



PROFESSIONAL BEAUTY
ASSOCIATION
2011 SPA/SALON
PERFORMANCE INDEX

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Fourth Quarter 2011

Salon/Spa Performance Index Increased for the First Time in Three Quarters

Driven by stronger sales and traffic levels and a more optimistic outlook for sales growth and the economy, the Professional Beauty Association's *Salon/Spa Performance Index (SSPI)* rose for the first time in three quarters. The *Salon/Spa Performance Index* – a quarterly composite index that tracks the health of and outlook for the U.S. salon/spa industry – stood at 102.9 in the fourth quarter, up 1.0 percent from the third quarter.

The *Salon/Spa Performance Index* is based on the responses to the Professional Beauty Association's Salon/Spa Tracking Survey, which is fielded quarterly among salon/spa owners nationwide.

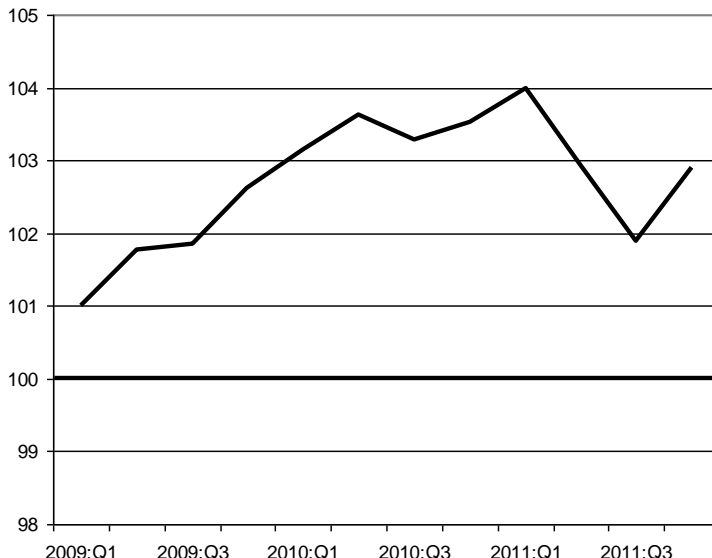
The *Salon/Spa Performance Index* is constructed so that the health of the salon/spa industry is measured in relation to a steady-state level of 100. Index values above 100 indicate that key industry indicators are in a period of expansion, while index values below 100 represent a period of contraction for key industry indicators. The index consists of two components – the Current Situation Index and the Expectations Index.

Current Situation Index Rose 1.3 Percent to a Level of 101.6; Expectations Index Increased 0.7 Percent to a Level of 104.2

The Current Situation Index, which measures current trends in five industry indicators (service sales, retail sales, customer traffic, employees/hours, and capital expenditures), stood at 101.6 in the fourth quarter, up 1.3 percent from the third quarter and the highest level in three quarters. In addition, the Current Situation Index remained above 100, which represents expansion in the current situation indicators.

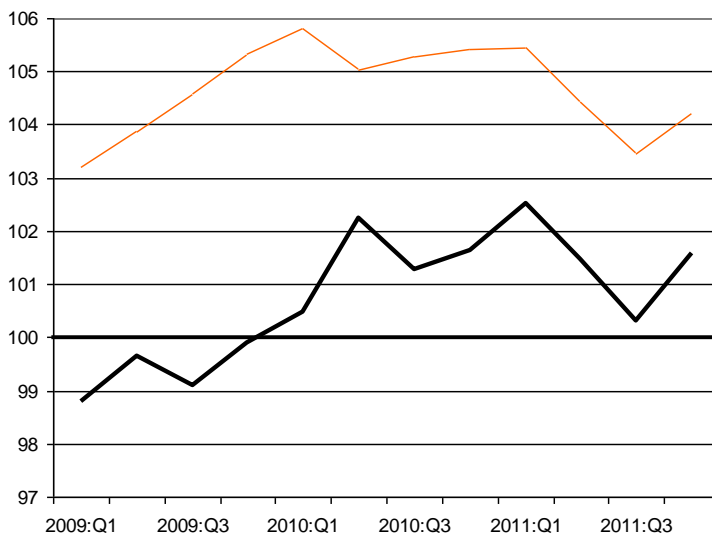
The Expectations Index, which measures salon/spa owners' six-month outlook for five industry indicators (service sales, retail sales, employees, capital expenditures and business conditions), stood at 104.2 in the fourth quarter, up 0.7 percent from the third quarter and the first improvement in three quarters. The Expectations Index remains well above 100, which indicates that salon/spa owners are optimistic about industry growth in the months ahead.

Salon/Spa Performance Index



Source: PBA; Values Greater than 100 = Expansion; Values Less than 100 = Contraction

Current Situation & Expectations Indices



Source: PBA; Values Greater than 100 = Expansion; Values Less than 100 = Contraction

Current Situation Indicators Registered Broad-Based Gains in the Fourth Quarter, with Sales and Traffic Levels Strengthening

The Current Situation Index posted a broad-based improvement in the fourth quarter, as four out of the five current situation indicators increased from their third quarter levels. The service and retail sales indicators registered solid gains the fourth quarter, with both indicators standing above 100 in the expansion range.

Salon/spa owners reported stronger service sales in the fourth quarter. Fifty-nine percent of salon/spa owners reported an increase in same-store service sales between the fourth quarters of 2010 and 2011, up from 50 percent who reported higher service sales in the third quarter. In comparison, 22 percent of salon/spa owners reported lower service sales in the fourth quarter, down slightly from 24 percent in the third quarter.

Salon/spa owners also reported stronger retail sales in the fourth quarter. Fifty-four percent of salon/spa owners reported higher retail sales between the fourth quarters of 2010 and 2011, up from 39 percent of salon/spa owners who reported a retail sales gain in the third quarter. Twenty-five percent of salon/spa owners reported lower retail sales in the fourth quarter, down from 31 percent in the third quarter.

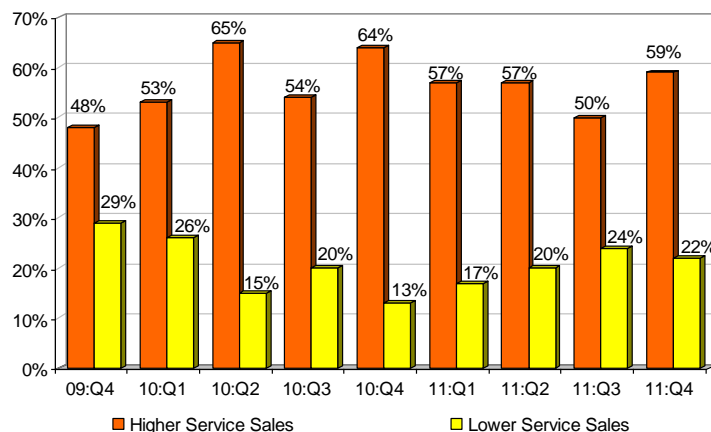
Salon/spa owners reported an improvement in customer traffic levels after the third quarter's soft performance. Forty-three percent of salon/spa owners reported an increase in customer traffic between the fourth quarters of 2010 and 2011, up from 33 percent who reported similarly in the third quarter. Meanwhile, 23 percent of salon/spa owners reported lower customer traffic in the fourth quarter, down from 31 percent in the third quarter.

Overall, the salon/spa industry's labor indicators held relatively steady in the fourth quarter, as similar proportions of salon/spa owners reported increases and decreases in both staffing levels and employee hours. Twenty-one percent of salon/spa owners said they added employees between the fourth quarters of 2010 and 2011, while 23 percent said they cut staffing levels.

Meanwhile, 18 percent of salon/spa owners said they increased employee hours between the fourth quarters of 2010 and 2011, while 22 percent said they cut employee hours.

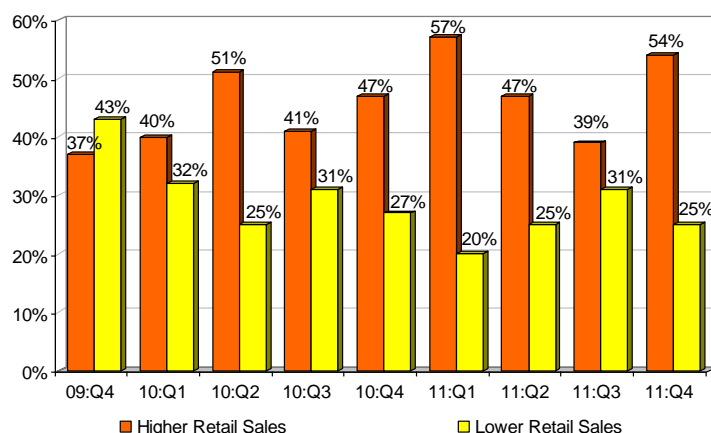
Salon/spa owners reported their strongest capital spending levels in three quarters. Thirty-eight percent of salon/spa owners said they made a capital expenditure for equipment, expansion or remodeling in the fourth quarter, up from 31 percent in the second quarter and 28 percent in the third quarter.

Salon/Spa Owners' Reporting of Same-Store Service Sales vs. Same Quarter in Previous Year



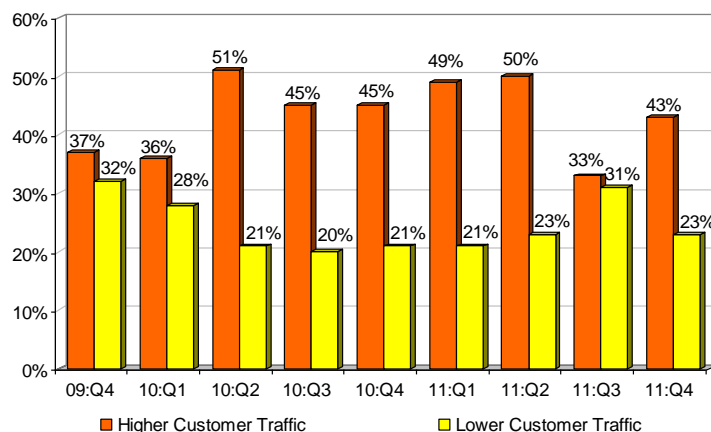
Source: Professional Beauty Association, Salon/Spa Tracking Survey

Salon/Spa Owners' Reporting of Same-Store Retail Sales vs. Same Quarter in Previous Year



Source: Professional Beauty Association, Salon/Spa Tracking Survey

Salon/Spa Owners' Reporting of Customer Traffic Levels vs. Same Quarter in Previous Year



Source: Professional Beauty Association, Salon/Spa Tracking Survey

Expectations Indicators Increased for the First Time in Three Quarters, as Salon/Spa Owners Are More Optimistic about Sales Growth and the Economy

The Expectations Index rose for the first time in three quarters, as salon/spa owners are more optimistic about industry growth in the months ahead. Each of the five expectations indicators stood above 100 in the fourth quarter, which points toward broad-based industry growth in the coming months.

Salon/spa owners are more optimistic about growth in service sales in the months ahead. Sixty-seven percent of salon/spa owners said they expect to have higher service sales in six months (compared to the same period in the previous year), up from 60 percent last quarter. Meanwhile, only 5 percent of salon/spa owners expect their service sales volume in six months to be lower than it was during the same period in the previous year, down from 12 percent who reported similarly last quarter.

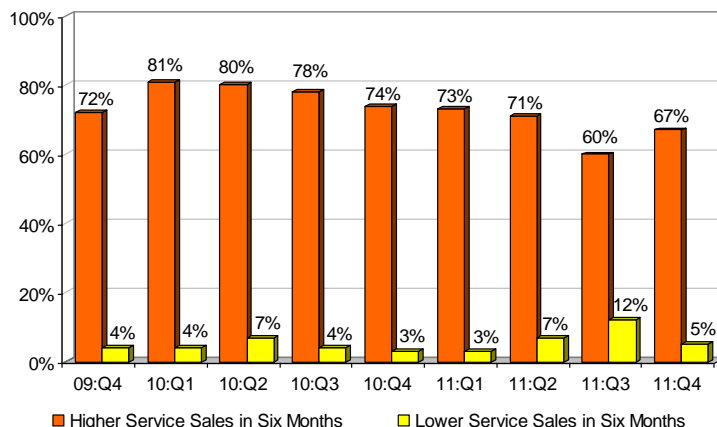
Salon/spa owners are somewhat more optimistic about retail sales growth in the months ahead. Sixty-one percent of salon/spa owners said they expect to have higher retail sales in six months (compared to the same period in the previous year), up from 57 percent who reported similarly last quarter. In comparison, only 7 percent of salon/spa owners expect their retail sales to decline in six months (compared to the same period in the previous year), down from 11 percent who reported similarly last quarter.

Salon/spa owners are also more bullish about the direction of the overall economy. Fifty-seven percent of salon/spa owners said they expect economic conditions to improve in six months, well above the 36 percent who reported similarly last quarter. Five percent of salon/spa owners expect economic conditions to worsen in six months, down from 12 percent of owners who reported similarly last quarter.

Despite the stronger outlook for sales and the economy, fewer salon/spa owners said they plan to expand staffing levels in the months ahead. Forty-three percent of salon/spa owners said they plan to have higher staffing levels in six months (compared to the same period in the previous year), down from 55 percent who responded similarly last quarter. In comparison, only 6 percent of salon/spa owners expect to reduce staffing levels in six months, matching the proportion who responded similarly last quarter.

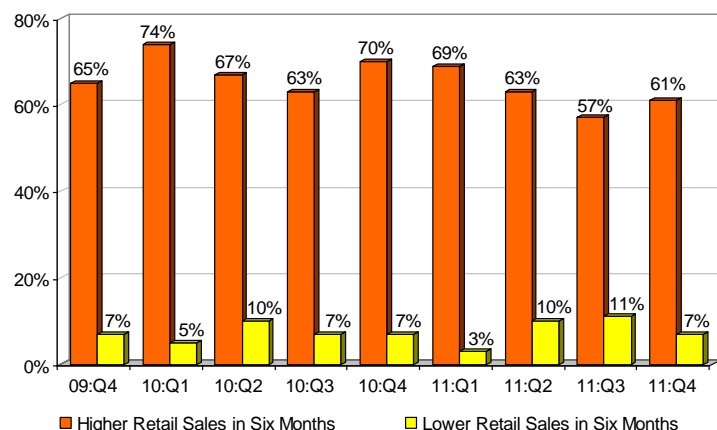
Salon/spa owners' outlook for capital spending activity held steady in the fourth quarter. Forty-three percent of salon/spa owners plan to make a capital expenditure for equipment, expansion or remodeling in the next six months, matching the proportion who reported similarly last quarter.

Salon/Spa Owners' Outlook for Service Sales Volume in Six Months vs. Same Period in Previous Year



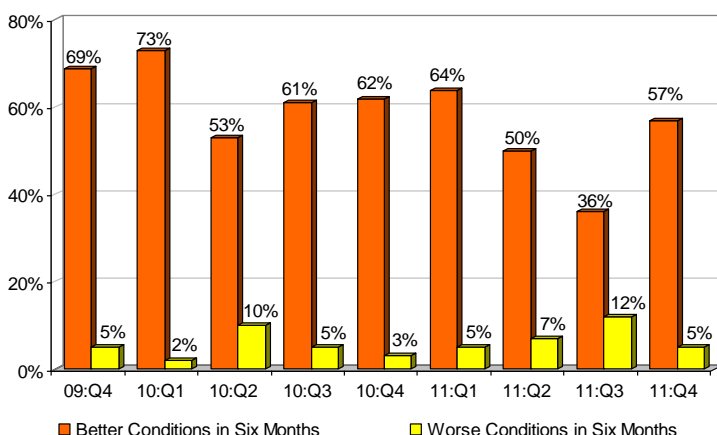
Source: Professional Beauty Association, Salon/Spa Tracking Survey

Salon/Spa Owners' Outlook for Retail Sales Volume in Six Months vs. Same Period in Previous Year



Source: Professional Beauty Association, Salon/Spa Tracking Survey

Salon/Spa Owners' Outlook for General Economic Conditions in Six Months



Source: Professional Beauty Association, Salon/Spa Tracking Survey

Professional Beauty Association Salon/Spa Performance Index Data

	Fourth Quarter 2010	First Quarter 2011	Second Quarter 2011	Third Quarter 2011	Fourth Quarter 2011	11:Q4 over 11:Q3
Salon/Spa Performance Index	103.5	104.0	103.0	101.9	102.9	1.0%
Current Situation Index	101.6	102.5	101.5	100.3	101.6	1.3%
<i>Current Situation Indicators:</i>						
Same-Store Service Sales	105.1	104.0	103.7	102.6	103.7	1.1%
Same-Store Retail Sales	102.0	103.7	102.2	100.8	102.9	2.1%
Customer Traffic	102.4	102.8	102.7	100.2	102.0	1.8%
Labor	100.3	101.6	100.5	100.4	99.7	-0.7%
Capital Expenditures	98.4	100.6	98.2	97.6	99.6	2.1%
Expectations Index	105.4	105.4	104.4	103.5	104.2	0.7%
<i>Expectations Indicators:</i>						
Same-Store Service Sales	107.1	107.0	106.4	104.8	106.2	1.3%
Same-Store Retail Sales	106.3	106.6	105.3	104.6	105.4	0.8%
Staffing	104.6	105.1	104.8	104.9	103.7	-1.1%
Capital Expenditures	103.2	102.6	101.4	100.6	100.6	0.0%
Business Conditions	105.9	105.9	104.3	102.4	105.2	2.7%

Note: For each of the Indices and Indicators, a value above 100 signals a period of expansion while a value below 100 signals a period of contraction.

Methodology

The Professional Beauty Association's *Salon/Spa Performance Index* is a statistical barometer that measures the overall health of the U.S. Salon/Spa Industry. This quarterly composite index is based on the responses to the Professional Beauty Association's quarterly Salon/Spa Tracking Survey, which is fielded among salon/spa owners nationwide on a variety of indicators including service sales, retail sales, customer traffic, employees and hours, and capital expenditures. The *Salon/Spa Performance Index* is composed of two equally-weighted components: the Current Situation Index and the Expectations Index. For each of the Indices and Indicators, a value above 100 signals a period of expansion while a value below 100 signals a period of contraction, and the distance from 100 signifies the magnitude of the expansion or contraction.

The Current Situation Index is a composite index based on five 'recent-period' salon/spa industry indicators:

- Same-Store Service Sales:* Compares same-store service sales volume in the reference quarter versus the same quarter in the previous year
- Same-Store Retail Sales:* Compares same-store retail sales volume in the reference quarter versus the same quarter in the previous year
- Customer Traffic:* Compares customer traffic in the reference quarter versus the same quarter in the previous year
- Labor:* Compares the number of employees and the average employee hours in the reference quarter versus the same quarter in the previous year
- Capital Expenditures:* Measures capital expenditure activity during the reference quarter

The Expectations Index is a composite index based on five 'forward-looking' salon/spa industry indicators:

- Same-Store Service Sales:* Salon/Spa owners' outlook for same-store service sales in six months, compared to the same period in the previous year
- Same-Store Retail Sales:* Salon/Spa owners' outlook for same-store retail sales in six months, compared to the same period in the previous year
- Staffing:* Salon/Spa owners' expectations for their number of employees in six months, compared to the same period in the previous year
- Capital Expenditures:* Salon/Spa owners' capital expenditure plans during the next six months
- Business Conditions:* Salon/Spa owners' outlook for general business conditions during the next six months