



## A Creative New Business Model ~ A Unique Facial Spa

General Session: Speaker

Wednesday, June 6<sup>th</sup> 2012 2:00pm - 2:30pm

McNulty Gathering Room, Doerr-Hosier Center, The Aspen Institute

### **Speaker:**

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Transcription:

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C.K. LOW: A very good afternoon, ladies and gentlemen. My name is C.K. from Malaysia. Today, standing in front of all the top brains and all the big boys from spa industries around the world, you really make me feel so nervous, so small, and so humble. At the same, I'm truly honored to be given the opportunity to share my experience with you here in Aspen. Today we're going to talk about my business model; in the process of this, I'm going to use some photos, some materials from our company in Malaysia, but there is absolutely no intention on my part to promote my business over this platform. Let's move on.

This story started back in 1994, the time I was quoting my wife, Kim. She started a very small business salon only occupying 200 square feet within the spa-salon. That's how small we were so when we first started, on the weekends I was working at a bank as an accountant. When I don't have to work on the weekend, I would come to her salon, open up the door, serve the tea, serve the towels, and then clean up the place, and that's how my day started in this business. I went in not because I wanted to do a business — I had another exterior motive. Three years later when Kim's business grew to the third branch, she needed somebody to help. She is like a singer: You put her up on stage, she can do wonders, she can sing, she can perform, she can impress the crowd, but offstage, you ask her to set up the stage, do the promotions, do the marketing behind [it, and] her time is not well spent. So I came in to help her; I'm actually the guy behind a successful lady.

We continue to grow. Come year 2000, we had already six branches, so time to start considering our own brand, and yes, we did. Setting up your own brand, as you know, we need to carry a high level of stock. And we need to digest this stock fast, so that's

why at the same time we started franchising as well. Somehow, every one of us has got a change, or a break, somehow every one of us, sometime in our life. My break came in the year 2007. What prompted us to change in our business model? There are two factors. One is the emergence of medical beauty. Many developed countries in Asia like Japan, or Korea, like Taiwan, Hong Kong, Singapore — you can see a lot of salons have been overtaken by doctors. So the one thing good about Malaysia is that, since Malaysia is a developing country, we usually move five to eight years behind these developing countries. So I can steal these ideas from all these developed countries. But sooner or later, we have to change.

The second thing that prompted me to change is the McDonald's story. I remember one night in year 2007, I was having dinner with a good friend of mine, and he told me about the McDonald's story. It's saying that McDonald's actually makes more money from properties rather than selling burgers. That really surprised me — how could that be? When they set up a place like McDonald's, they usually buy a piece of land; they buy also the next piece of land, and the next piece of land. So when McDonald's is set up, the neighboring land prices all went up. McDonald's either lifts it up or sells the piece of land. So one piece of land they sell is equivalent to the few million burgers they sold; they're actually making more money from their properties rather than selling burgers. At the same time, this property would depreciate over time, so at that time, we had already 12 branches all in shopping malls. It makes me think hard. At the end of the day when I retire at 65, what is there left for me? Nothing. Then I started thinking hard, and with this inspiration from McDonald's, we started to change from a normal beauty salon to a facial spa.

What is a facial spa all about in Malaysia? There are three things that we do. First, we used to operate in all the shopping malls. [For example], we've operated for five years here [points to PowerPoint], so our business is quite stable here already. Then we start to look for all other properties around shopping malls. I found all these properties; this property is already 30 years old. The father passed [it] down to the kids, the kids find that this property is too old, and nobody wants to stay inside there. So I went to talk to the bank, "I want to buy this property at 800,000 ringgit, and I also need another half of a million to renovate the place." Then the bank asked me, "How much are you paying rental in the shopping mall?" I said, "I'm paying 9,000 ringgit every month in the shopping mall." The bank did the calculation. "Hey, 9,000 I save from the shopping mall, move it over here, in fact I pay less to the bank." So the bank not only lent me money to buy off the house, the bank also lent me money to renovate the house, and we turned this house into something like this. It is still a facial salon, but what I did was put in the smell, the taste, the feel of spa — which I stole from you guys — into the facial salon.

The first project that kicked off like that was the first project because when we moved out from the shopping mall to a private property like this, our business model doubled. Customers are paying the same price, but getting a far better environment to enjoy their treatment. With this encouragement, we go on to buy more and more properties. Also when I buy properties, I go and persuade the local council to let me convert the use of this house from residential status to commercial status. Then I have to come up with new stories, “You know this house is so rundown, it’s beside the main road, it’s really an eyesore to this area, so why don’t you let me buy this out and beautify it? I’m actually doing an urban renewal for the municipal without you having to pay anything, without you having to do anything.” They’re happy with my argument, and they let me use it for commercial business, and we turn this one into something like this [points to PowerPoint].

These few years, we have now 19 branches [of] our own throughout Malaysia, and I’m operating 12 of my branches as my own properties. The latest one we have done is facing South China Sea in a predominantly Malay area. What we did is we renovated the house in a Malay style, respecting the couches and the people there. All the other ideas we learned from all the people in this room.

So what do we do? This is only on the hardware side — after doing the hardware, how do we do the software? First of all, we choose our own bed of ground, so what is a facial spa. We try and define a facial spa to the customers; for example, if I put down there, “beauty spa,” with beauty I’m up against all these other brands, and I can’t fight with them, but with facial, they don’t do such things, so I only compete against the facial salons. And when I put facial spa, it’s not a resort spa, it’s not a hotel spa, so I don’t compete against Four Seasons, and I don’t compete against Mandarin Oriental. I’m a facial spa, so we cut out all the big boys. Our competitors now are the small facial salons in Malaysia — I’ve become the big boy.

How do we distance ourselves from medical practitioners? Up against the doctors, we will lose again. So what we do is when customers come in, we give an example. Say for example, Susie comes in, say for a car, and we say, “We are doing just a normal service for car, changing the oil, alignment, tires. So you have to do normal servicing every 10,000 kilometers or 15,000 kilometers, but when this car is old, 12 or 15 years old, we will recommend you to do your overhaul in the specialty car center. So the doctors are like the overhauling center, [and] we are recommending you to the overhauling center. I only do the normal service.” In this way, I’m doing more than 10,000 normal services every month. With this kind of setup, my company only deals with the facial salons, so we are dealing with a lot of smaller people than us. The third thing we do is change our target market. In Malaysia, most of the skincare products or beauty brands are targeting the top of the triangle, all the high-income earners. Instead

of targeting the top, we move our prices down to target the middle size because the middle size in many countries is the biggest number.

While we charge lower for all these middle-income people, we have to make sure they come in and have the feel of a five-star resort, so then they feel that their money spent is very worthwhile. For example, some of the things we do, once you park the car, whether rain or shine, this guy must go out with an umbrella because if he doesn't go out with an umbrella, he doesn't get his commission [laughter]. This is one thing. Then we create the environment like the hotel spa so all these things help the customer come in and feel relaxed. We create a journey in our facial salon. In many resort spas, in many hotel spas, journey is so normal, but in a facial salon, you don't see any journeys. Before they go in and do their facial treatment, we give them complimentary foot bath, facial reflexology and free aromatherapy. After they get all this complimentary service, they go inside the room; the room is single bed or double bed. The feel is like going to a hotel, but you are paying very minimal for that.

One more thing that we do extra is porridge. A lot of people that come in during non-peak time, Monday through Fridays before 5:00, we give them porridge before or after they go in for treatment. The cost of this porridge is very low, maybe less than \$1, but the advertising message you get out of this is very good. A lot of customers, they go in, and when they come out, they don't talk about how good or how bad the facial is, they talk about how good your porridge is [laughter]. No other facial salon gives them porridge. We cook the porridge the same way as grandmother cooked it. I got this idea from a Disney cartoon. If you cook it the same way your grandma cooked it, people will remember [laughter].

In terms of product packaging, because we are tied into the middle class, we cut down on all of the excessive packaging. We use very simple packaging and make the packaging small. Last time these days we were selling packages that were 100ml or 50ml, but that would have to cost more, and for a lot of customers that is very tight on their pocket. We cut down to 30ml or maximum 50 ml, so it was easier for them to buy.

When it comes to facial treatments, in order to make it easier for customers and also for our staff to explain, I use cartoons. In the process that we explain to them "This is the facial treatment we are going to use on you, we are going to use..." and we use cartoons to explain. It's a lot easier to get the message through. Whatever we say the price is for however long of minutes, means you get exactly this amount of time for the price.

In Malaysia, a lot of the salons...tell the customer, "It's this amount for this service." Once the customer comes into the salon, they say, "Oh your face is dry, you need to add this, and you need to add that," and it comes out to be a lot more money. That is very bad in Malaysia, so in our practice 79 minutes means 79 minutes, 90 means 90, not once cent you can add on; that is company policy. Also, when we do facial treatment, we don't sign up any membership packages; by doing that we educate our staff. Every time a person comes in, the customer actually gives us a chance — whether a customer comes in a second time or not, all depends on this time. How good is the service, was the customer satisfied or not? Otherwise, we have nothing to tie customers down, there's no package. Customers actually buy this kind of marketing, this kind of tactic.

How do we sell our products? For every customer, a company has to sell products. For example, a lady comes in and she has oily and dry skin. We will use the oil sheet and tell [her], "This is going to take off your dry skin and oily skin. In Herbaline, we recommend you to use these four steps to improve your skin condition." How to achieve these four steps? Using the method, "What product you use at day or night?" we just take like a doctor and give it to the customer. It's my professional advice to tell you how to take care of your skin. Doesn't matter if you buy or not, just take it. That itself makes customers feel so much better because you're not forcing them to buy it. They might not buy it this time, but the next time they come back and ask for these products. See — I achieve my sales, and customers are not pressurized.

Also, when a customer comes in for a first time and says, "Your products are at a reasonable price, I want 1, 2, 3, 4 and 5." We will tell the customers "No, why don't you try two?" because in Herbaline, I cannot say that my products are 100 percent suitable for 100 percent [of] customers. No brand can say that, so "Why don't you just try just one or two, and let's say it is suitable for you, next time I recommend you more."

Every time in our marketing we step one step forward, but in actual, we advance two steps. When we reduce price, we don't have the money to do promotions, and we don't have the money to do advertisement. So how do we get our customers? This is the way we do it — every time we open up a new brand we will put outside the brand a big billboard that says 38 ringgit for the first hour. The difference is we emphasize it on net. Let's say you go into room (38 ringgit is equivalent to about \$12) for one-and-a-half-hour treatment with all the complimentary service. Thirty-eight ringgit, even in Malaysia, is dirt cheap. What happens after this first trial? People will go out, and they start talking. The talking is my free advertisement, especially when we are targeting the middle-income group. The middle-income group happens to be the 25-to-40 age, and these other people that don't have very high income have the time to Facebook, to

Twitter. If you ask me to Facebook and Twitter, I don't have that kind of time, but people at that stage have the time to go on to Facebook or Twitter and talk about it. This social media works very well for us in Malaysia.

Also in our trade, we try to cut down the use of machine as far as possible. Otherwise we would be hitting straight on with the doctors. We try to find all old tradition matters in any country we go. This is an example of how we revive old tradition. Face threading is very common in the eastern world, in China and Taiwan. Here in Taiwan, a grandma is sitting down doing face threading for people. The downside is the condition of the environment is not very good, and also they use their teeth to bite the string.

And this is how we do it in Herbaline.

[Video]

We change the environment, we change the technique also, and no biting of string with the teeth, and the therapist[s] move their hands like a butterfly. So we renamed it butterfly threading. The good thing about face threading, the old tradition, is it removes hair from the skin. Once the hair is removed, it's very easy to clear off the blockages in the cell. Also very easy to put any skincare products into the cell. That is the good thing about face threading.

[End of video]

It has been repeatedly said during these three days that staff, human resources, is the main key to our businesses, and we truly recognize that as well. How do we keep our staff longer in our business? Instead of franchising to outside people, we do an internal franchising scheme. Basically this is like profit sharing. In all my franchises throughout Malaysia, the managers, once they qualify a two-year period, they can invest in each and every branch. In Malaysia, every month we have seniors meeting; we throw out all the figures in every branch. This is how much you make in one month, this is the costs of goods sold, this is your staff cost, this is your opportunity cost, this is the bottom line. How much you make per month, they know exactly.

Once these branches have made enough money and they feel confident, staff can invest into every branch, so they become a boss in every branch, and we sell up to 50 percent to them in every branch. So make them feel a commitment to this business and make them feel it's good to stay long in this company. Also you will wonder, I give up so much for my staff, what is there left for me? Our profits come from three parts: the whole sale, retail and the property appreciation. We treat all of our branches

as a franchise salon now, so if they want to start from the main office, we will release out to them at hotel price. So this wholesale profit I keep myself, the retail part we give out to them. They can become a partner up to 50 percent. And property appreciation — we have bought so many properties over the last few years, property appreciation is mine again. So we only give out part of our profit to our staff.

In [the] year 2000 we started franchising out of the need to digest our stock. We had no chance at the time because financially we are not that strong, so we have to digest our stock, we franchised. This concept of franchise, it doesn't work so well in developing countries like my country. Maybe in [the] U.S. and Europe, people's concept is better, they accept the franchise better, but in our country, no, they won't follow us 100 percent. These are some examples, some of my franchise salons compared to mine. See the franchises only use our brand to make money. They don't help us to build this brand. So long-term wise to keep all the franchises is actually hurting the brand. See for example, Louis Vuitton, Starbucks, throughout the world, no franchise. Why? Because franchises will hurt the brand eventually.

In Malaysia, I have 58 salons all over, 19 of them are mine, and 38 belong to my franchise. We are cutting down on franchise. And how do we cut them? We have a contract with all of them, but say in business we have to resort to the franchise to kick them off is not my style — we become very unfriendly. What we do is persuade them to follow our start; we give them figures, encouraging figures, to show them that if they follow our style, they can make more money. If, let's say, they don't listen to us, we will find a suitable location in their town, set up, buy a piece of land, set up a new house like that, and compete against them. Then their customers will start talking, "Hey I go to this Herbaline; this Herbaline is so much better than yours." Customers give them pressure. So we have two outcomes out of this: One they take it as a threat, they say, "Oh Herbaline is coming to compete against [us]," so they quit. Good, never mind they quit. We tell them whatever stocks that you have in your store you sell back to me; I'll buy back from you at cost. Don't make enemies here.

If you have a positive outcome from them, some of them will take it as a possibility to challenge. They have to back out in order to compete again and when they back out, our sales grow. In the last two or three years, I have cut down my franchises from 62 to 39, but my sales have actually increased because the good ones increase, the bad ones go. That is how we are cutting down on franchises.

We've talked about all of these innovations, and this is the juicy part — results of innovation. Actually, I was very reluctant to review such results, but to make it a little bit more juicy and spicy. My sales from 2007 to 2011 over a period of 4.5 years, sales went up three times, from eight million ringgit to 24 million ringgit. My business grew

at a compounded of 25 percent, and my profits also [went] up about three times to 3.8 million ringgit last year. The number of staff has increased from 48 to 180 now. Out of the 19 branches that we operate, we own 12 of the properties. Appreciation alone last year comes out to about two million ringgit. So that McDonald's story is actually happening in my business.

Another thing we found out is the change in culture climate. Back in 2007, when we did the change, a lot of this staff was reluctant to change because habits die hard. How do we change their minds? We took our staff, 100-plus of them, to the top spa resort in Malaysia, batch by batch, and we put them through the spa journey. After they feel nice, we say, "See? This is what we want to do for our customers." Then it's so much easier for us to tune their mindset.

Now, after all these years, and the help with these results, they see that innovations can really help in our business. In fact, they are expecting the boss to go back from Aspen and bring new ideas. So we were very lucky, and I hope that in the future if anyone of you ever comes to Malaysia, please give me a call, and let me take you out to try out some real local, yummy food. With that, I thank you, ladies and gentlemen.