ASIA-PACIFIC: *Hong Kong*

SUMMARY

Broadly speaking, the Hong Kong spa market can be separated into three primary spa categories; (i) Hotel spas catering to business travelers and wealthy HK residents, (ii) mid-high end day spas catering to professional expatriates and locals, and (iii) local day spas catering to the mass market which is primarily local and low end.

Within each of these categories there are a number of sub-categories. For example there are 8 five star hotel spas in Hong Kong (Landmark Mandarin, Mandarin Oriental, Four Seasons, Grand Hyatt, Peninsula, Intercontinental, Langham and the most recent addition, Bliss at the W Hotel). There are then a raft of 4 star spa and wellness offerings.

A number of private clubs and residences also offer high end spa facilities such as the American Club in Tai Tam, the LRC in Mid-Levels and Guerlain Spa at Bel Air Residences. Only members can access these facilities and the pricing point is close to the five star hotel spa level.

The day spa market in Hong Kong is large with between 500 and 1000 operators depending upon the definition used for 'spa'. The mid-high end market caters for the professional classes and housewives who are looking for 5-star treatment quality without the 5 star price. There are a number of reputable operators in this space including PAUA Group, Essential Spa and of course, Sense of Touch!

At the low end of the market it would be more accurate to label many operators as salons, slimming centres or saunas rather than what we would consider spas. Many of the low end outlets use cost effective technology from China and are functional rather than aesthetic, addressing the price sensitivity of the local market.

CHANGES IN THE SPA AND WELLNESS MARKET

One way of defining spa treatments is by which are considered necessities and which are considered luxuries by the consumer. In the Hong Kong market I would classify nails, waxing and basic skin care facials as 'necessity treatments', with more expensive facials, massage, wraps, scrubs, slimming, toning, etc. as luxury treatments.

Accordingly, the expenditure on the necessity items has remained robust throughout the crisis; the only reduction being in frequency of spa visits with consumers currently having a facial every month rather than twice a month. Also, there is some downgrading of service to the regular as opposed to the expensive option, however the number of people visiting spas over the past 6 months has remained very stable in Hong Kong indicating demand for spa services has not faltered despite the economic conditions.

SHIFT IN REVENUES

My expectations for my own business on a spa by spa basis are that 2009 revenues will be flat to 5% lower than in 2008. Providing we don't have a swine flu type pandemic I do not expect a significant decrease in revenues. I expect the general mid-high end day spa market and hotel spa market to be 10%-20% down on the previous year.

EFFECTS OF THE ECONOMIC CRISIS

In general the Hong Kong spa sector remains strong. While revenues are clearly down from where they would be in a strong economy, the well managed operations continue to do satisfactory business and are gaining market share.

Hotel spas have clearly been affected by lower occupancy rates and have countered this by offering bundled deals with other hotel facilities (lunch, pool, gym) rather than simply cutting prices. They have therefore not encroached on day spa market clientele and have retained their pricing premium.

In the mid-high end day spa sector, there has clearly been a change in consumption patterns with consumers reducing the frequency of treatments and moving to a lower pricing point where possible (regular facial instead of premium). This has in turn affected what had become an over populated space with some of the newer entrants (who had signed expensive leases at the top of the market and hadn't had time to develop a deep client base) closing down.

The low end of the market, which was already a price based model, has been in a cut throat discount war that at times has been frightening to observe. Many of these operators survived purely on pre-paid package sales which dried up in Q4'08 and Q1'09 and many have therefore closed down. Some credit card companies are now holding these operators funds for 90 days due to the high default risk!

CURRENT SPA AND WELLNESS RELATED PROJECTS

Considering the mid-high day spa, club spa and hotel spa categories in Hong Kong, there are approximately 6 new spa projects under development and I am not aware of any projects that were cancelled or delayed. It is close to impossible to know these figures for the local market.

If Macau is considered, the story would be quite difficult with many spa developments linked to large casino and hotel developments, most of which have been put on hold due to the large funding requirements that are no longer readily accessible by the parent companies.

TREND-SETTING AND UNIQUE PROJECTS

In Hong Kong I am not aware of any trend setting or unique developments however the Malo Clinic in Macau, operating at the Venetian, will be the worlds largest integrated wellness facility covering some 84,400 sq ft, with six operating theaters, 58 spa rooms, and a staff size of over 50 medical doctors and 100 spa therapists!

ADAPTING TO THE CURRENT ECONOMIC CRISIS

In general Hong Kong's spa industry has adapted well to the current crisis. The important point is that life goes on and consumers still want to visit spas so there is business. The well managed operations have used the opportunity to build their customer base by offering attractive first time client deals. While there has been price competition, at the mid and high end this is not the only factor important to the consumer. Quality of service and ambience are also material considerations and by focusing on these deliverables as well as price, the spa economy remains strong.

OPPORTUNITIES

The current situation is an excellent opportunity to build market share as weaker operators close down and consumers become more choosy, looking to align themselves with the brands they believe will still be standing in 2 years time. It is also a great time to lock in new rental deals on premises if one has the funding available to expand. I firmly believe that those who survive this year will come out stronger than they went in to it, in terms of brand recognition, client base and revenue generation potential when the economy picks up.

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