



“Spa of the Future” Student Strategy Challenge Competition

Sunday, May 17th, 2009 10:00am

La Salle Cote Jardin

Student Teams Presenting from:

The Ecole Hoteliere de Lausanne (Switzerland)

Institut de Management Hotelier International (France)

Judging Panel:

Susan Harmsworth, Founder & CEO, ESPA International, United Kingdom

Wolf Hengst, Chairman, Wabanda, United Kingdom

Hirokazu Iida, President, Shuei UpGrades Co., Ltd., Japan

Samir Patel, Managing Director, Six Senses Spas and Resorts, Thailand

Ada Polla, President & CEO, Alchimie Forever, Switzerland/ United States

Scribe: Michelle Punj (Cornell)

Team 1: Spa 4 U

Industry Research

First we took a basic look at the industry, which includes day spa, detox spa, and medical spas. However there is not a clear definition of spa. The industry is growing, with an estimated 255 billion dollar global spa economy and \$60.3 billion in core spa industry revenues (2007 Global Spa Economy Report, SRI International credit SRI, GSS).

Looked into the US market figures: 27% increase in spa goers, 56% increase in revenue, one in four people visit spas. Additionally, 80% of spas are day spas, which offer beauty and relaxation. There are no branded spa chains targeting generation Y. This generation is technically savvy as they spend 1/3 of their life online. They work to live not live to work. Generation Y is generation now. They do not save. They use networking sites. The average generation Y spends 4 hours/day on leisure activities.

Market Analysis of Generation Y

In the U.S., 14% of the population is Generation Y but they account for 16% of gross income, which is the highest percentage of past generations. Generation Y has an average income greater than the average family and there is a correlation between education and health. There has been a 16% increase in college students in the U.S. and most live in dorms. There has also been a 5% increase in sports and athletic students who tend to worry more about health. Students are having problems with depression, sleep deprivation, and anxiety.

Spa 4 U Concept

A branded spa chain for United States universities. There are three aspects to the spa: Feel Well, Have Fun, and Mingle.

1. Feel Well
 - Personal Massages – student days are scheduled and split up for 30-45 minute massages
 - Chair massages – quick, easy, in-and-out massages
 - Grooming
2. Have Fun: to entertain yourself
 - Hot Tub – relax with friends and socialize
 - Activities – yoga, aerobics, pilates
 - Recreation – use the outdoors to run in a park or go biking
3. Mingle
 - Networking
 - Smoothie bar with friends, caters to offline networking
 - Wifi zones for reading e-journals, blogging, or to see where next party is for online networking.
 - Online community
 - 24/7 portals for goers to book massages online
 - “log-on, book massage, and ready to go”

Feasibility

Of the four thousand universities in the US, we selected ones with tuition greater than \$30,000 per year, outside of cities, and excluded those that offered financial support. An example university is Pepperdine with 3,300 students. Of this population we could reach a customer base of 1,000. There are 22 other universities of this nature that are possible locations for Spa4U. Our assumptions are that 10% of students will visit Spa4U once a year, 20% once a fortnight, 30% quarterly, and 40% monthly. We assume an increase in revenue of 3 to 3.5% per year. The profit and loss statement shows conservative assumptions.



Scenario Analysis

There will be no debt and a payback of 3-5 years. Our optimistic view is that 18% of students will utilize Spa4U and our pessimistic view is that 10% will utilize the spa.

Q&A

Q: Recovery for students is coming at a faster pace than the economy. I am surprised that you restricted your target market to affluent students that do not receive financial support. Did you consider students interested in wellness?

A: The average tuition at a public university is \$5,000. We found that students at schools with tuitions greater than \$30,000 had parents with incomes greater than \$80,000. Public school students had lower disposable income. Private schools like Pepperdine had fewer students but much greater disposable income.

Q: What percentage of students will use the chair versus the hands on massage and what will be the price difference.

A: Chair massage will be \$5 per 15 minutes. Treatment costs will be related to labor and will differ state by state. The example in the P&L statement is for California. Of the \$620,000 total costs about \$200,000 is attributed to labor.

Comment: Marketing should be 15% of total costs the first year (I believe) and the average for labor in the industry is 45%. Your value is very low.

Q: What are the space requirements and what is the turnaround for treatment rooms?

A: There will be 2 massage rooms and room for eight chairs. There will be two therapists on staff for walk-ins. Labor will be outsourced, and booking will be done online. There will be nine massages per therapist per day, each 30-45 minutes.

Q: What are the hours of operation?

A: There will be 24/7 online booking. Spa4U would be closed Monday but open Tuesday through Sunday for 8-10 hours (by law must have 1-day off).

Q: What is the pricing strategy? Is there cheaper pricing to get more guests?

A: Chairs and hot tubs are not labor intensive so it will generate revenue to make up for the cheaper prices for hands on massages.

Q: What will you do to maximize capacity?

A: We will offer high quality, low cost, and people will come. We will offer broad visibility, can mingle or not, and we will maximize revenue with design, quality, and products that attract Generation Y.

Q: In an ideal scenario how many locations will you have?

A: 80

Q: Other locations?

A: The concept would have to change outside of the US. People between the ages of 20 and 30 are not going to spa because they need to mingle. We need to educate younger populations. Americans see spas in many ways – going to a retreat, or relaxing. Campuses are bigger in the US than in Europe. Generation Y is common worldwide but the concept would still need to be altered.

Q: What is your marketing and recruitment/training strategy?

A: It will be a branded chain. We will market a WiFi area where guests can download music/magazines, and use Kindle readers and iPods. We will have five employees so recruitment will be limited. We will use the Apple strategy for marketing to target Generation Y.

Q: Generation Y's expectations are quite high. How will you control standards? Where is this in the costing?

A: There are a maximum of five employees (2 therapists, 2 grooming/hairdressers, 1 receptionist) in addition to one full time manager. The manager will earn approximately \$52,000 according to ISPA data.



Q: What are the outsourcing costs per hour?

A: The number of treatments will determine the salary. The extra cost for outsourcing is figured into the hourly rate of \$23 USD per therapist.

Q: How will recruitment be done?

A: Training will be conducted by full time employees. The first spa would train the others.

Q: Will WiFi be free?

A: Yes.

Q: What is the owner profile and to whom are they selling?

A: There will be investors within the private university. We would also look to local investors and parents who have kids at the university.

Q: If you have peaks/troughs, would you let outsiders in the spa?

A: If they come with a Generation Y student a guest may come to make more of a club sense of belonging.

Q: Did you consider memberships?

A: There will be an online community so memberships would not add value. Students, especially Generation Y students, switch brands very quickly.

Q: What about brand loyalty programs?

A: A University is like a club and therefore University bonding already creates a community, which makes people loyal. Mingling and networking are important to this group. For example, students are loyal to local pubs.

Q: What about rolling-out the spa and franchising which are key US fees?

A: It depends on the investor. Didn't think of franchising yet. We would open one and learn, apply the knowledge, and then if franchised would turn to someone with franchise experience.

Team 2: Chill House Lounge & Spa

Concept introduction

Clips of traditional and luxury spas, far destinations, and confusing treatments.

21-30 Year Old Expectations

What does the Generation Y want? They are conscious of body and health, they value time, they want networking and technology...it's ALL about the BRAND. Brands such as the Body Shop, McDonald's, and Apple.

Chill House



Fun, relax, harmony. Lounge with young staff, setting will change in the evening, treatments with open views, and evenings with large parties. The floor plan will have a center lounge in red with a bar area. There will also be treatment rooms, a plunge pool, sauna, and steam. People will come after work, they want to get together, party, reenergize and “chill”, all under one roof.

Strengths

With brand recognition, technically oriented, and good cash flow from strong revenue. Revenue streams would include membership fees, treatments, retail, Chill House Experience (such as sauna, lounge, etc), F&B (emphasizing spa cuisine), consultations, events, and parties.

Segmentation

30% will want ME TIME, 60% are CROWD SEEKERS, and 10% will be MINGLERS. The target market will be within 22 kilometers of Chill House.

Chill House Experience

Caroline is a 24 year old mid-level-employee who visits the spa, alone, monthly for lunch and a 1-hour massage. John is a 27 year old young-entrepreneur who does not have a membership but goes for the first time with friends after 5pm and stays for two hours. Nicolas is a 23 year old MBA Student without a membership but goes to Chill House in the evening for the bar and cocktails. Lucie is a 26 year old sales agent who has a membership and goes to Chill House for a party at night from 10pm – 1am. There will be four masseurs who are bartenders to offer simple massages throughout the evening.

Expansion and Finance

Year 1 – Owned and managed, create successful brand

Year 2 – Mix of partnership and franchise

Year 4 – Open 12 per year

Expect 69% occupancy, average amount spent of 42 Euro, and 82% member base.

Q&A

Q: Why is brand so important?

A: Brands are popular (think of Apple). The concern is developing loyalty. There are risks of brands but there is also the ability to increase the number of clients using applications such as Facebook and Trip Advisor. There are three marketing phases (1) spreading Chill House fever, (2) creating a pandemic, and (3) creating Chill House forever through brand loyalty.

Q: What is the size?

A: 750 square meters. It will cost 3500 to 4500 Euro per square meter depending on the location. This includes pre-opening, etc.

Q: Is the membership for social purposes since treatments are not included?

A: They would pay in advance for monthly memberships. If they want flexibility to start they can use priority access to the common areas. The membership form will have an option to select the number of treatments per month. Monday through Thursday there will be a lower price. They can choose number of days per week and number of treatments per month. Membership will also give access to the private jet pool and foot Jacuzzi. There will also be simple, customizable membership programs so you can choose to include treatment or add ala carte.



Q: What is the flexibility of the property? How will you maintain the tranquility for spa guests in a mixed-use space? Are there expandable rooms or moving tables?

A: Six days a week there will be only a bar/lounge so there will be a certain level of music. One night per week there will be a proper party with club; at this time treatment rooms will be closed.

Q: Expand on the social membership?

A: There will be clear marketing to distinguish dates. We will have a detox package (party at night and detox the next day). There will be more focus on community than relaxation.

Q: What are the membership requirements?

A: During the launch period (6 months to 1 year) the first 100 members will be complimentary. These members would be popular trend-setters. We will then grow via word of mouth. Age requirements are over 21. The social environment will make customers self-select, which will naturally cap the age.

Q: Explain the multi-utilization of the bartenders.

A: We conducted a survey and people felt comfortable with massage therapists serving drinks. This will improve employee-member relationships.

Q: You mentioned fun, relax, lounge, harmony, and spa. What does harmony mean and does silence/tranquility have a role?

A: To the 21-30 year old population tranquility means treating stress by escaping. So massage was alleviating stress. For this age group friends are family and this is an escape associated with friends and sharing experiences.

Q: What type of education would these multi-tasking bartender/therapists have?

A: They would be recently trained and therefore have lower salary expectations. They would be fully qualified for simple treatments (for instance no shiatsu).

Q: Memberships is an old-fashioned idea. Will members be making money for you?

A: Yes. Members will generate F&B revenue in the lounge. Research shows that people want to snack. Also members are used for drawing people in. Memberships also make people feel like part of a community.

Q: How is pricing differentiated between treatments for members and non-members?

A: Members get 15% discount.

Q: The hours of operation are 11am to 1am? What about morning-after detox treatments?

A: The detox morning will be a brunch detox from 11am – 2 or 3 pm.

Q: Why converge detox and tranquility?

A: There are ties with the lifestyle of the 21-30 year old population. They want their lifestyle but are suffering from it. We want to help them incorporate health. The spa community will encourage them to go detox after the bar.

Q: What about corporate social responsibility?

A: Young people want to spa but also go to bars and restaurants because they are time conscious. This model presents all of these together. We will also be eco-friendly by incorporating ecologically friendly products and using local suppliers. We will have simple green products not medical cosmetics. Also consumers don't understand complex treatments so we want to offer basic simple spa treatments that can be incorporated into the consumers' life.

Q: Aren't wellness and fitness important to young people?

A: Yes but we want to focus on fun and relaxation. We will have partnerships with local fitness clubs but we will not have a fitness concept.

Q: How is staffing allocated?

A: Staffing is attributed to each line but varies by occasion; staff rotates between departments.



During Sunday evening's Welcome Dinner, judge Ada Polla (President of Alchimie-Forever) announced the winning concept: Chill House, IMHI-ESSEC Business School.



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