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Wellness

Spa chains

An analysis of the challenges and opportunities facing spa chains and franchise operations  
by Alissa Demorest

The number of spas chains may be low compared to the independents on the market, but it is a business that is growing. According to market-research company Diagonal Reports only 11% of day spas in the US in 2010 were chains; however, the company predicts that national chains will begin to roll out their offer and that as a result single-unit businesses will also consolidate.

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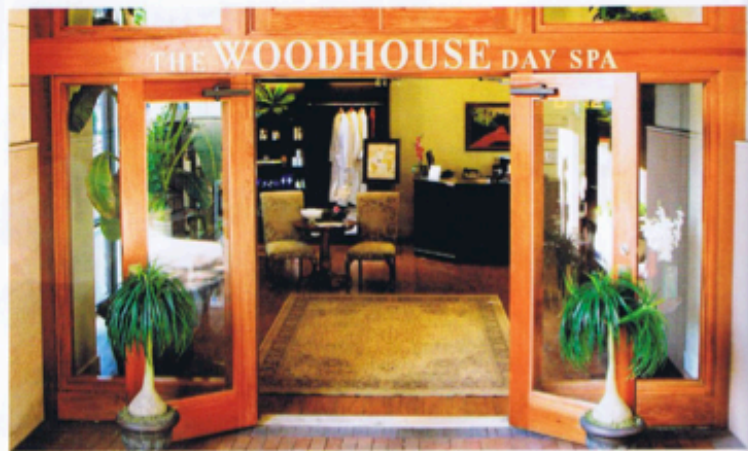
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The Mandarin Oriental Hotel Group director of spa Andrew Gibson

Many of today's chains are associated with cheaper services. For example, one of the growing chains in the US is Massage Envy, which caters to consumers with limited budgets. Massage Envy now has close to 700 locations and another 200 are in development

Chains such as Massage Envy are seen as boosting the number of consumers who visit a spa, (although they also put pressure on independent operators, many of whom are still reeling from the effects of the downturn). Spa operators polled by *BW Confidential* see the rise of reasonably priced spa chains as a welcome alternative to the discounting frenzy that has plagued the industry in the past couple

Strength in numbers



▲ Spa chains, such as Massage Envy (above) and the more upscale Woodhouse Day Spa (top) are a growing force in the spa market

“More big chains are coming, but it is strange that this trend hasn't happened yet as it is a mature market. I see the chain model as a good thing—it is opening up spas to people who couldn't go otherwise as they are more affordable and convenient,” comments The Mandarin Oriental Hotel Group director of spa Andrew Gibson. Blu Spas Inc principal Cary Collier agrees: “Companies like Massage Envy are serving a good purpose. A few years ago prices were so high that consumers were saying ‘enough’, so prices coming down made some sense.”

Spa branding

One of the keys to success in the spa chain business is brand recognition. One chain spa to have capitalized on its name is UK-based Dove Spa. The company, which is 75% owned by

Unilever with the remaining shares part of UK group Spa and Salon International, opened its first location in 2006. Dove Spa now operates 20 spas in the UK and four in Canada and is in the process of vetting franchisees for its first franchise locations.

One of its biggest challenges was getting around the Dove brand's mass positioning, according to International Dove Spa development director Fran Hayter. Dove Spa does not offer cut-rate prices nor engage in discounting. The facials, for example are priced from \$50 to \$110. The range of Dove Spa branded products are also priced on par with other high-street day spa retail offers, and not in the same price bracket as mass Dove products. “We did a lot of consumer research and what came out was that if we had dropped our price points to supermarket prices, people

might think we were bargain basement discount and that the treatments couldn't be that good. Our message is not about price discount, but about the 'way we want you to feel and the good value results you will receive'. The result is that we have a huge volume of new people coming to the spas, perhaps those that were intimidated to go to the spa before. But because they know and trust the brand they feel they are investing money and getting good value," says Hayter.

#### Easy in, easy out

Chains are attracting more consumers through their wide service offer—many locations are a spa and salon rolled into one and feature hair removal, teeth whitening and manicures in addition to the more traditional massage and facials.

This service offer has seen department stores eager to rent space to spa-chain businesses. Dove Spas, for example is to sign an agreement with a major department-store retailer in the UK next year. For the spa brand a department-store location often means increased visibility. Urban Retreat, which operates spas and salons in Harrods and Harvey Nichols, meanwhile, is taking a different tack by bringing its spa offer out of house. The retailer launched a 'mobile spa' concept called Urban Retreat at Home in September. Individual therapists, trained by Urban Retreat, administer treatments to clients at their home or office. The concept is to be operated as a franchise. "This model allows the operator to maintain margins because they're not paying rent for bricks and mortar and not paying a lot of employees. It could work because there aren't all of the additional costs," explains spa management company Thermarium managing director Roger Allen.

Analysts see more consolidation happening in the industry, and more brands branching out to create their own spa chains. "People are finding that brand consolidation makes more sense in terms of economies of scale, increased purchasing power, pricing, brand recognition and brand consistency," confirms Woodhouse Day Spa founder Jeni Garrett. This could be just what the industry needs to become a more finely tuned and profitable business. ■

## Views on spa franchising



### The expert's view: Thermarium Spa Management managing director Roger Allen

"The spa market is nowhere near the situation of the hotel market where you can franchise a recognizable hotel management operation. To reach that level you need to have economies of scale that allow you to do the marketing to lift it to the stage of a brand. It's the brand that drives people through the door—they know it and they trust it.

The amount it's going to cost to get that franchise should in theory buy you guests through the door—the business success is dictated by the brand name and consumer recognition. If you are not going to get that then the risks are high and you're just making the franchisor wealthy very quickly.

The biggest challenge in spa franchises is profit margins. When you are operating your own spa the margins are tight already. But with a franchise, can you get the guests through the door that are going to give you higher volumes than if you operated a spa on your own? That is the million-dollar question."



### The franchisor's view:

#### Massage Envy Franchising president & coo David Crissali

*US-based day spa chain Massage Envy has around 700 spas and clinics in the US and Canada. Another 200 are in development.*

"Membership is the core of our business model creating a recurring revenue stream for our franchise partners. A significant percentage of the customers enjoying our wellness services are members. Today, we are one of the country's fastest growing wellness brands, with more than one million members.

At Massage Envy, our therapists and estheticians are our product, and keeping them is of prime importance. Our franchisees invest significant time, money and energy helping professional schools ensure our clinics can recruit high-quality, licensed, certified massage therapists. We rely on consistency and quality in the labor pools throughout the country. In return, we are committed to delivering consistency and quality by providing a desirable environment for therapists so they can grow their practice."



### The franchisor's view:

#### Woodhouse Day Spas founder Jeni Garrett

*US-based chain Woodhouse Day Spa has 26 spa franchises in the US with 21 locations in development. The company has signed a franchise agreement to open 100 locations in India and 25 in Mexico.*

"Franchising lends itself well to the spa business because you have an owner/operator in the market who is actively involved in building a community around the spa. The spa model is very labor intensive so it's important to have someone on the ground building that team and doing all the marketing and support.

The beautiful thing about franchising is that as you grow, the franchisees contribute to the model. We have gotten ideas that we couldn't have come up with on our own. You become smarter and you get buying power—because you grow more rapidly, you can negotiate with vendors. The economies of scale allow you to become even more profitable—our margins are much higher than those of single-unit operators.

We take our brand compliance very strongly so all of the interiors, the service menus and the products are consistent across all of our locations. We are not a high-priced spa, our services range from \$20 to \$200. Our business model allows us to price our services lower than most spas, so we get the necessary volume of guests."