



# Enlightening Tourism.

## A Pathmaking Journal



Universidad  
de Huelva

## Editorial Team

### Editor in Chief

Alfonso Vargas-Sánchez, University of Huelva, Spain

### Associate Editor

T.C. Huan, National Chiayi University, Taiwan

### Books Review Editor

Steve Watson, York St. John University, United Kingdom

### Secretariat

Cinta Borrero-Domínguez, University of Huelva, Spain

Mirko Perano, University of Salerno, Italy

### Style reviewer and text editor

Beatriz Rodríguez-Arrizabalaga, University of Huelva, Spain

## Editorial Board

José Manuel Alcaraz, Barna Business School, República Dominicana

Mario Castellanos-Verdugo, University of Seville, España

José Antonio Fraiz-Brea, University of Vigo, España

José Manuel Hernández-Mogollón, University of Extremadura, España

Shaul Krakover, Ben Gurion University, Israel

Jean Pierre Levy-Mangin, University of Quebec, Canadá

Tomás López-Guzmán, University of Córdoba, España

Alfonso Morvillo, National Research Council (CNR), Italia

Yasuo Ohe, Chiba University, Japón

María de los Ángeles Plaza-Mejía, University of Huelva, España

Nuria Porrás-Bueno, University of Huelva, España

João Albino Silva, Algarve University, Portugal

## Advisory Board (Spanish Members)

César Camisón-Zornoza, Jaume I University, Spain

Enrique Claver-Cortés, University of Alicante, Spain

María Teresa Fernández-Alles, University of Cádiz, Spain

José Luis Galán-González, University of Seville, Spain

Félix Grande-Torrales, University of Jaén, España

Inmaculada Martín-Rojo, University of Málaga, Spain

Antonio Manuel Martínez-López, University of Huelva, España

Francisco José Martínez-López, University of Huelva, Rector, España

María Jesús Moreno-Domínguez, University of Huelva,

España

Pablo A. Muñoz-Gallego, University of Salamanca, España

Francisco Riquel-Ligero, University of Huelva, España

Josep Francesc Valls-Giménez, ESADE, España

## Advisory Board (Other European Members)

Paulo Aguas, Algarve University, Portugal

Gustavo Barresi, University of Messina, Italy

Carlos Costa, Aveiro University, Portugal

Salvatore Esposito de Falco, University of Rome "La Sapienza", Italy

Sheila Flanagan, Dublin Institute of Technology, Ireland

Tania Gorcheva, Tsenov Academy of Economics, Bulgaria

Tadeja Jere-Lazanski, University of Primorska, Slovenia

Metin Kozak, Mugla University, Turkey

Álvaro Matias, Lusitana University, Portugal

Claudio Nigro, University of Foggia, Italy

Angelo Presenza, University "G. D'Annunzio" of Chieti-Pescara, Italy

Renee Reid, Glasgow Caledonian University, United Kingdom

## Advisory Board (Members from the rest of the world)

John Allee, American University of Sharjah, United Arab Emirates

Nestor Pedro Braidot, National University of La Plata, Argentina

Roberto Elias Canese, Columbia University, Rector, Paraguay

Luca Casali, Queensland University of Technology, Australia

Nimit Chowdhary, Indian Institute of Tourism and Travel Management, India

Steven Chung-chi Wu, National Pingtung University of Science and Technology, Taiwán

Dianne Dredge, Southern Cross University, Australia

Daniel Fesenmaier, Temple University, United States

Babu George, University of Southern Mississippi, United States

Dogan Gursoy, Washington State University, United States

Kanes Rajah, Tshwane University of Technology, South Africa

Albert Yeh Shangpao, I-SHOU University, Taiwán

Pauline Sheldon, University of Hawaii, United States

Germán A. Sierra-Anaya, University of Cartagena de Indias, Rector, Colombia

Xiaohua Yang, University of San Francisco, United States



# UNFOLDING THE SPA INDUSTRY: SPA BUSINESS MODELS THROUGH THE PRODUCT LIFE CYCLE

Javier Vázquez-Illa Navarro

Consultant & Entrepreneur for Wellness Hotels (Spain)

[jvazquezilla@gmail.com](mailto:jvazquezilla@gmail.com)

## ABSTRACT

*This article pursues inspiring theory building that helps in the understanding of spas. The industry's life cycle is subject to examination to ascertain its predominant business model. Employed methodologies are literature review, study of a sample of European and American spas, and case study research on a European spa company. The amenity spa is singled out as the prevalent business model: its value proposition offers a more comprehensive experience than the traditional destination spa. The consequences of the present model's choices: high amortization and fixed costs, besides market confusion, are highlighted as the industry enters its early maturity stage, after two decades of growth. Future prospects are optimistic, though, due to the linkage of spas with well-rooted social trends, provided incumbents fine-tune their competitive strategies and implement more efficient operations. The spa industry's partial nonconformity to the product life cycle theory remains unresolved and will require further research.*

## KEYWORDS

*Spa; Product Life Cycle; Business Models; Strategy*

## ECONLIT KEYS

*L830; M130; E320*

## **1. INTRODUCTION**

Spas have existed for centuries. Whether you consider them places for taking the waters or places to help one achieve physical and inner balance, spas have been

universally present. Until recently, however, their economic impact has not been clearly assessed (ISPA, 2002-2008), despite this sector accounting for approximately \$438.6 billion worldwide, about 14% of all domestic and international tourism expenditures (Stanford Research Institute, 2013).

Otherwise, hardly any attempt has been made to explain the industry's evolution within a theoretical structure (Kapczynski and Szromek, 2008; Mak et al., 2009; Bell-Vazquez-Illa, 1996). The explanation and evolution of the spa industry has been built around professional magazines and industry report analysis (Intelligent Spa Pte Limited, 2009; Hartman Group, 2006; La Gazette Officielle du Thermalisme, 1997). Cases have been described (Montenson, 2008; Montenson and Singer, 2009), but with an empirically-driven approach, lacking a theoretical framework that establishes compelling propositions and predicts facts and relationships.

There is, then, an opportunity to relate theory and practice in order to generate a theoretical construct that serves to anticipate the evolution of the spa industry. This paper represents an attempt to tackle the research gap between practice and theory in relation to the spa industry.

Following Kapczynski's and Szromek's works on the life cycle of Polish spas (2008), the present study applies the product life cycle theory (PLC) (Levitt, 1965-1966) to analyse spa industry evolution since the beginning of the Contemporary Age in Western societies. The business models theory (Zott et al., 2011) is also used to help in the depiction of the predominant spa business model at every stage of its life cycle.

Employed methodologies are literature review, study of a sample of European and American spas, and in-depth case study research on a European spa company. Research methodology includes both primary and secondary approaches (web-based). More than 50% of Spain's resort spas or spa resorts, plus the ten most distinguished European and North American destination spas, have been subject to direct observation. Near 20 of them have been directly managed by this research's author.

The use of qualitative methodologies derives from the embryonic state of works in this sector and, consequently, the lack of a commonly-shared theory to aid in the explanation of the whole phenomenon that would justify the deductive method.

Abercrombie et al. (1984), Yin (1984), Eisenhardt (1989) highlight the usefulness of the case-study methodology in the preliminary stages of a research task, because

it allows the development of hypothesis that eventually may be proved with a higher number of cases.

Although qualitative methodology is mainly reserved for the development of theory by using the inductive method, this does not belie the principle that recommends the use of a series of theoretical propositions as a template for the researcher (Glaser and Strauss, 1967).

Accordingly, the work is presented in the following way. First, the theoretical propositions are developed. Second, spa definition and taxonomy are tackled. Third, a discussion on the spa industry's conformity to the propositions is carried out, and the predominant spa business model is depicted. Fourth, the analysis is further enhanced with the presentation of a case study, the company TermaEuropa, which is an illustrative example of the transition from the thermal paradigm to the well-being one. Finally, conclusions are drawn.

The analysis of the spa industry literature, the sector's direct observation, and the assessment of the case study, has established the industry's limited conformity to the product life cycle theory. Neither early entry into the industry, nor size seems to be a critical factor for success for spa companies. The emergence of a dominant design does not deter new entrants, either.

The amenity spa becomes the most popular business model: its value proposition offers a more comprehensive experience than the traditional destination spa. The consequences of the present model's choices: high amortization costs, high fixed costs, and market confusion, are emphasized as the industry enters its early maturity stage, after two decades of dramatic growth. Future prospects are optimistic, though, due to the linkage of spas with well-rooted social trends, provided incumbents fine-tune their competitive strategies and implement more efficient operations.

More case studies will be needed to fully extend, through analytical generalization, the results obtained with this research. The study of how innovation shapes the industry will also contribute to enriching the theory about the spa industry.

## **2. THEORETICAL PROPOSITIONS**

### **2.1 Proposition 1:**

A product, or industry, undergoes several stages: introduction, growth, maturity and decline (Levitt, 1965-1966; Kotler, 1988; Agarwal et al., 2002; Mansfield and Fourie, 2004).

The product life cycle, though a secret for marketing success in its inception, has progressively extended to most disciplines as a valuable instrument for industry analysis. From a sort of self-fulfilling theory, it has developed into a methodology that helps industries compete more effectively. Several studies (Klepper, 1997) agree on its usefulness to unveil how different industries evolve. Even those companies with dissimilar behaviours tend to share some common principles.

### **2.2 Proposition 2:**

At every stage of the life cycle it is possible to ascertain the predominant business model (Kuhn, 1962; Agarwal and Audretsch, 2001).

A business model is made up of the basic elements that describe how a company carries out its ordinary operations. Following product life cycle theory, the dominant business model within the companies belonging to an industry throughout the different stages covered by the specific product can be established.

### **2.3 Proposition 3:**

Business models explain how companies create value and capture value with transactions (Magretta, 2002; Casadesus-Masanel and Ricart, 2011).

As a result, any business model must contain information regarding company fundamentals: value proposition, target market, distribution channel, customer relationship, value configuration, capability, partnership, revenue model and cost.

### **2.4 Proposition 4:**

The emergence of a dominant design at the mature stage discourages the entry of new competitors and decreases the survival rate of incumbents (Carrol and Hannan, 1989; Utterback and Suarez, 1993; Klepper, 1997; Agarwal et al., 2002).

The growth stage is characterized by low population density and reduced competition intensity. This encourages new entrants up to a point when a dominant

design prevails at the maturity stage that forces most unsuccessful incumbents out of the market and increases entry barriers for new competitors.

**2.5 Proposition 5:**

Company survival rates depend on their size -the larger the better- and early entry into the industry (Stigler, 1951; Porter, 1980; Abernathy and Clark, 1985; Klepper, 1997; Sutton, 1997; Klepper and Simons, 1999; Christensen et al., 2000; Caves and Porter, 1997).

Early entry gives companies the possibility of escalating the learning curve of an industry from the very beginning. Large size makes it possible for most companies to beat competition and overcome entry barriers. Size is not an issue at maturity stage, in technological environments, and in market-niche strategies.

**3. THE SPA CONCEPT**

**3.1 Spa definition and taxonomy**

The spa industry enjoys a long tradition, but a relatively short one as a relevant phenomenon. The industry’s dramatic growth in the past few years (ISPA, 2002-2008) builds on its link with well-rooted social trends (see table one).

<b>1. Fast-paced lifestyle (International Spa Association, 2009)</b>
<b>2. Pampering yourself is viewed favourably (Bjurstam, 2010)</b>
<b>3. Increasing life expectancy (European Travel Commission, 2006)</b>
<b>4. The desire to be forever young (Deloitte-New York University, 2006)</b>
<b>5. Prevention is better than curing (Kyricos, 2010)</b>
<b>6. Alternative medicine boom (European Travel Commission, 2006)</b>
<b>7. Splitting of leisure time (European Travel Commission, 2006)</b>

Table 1: Trends promoting spa demand

Source: own

Many definitions and spa classifications coexist, as the necessary consequence of its consideration as an emerging industry.

The International Spas Association (ISPA) defines spas as *places meant to provide well-being through professional services that allow the renewal of mind, body*

and spirit. According to ISPA, spas may be classified taking into account the following distinguishing factors: *star service*, *type of water used*, and *location*.

Spa Finder (“the world’s largest marketing company for the wellness industry”) adds other categories such as *connoisseur spas*, *lifestyle spas*, *real estate spas*, *casino spas*, *medical spas*, *cosmetic and wellness spas*, *dental spas*, *mobile spas*, and *airport spas*.

The spa concept and its taxonomy may be observed from a perspective that permits a clearer vision of the industry as a whole. Table 2 presents a typology of spas according to three distinguishing elements: water kind, customers’ dominant motivation, and location. Each category derives from applying every distinguishing factor to the spa diversity.

<b>DIFFERENTIATING FACTOR</b>	<b>CATEGORIES</b>		
Kind of water used	Thermal Spas (Thermal water)	Thalassotherapies (Sea-water spas)	Spas (Running water)
Motivation	Destination Spas (Spa as the main driver)	Amenity Spas (Spa as an ancillary service)	
Location	Day Spas	Resort Spas	
	(Urban setting)	Spa Resorts	

Table 2: Taxonomy of spas

- According to the Kind of Water Used.
  - Mineral Springs Spas: establishments whose service offering is based on the exploitation of mineral springs. Its chemical composition and temperature, depending on each water variety, makes it useful for the treatment of multiple ailments.
  - Thalassotherapies: establishments whose service offering is based on the exploitation of pure sea water, heated to body temperature, and the marine climate.
  - Spas: a centre where running water is used for the providing of services. Even in the US, most centres using the word spa do not offer hydrotherapy.
- According to the Customer Motivation.

- Destination spas: institutions where their clients' main motivation relates to health.
  - Amenity spas: establishments where their clients' predominant motivation is not only health; health is not the main driver for stays at the resort or for acquiring club membership as in the case of an urban spa.
- According to the Location.
- Day Spas: urban centres operating daytime. They may be located at hotels or work as independent units. Day spas could be destination spas or amenity spas, depending on the motivation of their primary segment.
  - Resort spas or spa resorts/destination spas (depending if their customers' main motivation is the resort or the spa).

Additional classifications are also possible. There are spas with a preponderant body focus as opposed to a spiritual one, and there are more health- or leisure-inclined spas than others within the same category.

The spa configuration map (see figure 1) depicts a more comprehensive arrangement, according to a broader list of differentiating factors.

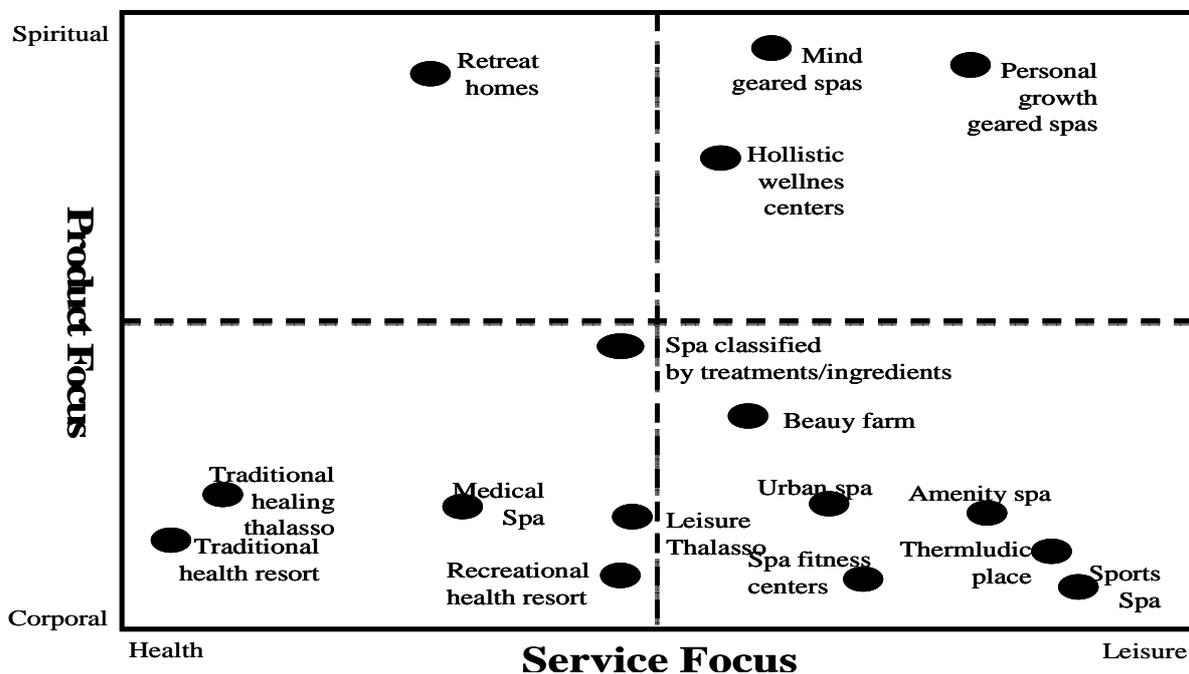


Figure 1: Spa configuration map

Source: Deloitte, 2005-2007

The higher competitive intensity (figure 1) is identified within the spas with a stronger body approach (lower part of the map), while the number of centres whether

they be with a health focus or a leisure one is almost equally divided; this highlights the fact that most spas combine both approaches.

The traditional spa, with a clear-cut focus on health, is different from the recreational spa or recreational health resort positioned in the beauty and relaxation segment (within the health focus quadrant) but is much closer to the leisure one. The former draws its main market from subsidized stays promoted by health authorities in Europe. The latter is a spa resort; as with the spa an array of complementary services and amenities have been developed to attract new segments.

A similar distinction is made between the traditional *thalasso* and the recreational one. The former holds a greater medical focus, especially rehabilitation, and follows the model that was coined in France in the 1950s. The latter is a result of the need for covering new segment expectations since the 1980s. This vision means that areas for recreation and medical therapy are clearly separated.

The medical spa are those centres with weight loss and anti-ageing programs, segments not usually present at the older spas, and are more common at American spas.

Spas classified by treatments/ingredients refer to a variety of minority spas, with a medium-high rate positioning, whose attractiveness lies in the strengthening of their theme. Examples are centres offering macrobiotic diets, such as Sha Wellness Clinic in Alicante, Spain, or wine spas.

Mind-gearred spas are not very common. They usually have a medium-low price positioning. The reason for this positioning has to do with their spa philosophy fostering back to basics, disregarding unnecessary luxuries and material assets. Retreat homes represent the most Spartan option and correspond to areas of religious interest.

Personal-growth geared spas have been subject to more media attention. Their products are directed to company groups willing to reinforce their personal and labour links to bring about a group spirit to beat the competition more easily. The New Age Health Spa in New York State is the paradigmatic example.

Beauty farms are spas more focused on light beauty treatments, with no surgery. The international model is Main Chance in Arizona, with high-cost positioning (there are no low-cost centres in the beauty segment).

Spa fitness centres and those related are amenity spas with distinct features: fitness, recreation and/or sports.

At present, most popular kinds of spas are those in the lower part of the map, hence with a body focus, and close to the line separating both parts of the rectangle, but with a tendency to move upwards, gradually incorporating treatments that are geared towards the mind (ISPA, 2002-2008).

#### **4. DISCUSSION OF THE SPA INDUSTRY'S CONFORMITY TO THEORETICAL PROPOSITIONS AND THE CURRENT SPA BUSINESS MODEL**

##### **4.1 Conformity to the theoretical propositions**

Life cycle fundamentals are observed in the historic evolution of the spa industry, as stated by propositions 1 to 3. There exists, however, no conformity to the theory in propositions 4 and 5.

The end of the "Ancien Régime" and the beginning of the Late Modern Period, in the late 18th century, coincide with the resurgence of the spa industry, represented by the only model at that time: the traditional thermal destination spa. After the Early Modern Period's in which the leisure sector was almost non-existent, and where the culture of taking the waters prompted social contempt (Cátedra, 2009), a new class was born, the bourgeoisie, who declared the need for spa vacations, leading the industry to experience a period of growth throughout the 19th century (Soto-Roland, 2006).

The growth stage of destination thermal spas, with their more rigid health approaches in their service providing, lasted until the third quarter of the 19th century (see figure two). The questioning of the Hygienic movement, whose principles fostered the change of environment, like the one typically experienced at a stay in a spa, as the best remedy for any disease, and the rising competition of beach resorts coalesced to endorse the paradigm shift (San Pedro, 1994).

The paradigm crisis ended in a stage of decline that extended over several decades. Its effects were worsened as a result of the world wars. The sector only held out in countries such as France, Italy and Germany where thermal treatments were reimbursed by the social security system, and where the state, mainly in the German case, had played a prominent role in the development of the great spa towns in the second half of the 19th century (Weisz, 2001). The visibility of the sector and its strength in those countries also helped to arouse state support and, as a consequence, to guarantee its own feasibility (Bacon, 1997).

## Spa product Life Cycle and Business Model

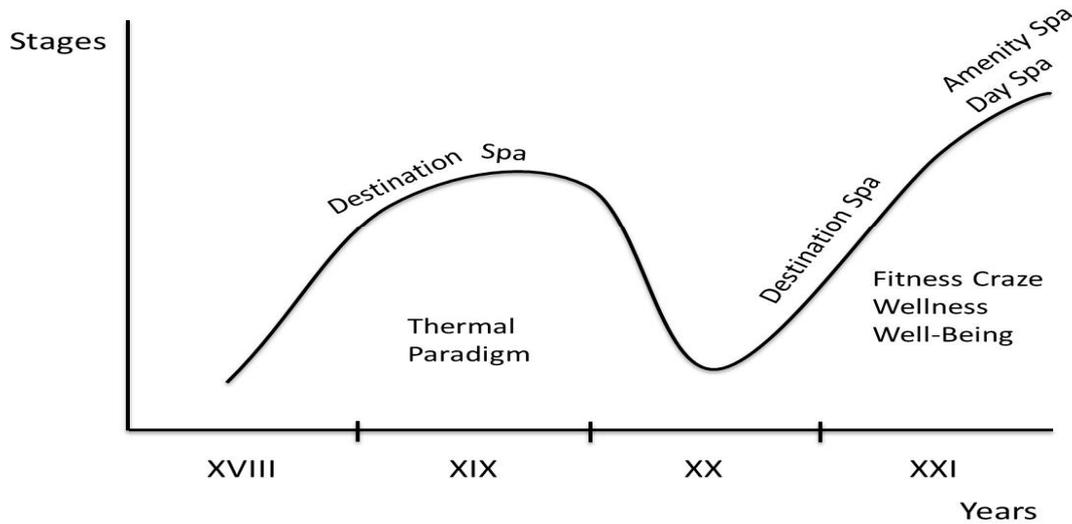


Figure 2: Life cycle of the spa industry and its business models. This figure presents the product life cycle of the spa industry, and, superposed, the life cycle of the prevalent spa business model (amenity spa or destination spa) at each stage. Under the curve, the paradigm of the industry at each time is defined.

A new growth curve was not observed until the mid-1960s in the US, which brought about a more modern way of considering spa vacations. The destination spa continues to be the predominant business model, although with a totally different product presentation. The spa is no longer a centre to provide anti-rheumatic treatments, but a place to eat healthy food and get fit as the best way to attain beauty (Tabacchi, 2010). The new destination spa did not have anything to do with its predecessor, nor were its customers the same, nor its treatments, aside from thermal waters and opting for strict diets and strenuous exercises as the way to beauty.

In Europe, however, the traditional destination spa survived, slowly incorporating some of the services provided by the American spas (Bywater, 1990; Intelligent Spa Pte Limited, 2009). The influence of the fitness craze is more evident in the increasing number of fitness day spas that started to open since then.

The fitness destination spa model was gradually replaced by the amenity spa business model in the US in the 90s (Orbeta Heytens & Tabacchi, 1995; Van Putten, 2003).

In Europe, the transition from the pseudo-traditional destination spa to the amenity spa business model took place in a more drastic way, bringing about a new paradigm (Bell & Vazquez-Illa, 1996). The spa sector experienced a radical change due to the

questioning of the thermal spa paradigm in order to open industry establishments to younger clients yearning for relaxation treatments. This was very distant in concept and execution from the traditional rheumatic treatments in the older segments.

The amenity spa, with its more open business concept, without the strict diets and exhausting fitness sessions in North-American destination spas, and without the single use of facilities for therapeutic treatments at European spas, was widely adopted as the model to be developed. The amenity spa, whether in the US or Europe, adds a more user-friendly presentation, through selecting tourist destinations as usual locations, covering, besides, its customers' *seek and escape* needs (Mak et al, 2009). Amenity spas focus on the most attractive segment, the users in search of relaxation, those who seek to feel recovered after their stay and happy during their vacations, enjoying a unique experience (Keri et al, 2007). Travellers for whom wellness is a secondary purpose (those who typically attend amenity spas) represent 87% of wellness tourism trips (Stanford Research Institute, 2013).

At the beginning of the 21st century, the spa sector has gone a little further in proposing holistic treatments for the body, mind and spirit. Inner balance is the next objective after getting fit and being relaxed (Tabacchi, 2010). The current paradigm is quite prevalent and has allowed for the blurring of differences between European and American spas (Bywater, 1990; Intelligence Spa Pte Limited, 2009).

The recent enlargement of the spa offering -adding relaxation treatments for mind and spirit- has not triggered a shift in the dominant business model, which continues to be the amenity spa (Hartman Group, 2006; Trucco, 2000). At the same time, a very successful business model, the day spa, has been launched in the market, complementing the amenity spa and, in a few instances, the destination spa (ISPA, 2002-2008). Though it deals with the same customers, it intends to cover their needs in different circumstances of place and time, capitalizing on its urban setting.

At present, the industry seems to be entering into a new maturity stage, after two decades of dramatic growth, characterized by dwindling growth rates and the targeting of "dependent" clients -consumers who mirror other people's behaviour, are more on a budget and travel less frequently- instead of clients, innovators or early entrants (DBK, 2009; Keri at al. 2007; Tabacchi, 2010; PKF, 2009; Lerner, 2010; ISPA, 2002-2008, Plog, 2001).

The sector does not conform, nevertheless, to propositions 4 and 5. When a prevailing design is adopted, unsuccessful spa competitors do not usually abandon

the market since real estate investments are not easily discarded (DBK, 2009; PKF, 2009).

Furthermore, neither early industry nor size determines a company's survival rate, as the disappearance of the powerful English spa sector in the 19th century emphasizes (Lerner, 2010; Tabacchi, 2010; Instituto de Empresa, 2006; Bacon, 1997). The kind of innovation present at spas, and how innovation shapes industry evolution may help explain this standoff from the norm; which will require further research.

As a result, the intensity of competition continues to increase due to the fact that ineffective incumbents do not leave the market, coupled with a relentless entry of new competitors enticed by the apparently easy way to gain a position in this market, as the logical outcome of nonconformity to propositions 4 and 5.

#### 4.2 The spa current business model

Following Stewart & Zhao (2000) *the business model is a statement of how a firm will make money and sustain its profit stream over time*. The prototypical spa business model, however, evidences the same confusion that characterizes the spa industry as a whole, due to its booming growth in the past few years, as a result of an increasing demand that arises from well-rooted social trends regarding holistic health (Instituto de Empresa, 2006). In a context where demand prevails, every solution works until market intensity, incumbents' learning curve, or dwindling consumption, as a consequence of a crisis, lead companies to consider whether their strategy is the right one, or their product design is suitable (Porter, 1980).

The spa industry has recently enjoyed the above mentioned situation and is now enduring its consequences. The state of "anything works" has reduced entry barriers, and many centres have been planned to cater to their suppliers' interests, bringing about establishments without the required layout to meet customers' expectations regarding relaxation and holistic health (Pastor, 2007).

The model's choices or fundamentals are: heavy investment in real estate, an approach focused on health and leisure and a body focus. The consequences of those choices are: high amortization costs, high fixed costs and market confusion (see figure 3).

Each spa category is characterized by demanding real estate investments. Most spas feature an area for collective use, i.e., a dynamic pool (a pool with massage

jets, whirlpool, air seats and *lazy river*) and/or a water course with pools at different temperatures, sauna and steam room. Conversely, an area for individual treatments, whether with a therapeutic focus or a relaxation one, is set up (Pastor, 2008).

The choice of making strong investments in real estate generates high amortization costs and reduces operating margins, fostering a differentiation strategy<sup>1</sup> to overcome the initial disadvantage.

High investment triggers a medium-high price positioning, requiring, therefore, a differentiation strategy to present the product as unique. Being that most companies seek to appear as distinctive, competitive intensity and market confusion increase. The differentiation strategy encourages a loaded treatment menu to cater to the needs of an array of market segments in order to enhance the spa feasibility, leading to more market turmoil, since non-segmented communication is broadly used to get the product closer to the customer.

The variety of target markets involves a large staff that increases overhead and a specialized staff that increases training costs and fixed costs dramatically. The high fixed costs reduce operating margins, strengthening the negative impacts from the amortization costs, which eventually, encompasses the implementation of a differentiation strategy.

A differentiation strategy is also promoted by the two other choices. The twofold positioning, towards the holistic health segment and to the peripheral segment, prompts market confusion, allowing for the adoption of a differentiation strategy that activates the cycle of consequences already mentioned. Twofold positioning pushes companies into an environment of high competitive intensity, validating the implementation of a differentiation strategy, whether or not the company holds the necessary exclusive features.

The body focus, by being adopted by most spas, intensifies competition and encourages a differentiation strategy that, in turn, gives rise to the emphasized negative consequences in the end.

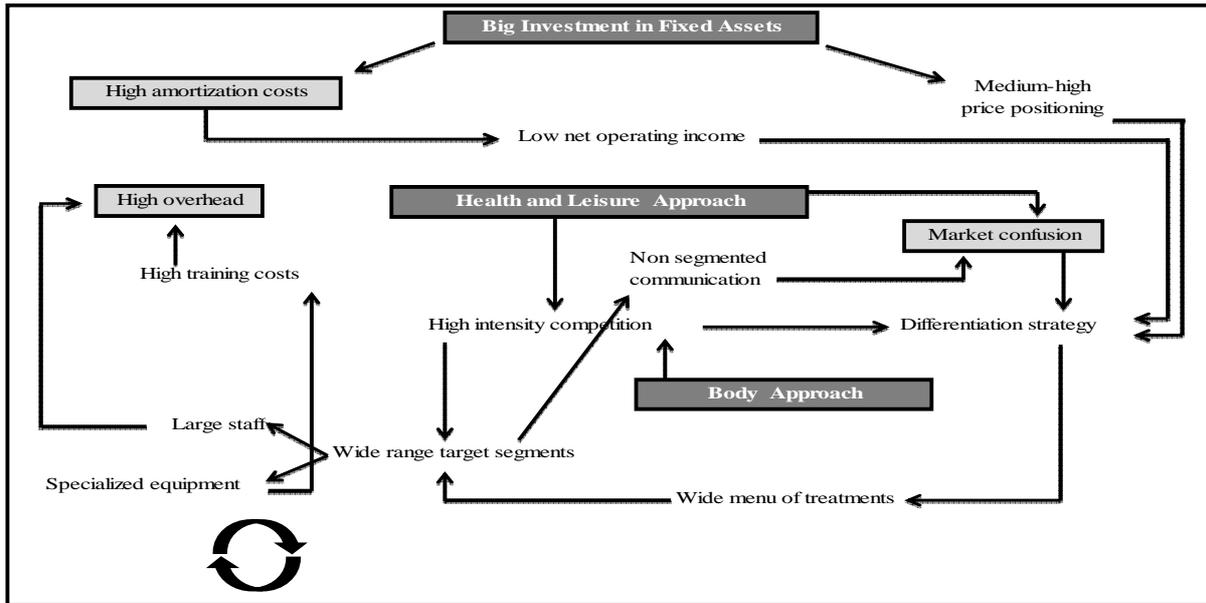


Figure 3: The current spa business model

Overall, the spa business model portrays the current state of the spa industry, characterized, on the supply side, by inadequate product design offering compromising feasibility, and confusion or/and discontent on the demand side.

## **5. TERMAEUROPA CASE STUDY**

### **5.1 Justification**

The selection of the subject-company, TermaEuropa, responds to its consideration as the first hotel spa company that was launched in Spain (2001) to cater to the emerging segments' needs (the relaxation segment). The company represents the transition from the older paradigm, the thermal spa, to the new one, the wellness and well-being paradigm.

This is a case study with multiple levels of analysis. Its justification is derived from Yin's (1984) and Eisendhardt's (1989) defence of the selection of a single case with multiple levels of analysis in order to better illustrate the occurrence of a phenomenon in its preliminary stages.

Eisendhardt (1989) points out that case-study methodology combines ways of gathering data such as: archives analysis, interviews, surveys and observation. In the case of TermaEuropa the instrument has been the analysis of archives with qualitative and quantitative information, observation and empirical evidence.

The rigor of the analysis is demonstrated by the observation of the principles of internal validity (there is a cause/effect relationship between the company's strategy and the achieved results), construct validity (the variables subject to study are set forth), external validity (analytical generalization to the theoretical propositions is possible) and reliability (the absence of random error is assured through the possibility of examining original documents by other researchers) (Campbell and Stanley, 1963).

## 5.2 Relationship between PLC and the emergence of TermaEuropa

The European spa industry is the scene of a heated debate in the 1990s, between those in favour of catering to the emerging segments' needs regarding relaxation programmes, and those fostering the traditional way, based on taking care of seniors' rheumatic ailments (Bywater, 1990; La Gazette Officiel du Thermalisme, 1997; Les Dossiers de la Lettre Touristique, 1992).

Eventually, most spas changed gears and decided to revamp to adapt to market changes. However, at the beginning, only a selected group managed to understand the paradigm crisis in place; TermaEuropa Company is an illustrative example.

Table 3 compares the distinguishing features of the older paradigm, still prevailing in the 1990s, with the emerging one, whose main points are incorporated into TermaEuropa's strategy.

- Thermal water loses its magical appeal and broadens its uses. It is not merely used for medical purposes, but also for relaxation and, even, for providing fun through leisure pools.
- More segments are targeted and rheumatic sufferers stop being the only consumers of spas. Stays are shortened as a way of complying with the demand's tendency to split vacation periods throughout the year. As a consequence, the sector becomes economically stronger and drops its seasonality.
- Spartan facilities and meagre service are replaced by refurbished rooms and flexibility to improve the customer's perception of quality. More ancillary services are added, transforming most traditional spas into spa resorts and traditional resorts into resort spas. Business models with open innovation (Chesbrough, 2003) turn out to be common. As a result, products are quickly subject to substitution.

- Customer loyalty dwindles since the therapeutic effects of mineral waters are questioned and new segments prefer variety regarding their choice of where to spend their holidays. Bundle products become a critical factor of success.
- Packages become paramount, and it is possible to buy and book a hotel stay and a spa treatment in advance.

<i>Spa industry paradigm components until the 1990s in Europe</i>
<p>Exclusive use of thermal waters for treatments</p> <p>Single target market: seniors suffering from rheumatic ailments</p> <p>Long stays at resorts</p> <p>Seasonality of business: most resorts only operate at summer season</p> <p>Spartan facilities and unattractive and inefficient service provision</p> <p>Lack of ancillary services</p> <p>Customer loyalty is out of the question</p> <p>Lack of packages</p>
<i>Spa industry paradigm components since the 1990s in Europe</i>
<p>Thermal water is used for clients who search for different benefits</p> <p>Less seasonality</p> <p>Increase in the number of target markets</p> <p>Short stays at resorts</p> <p>Room comfort goes to the forefront</p> <p>Business models with open innovation</p> <p>More ancillary services</p> <p>Perception of quality improves</p> <p>Loss of customer loyalty</p> <p>Products burn out quickly</p>

Table 3: Thermal paradigm versus well-being paradigm

The launching of TermaEuropa coincides with the repositioning of the older health resorts and the appearance of new hotel spas in order to capitalize on the emerging social trends promoting relaxation treatments while on vacation from 1995 to 2002 (Metra Seis, 1997, 2000, 2004).

TermaEuropa is created with the mission of *becoming the first hotel spa company in Spain, with open innovation, catering to segments with different motivations, in centres run under a rigid quality policy.*

TermaEuropa's vision is *the offering of centres located in nature, but not too far from big cities, and with an array of health-related programmes. Health means, in this case relaxation, feeling well, looking younger.*

TermaEuropa has the following positioning strategy:

- As a company:
  - Being a leading company at the Spanish market and expanding through the development of new products, market penetration and targeting of new segments.
- As a product:
  - Offering the highest market quality with the exclusive use of mineral springs water or sea water in secluded locations.
- For their clients:
  - Providing the best service, guaranteeing quality and safety at the same time.

Its expansion strategy comprises the development of new hotel spas as well as the addition of third-party projects, participating in their designs from the very beginning through the attainment of lease agreements:

- Arnedillo Spa Resort is the first hotel to be managed. On a highland zone of La Rioja-Spain, the Arnedillo mineral springs spa has existed since 1847. In the mid-1990s the resort initiated a repositioning strategy (Bell and Vazquez-Illa, 1996) that lead it to focus on the emerging relaxation segments. Its entry into TermaEuropa reinforces its recently-adopted strategy.
- Carlos III Spa Resort, located in Trillo (Guadalajara, Spain), is the first Spanish mineral springs spa that was laid out during the Age of Enlightenment. After its decadence throughout the 20th century, the resort reopened in August 2005, as a result of a deal between TermaEuropa and the town hall of Trillo.
- Coma-Ruga Spa Resort is a mineral springs spa situated in close proximity to the Mediterranean Sea, hence capitalizing on its two main drivers: the spa and the beach. Its opening as a new venture took place in July 2006. The hotel incorporates the typical characteristics of TermaEuropa's health resorts:

dynamic pools, Roman baths, thermal treatment rooms, and beauty and massage rooms.

- In the heart of the city of Valencia stands the Alameda mineral springs day spa, which had its heyday during most of the 20th century until its decline. The venue revamping in 2006 would add to the city's tourist positioning, while it would offer locals the possibility to enjoy the array of services of an urban mineral springs spa.

### 5.3 TermaEuropa's business model

TermaEuropa's business model incorporates the predominant spa model's distinctive features (the amenity spa), although keeping its singularity as a destination spa with thermal waters. To this respect, it integrates the social trends that foster hotel stays motivated by the need for relaxation, and the average client's expectations regarding health and leisure. Its differentiation strategy is here justified due to TermaEuropa's unique value proposition that merges the essence of the older paradigm, the mineral springs spa, with a pristine product presentation clearly linked to its medium-high target market.

TermaEuropa's main contribution stems from the fact that developing an open business model, targeted to several segments and with a variety of options, does not belie its profile of destination spa, where its clients come due to health motivations in a broad sense. Its clients' main motivation involves health concerns. In fact, it is observed that former innovators (first customers) motivated by relaxation considerations in their stays at spa resorts at the beginning, evolve gradually to be stimulated by health reasons.

The choices and consequences of the model are:

- Thermal waters. The management of mineral springs spas provides the basis for a differentiation strategy in relation to the ordinary spa, making it possible for the customer to obtain a greater benefit from the treatments.
- Proximity to the market. The location of resorts close to their primary markets' places of residence, make it possible for the resort to focus on short stays (weekend vacations mainly), constitutes a key factor for success.
- Attractive surroundings. The attractiveness of the landscape adds to the customer's experience and reinforces their satisfaction.

- Full panoply of effective programs. The customer is reinforced in their decision power by presenting them with a variety of services that eventually improve the perception of the service provided.
- Classic hotel renovated and spa with modern design. Spas add contemporary features in order to eliminate the older image of decadence associated with old-fashioned spas and municipal properties. However, the linkage with history is established through the reproduction of pictures of the old facility on the spa walls. Both elements contribute to the company's differentiation and to the strengthening of its market positioning.
- Strict policy of cleaning and disinfection. Cleaning and disinfection procedures are enforced and communicated to the client. As a result, customer trust and loyalty are increased.
- Standardized providing of the service and product customization. The standardization of the service makes it possible to keep labour costs within limits by blurring the differences between therapists, and avoiding the situation of a therapist with an excessive work-load while others are practically idle. Flexibility to adapt to the customer's needs is considered respecting the strict time limits of the treatment.
- Target markets: RX, NRR. Every model's choice is bond to the primary segment targeted by the company: the RX or relaxation segment that pushes the growth rate experienced by the industry since the mid-1990s. The other segment, the NRR (new rich rheumatic) comprises the first clients who attended spas due to relaxation motivations, but, ten years later, start to be seduced by health motivations.
- Capacity to get in touch with the target markets. The RX segment is a large one, whose needs are well known, with whom the company may communicate, due to the previous experience with Arnedillo spa resort.

## **6. CONCLUSIONS**

The research's objectives were the creation of theory to help in the understanding of the spa industry evolution and future prospects.

The undertaken research yields the following results:

1. The spa industry's conformity to product life cycle and business model theories has been ascertained except for the crucial role played by early entrants at maturity stage, and the high-impact effects of the dominant design, also at maturity stage, which forces unsuccessful incumbents out of the industry and deters new entrants. The kind of innovation present at the spa industry and how it shapes its evolution should be further studied for a comprehensive assessment of the phenomenon.
2. The current and predominant spa business model is the amenity spa whose value proposition offers a more comprehensive experience than the traditional destination spa.
3. The current model's deficiencies derive from the model's choices: heavy investment in real estate, a health and leisure approach and a body focus. The consequences of those choices are: high amortization costs, high fixed costs and market confusion.
4. The industry's future prospects look, however, encouraging since the sector is highly related to long-range social trends.
5. Working on improving the prevalent spa business model, through the development of low-cost alternatives and focus strategies, will help moderate the highly competitive environment, as nonconformity to propositions 4 and 5 brings to the fore, and, eventually, will foster a new growth curve that prevents the industry from entering into a phase of stagnation.

## References

Abercrombie, N.; Hill, S. and Turner, B. *The dominant ideology thesis*. G. Allen & Unwin (London and Boston), 1980.

Abernathy, W. and Clark, K. Innovation: Mapping the winds of creative destruction. *Research Policy*, N°14, 1985, pp. 3-22.

Agarwal, R. and Audretsch, D.B. Does entry size matter? The impact of the life cycle and technology on firm survival. *Journal of Industrial Economics*. Vol. 49, N° 1, 2001, pp. 21-43.

Agarwal, R.; Sarkar, M.B. and Echambadi, R. The conditioning effect of time on firm survival: An industry life cycle approach. *Academy of Management Journal*. Vol. 45, N° 5, 2002, pp. 971-994.

Bacon, W. The rise of the German and the demise of the English spa industry: a critical analysis of business success and failure. *Leisure Studies*, N°16, 1997, pp.173-187.

Bell, R. and Vazquez-Illa, J. Planning for a competitive strategy in a declining industry. Positioning Spain's Arnedillo hotel spa, L.C. Harrinson and W. Husband, Eds.: *Practicing Responsible Tourism. International Case Studies in Tourism Planning, Policy and Development*, John Wiley and Sons, New York, 1996.

Bjurstam, A. Hotel spas, a focus on results. In *Hotel Yearbook 2010*. École Hôtelière de Laussane – Cornell University Hotel School, 2010, pp.190-193.

Bywater, M. Spas and health resorts in the EC. *Travel & Tourism Analyst*. N°6 , *The Economist Intelligence Unit*, 1990.

Campbell, D. and Stanley, J. *Experimental and quasi-experimental designs for research*. Houghton Mifflin Company Boston, 1963.

Carrol, G. and Hannan, M. Density dependence in the evolution of populations of newspapers organizations. *American Sociological Review*; Vol. 54, Nº 4, 1989, pp. 524-541.

Casadesus-Masanell, R. and Ricart, J. How to design a winning business model. *Harvard Business Review*, January-February, 2011, pp. 101-107.

Cátedra, M. El Agua que cura. *Revista de Dialectología y Tradiciones Populares*, Vol. LXIV, Nº1, 2009, pp. 177-210.

Caves, R. and Porter, M. From entry barriers to mobility barriers. *Quarterly Journal of Economics*. Vol. 91, Nº 2, 1977, pp. 241-262.

Chesbrough, H. *Open business models: How to thrive in the new innovation landscape*. Harvard Business School Press, 2007.

Christensen, C.; Bohmer, R. and Kenagy, J. Will disruptive innovations cure health care? *Harvard Business Review*, 2000.

DBK. *Estudio Balnearios*, 2009.

Deloitte. *Estudios sobre oferta y demanda de turismo de salud*, 2005-2007.

Deloitte-New York University. *Hospitality 2010*. Deloitte Hospitality, Tourism and Leisure, 2006.

Eisenhardt, K. Building theories from case study research. *Academy of Management Review*, Vol. 14, Nº 4, 1989, pp. 532-550.

European Travel Commission. *Tourism Trends for Europe*. [www.etc-corporate.org](http://www.etc-corporate.org), 2006.

Glaser, B. and Strauss, B. *The discovery of grounded theory: strategies for qualitative research*. New York: Aldine Publishing Company, 1967.

Hartman Group. *Consumer trends report: Variations and trends on the consumer spa experience*. Lexington, KY: International Spa Association, 2006.

Intelligent Spa Pte Limited. *2009 Global Spa Summit. Spa Benchmark Report*. Singapore: Intelligent Spa Pte Limited, 2009.

International Spa Association (ISPA). *The International SPA Association Pinpoints Spa Trends for 2010*. <http://www.hotelschool.cornell.edu/research/>, 2009.

International Spa Association (ISPA). *Spa industry reports*. Lexington, KY: ISPA. [www.experienceispa.com](http://www.experienceispa.com), 2002-2008.

Instituto de Empresa. Relax Center, *Análisis de Mercado*, 2006.

Kapczynski, A. and Szromek, A.R. Hypothesis concerning the development of Polish spas in the years 1949-2006. *Tourism Management*, N° 29, 2008, pp. 1035-1037, Elsevier.

Keri, K.; Ottenbacher, M.; and Harrington, R.J. The North-American spa industry: an examination of emergent trends. Florida International University *Hospitality Review*, Vol. 25, n° 1, 2007, pp. 50-60.

Klepper, S. Industry life cycles. *Industrial and Corporate Change*, Vol. 6, N° 1, 1997, pp. 145-181.

Klepper, S. and Simons, K. *Industry shakeouts and technological change*. Carnegie Mellon University, 1999.

Kotler, P. *Marketing Management: Analysis, Planning, Implementation & Control*. Prentice-Hall, Inc., Englewood Cliffs, New Jersey, 1988.

Kuhn, T.S. *The structure of scientific revolutions*. The University of Chicago Press, 1962.

Kyricos, M. Spa, more than an indulgent promise. *Hotel Yearbook 2010*. École Hotelière de Laussane – Cornell University Hotel School, 2010, pp. 186-189.

La Gazette Officielle Du Thermalisme. *Journée Nationale du Thermalisme*. Pau, Samedi 9 novembre 1996 – Parlement de Navarre. N° 46, 1997, Numéro Spécial.

Les Dossiers De La Lettre Touristique. *Quelle politique pour quel thermalisme? Les thermalismes européens. Produits cherchent marchés*. Les Dossiers de la Lettre Touristique, 1992.

Lerner, G. *Hotel Spas Recession Overload*. PKF Consulting, 2010.

Levitt, T. Exploit the Product Life Cycle. *Harvard Business Review*. November-December, 1965, pp. 81-84.

Levitt, T. Putting the Product Life Cycle to Work. *Harvard Business Review*. January, 1966, pp. 19-23.

Magretta, J. Why Business Models Matter. *Harvard Business Review*. May, 2002, pp. 3-8.

Mansfield, G.H. and Fourie L.C.H. Strategy and business models – strange bedfellows? A case for convergence and its evolution into strategic architecture. *South African Journal Business Management*. Vol. 35, N° 1, 2004, pp. 35-44.

Mak, A., Wong, K. and Chang, R. Health or Self-indulgence? The Motivations and Characteristics of Spa-goers. *International Journal of Tourism Research*. Vol. 11, N° 2, 2009, pp. 185-199.

Metra Seis. *Estudio sobre el turismo termal – Encuesta a usuarios potenciales*, 1997.

Metra Seis. *Actitudes hacia balnearios*, 2000 y 2004.

Montenson, P. Spas can be profitable. *Hotel and Motel Management*. February 4, 2008, pp. 12.

Montenson, P.; Singer, J. Back to Basics. *Lodging Hospitality*. August, 2009, pp. 8-9.

Orbeta Heytens, A. and Tabacchi, M. *A Market Survey of Non Spa-Goers*. Monograph, Faculty of Graduate School of Cornell University, 1995.

Pastor, A. *La coyuntura en los balnearios urbanos y spas*. Jornadas Técnicas de la Asociación Española de Balnearios Urbanos. Madrid, 2008.

Pastor, A. ¿Cuidarse, Vida Sana... o Simple Culto al Cuerpo? *Spa & Wellness, Maximun*, 2007, pp. 88-90.

PKF. *Consulting and PKF Hospitality Research, Trends in the hotel spa industry*, 2009.

Plog, S. Why destination areas rise and fall in popularity. *Cornell Hotel and Restaurant Administration Quarterly*. Vol. 42, N° 3, 2001, pp. 1-12.

Porter, M. *Competitive strategy*. New York: Free Press, 1980.

San Pedro, M. El turismo balneario de interior en Cantabria. El caso de Puente Viesgo (1796-1936). *Revista de Estudios Turísticos*, N° 121, 1994, pp. 27-66.

Soto Roland, F. *La limpieza en la historia*. [www.monografias.com](http://www.monografias.com), 2006.

Stanford Research Institute. *The global wellness tourism economy*. Presented at the 2013 Global Wellness Tourism Congress in New Delhi, India, 2013.

Stewart, D. and Zhao, Q., Internet marketing, business models and public policy. *Journal of Public Policy & Marketing*. N° 19, 2000, pp. 287-296.

Stigler, G. The division of labor is limited by the extent of the market. *The Journal of Political Economy*. Vol. LIX, N°3, 1951, pp. 185-193.

Sutton, J. Gibrat's legacy. *Journal of Economic Literature*. Vol. 35, N° 1, 1997, pp. 40-59.

Tabacchi, M. Current research and events in the spa industry. *Cornell Hospitality Quarterly*. Vol. 51, N° 1, 2010, pp. 102-117.

Trucco, T. Feel the Burn? It's More of a Glow. *The New York Times on the Web*, 2000.

Utterback, J. and Suárez, F. Innovation, competition, and industry structure. *Research Policy*, N°22, 1993, pp. 1-21.

Van Putten, F. *Spa Trends*. International Spa Association, 2003.

Weisz, G. Spas, Mineral Waters, and Hydrological Science in Twentieth-Century France. *Journal of the history of science in society*. Vol. 92, N° 3, 2001, pp. 451-483.

Yin, R. *Case study research*. Beverly Hills, CA: Sage Publications, 1984.

Zott, C.; Amit, R. and Massa, L. The Business Model: Recent Developments and Future Research. *Journal of Management*, published online 2 May 2011.

---

Article info: Received 08/12/13. Accepted 24/02/14. Refereed anonymously.

---

<sup>1</sup> Differentiation strategy, as in Porter's, 1980, seeks to create something that is perceived industry wide as unique. Costs, however, are the firm's main concern in a cost leadership strategy. A focus strategy will concentrate on a particular segment, product line or geographic market; the firm will achieve cost leadership, differentiation or both with regard to its market niche.