

Los Angeles Times

75¢ DESIGNATED AREAS HIGHER © 2009 06 PAGES EST

latimes.com

LEISURE

Bust out the bubbly?

A Pomona spa maker hopes the Coleman name will lift its sales as demand cools.

By Nathan Olivares-Giles

The hot tub business is in the lull.

About 90 spa manufacturers have closed over the last six years, and experts say sales have dropped by as much as two-thirds over the same period.

But at a time when its competitors are pulling back and trying to diversify, a Pomona company is hoping to stem off the continuing decline by banking on a well-known name.

The spa manufacturer LMS Inc. has paid an undisclosed amount for the right to make "free-standing" spas under the name of the popular outdoor supply company Coleman.

Having survived the downturn in part by diversifying early — adding generators and lawnmowers at a time when competitors were still making mostly spas — LMS says it plans to add 90 jobs at its 1-million-square-foot plant by year's end to build new hot tubs. About 130 jobs over the next two years should be added if the Coleman-branded spas sell well, said Casey Loyd, LMS president.

But LMS has its questions of success. The company faces a marketplace heavily tilted by changing consumer habits and the expansion of the luxury market.

"They're pretty sure of themselves to be taking this all on," said David Wood, publisher of *Spa & Hot Tub* magazine. "They're the ones taking on the risk here, not Coleman."

While development spas have been so poor in recent years that the big home improvement chains rarely stock them, Home Depot sells hot tubs only on its website. Low's doesn't carry any. Wal-Mart and Sears Club sell spa online and in a small number of stores. Retail specialty retailers are making the bulk from selling mostly hot tubs to a niche market of outdoor living.



Casey Loyd, LMS president.

NOW HIRING: Casey Loyd, president of hot tub maker LMS, says the Pomona company will add 90 jobs over the next two years if the Coleman-branded spas sell well.

"When you do see hot tubs sold in stores, they're usually put on top of shelves in the back of warehouses," Loyd said. Retailers tend to do better because they have trained staffers who can take a long time to make a sale, Black said. But such stores' profits have been hit hard by the credit crunch.

"The market for hot tubs isn't the only one suffering. Consumers aren't spending money in many luxury items right now, said Craig Kenyon, an analyst with Robert W. Baird & Co. And until the recession is long gone, spending on high-end goods is likely to stay low, he said.

"Luxury markets tend to be a harbinger for the broader economy," said Kenyon, who specializes in the specialty camping market for recreational vehicles. "We get into the recession, much before the overall recovery. The boat market, the motorcycle market, golf clubs, spas, RVs — all of these luxury markets are impacted the same."

Another problem is that when it comes to hot tubs, consumers don't really think about the brand, said Wood of *Spa & Hot Tub* magazine. Do the Coleman name won't necessarily spur any sales, he said.

"We ask consumers all the time, 'What brand do you buy?'" he said. "Almost 50% of people don't even know what brand of spa they own. There is virtually no brand recognition in the hot tub industry."

Coleman has had hot tub licensing agreements in the past, with only moderate success, Wood said. The backyard and camping company has not had a spa in the market in three years — and its last licensee went out of business before a single hot tub could be made, said Jason McClintock, Coleman's senior director of product and licensing.

But Coleman and its parent company, Junco Corp., were impressed with LMS' ability to build and market its existing brand, Chiffon, at a time of turmoil, McClintock said.

Jarvin executives think LMS will be more successful in building Coleman Spas than previous manufacturers, but they won't be expecting sales to take off immediately, he said.

"We certainly don't expect glorious results in the first 12 to 18 months," McClintock said. "I think by 2012 we expect it to be up and running with a lot of growth ahead."

Harley Wolf, an analyst who covers funds for Rockdale Securities, said the LMS deal is part of a broader strategy by Jarvin and Coleman to set up licensing arrangements with manufacturers and distributors. The company hopes to bring in \$50 million a year

Hot tub maker bets on Coleman name

(Hot tubs, from Page B1)

door furnishings and supplies, Wood said.

Kathryn Gallagher, a spokeswoman for Home Depot, said the retailer would feature only spas sales two years ago as consumers moved away from luxury items.

With little return on items that takes up so much floor space, retailers are reluctant to stock hot tubs in-store, said Lauren Black, a spokeswoman for the Amn. of Pool & Spa Professionals. Selling spas takes significant effort, Black said, and few large retailers are willing to invest in the necessary staff and training.

"When you do see hot tubs sold in stores, they're usually put on top of shelves in the back of warehouses," Loyd said.

Retailers tend to do better because they have trained staffers who can take a long time to make a sale, Black said. But such stores' profits have been hit hard by the credit crunch.

"The market for hot tubs isn't the only one suffering. Consumers aren't spending money in many luxury items right now, said Craig Kenyon, an analyst with Robert W. Baird & Co. And until the recession is long gone, spending on high-end goods is likely to stay low, he said.

"Luxury markets tend to be a harbinger for the broader economy," said Kenyon, who specializes in the specialty camping market for recreational vehicles. "We get into the recession, much before the overall recovery. The boat market, the motorcycle market, golf clubs, spas, RVs — all of these luxury markets are impacted the same."

Another problem is that when it comes to hot tubs, consumers don't really think about the brand, said Wood of *Spa & Hot Tub* magazine. Do the Coleman name won't necessarily spur any sales, he said.

"We ask consumers all the time, 'What brand do you buy?'" he said. "Almost 50% of people don't even know what brand of spa they own. There is virtually no brand recognition in the hot tub industry."

Coleman has had hot tub licensing agreements in the past, with only moderate success, Wood said.

The backyard and camping company has not had a spa in the market in three years — and its last licensee went out of business before a single hot tub could be made, said Jason McClintock, Coleman's senior director of product and licensing.

But Coleman and its parent company, Junco Corp., were impressed with LMS' ability to build and market its existing brand, Chiffon, at a time of turmoil, McClintock said.

Jarvin executives think LMS will be more successful in building Coleman Spas than previous manufacturers, but they won't be expecting sales to take off immediately, he said.

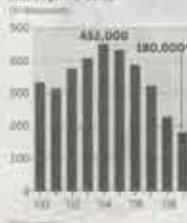
"We certainly don't expect glorious results in the first 12 to 18 months," McClintock said. "I think by 2012 we expect it to be up and running with a lot of growth ahead."

Harley Wolf, an analyst who covers funds for Rockdale Securities, said the LMS deal is part of a broader strategy by Jarvin and Coleman to set up licensing arrangements with manufacturers and distributors. The company hopes to bring in \$50 million a year

Losing steam

Hot tub sales have been declining since 2004.

Industrywide sales



Source: Amn. of Pool & Spa Professionals. L.A. Times/Graphic

from licensing deals.

"Licensing, if done right, is a great way to increase brand visibility," Wolf said. "You get someone to build a product with your name on it. It's almost all profit, and there's very little expense."

Wolf said she thinks there's a good chance the Coleman name will get the LMS hot tubs into big retail chains.

"If you can walk in at the selling point and say you're affiliated with the No. 1 brand in outdoors, well, it opens doors because they're in specialty retail, they're in big-box retail, and they're in the big warehouse stores," she said. "But I don't really even know Coleman was in the hot tub business or had been. So that says something too."

Loyd, the LMS president,

said he hopes to build up the Coleman name by offering the hot tubs as special-order items in big-box stores. LMS' Catalogs lists an eight-piece set and add in smaller pieces.

The company is in a position to invest in a new hot tub line now because of its earlier move into backyard and patio products, Loyd said.

Other spa makers have recently dove the same.

Major competitors such as Clearwater Spas and L.A. Spas have begun building garages in the last few years, Wood said.

Leisure Concepts, a hot tub accessory company in Spokane, Wash., started making microcosm accessories last year in an effort to look outside the spa industry for a more stable revenue stream, Vice President Robin Wood said. The company makes a plastic deck designed to go under hot tubs — and two other markets it is the Monobed, which users can use as a surfboard at surf breaks.

Despite hope for a recovery, few players are floating all their hopes on hot tubs.

LMS will also distribute other Coleman products and continue to sell tubs under its Chiffon brand.

"We're asking into this," Loyd said. "With the recession the way it is, it's going to take a couple years to build Coleman Spas up to where we want it."

But the Coleman name, he said, is strong enough that if marketed properly, many retailers will stock the tubs and consumers will buy them.

"You've got to have a brand, that's why I did this deal," Loyd said. "I bought the brand."

nathan.olivares-giles@latimes.com