



SPArmony
-Your Way to Harmony-

*The Chinese University of Hong Kong
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Presentation Agenda

1

- Spa Concept

2

- Unique Design

3

- Recommendations on Enhancing Profitability

4

- Financial Analysis

5

- Competitive Advantages

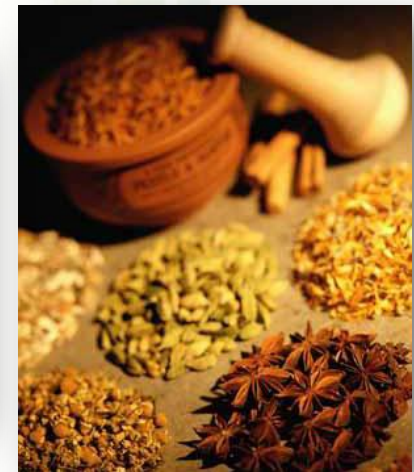


1. Spa Concept



1.1 Concept – SPArmony

- Located within a **sub-urban hotel** in Hong Kong
- Inspired by **Traditional Chinese Medicine (TCM)**
- Taken a **holistic approach** to wellbeing by bringing '**Outside-in and Inside-out**'
- Offers decent quality with good value for money



Concept

Design

Profitability

Financial
Analysis

Competitive
Advantages



1.2 *Services and Products*

- Body and beauty treatments
- Full day / half day programs
- TCM exclusive services
- Regular yoga and Tai Chi Chuan classes
- SPArty – private spa events
- Seasonal spa snacks, drinks, and soups
- Retail products



Concept

Design

Profitability

Financial
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Advantages



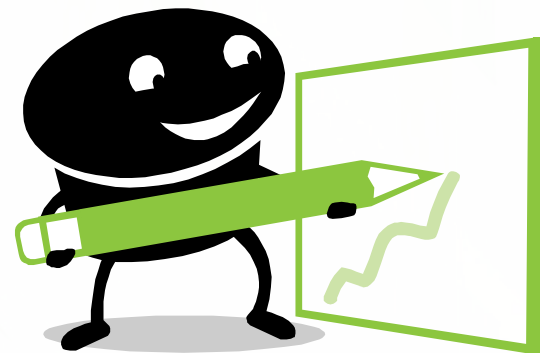
2. Unique Design



2. Unique Design

■ Design considerations

- Circulation (guests)
- Circulation (employees)
- Spa ambiance



Concept

Design

Profitability

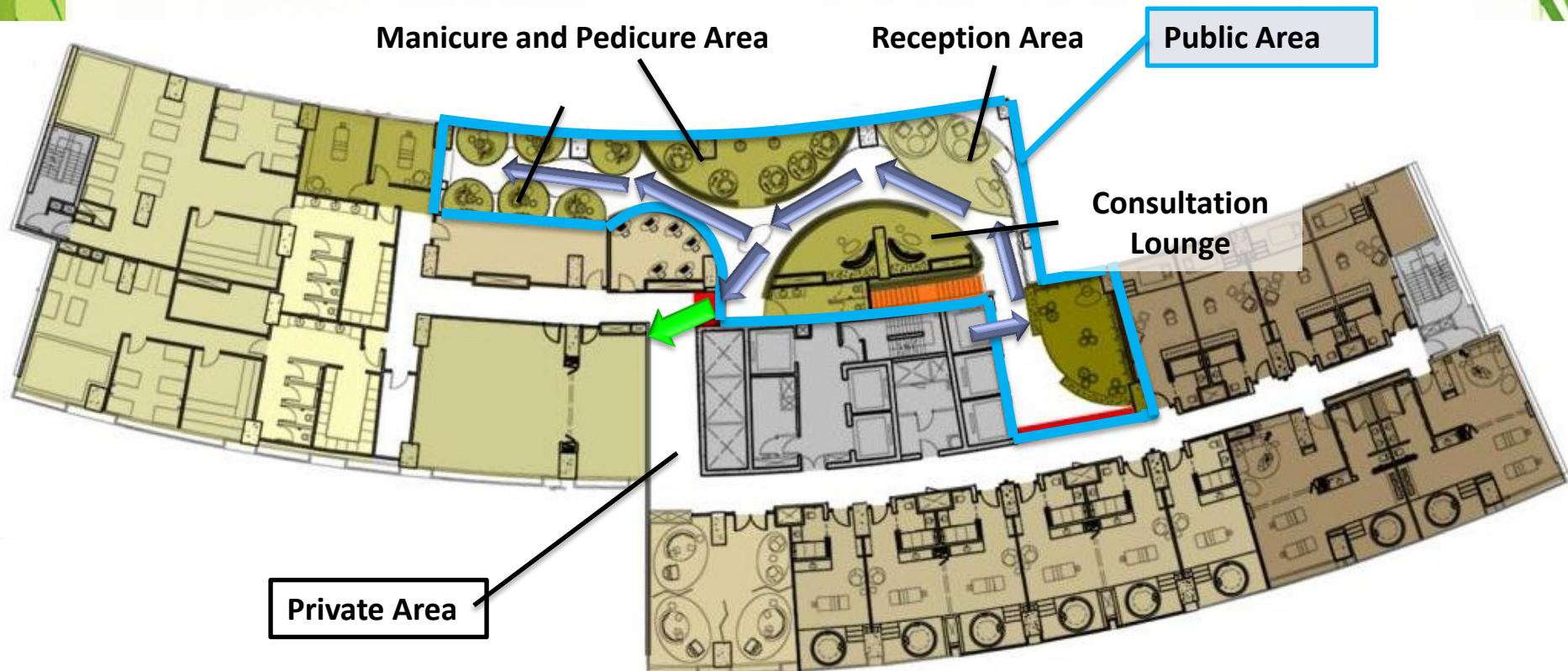
Financial
Analysis

Competitive
Advantages



2.1 Circulation (Guests)

■ Floor plan – Public area



Concept

Design

Profitability

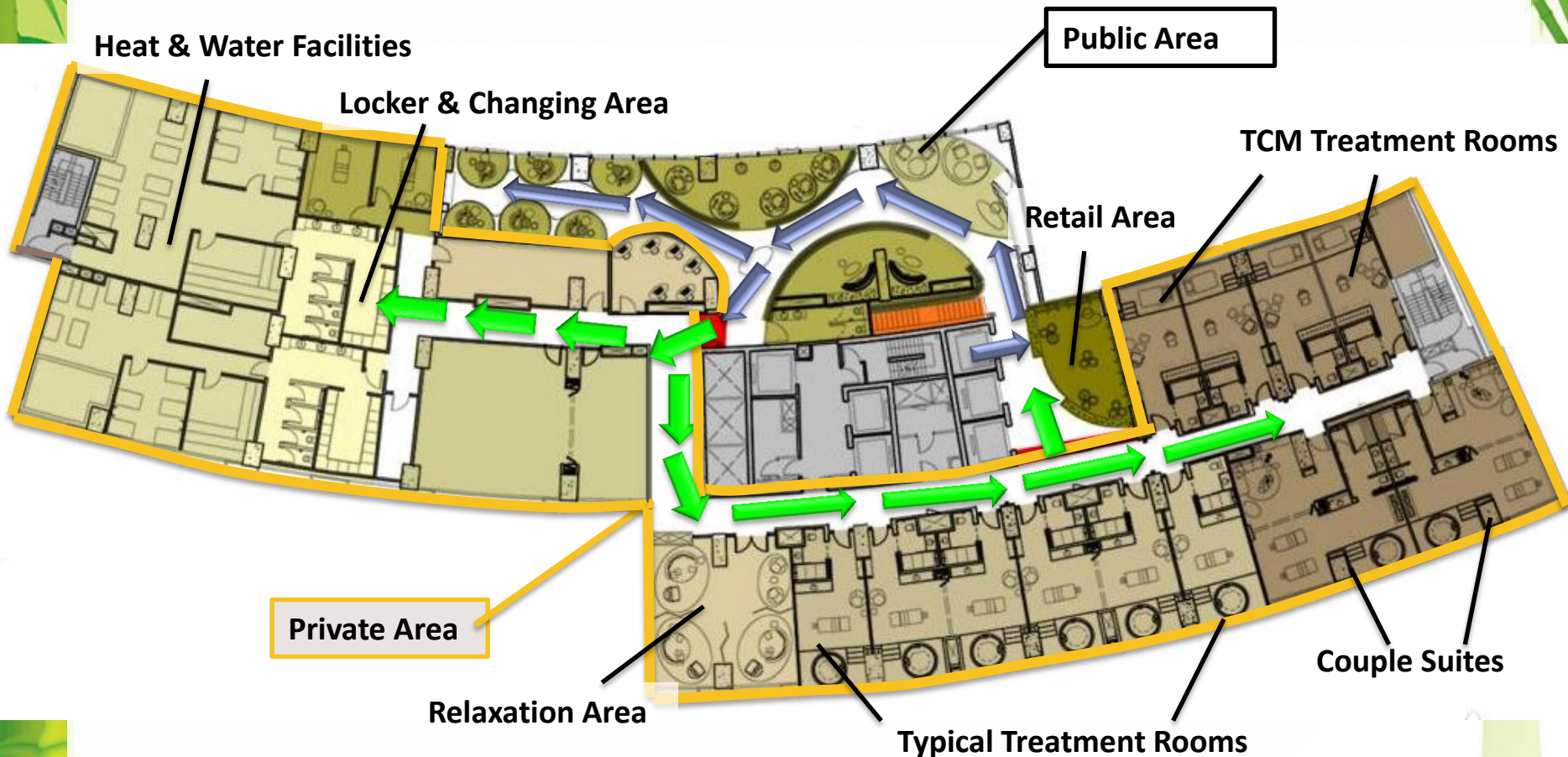
Financial
Analysis

Competitive
Advantages



2.1 Circulation (Guests)

■ Floor plan – Private area



Concept

Design

Profitability

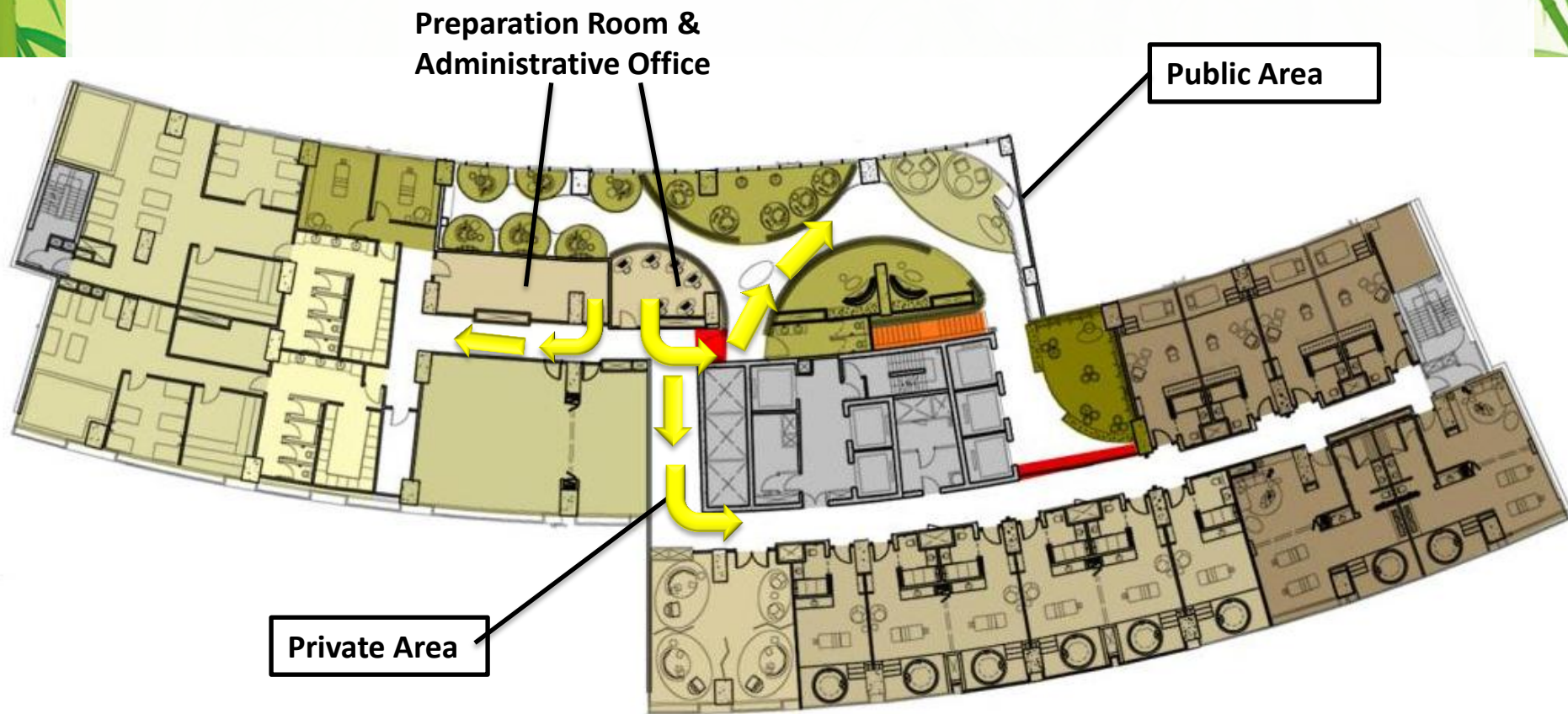
Financial
Analysis

Competitive
Advantages



2.1 Circulation (Employees)

■ Floor plan – Back of house



Concept

Design

Profitability

Financial
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Competitive
Advantages

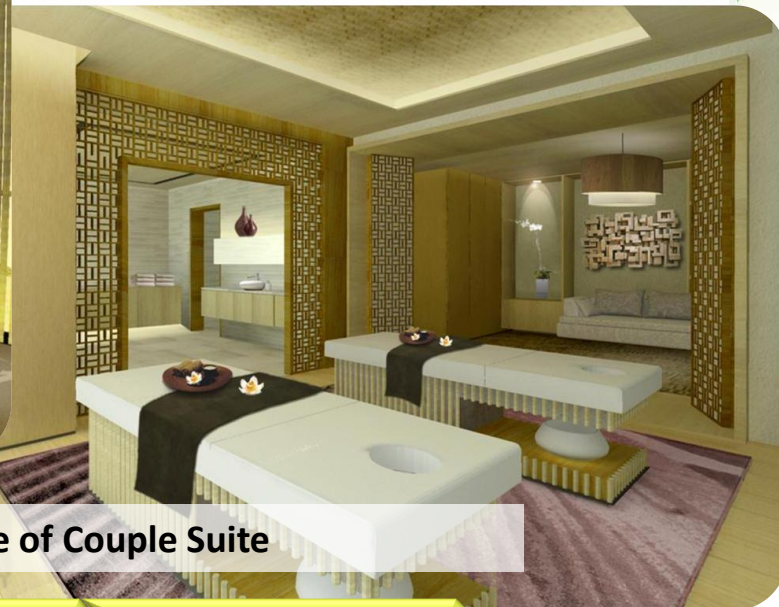


2.2 Spa Ambience

- Design concept: **Bringing the Outdoors In**
- Match with TCM's philosophy
- Bamboo & contemporary Chinese elements



Perspective of Public Area



Perspective of Couple Suite

Concept

Design

Profitability

Financial
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Advantages



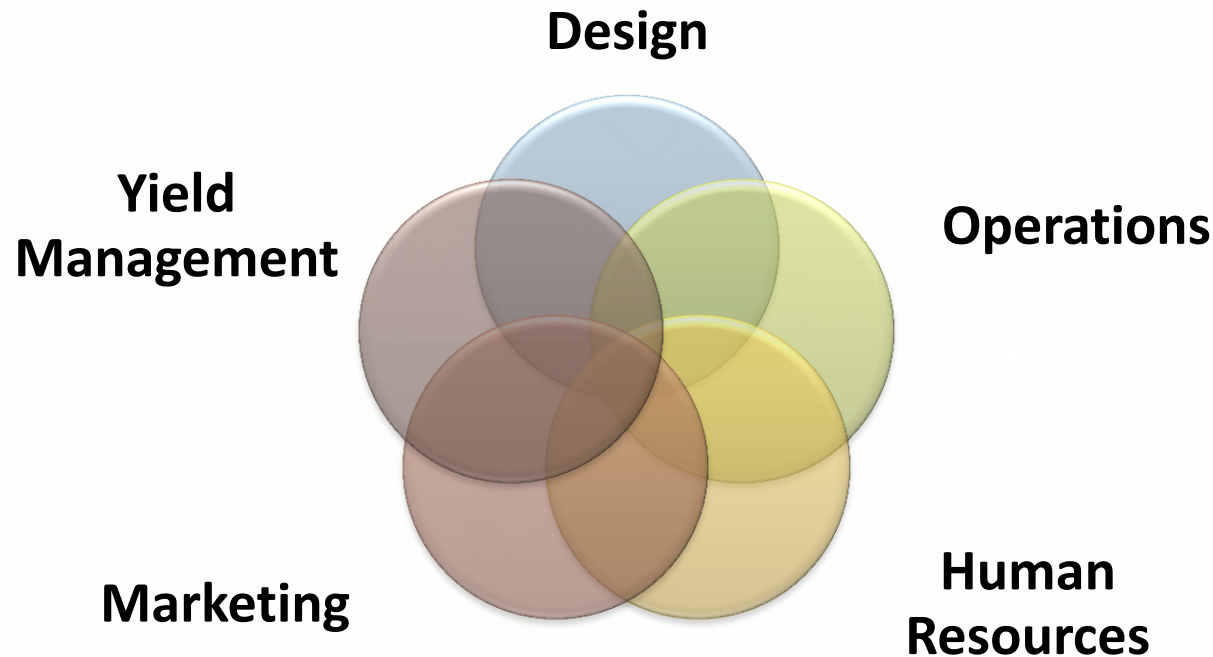


3. Recommendations



3. Recommendations on Enhancing Profitability

Recommendations on five areas



Concept

Design

Profitability

Financial
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Advantages



3.1 Design

■ ■ Maximize revenue generating areas

Space Allocation	% of Total Area
Direct Revenue Generating Areas	56%
Revenue Supporting Areas	34.8%
Back of House Areas	9.2%

Concept

Design

Profitability

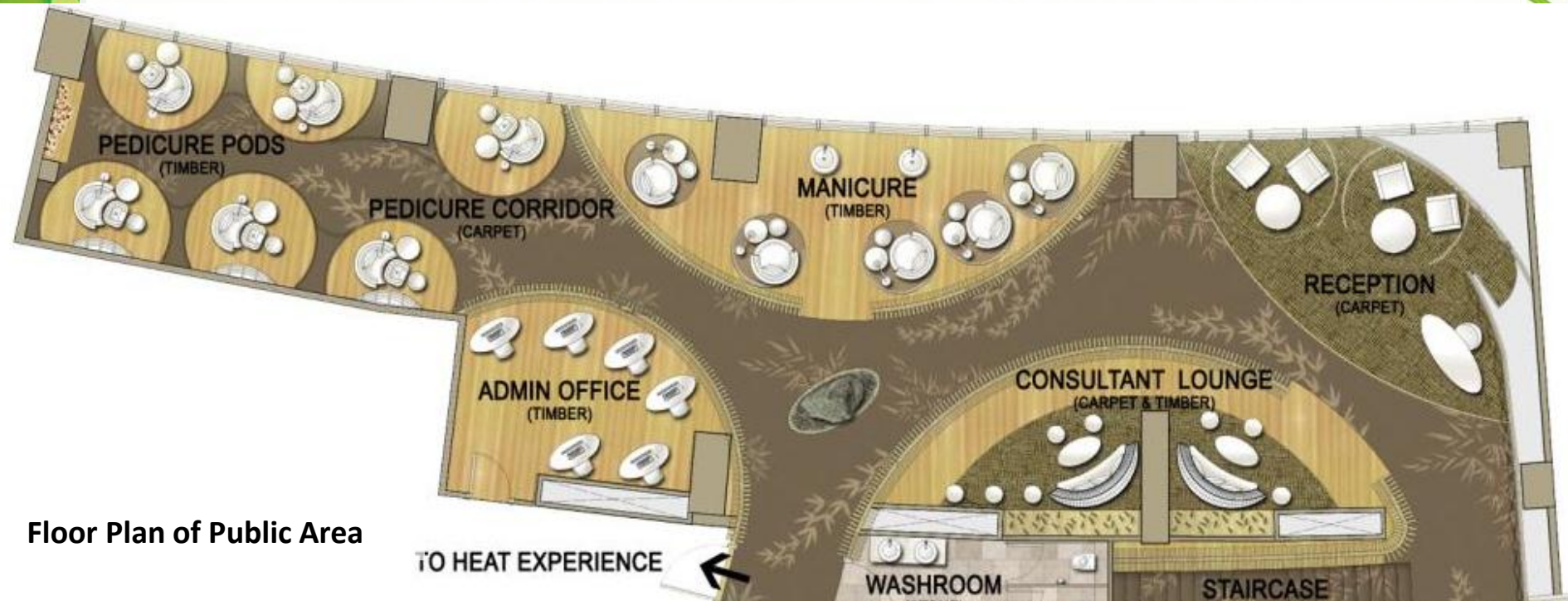
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Analysis

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Advantages



3.1 Design

- Maximize space usage
 - Half-open pedicure and manicure areas



Floor Plan of Public Area

Concept

Design

Profitability

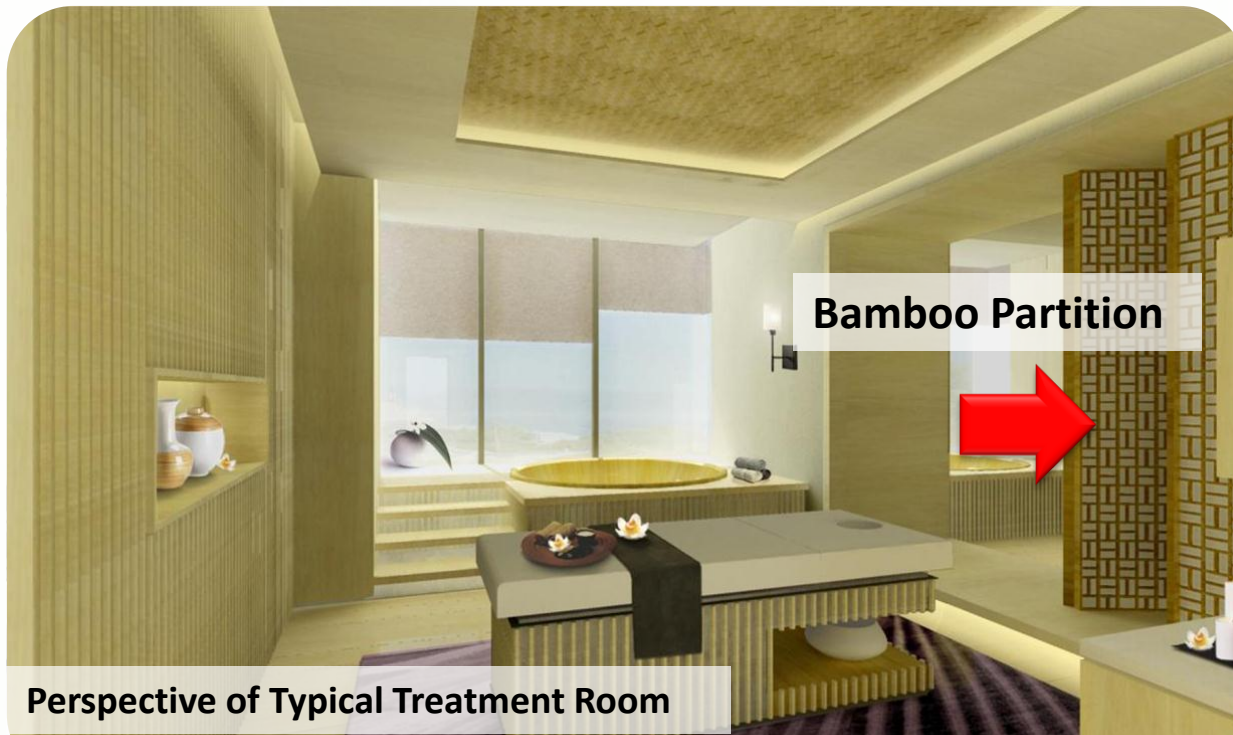
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Analysis

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Advantages



3.1 Design

- Maximize space usage
 - Bamboo partition for flexibility



Perspective of Typical Treatment Room

Concept

Design

Profitability

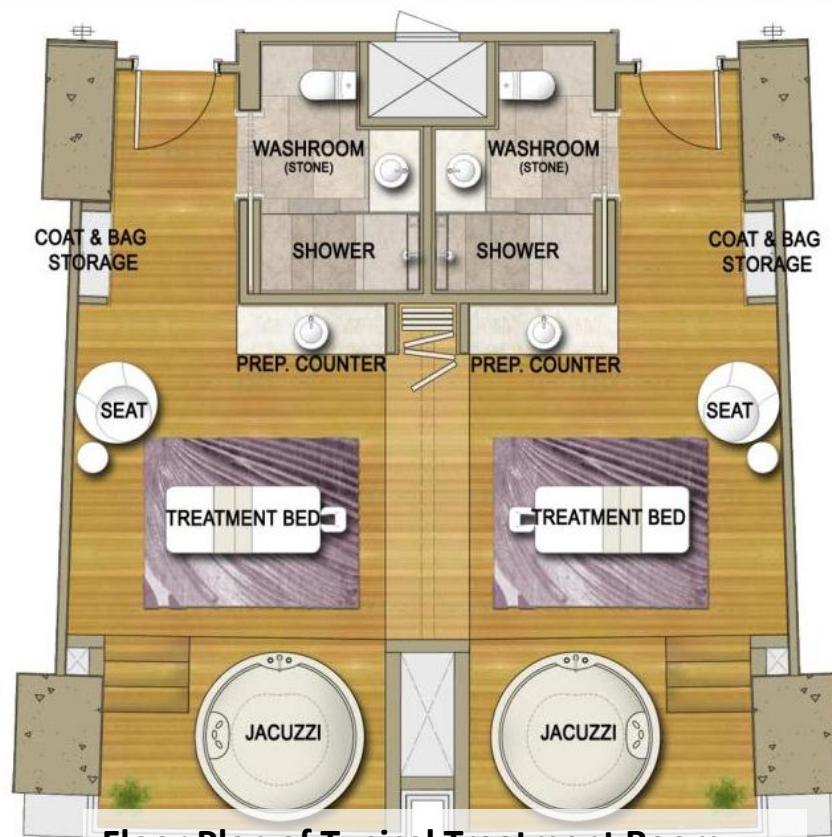
Financial
Analysis

Competitive
Advantages



3.1 Design

- Even number of treatment rooms
 - Back-to-back plumbing



Floor Plan of Typical Treatment Room

Concept

Design

Profitability

Financial
Analysis

Competitive
Advantages



3.1 Design

- Use of LED lights, light controlling systems, high efficiency HVAC system
 - Lower energy usage from 30-80%
- Use of bamboo
 - Green building material
 - Highly functional
 - Durable
 - Good heat and sound insulation
 - Low cost



Concept

Design

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3.2 Operations

- Maximize the use of treatment rooms
 - Reduce arrival uncertainty
 - Reduce duration uncertainty
 - Reduce changeover time



3.2 Operations

■ Increase retail sales

- Retail purchases have a direct effect on customer retention
 - 0 spa product purchased = 40% of guest return rate
 - 1 spa product purchased = 70% of guest return rate
 - 2 spa products purchased = 80% of guest return rate
- Introduce incentive point system for employees
- Spa products and catalogues can be placed in the hotel guestrooms





3.2 Operations

- Adopt electronic , paper-free systems
 - Save around HK\$900 (US\$116) per day;
HK\$324,000 (US\$41,680) per year on printing and storage
 - Enhance guests' experiences
- Reduce the use of amenities
 - Encourage guests to bring their own swimsuits
 - Place amenities in a centralized area





3.3 Human Resources

- Maximize therapists' productivity
 - Reduce time spent on non-treatment activities
 - Example:
Cleaning of the treatment rooms
Preparation of towels for next treatments





3.3 *Human Resources*

■ Cost of turnover

- Three components
 - Cost of learning
 - Cost of peer disruption
 - Cost of supervisor disruption
- The turnover cost of one therapist is HK\$48,000 (US\$6,175)
- Assume there are 21 therapists and a turnover rate of 30%
 - Total hidden cost: HK\$302,400 (US\$38,902)
 - Half the cost if turnover rate drops from 30% to 15%



3.3 Human Resources

- Reduce employees' turnover
 - Results-oriented performance appraisals
 - Guests' satisfaction
 - The number of retail products sold
 - Employment security
 - Avoid unnecessary lay-off
 - Profit sharing
 - Offer commission to employees



3.4 Marketing

- Encourage prepayments
 - Gift certificates
 - Spa cards for bulk purchases
- Introduce membership program
 - One of the key revenue sources
 - Steady revenue to compensate fixed operating costs

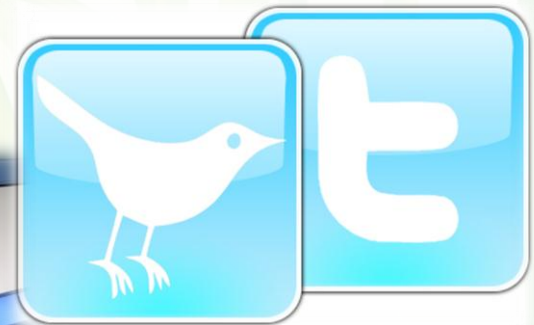




3.4 Marketing

■ Develop social media networks

- Achieve positive word of mouth and buzz marketing
- Invite active customers to become active contributors
- Create exclusive platform for premium members



Concept

Design

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3.4 Marketing

■ Business intelligence

- Utilizes historical data for analysis and suggestions in a friendly fashion, including:
 - More accurate customers arrival projection
 - Better therapist scheduling
 - Customized marketing
 - Calculation of customer value
 - Reliable employee reward system



3.5 Yield Management

- Objective: Maximize revenue per available time-based inventories
- Necessary conditions
 - Ability to segment markets
 - Advance reservations
 - Fluctuate market demand
 - Perishable inventory
 - Low marginal sales cost
 - High marginal production cost



3.5 Yield Management

■ Rationales

- Estimate demand
- Select more profitable treatments over less expensive ones

■ Procedures

- Step1 : Collect input data
- Step2 : Forecast future demand
- Step3 : Revenue maximization
- Step4 : Compute shadow price and complete control chart



3.5 Yield Management

- Provide an objective, easy-to-follow guideline
- Balance between customers' needs and profitability
- Enhance treatment revenues (**14.77%** in prototype)

Control Chart							
Price		\$ 650	\$ 900	\$ 850	\$ 1,150	\$ 1,300	\$ 2,200
Duration		60m	90m	60m	90m	60m	120m
Time	Shadow Price	Essential Facial		Swedish Massage		TCM Facial	
9:00	0	YES	YES	YES	YES	YES	YES
9:30	500	NO	NO	NO	YES	YES	YES
10:00	400	YES	NO	YES	YES	YES	YES
10:30	250	YES	YES	YES	YES	YES	YES
11:00	400	YES	YES	YES	YES	YES	YES
11:30	250	YES	YES	YES	YES	YES	YES
12:00	250	YES	YES	YES	YES	YES	YES
12:30	400	YES	YES	YES	YES	YES	YES



4. Financial Analysis



4.1 Five Year Projection

Year	Revenue	Cost	Profit	Profit Margin
Year 1 (without Recommendation)	HK\$36,323,694 (US\$ 4,680,888)	HK\$ 25,512,114 (US\$ 3,287,644)	HK\$ 10,811,579 (US\$ 1,393,245)	29.76%
Year 1	HK\$ 41,424,616 (US\$ 5,338,224)	HK\$ 25,474,305 (US\$ 3,282,771)	HK\$ 15,950,310 (US\$ 2,055,452)	38.50%
Year 2	HK\$ 49,633,552 (US\$ 6,396,076)	HK\$ 29,250,031 (US\$ 3,769,334)	HK\$ 20,383,522 (US\$ 2,626,742)	41.07%
Year 3	HK\$ 60,611,253 (US\$ 7,810,728)	HK\$ 34,529,411 (US\$ 4,449,666)	HK\$ 26,081,842 (US\$ 3,361,062)	43.03%
Year 4	HK\$ 70,791,113 (US\$ 9,122,566)	HK\$ 39,759,817 (US\$ 5,123,688)	HK\$ 31,031,296 (US\$ 3,998,878)	43.84%
Year 5	HK\$ 80,577,185 (US\$ 10,383,658)	HK\$ 44,468,395 (US\$ 5,730,463)	HK\$ 36,108,789 (US\$ 4,653,194)	44.81%

Concept

Design

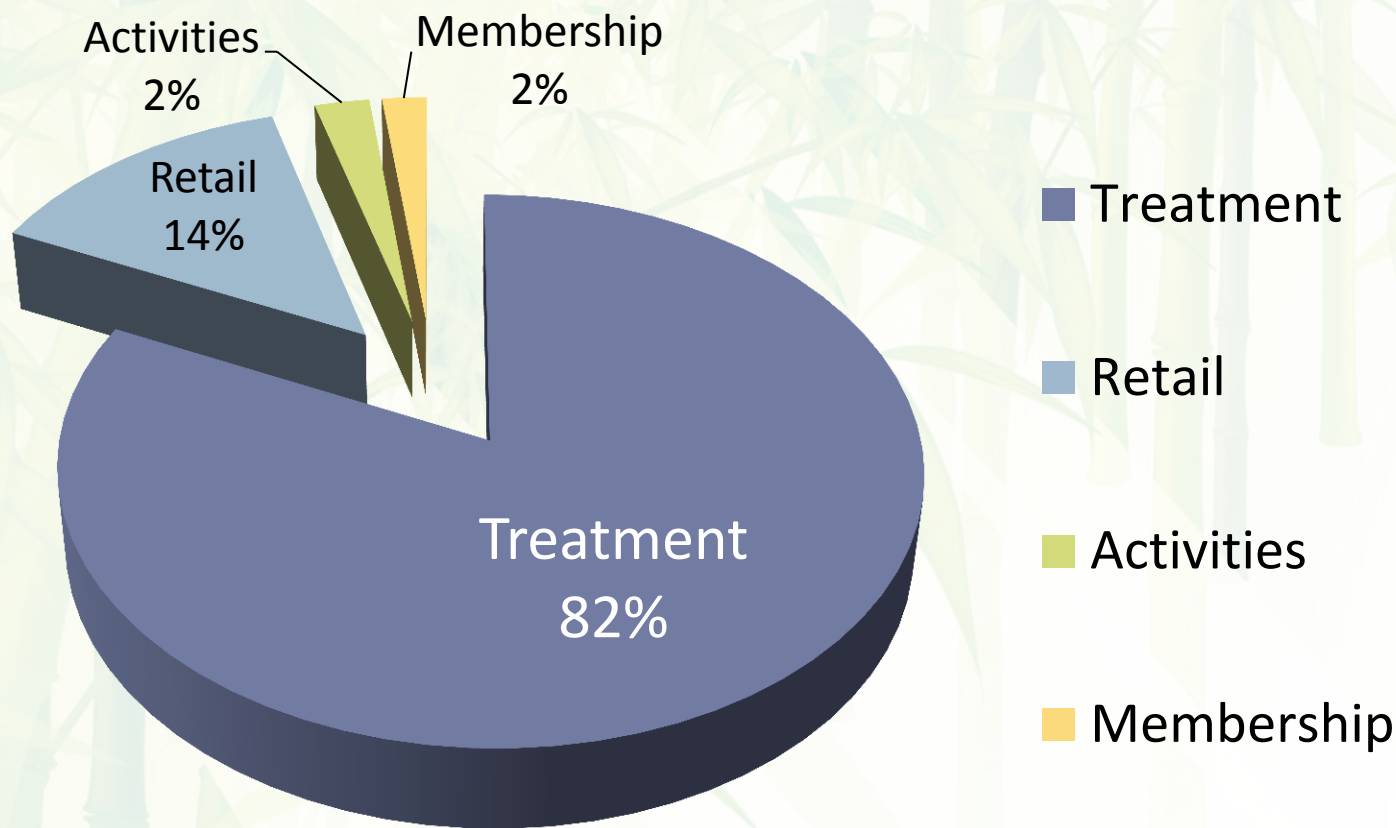
Profitability

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4.2 Sources of Revenue



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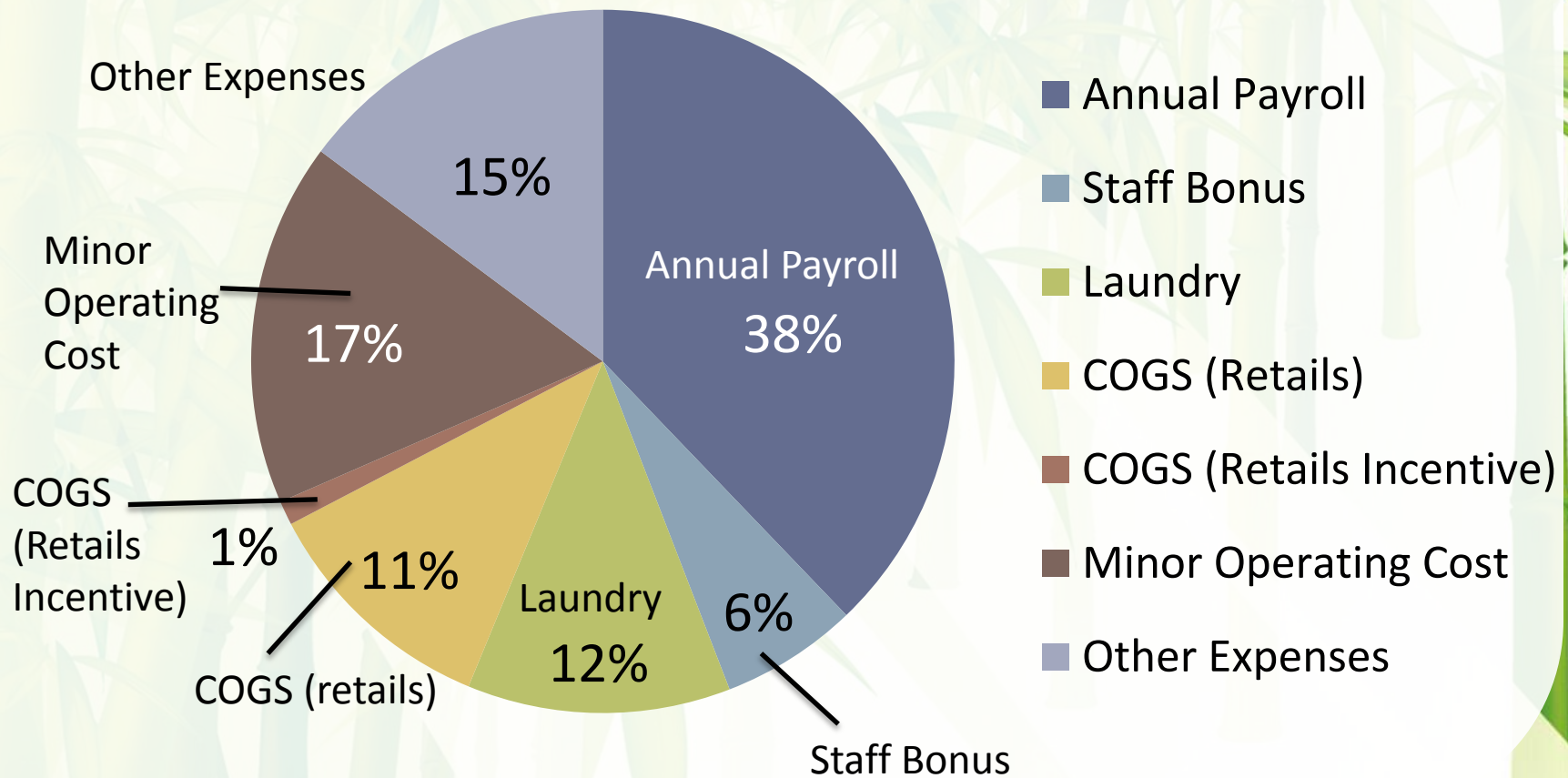
Profitability

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Advantages



4.3 Sources of Cost



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Design

Profitability

Financial
Analysis

Competitive
Advantages



4.4 Significances of Recommendations

Recommendations	Impacts
Yield Management	+ 14.77% in treatment revenue
Potted Plants	- 38.36% in decoration cost
Paper-free System	- 63.77% in printing cost
Motion Dependent Lighting System	- 35% in utilities cost
LED lights	
Improved HVAC System	

**+ 29% in
Profit Margin**

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4.5 Payback Period

■ Initial investment

Price/ Sq. Ft	HK\$ 4446.5 (US\$ 572.6)
Size of Spa	16,764.8 sq. ft.
Total Initial Investment	HK\$ 74,496,353 (US\$ 9,595,626)

■ Payback period: 3.4 years

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Profitability

Financial
Analysis

Competitive
Advantages



5. Competitive Advantages



5. Competitive Advantages

- ❑ Limited competitors
- ❑ Growing market demand
- ❑ Good reputation from the hotel brand
- ❑ Gender friendly
- ❑ Easier to retain customers

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Thank You



Q&A



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Differentiating SPArmony

- Based around TCM philosophy
- Extensive range of TCM treatment & products
- 4-star spa that is more approachable
- Offers good value for money

	4 Star	5 Star
Asian	- SPArmony - 	
Western		

Positive Outlook of SPArmony

- Sustainable Concept
 - Increasing popularity of Chinese-concept spa
 - Gender-free to attract both gentlemen and ladies
 - Four-star position allow reasonable pricing
 - Growing market trends
- Profitable
 - Financial Projection proves a promising pay-back period and profit margin

Supply of Talents

- Advantages of putting up SPArmony in Hong Kong:
 - Shifted from an ancient Chinese philosophy towards an evidence-based medical concept
 - Chinese Materia Medica Standards Office since 2002
 - 300 university graduates every year
 - 6048 qualified Chinese Medicine Practitioners (CMP)
 - Reasonable labor cost

Target Customers

- Locals
 - comfortable with TCM concepts
 - Growing spa trend in Asia
 - Stressful life-style
- Foreigners
 - Scientific researches on TCM results
 - Exotic, sophisticated philosophy of TCM

Product Supply

- Not produce our own products due to the complicated licensings and high R&D cost.
- Seek collaborative partnership with existing TCM manufacturers:
 - Eu Yan Sang
 - Wai Yuen Tong
 - Universities



Short / Long Treatment?

- Prefer to offer longer treatments
 - True relaxation at a sub-urban location
 - Urban getaway
- More profitable
 - Same fixed cost regardless of treatment length
 - Eg. Laundry, staff's attention, amenities

Outside-in, Inside-out

- Outside-in
 - Design (Bamboo, stone, potted plants)
 - Treatment (Natural ingredients)
- Inside-out
 - The philosophy of TCM
 - Holistic wellbeing from stronger body systems

More about Bamboo

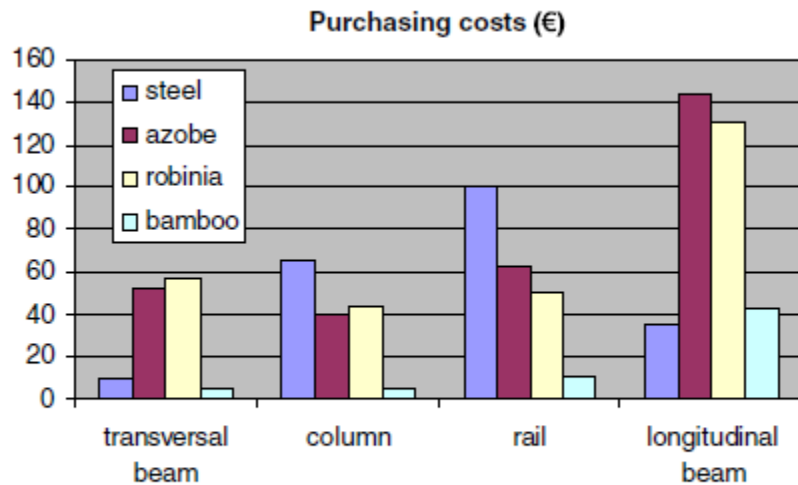


Fig. 12. Purchasing costs (in €) of the various elements and materials of a bridge.

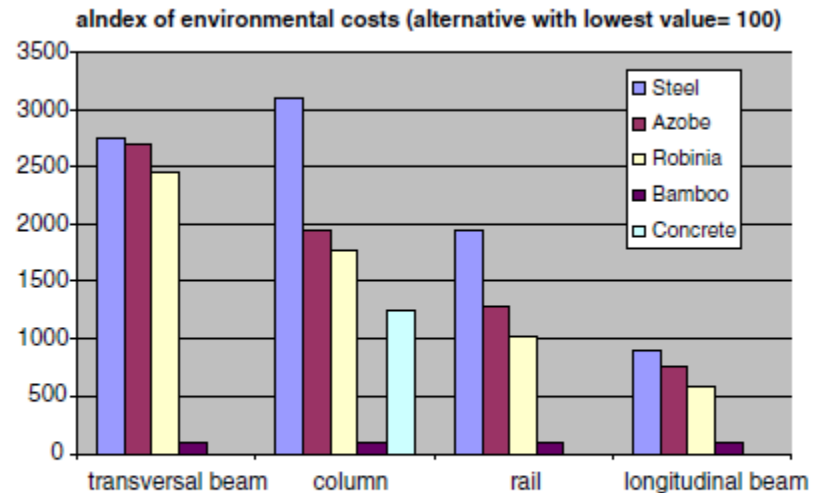


Fig. 11. Index of the annual environmental costs of the different elements of a bridge.

- Van der Lugt, et al., 2006

Treatment Room – Space Allocation

- Size of single treatment room:
 - 38 sq.ft
- Larger than usual:
 - Guests still hope to enjoy more private space
 - Space is less expensive in sub-urban area
 - Affordable way to enhance guests experience and perception of our spa

Customer Engagement

- Social Media Network:
 - Facebook
 - Twitter (Sina Weibo)
 - Blogs
 - Active contributors instead of readers
- Exclusive platform:
 - Interactive websites

Enhance Retail Sales

- Conduct training to therapists AND Spa Concierge
- Use the same products in hotel guestrooms
- Use social media and business intelligence to make more customized recommendations & better after sales service

Yield Management in Spa

- We may have to turn away guests, but we are not going to compromise the treatment quality
- Offer alternatives to meet customers' needs
- Every new change may face resistance
 - Eg. Airline and hotel

Cost of Implementation

- Suggestions like motion-sensor lighting, high efficiency HVAC and paper-free systems may have high initial costs
- The best way to enhance profitability is to get things right from the beginning
 - Long-term focus of a hotel spa
- Green and socially responsible

Green Initiatives

- We can and we should be green:
- Design perspective:
 - Use bamboo extensively
 - Use potted plants instead of fresh flowers
- Operations:
 - Paper-free system
 - High efficiency HVAC system
 - Using less amenities
 - Bamboo bathrobe

Start-up Strategy

- Create stronger awareness
- Affiliation with the hotel
 - Up-selling during room reservation
 - Use same products in guest rooms
 - Business account in nearby region
- Social Media
 - Free treatment to popular beauty bloggers, opinion leaders, and reporters
 - Create buzz marketing

Future Potential

- Criteria for our concept to be effective:
 - Reasonable distance from downtown area
 - Pleasant environment that in line with our concept
 - Influence of Chinese culture

Financial Analysis

Key Assumptions

Revenue

- Hotel Guest Capture Rate: 4% - 5%
- In-house Guests to Outside Guests Ratio: Around 3:7
- Retail to Treatment Ratio: 1:6 to 1:5
- Average Occupancy: ~40%
- Average Length of Treatment: 1.5 hours
- Average Treatment Revenue: USD \$98.45

Cost

- Construction Costs: USD \$572.6 per sq. ft.
- Payroll: no. of staff with the industry-average salary of their respective positions.
- The cost of retail products: 50% of the selling price.
- Laundry cost per guests is HK\$100 (USD\$12.82).