

Following is a synopsis of a presentation by Monte Zwang, Principal of Wellness Capital Management presented at the Spa & Resort Expo – Medical Aesthetics Conference & Exposition in Los Angeles, CA on February 21, 2009.

## State of the Industry

The purpose of my talk today is to address where've we been, where we are, and where we're heading. Whereas I will address our past, I will focus primarily on the news of today and how we as an industry can prepare for what looks to be an uncertain future.

### Who is Monte Zwang and why is He Here?

- A business and financial strategist who works with wellness, medical and spa businesses around the country. Partner in Wellness Capital Management.

### The Spa Industry 1999 - 2007

- What has happened to the Spa Industry 1999 and 2007 where we've experienced 9 years of no recession and 3 years of recession?
- The number of spas increased 337%
- Spa Revenue increased 159.5%
- Spa Visits increased 100%

### Growth in the Number of Spas Affected Revenue per Location

- Industry Revenue per Location decreased 17% from \$1.04M to \$847K
- As number of spas increased, the revenue per spa decreased.

### Day Spa Market Segment 2003 – 2006

- Locations +34%
- Revenue Per Spa (27%)
- Visits Per Spa (14%)

### Resort-Hotel, Spa Market Segment 2003 – 2006

- Locations (19%)
- Revenue Per Spa (32%)
- Visits Per Spa (62%)

### Medical Spa Market Segment 2003 – 2006

- Locations +107%
- Revenue Per Spa +124%
- Visits Per Spa +60%

### Destination – Mineral Springs Spa Market Segment 2003 – 2006

- Locations (73%)
- Revenue Per Spa +217%
- Visits Per Spa (62%)

### Club Spa Market Segment 2003 – 2006

- Locations (31%)
- Revenue Per Spa (19%)
- Visits Per Spa (70%)

**Day Spas 2005-2006 - ISPA**

- Revenue per Spa (27%) from \$619,000 to \$452,000

**Medical Spas 2005-2006 – ISPA**

- Revenue per Spa +106% from \$546,000 to \$1,127,000

**Resort-Hotel Spas 2005-2006 - ISPA**

- Revenue per Spa +13% from \$1,641,000 to \$1,859,000

**Club Spas 2005-2006 - ISPA**

- Revenue per Spa +9% from \$413,000 to \$467,000

**Destination & Mineral Springs Spas 2005-2006 - ISPA**

- Revenue per Spa +71% from \$1,351,000 to \$2,308,000

**Who Is Our Clientele?**

- 48% Male, 52% Female – This has absolutely shifted from 25% male seven years ago.
- 18-34; 30%, 35-44; 21%, 45-54; 19%, 55+; 30% - Note the younger clientele.
- 54% Married, 44% Single
- 44% Full-time employed, 21% Retired – Means 35% is Employed part time or unemployed.
- 63% - No kids – Surprise! This should create a marketing opportunity.
- 25% come in as a result of receiving a gift certificate.

**How Often Do They Come In?**

- Globally, spa-goers average about four (4) visits per 12 months.
- Singapore is highest with six (6) visits.
- In the US active spa-goers average five (5) visits every 12 months,
- How does this compare with your spa?

**How Much Do They Spend on Treatments & Products?**

- Active spa-goers in the US spent \$537 within the past 12 months on treatments and retail products.
- \$457 on Treatments
- \$80 on Products.

**Visit Motivators**

- 45% of Spa Guests are motivated to visit a spa by recommendation of friends or family
- 30% were referred by a physician or health care practitioner
- 25% come in as a result of receiving a gift certificate.

**How Are Spas Doing Today?**

166 real time wellness, yoga oriented spas 4th quarter 2007 vs. 2008:

- Service Growth = +17%
- Retail Growth = +24%
- Total Growth = +19%

**Drugs & Medicine**

- The future of our spa industry is going to be impacted by the growth of Complementary and Alternative Medicine (CAM).
- In 2007, almost 4 out of 10 adults (39%) had used some type of CAM in the past 12 months.
- CAM use was more prevalent among women, adults aged 30–69, adults with higher levels of education, adults who were not poor, adults living in the West, former smokers, and adults who were hospitalized in the last year.
- Many types of CAM practitioners try to treat not only the physical and biochemical manifestations of illness, but also the nutritional, emotional, social, and spiritual context in which the illness arises. (prevention) – Wellness Spa!
- Between 2002 and 2007, increased use was also seen for acupuncture, massage therapy, and naturopathy.

## “The rumors of my death have been greatly exaggerated”– Mark Twain

Although the economic news we hear is daunting and implies nothing but doom and gloom, people will continue coming into spas, some businesses will flourish and there will be some growth opportunities in our market.

- **The Recession Drives Small Business Innovation:** Small businesses will focus on cash flow, cost containment, customer retention and survival. But economic stress will also lead to a wave of small business innovation.
- **Government Plays an Increasing Role in the Economy:** Small businesses will need to be aware of federal, state and local government policy and programs changes and their impacts.
- **The Number of Small Businesses Will Increase in 2009:** With job losses high and traditional employment options limited, many will turn to self-employment and small business in 2009. The prior three recessions have seen small business formation rates increase.
- **Small Business Globalization Will Temporarily Slow:** Small business globalization to slow in 2009. The primary reasons are the global economic slump, turmoil in currency markets and small businesses focusing on local markets.

### Affordable, Luxury

- In every economic downturn, the single small luxury that makes our clientele feel good about themselves that they have been absolutely unwilling to give up is red lipstick.
- Every business in our industry needs to identify, create and promote a single product or service that our clients will be unwilling to live without.
- Is it Botox? Massage? CAM? Facial? Fitness? Yoga?

### Who Is Still Spending Money In Spas?

- Your current clientele is.
- Nobody has stopped spending money.
- They are spending it more carefully and mindfully.

### Financial 9-1-1

- This market requires pro-active financial management.
- You must know and plan your profitability. If you shy away from managing your profitability, you will not fare well.
- To do this, you need to manage 6 numbers:  
Breakeven Sales, Labor Cost, Gross Profit Margin, Overhead Expenses, Net Profit  
Debt Service
- This market is unforgiving. You are operating without a safety net.
- Take control, Map a plan. Manage it daily,
- Going forward without a working budget is not going to provide the targets you need to operate. Your budget is your bible. It shows where you are and how much cash you need every month in order to operate and not lose money.
- The past allowed you to draw on a line of credit or credit card if cash got tight. That's not available to you in this climate.
- Stop wasting money. Pay money that makes money. If your vendors push for higher minimums that are uncomfortable, push back. Now is the time to make adjustments – use the economy as the reason.
- If you have to question whether something is necessary or not. Don't buy it.
- Make sure your services are profitable before you chase sales.
- Cut costs where you can, where they are not visible or noticeable by your guests.
- If expansion plans were on your agenda, hold off for now.
- If you were thinking about selling your business, now is not the time to do it. Buyers are looking for bargains.

### Breakeven is Vital

- It is the minimum sales volume required and cash collected that you must bring into your business every month so that you operate profitably after paying your debt.
- The lower your breakeven the longer you can weather this climate.
- How many treatments do you need to do every day in order to break even?

### Direct Costs – Labor Cost

- Evaluate your compensation plan – It absolutely cannot exceed 42% of your service and product sales.
- Review your retail and professional product inventory. Eliminate low-use, slow-selling and redundant stock. Selling 8 cleansers and 6 toners? Cut back by 1 each.
- Focus your services and retail sales around products and materials you have an abundance of or sell frequently.
- Re-engineer your service menu: low cost service, high profit margin-sell it and create a sales volume leader.

### Your Lease & Landlord

- The bubble has burst on commercial real estate.
- Market rate when you signed your lease is not market rate today.
- Find out what the asking price is for space available in your building.
- If it is less than you are paying, renegotiate your lease to \$3.00 -\$5.00 per square foot below the asking price for the vacant space for the remainder of your lease term. Go retroactive if you can.
- Neither you nor your landlord want any more vacant space in their building.
- There's even a chance your competitor will suddenly close his doors and a desperate real estate broker will call you with an opportunity to acquire a fully equipped, operational, just-add-water spa—for the cost of rebranding the place. Leasing companies need to keep the lights on and the parking lots full in their shopping centers.

### Dealing with Debt

- If you can't afford it, don't buy it.
- Every contract, lease, bank note, equipment lease and credit card payment needs to be re-negotiated
- Pro-actively deal with your lender regarding your line of credit or loans. There is a good chance they will not renew them. Make sure your financials present well and make sense.
- Go to your lender before you need money, not after cash flow becomes a problem.
- Renegotiate all your bank debt, credit cards payments and old payables so that the combined payments you make every month do not exceed one-half of your Net Income.
- Debt should be re-paid as a percentage of Net Income, not Gross Revenues.  
Be wary of cash advance lenders. You will pay high interest and re-pay them as a percentage of your gross credit card receipts daily. Unless you can survive on 85% of your Gross Revenue, walk away.
- Watch your credit card statements if you carry balances month to month. Credit card companies are raising interest rates and lowering credit limits. Some of this can be negotiated.
- Buying and selling businesses still continues to be a way of life in the business world. With banks tightening purse strings, business professionals are finding different ways to get the deals done — including financing the sales themselves.
- Perfect credit gets the loan. – Fix yours. 700+ is now the standard.

### The Road Ahead

- **What can we make from all this?**
- **Today we addressed our past, our present and our future.**
- **Expect things to normalize starting in late 2009 and into 2010.**
- **Recalibrate your expenses, leases and loans and position yourself for a more profitable future**

~ Monte Zwang is a principal of Wellness Capital Management, providing cash flow and financial strategies to businesses in the health, wellness, fitness, beauty and spa industries. Monte has been a consultant for more than 25 years, teaching entrepreneurs and company leaders in health care, real estate, resorts and hotels, and retail industries the strategies of cash flow management. For more information call 206.963.1017 or visit [www.WellnessCapital.com](http://www.WellnessCapital.com)