

GSS Strategy Challenge

Management Report



Spa⁴U



The challenge

Traditionally going to a spa has been associated with having plenty of leisure time, having the money to spoil oneself, and the typical customer was described as being over the age of 50 and affluent. Our challenge was to create a spa concept which targets the 21 to 30 years old, often referred to as Generation Y. This generation has completely different lifestyles and preferences than the typical spa goer.

Generation Y - Characteristics and Lifestyle

Our first step was to take a closer look at the characteristics and lifestyles of this potential spa customer. The first well-known characteristic of generation Y is their highly developed IT skills and their high use of internet. They are expected to spend approximately a third of their lives online (Cameron, 2008). This large access to information online combined with the fact that a large part of the generation has travelled widely has made them much more tolerant to cultural diversity and open mindedness than any previous generations (Alsop, 2008). They also want to have fun, enjoy life and “work to live” not “live to work” unlike their parents, while still having a high need for socialization both offline and online (Euromonitor, 2008). This need can be seen by the popularity of social networking sites, which was estimated to be 131 million in the US as of June 2008 with a yearly growth rate of 9%.

Up to this current economic downturn, Generation Y had been living most of their life in times of economic growth (LaSalle, 2002). Therefore they are not used to saving money and are sometimes referred to as Generation “Now” because they spend what they have. (Euromonitor, 2008).

As a consequence of this economic freedom mixed with their individualism, Generation Y stresses the importance of self-esteem, self-respect from a very early age (Neuborne, Generation Y, 2008). Most of the world’s affluent Generation Y, according to Euromonitor (2008), is located in US and represent 14% of the population and with a gross income of 16% of the country’s total income. They spend more than 150 billion dollars annually and will soon replace the baby boomer generation as the largest percentage of the workforce (Berger, 2007). Since young Americans potentially have the resources to go to a spa and are already familiar with the spa services we wanted to further investigate the current spa industry in the United States.

The spa industry

The US market accounts for the largest part of the spa industry revenue (USD\$12 billion), this is according to the report produced for the Global Spa Summit in 2007, with total revenues generated by the industry of USD\$60.3 billion. Additionally, the American market is also showing significant growth with an increase of 26.6% of spa-goers from 2003 to 2007 reflecting growth in revenues of 55.7% (International Spa Association). As well, it is estimated that 1 in 4 Americans has visited a spa, with this growing spa culture, it provides a good customer base for new Spa concepts. In order to better understand the nature of the spa industry in U.S. we compared it to the European spa. We found that in Europe spas are generally viewed as retreats for the weary and stressed, for regaining overall wellness of body, soul and mind. The US spa market is characterized by venues for keeping fit, relaxing in a Jacuzzi or sauna, or having body care and beauty treatments (Global SpaFinder 2009). However, there currently are not branded spa chains specifically targeting the young people in the United States. The lack of standardized regulations for the Spa industry means that spas around the world do not need to include a defined group of treatments or activities. This translated into the opportunity to create an innovative new spa concept.

Developing the concept

For many people going to a spa is associated with caring about one's health, in our concept we plan to target these like-minded young people. Research has shown that there is a positive correlation between higher education and a healthier lifestyle in the U.S. (US Department of Health and Human Services, 2007). The National College Health Assessment from 2007 confirmed that this trend has also been seen in the U.S. colleges (Appendix 1). At the same time the report also shows an alarming increase in stressed and depressed students (appendix 2), however the biggest health issues facing college students are back pains (47%) along with allergies. Two American doctors (Misra & McKean, 2000) had in 2000 proved that mentally healthy students performed better in their studies and provided evidence for a positive effect of leisure activities on the physiological well-being of the students. We saw here an opportunity to create a spa concept targeting college students located next to the campus area.

Potential market

In the US there are an increasing number of students going to college specifically, 35 % of the 20 to 29 years old are in colleges signifying an increase of 16 % since 2002. According to the American College Health Association there is an increase of students living on campus going from 36.6% in 2000 to 37.4% in 2007. This gives the opportunity to be close to potential customers in a captive environment. According to the US National Centre for Education Statistics, in 2006 a four year private university had an average fee of USD\$27,300 including room and board. At the same time, the student body in the private universities ranged from 3,000 to 20,000 students. Tuition in public universities averaged around USD\$5,400 and summed to an approximate USD\$12,100 including room & board with a student body 50,000 students and more.

Our spa is targeted towards the four-year private university with an approximate student body of 8,000 and above and with tuition fees totalling USD\$ 27,300 including room & board. These universities are above the national average and are normally located outside major metropolitan cities. This gives us a captive market of 273,000 students in 22 universities (appendix 3). An example of such an institution is Pepperdine University which is located in Malibu, California, with a student body of 8,300 students and annual tuition fees totalling USD\$47,300 including room & board in 2008.

Spa⁴U - Campus SPA

Based on the lifestyle trends, characteristics of the Generation Y and market potential, we introduce the Spa⁴U campus spa, bringing the spa to the Generation Y on their premises. The spa is based on three main pillars, **Feel Well!**, **Have Fun!** and **Mingle!**

Feel Well! To accommodate the Generation Y student's interest in image and well-being the Spa⁴U will offer a range of personal grooming treatments including manicure, pedicure, facials, hair cut's and hair removal along with two categories of massage. The first is the traditionally hands on massages. The menu of massages will include a small selection of tailor made massages for the students including:

- "Tense shoulder relief" (the short or the long version)
- "Spoil my feet massage" (the short or the long version)
- "Pre-exam neck tension relief" (the short or the long version)
- "After exam ultimate body relief massage" (the long version or the extra long version)
- "Post running, leg and foot treat" (the short or the long version)

The other category of massages is the more flexible quick-massages from an electrical massage chair. There will be a room of 8 massage chairs that can be booked directly online by the students and at price starting at USD\$ 5 for 15 minutes.

Have Fun! This is the part of the concept which corresponds to the Generation Y students' need for escaping their busy world and relieving their minds from their daily obligations. The fun activities include two hot tubs and the recreational area which includes a healthy snack bar and a sitting area.

The last pillar **Mingle!**, accommodates the Generation Y student's constant need to socialize whether it is online or offline. Offline socialising can be done in the hot tub and the recreational area, these are the perfect areas for the students to relax with their friends after joining a run, having a massage or simply having a snack in-between classes. The spa area will have free wireless internet for the spa users and as the Generation Y wants' to be in control of their own time, all bookings of treatments will be done via an online the **Spa⁴U** portal 24 hours a day. On the portal there will as well be an online count of how many people there are in the spa area at any time, and a possibility to upload a personal profile and display it to the other users.

The spa location will be an area of 325 square meters, in line with a typical day spa in the US, and will include two treatment rooms, an area for haircut and grooming, the recreation area including the healthy snack bar and reception, locker rooms with showers, hot tub area and the area for the 8 massage chairs. The **Spa⁴U** will be located next to the campus near the areas with bars, café and restaurants popular with the students.

Feasibility

We have estimated that the start up capital required in order to set up the first **Spa⁴U** in proximity to a four-year private university having a student body of approximately 8,300 would be of USD\$568,000. The first five year projected profit and loss statement is shown at (Appendix 4). We want to point out that even with the minimum number of students (8,000) the business is expected to be profitable from the 1st year. From the second to fifth year, net profit margins are expected to range from 16% to 22%. This is before taking into consideration any tax shield from debt-financing as we are assuming a base-case scenario of 100% equity-financing. Compared to an industry average net profit margin of 8% (Cohen, 2008), the return for **Spa⁴U** is well above average.

In our estimates, we have forecasted that 15% of the students without financial support would visit our spa. This is within the average capture of 8% to 18% for a day spa in an urban setting (Cohen, 2008). For an 8,300 student campus, we have a customer base of 1,065 students. There will be 4 full time staff to provide massages, facial, hair and grooming services and one full time receptionist and administrative assistant. Massage chairs usage, which does not require variable labour cost, is priced at a nominal \$5 per 15 minute slot to attract patronage. Special massage and aesthetician services will be priced at an average of \$40 per service while the other services like access to hot tub and manicure, pedicure or hair removal have an affordable price range of \$10 to \$30.

Based on our conservative estimates, we expect the spa to pay back within 5 years. The return on equity is expected to be above 20% from the second year onwards. Thus, we believe that **Spa⁴U** is a financially-feasible business concept for Gen Y.

Appendix 1

| Health trends in colleges | | |
|---------------------------|-------------------------|-------|
| | % of student population | |
| | 2000 | 2007 |
| Exercising to lose weight | 49.7% | 54.6% |
| Dieting to lose weight | 26.2% | 34.9% |
| Students never smoking | 60% | 64% |

Source: National College Health Association in 2007 and 2000

Appendix 2

| Factors increasing the students' studies negatively: | | |
|--|-------------------------|-------|
| | % of student population | |
| | 2000 | 2007 |
| Depression anxiety | 11.3% | 16% |
| Sleeping difficulties | 20.7% | 26.1% |

Source: National College Health Association in 2007 and 2000

| Population diagnosed with depression | | |
|--------------------------------------|-------|-------|
| | 2000 | 2007 |
| Total US population | | 6% |
| College population | 30.3% | 15.3% |

Source: National College Health Association in 2007 and 2000

Appendix 3

Private US Universities and Colleges above market average tuition fees (\$27,300), 8,000 students and not located in main cities which is the initial target for the [Spa⁴U](#) Campus Spa

Azusa Pacific University, Azusa CA

Costs: 2008-2009 Tuition and Fees:\$26,640

2007 Total enrollment: 8,084

Long Island Un., C.W. Post Campus, Brookville NY

Costs: 2007-2008 Tuition and Fees: \$27,050

2007 Total enrollment: 8'361

Stanford University, Stanford CA

Costs: 2008-2009 Tuition and Fees: \$36,030

2007 Total enrollment: 19,782

Northwestern University, Evanston IL

Costs: 2008-2009 Tuition and Fees: \$37,125

2007 Total enrollment: 18'028

Yale University, New Haven, CT

University of Notre Dame, Notre Dame IN

Costs: 2008-2009 Tuition and Fees: \$35,300
2007 Total enrollment: 11,454

Brown Un., Providence, RI

Costs: 2008-2009 Tuition and Fees: \$37,718
2007 Total enrollment: 8,167

Tufts Un, Medford, MA

Costs: 2008-2009 Tuition and Fees: \$38,840
2007 Total enrollment: 9,758

Boston College, Chestnut Hill, MA

Costs: 2008-2009 Tuition and Fees: \$37,950
2007 Total enrollment: 13,723

Cornell University, Ithaca NY

Costs: 2008-2009 Tuition and Fees: \$36,504
2007 Total enrollment: 19'800

University of Rochester, Roch. NY

Costs: 2008-2009 Tuition and Fees: \$37,250
2007 Total enrollment: 9'334

Syracuse University, Syracuse NY

Costs: 2008-2009 Tuition and Fees: \$33,439
2007 Total enrollment: 19'084

Hofstra University, Hempstead, NY

Costs: 2008-2009 Tuition and Fees: \$28,630
2007 Total enrollment: 12'490

Seton Hall University, South Orange NJ

Costs: 2008-2009 Tuition and Fees: \$29,370

Costs: 2008-2009 Tuition and Fees: \$36,847

2007 Total enrollment: 11'733

Marquette University, Milwaukee WI

Costs: 2008-2009 Tuition and Fees: \$28,128
2007 Total enrollment: 11'516

University of Dayton, Dayton OH

Costs: 2008-2009 Tuition and Fees: \$27,330
2007 Total enrollment: 10'395

University of St. Thomas, St. Paul MN

Costs: 2008-2009 Tuition and Fees: \$26,798
2007 Total enrollment: 10'984

Duke University, Durham NC

Costs: 2008-2009 Tuition and Fees: \$37,525
2007 Total enrollment: 13'598

University of Miami, Coral Gables FL

Costs: 2008-2009 Tuition and Fees: \$34,834
2007 Total enrollment: 15'449

Pepperdine University, Malibu CA

Costs: 2008-2009 Tuition and Fees: \$47,300
2007 Total enrollment: 8'312

Baylor Un., Waco TX

Costs: 2008-2009 Tuition and Fees: \$26,234
2007 Total enrollment: 14,174

Texas Christian Un., Fort Worth TX

Costs: 2008-2009 Tuition and Fees: \$26,948

2007 Total enrollment: 9'574

2007 Total enrollment: 8,668

Appendix 4

| Profit and loss | | | | | |
|-------------------------------------|---------------|----------------|----------------|----------------|----------------|
| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
| Revenue | 623,581 | 685,939 | 720,236 | 756,247 | 794,060 |
| COGS | 286,623 | 295,222 | 304,079 | 313,201 | 322,597 |
| Gross margin | 336,957 | 390,717 | 416,157 | 443,046 | 471,463 |
| Selling, General and Admin Expenses | | | | | |
| Staff Expenses | 37,440 | 38,563 | 39,720 | 40,912 | 42,139 |
| Rent | 63,000 | 64,890 | 66,837 | 68,842 | 70,907 |
| Utilities | 40,000 | 41,200 | 42,436 | 43,709 | 45,020 |
| Maintenance | 15,000 | 15,450 | 15,914 | 16,391 | 16,883 |
| Others | 20,000 | 20,600 | 21,218 | 21,855 | 22,510 |
| <i>EBITDA</i> | 161,517 | 210,013 | 230,033 | 251,338 | 274,003 |
| Depreciation | 11,714 | 11,714 | 11,714 | 11,714 | 11,714 |
| <i>EBIT</i> | 149,803 | 198,299 | 218,318 | 239,624 | 262,289 |
| <i>Tax</i> | 50,933 | 67,422 | 74,228 | 81,472 | 89,178 |
| <i>Earnings</i> | 98,870 | 130,877 | 144,090 | 158,152 | 173,111 |
| | 15.9% | 19.1% | 20.0% | 20.9% | 21.8% |

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