

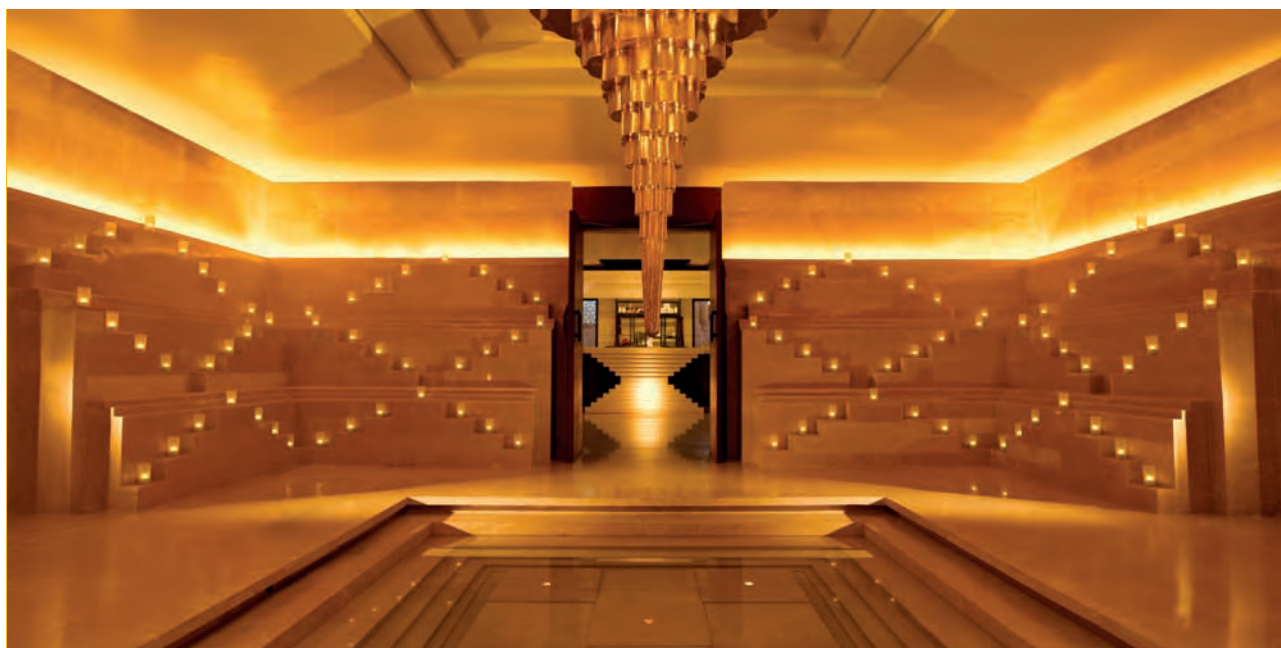


Horwath HTL™

Health and Wellness

Special Market Report

Issue 1 - INDIA



HORWATH HTL HEALTH AND WELLNESS

Horwath HTL Health and Wellness is the newly conceived division of Horwath HTL, specializing in the development of destination retreats, lifestyle and wellness centers, bathhouses, resort, hotel, medical, and day spas, and health and fitness clubs globally.

Founded by Ingo Schweder, Horwath HTL Health & Wellness provides a range of wellness focused project consulting, including market research and feasibility studies, brand and concept development, and executive recruitment.

GOCO Hospitality, also founded by Ingo Schweder, is a specialty management company concentrated on similar types of health and wellness facilities, including mixed-use wellness communities, resorts, and hotel spas, with over 20 projects in countries across the globe.

INTRODUCTION

India stands at the forefront of today's global spa and wellness market, alluring domestic and international visitors alike with the time-honored traditions of Ayurveda and yoga and high quality, affordable medical tourism.

Now poised to become the fifth largest consumer market globally by 2020, India demonstrates all the demographic advantages of an ideal market for leading international spa and wellness brands.

At present, the country boasts a 350-million strong middle class, a notably large youth population (50% of which are under the age of 25), rising levels of disposable income, and associated increases in overall aspiration and experimentation, as well as obesity, related health issues, and health consciousness (*PricewaterhouseCoopers, 2012*)

These factors, in conjunction with a growing number of low-cost domestic airlines, like SpiceJet and IndiGo, suggest that demand for all things wellness and spa is expected to grow in the coming years.

CONSUMER TRENDS

The idea of 'wellness' has become increasingly ingrained in conventional notions of what constitutes a healthy lifestyle, complementing existing scientific and medical approaches to health. Thus, the global spa industry has responded by innovating a broad spectrum of offerings that can fulfill increasingly savvy consumer demands. In India, the concept of 'wellness' has been interwoven into various aspects of local culture through the traditions and practice of Ayurveda and yoga, which originated in the foothills of the Himalayas.

Today, domestic and international tourists flock to the southwestern region of Kerala for specialized Ayurvedic treatments. Interestingly, yoga remains relatively uncommercialized in India, as compared to other popular yoga destinations such as Hong Kong, Shanghai, Tokyo, and Singapore, which have seen new studios open in abundance.

Against the backdrop of a deeply ingrained traditional wellness culture, the preferences and attitudes of modern Indian spa consumers are now evolving. They are savvier about the quality and value of products and services they purchase and more open to experimenting with new and different offerings.

Not only do they visit spas for hair maintenance, nail grooming, skin care, and beauty treatments, but, with greater societal awareness about stress, obesity, and other serious health issues, guests are looking to spas for evidence-based, results-driven solutions.

The Indian government has even assumed a supportive role in the health and wellness movement by promoting the domestic sale of health and wellness food and approving the Participatory Guarantee System (PGS) for Organic Farming, which has resulted in a flood of organic products now available in the country.

PricewaterhouseCoopers (2012) defined the modern Indian wellness consumer as belonging to one of four distinct segments.

Forming the base is a substantial mass of individuals known as "passives" who total over 700 million, do not follow health and wellness trends, and are largely financially restricted from partaking in them.

"Beginners" constitute 150 to 200 million individuals and demonstrate initial steps towards preventative care and improvement of appearance.

"Actives" make up a segment of 15-25 million, are known to follow health and wellness information, will pay premium dollar for products that claim benefits, and typically exhibit some brand loyalty.

Finally, the smallest segment, known as "believers" and totaling one to two million self-selected individuals, are early adopters who demonstrate extensive awareness on the subject and demand results-driven solutions.

Believers and actives represent the fastest growing segment of the market; however, beginners and passives, totaling nearly 98% of the population, comprise the largest volume opportunity.

Unique growth opportunities exist for all four consumer segments; however, offerings must be unambiguously tailored and marketed to the individual needs and demands of each.

International health and wellness tourists, particularly from the Middle East, are flocking to India in record numbers. Growing 24% in 2011 and attracting nearly 45% of the world's medical tourists on an annual basis, the country's medical tourism industry is thriving under the conditions of strong government support, low costs, advanced equipment, skilled practitioners, and large private investments.



Euromonitor International forecasts that health and wellness tourism is expected to experience a constant value CAGR of 22% from 2011 to 2016, with medical tourism seeing a CAGR of 25% in constant value terms over the same period. During this time, the spa market is predicted to consistently assume over 50% of total health and wellness sales in the country.

While females accounted for 70% of total demand in 2011, there is a demonstrated increase in male consumers utilizing spa treatments and professional grooming products, thus, demonstrating a significant opportunity for growth in this segment (*Euromonitor International, 2012*).

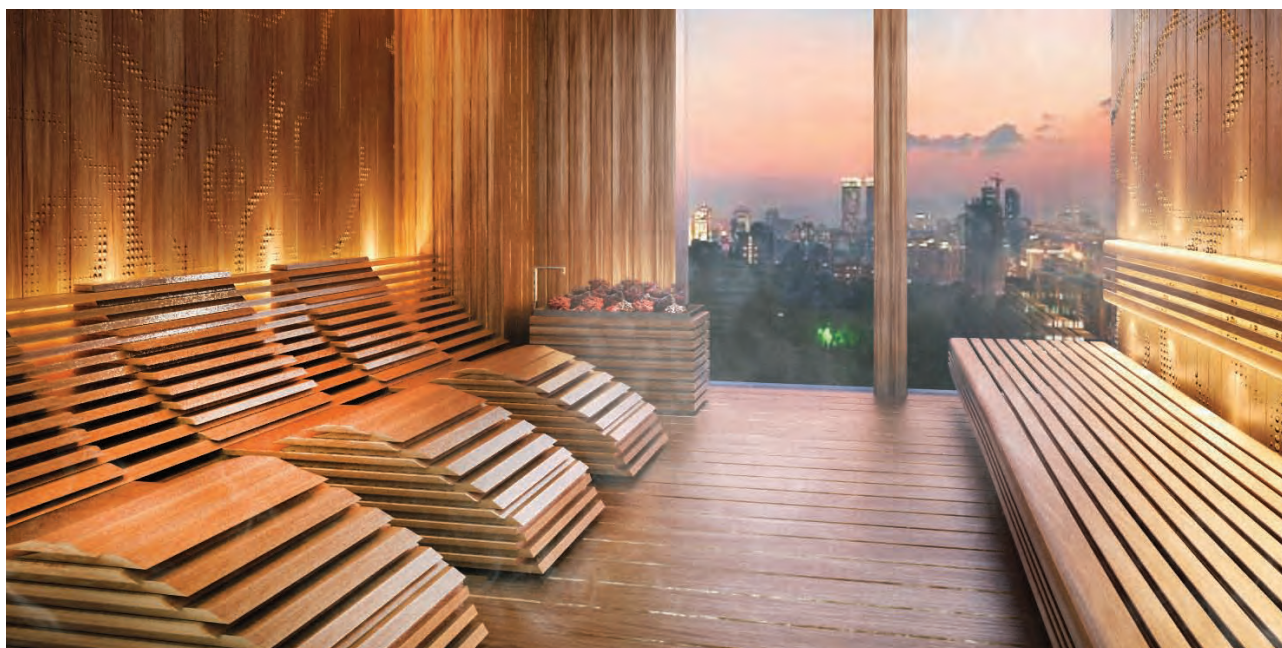
THE OPPORTUNITY

Both domestic and international visitation trends in India have demonstrated relatively steady growth over the past 10 years, with domestic visits to all states and union territories of India reaching one billion and foreign visits reaching 21 million in 2012 (*Ministry of Tourism, Government of India, 2012*).

Given these statistics, domestic tourism significantly dominates India's travel and tourism industry, capturing 98% of the total volume in 2012. One of the major contributors to this industry is currently the wellness and spa market.

PricewaterhouseCoopers (2012) valued India's total wellness market at USD \$11 billion in 2011 and forecasted that it would surpass USD \$18 billion (INR 1 trillion) in the next four years. This projection presents extensive opportunities for the wellness and spa market to imagine facilities that will not only serve existing customers but also capture new segments by going beyond traditional spa services with more innovative, exclusive, and distinctive offerings, such as comprehensive female salons, male grooming ateliers, and medical cosmetic services.

Additionally, India's travel and tourism sector is anticipated to demonstrate further growth as the country continues to host internationally-marketed events, such as the 2011 Formula One Indian Grand Prix, and initiate government-led campaigns targeting tourists from select countries (*Euromonitor International, 2012*).



HOTEL SPAS

Horwath HTL Health and Wellness believes that there is a strong opportunity to develop internationally-benchmarked hotel spas, as well as destination and day spas, that offer a full range of amenities similar to those in spa-mature markets in the region, such as Hong Kong and Singapore. Thermal bathing, advanced beauty treatments, medispa services, and male grooming are becoming increasingly popular around the world. However, India has yet to fully explore application of these trends within its own spa and wellness market.

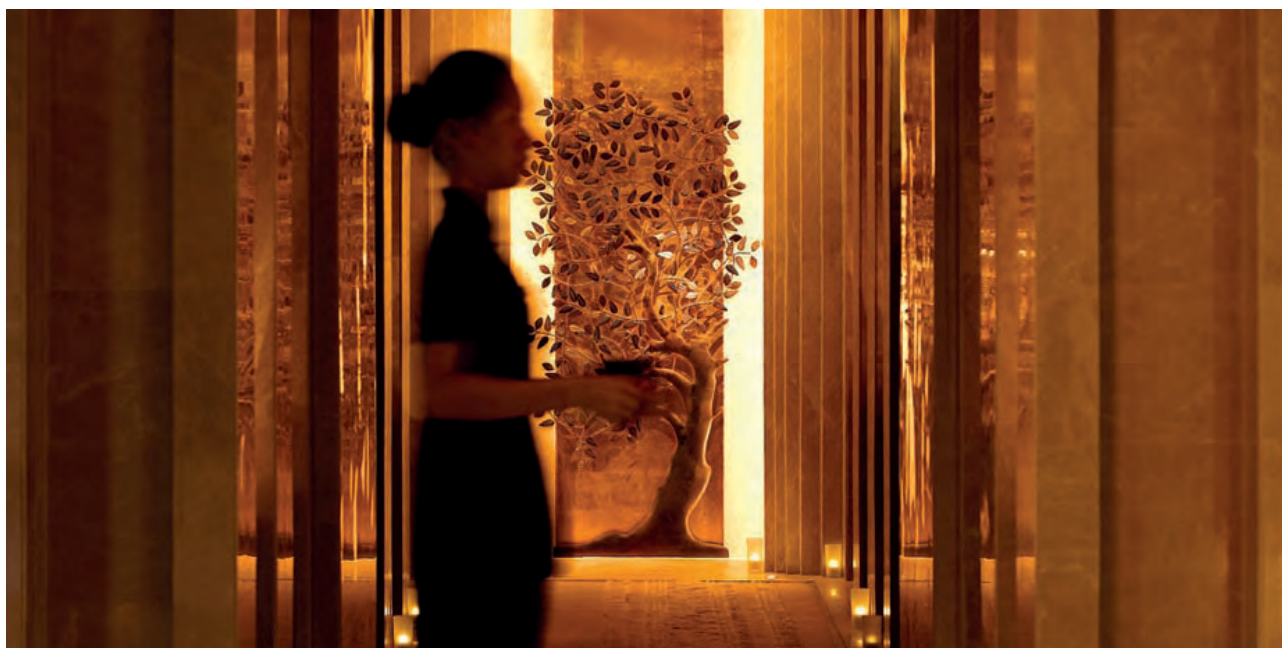
For example, in a recent case study of hotel spas in Mumbai, Horwath HTL Health and Wellness found that there was standardization across luxury facilities within the city. Five-star hotel spas had five to six treatment rooms and offered 21 different massage, body, facial, and hydrotherapy treatments, on average. Most offered similar pricing structures and treatment menus, commonly including Ayurvedic treatments, aromatherapy massages, body scrubs, and facials. These spas were generally profitable and membership played a substantial role in revenue generation, often comprised up to 50% of total earnings.

However, it is worth noting that, given the size and density of Mumbai, understanding and accounting

for the immediate demographic surroundings of a property is absolutely critical when developing all aspects of the spa facility. In striving to differentiate oneself in a market with so many new entrants, savvy hotel owners would do well to ensure that their spa is not merely an “add-on” feature but rather an independently managed profit center on its own.

Hilton Hotels & Resorts (2012) recently commissioned a survey in which 45% of respondents indicated that the existence of a spa attracted them to a particular hotel, and 69% expressed that there was a good chance that they would use the spa during their stay.

This opportunity is especially significant as PricewaterhouseCoopers (2012) reports that there were approximately 114,000 hotel rooms spread across India’s various hotel categories in 2012, which was an estimated 150,000 rooms short of what was required at that time. Thus, there is huge potential for owners to capitalize on the development pipeline by designing full service spa facilities in tandem with anticipated hotel growth and demand. A number of luxury hotel brands have already made heavy investments along these lines; however, the full potential of this space has yet to be realized.



Several major international brands have demonstrated both unique and effective approaches to the establishment of spas across India.

- TAJ Hotels Resorts and Palaces developed its own spa brand, JIVA spa, in which the various TAJ properties offer differing amenities and standards.
- The Leela Palaces, Hotels and Resorts has outsourced its spa to a UK-based product company.
- The Oberoi Group's spas are only accessible to in-house guests.
- Six Senses Hotels Resorts Spas is developing a day spa at Trump Towers Pune
- Mandara Spa, with various properties across India, boasts one of the largest spas in all of Asia.
- GOCO Hospitality is becoming an active player in the Indian hotel spa market, with projects with MGM, Bellagio, and Ritz Carlton under development, amongst others.

DESTINATION SPAS

Horwath HTL Health and Wellness strongly believes that, in India, financial opportunities exist beyond luxury hotel spas.

The fact that Ananda in the Himalayas, located in Narendra Nagar, Uttarakhand, is India's only currently operational destination spa of global repute clearly demonstrates room for growth in this market segment.

Foreseeing this trend, a number of destination spas are currently in planning and development stages across the country.

For example, in the Himalayan region, Max Venture Pvt. Ltd is constructing Vana Retreats, a wellness retreat on the outskirts of Dehradun, Uttarakhand.

GOCO Hospitality is in the process of creating a destination spa in Dharamshala, Himachal Pradesh.

In Kerala, destination spa packages are marketed to visitors year round in an effort to compensate for low (monsoon) season occupancy.



CHALLENGES

Beyond the requisite marketing, branding, conceptualization, and design of a spa, it is of equal importance that robust operational structures are put in place. Owners and operators must understand their target market and implement marketing strategies that effectively capture that market as intended.

For example, domestic and international spa guests should be treated as two distinct market segments, due to differences in preferences, behaviors, values, cultures, and the like. Hence, spa owners and operators need to objectively analyze the impact of, say, the geographic location and surrounding infrastructure on both segments. Of additional importance is the fact that Indian consumers are highly brand conscious, making it essential for spas to choose products that have global reach and pulling power.

There are significant opportunities to serve well-travelled Indian consumers who have been introduced to diverse spa experiences across the globe. However, spa owners and operators must understand that these guests can be especially demanding and particular when visiting domestic spas.

For example, spa goers often request that several treatments be performed simultaneously, such as a manicure with a facial or a cosmetic treatment with a foot massage. If spas are able to tailor their service offerings in order to accommodate these personalized requests, they will be rewarded with a win-win proposition: increased guest satisfaction and spa profitability.

Finally, a surge in the spa and wellness industry will result in a predictable shortage of skilled therapists and spa managers. There is already a limited supply of qualified staff and management within the industry and a noticeable dearth of investment in related training schools and programs.

Horwath HTL Health and Wellness believes this issue needs to be addressed immediately in order to ensure that the future supply of skilled staff matches the growing demand for spa services. Additionally, it is imperative that staff receive internationally-benchmarked professional training of the highest standard. For example, many Ayurvedic practitioners are not trained to meet the needs and expectations of international spa goers, thereby representing a significant and impending staffing challenge.



CONCLUSION

India's rapidly evolving economy, maturing population, broadened consumerism, and strong Bollywood influence on image and status present limitless opportunities for spa developers, owners, and operators to breathe innovation and inspiration into the local wellness market.

This combination of factors makes India ideal for the development and promotion of an overall expanded definition of health, relaxation, and luxury beyond traditional notions of Ayurveda and yoga. However, growth must not be limited to Kerala or the Himalayas when considerable opportunity and strong demand exist for the development of spa and wellness oases both within and near urban centers.

Given the finding that membership revenue often comprised up to 50% of total hotel spa revenue in those properties surveyed by Horwath HTL Health and Wellness, we believe that this indicates a significant opportunity for the development of membership-based leisure facilities in urban areas that offer spa and treatment services, swimming pools and specialty bathing, fitness and sport, and relaxation spaces in an exclusive, potentially luxury environment, provided that the facilities have the correct brand positioning and international partnerships.

Additionally, it is worth noting that difficulties developing hotels in urban areas across India signify the possibility that greater financial opportunities could exist in the development of standalone day spas (versus hotel spas).

Again, brand positioning and partnerships will determine the future success of such facilities and, therefore, must be carefully considered.

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