



ASIA-PACIFIC: *China*

In China's spa industry today is situation there is basically no right and wrong, no strict rules of business or even morality. The good and the bad and everything in between is all there, and each approach has its clientele.

China is huge and diverse, with a population of perhaps 1.5 billion people or more. People in each region of China have different lifestyles, income levels, and interests in terms of relaxation and spa-related experiences, and the spas and other facilities that cater to their needs vary widely as well. Now, international level spas with an estimated 15% of the market. Local level spas and beauty salons with around 35%. Bath houses and massage centers are sharing another 15% and 35% all over China. (Some of them may do funny business.)

Spa-related suppliers also divide into similar groups in much the same proportions. A key feature is the rate of change as spas and related businesses see trends, get feedback and adapt to a market which is learning and maturing fast. These changes are helping the China spa industry to grow and become more solid. But it may take another 10 years, at least 5 years, before we see stabilization of the industry.

Hotel spas or spas that target tourists have lost more than 50% of the business. Local day spas with reasonable prices have been able to maintain 80% - 90% of their business, but have suffered in terms of the sale of expensive VIP membership cards generally priced 1,000-2,000 USD with payment up-front, a key income source for many China spas.

The current economic crisis has so far had little impact on many parts of China and on many segments of the population because Chinese are strong savers, tend to have very low debt and manage their cash flow well. The world economic crisis has also given local spas an opportunity and an incentive to look more closely at the domestic market rather than relying on foreign visitors as they did in the past.

For the China domestic market, facials, body slimming, and some plastic surgery occupy a big marketing share. I call it "beauty consumer group." Another group is the people who are looking for ways to de-stress, to quit bad habits such as smoking and drinking, take up movement therapies to create a new healthy lifestyle - "inner beauty consumer group." These two groups are basically looking for better quality services, their needs are real and specific and they will continue to pay for these services.

The economic downturn is a good time to clean out the market. Consumers are starting to check if spas and health places are really providing what they want, and if the treatments can really solve their problems.



SPA INDUSTRY BRIEFING: *China*

In China, price is still the first concern for consumers. Quality comes second. But as spas are increasingly becoming places that are used to socially show off, there is a growing concern more about the balance between price and quality.

Based upon feedback from SpaChina readers and club members, spa-goers are still going to spas regularly. As a result, I would expect quality day spa revenues to stay the same or even go up in 2009. Hotel spas have to figure out the local market in order to be profitable. Then they should be able to maintain 70%-80% of previous revenue levels.

Overall, the big global players are still looking at China for growth opportunities. There is the Tangula project, which is JV with the Chinese state owned Railway Corporation to operate luxury trains with spa facilities on board along two historic scenic routes from Beijing to Lhasa on the Tibetan plateau and to Lijiang in the Shangri-la region of southwest China. Mr. Ingo Schweder is working on this project, which I believe has huge potential and will likely stun the world.

So in China, we are seeing projects closed, projects delayed and projects newly developed. Even without an economic crisis, the China market is churning all the time with new places opening and closing every week. The Spa concept is still a new thing in China, and investors, owners, managers and even guests are all still learning. Any business in China usually has to change its concept and vision every two years or so to keep up with the changes in the market. You can see a clear generational difference in China between people just 3 or 4 years apart in age. This level of dynamism, plus the sheer size of the China market, provides both challenges and opportunities. But I am confident that spas which have a good concept, with experienced investors and skillful players focused on meeting market needs will survive and thrive.

Basic trends we are seeing include a greater emphasis on Chinese culture as the context for spas in terms of atmosphere, architecture, art and concept, but expressed in a modern way. An example is the Aman resort Beijing Summer Palace, which is a luxury resort strongly grounded in Chinese culture. But their prices are too high for the local market. Other important trends are greater linkage with Traditional Chinese Medicine (TCM) and home spas and home spa facilities, particularly Jacuzzi baths and the Japanese warm seat toilet / bidet. Chinese people love this.

At our last SpaChina Seminar in Beijing in March, I could see a clear desire amongst spa industry people to network and to exchange ideas and experiences. Those determined to make it through the bad times are reviewing their strategies, adjusting their prices and package details to match the changes in the market, actively working with product companies and even restaurants to stage events and promotions. I see many of them are taking positive and proactive steps to adapt to the situation.

Some of them use this time as a low season opportunity to redecorate their spas or other facilities, and educate and train staff, or simply to take a personal vacation and relax. On the other side, there are also some players

who are concluding that they can't handle the changes, and they are closing down to limit their losses. Spa education and training is a growth market in China, and experienced spa consultants will be more in demand than before the crisis. China spa industry people see the changes and shortcomings in their business exposed by the bad economic times, and they want to improve their knowledge and market value.

Also, as I said earlier, this is a good time for a market clean out. The players who survive will be well positioned to prosper in the China spa market, which is definitely going to continue to grow in the years to come.

SUBMITTED BY:
Fifi Kao
Director & Managing Editor
Spa China
+86.21.5385.8951
fifi@sinomedia.net
www.spachina.com

