

ASIA-PACIFIC: *Japan*

CURRENT SITUATION

The current spa and wellness industry in Japan overlaps some related areas of the Industry such as leisure, relaxation, beauty, health promotion and medical care as well as the same for other countries. However, at the moment, there are some difficulties in the Medical Field due to strict legal controls and strong political pressure from a group of traditional Shiatsu Masseurs (for clinical care). This issue has been a major obstacle to the market growth of medical & clinical oriented spas.

Regarding the latest official figure, the estimated total revenue from Japanese spa market as of 2007 is approximately US\$7.1 billion. That's a record of 27% up from the previous year (about US\$5.6 billion) because the spa-boom encouraged new entries into this sector. Currently, our national population is around 128 million (GDP is about US\$5 trillion) and the total visitors for spas (in 2007) can be estimated at 119 million. IOW, is almost the same, as most Japanese go to spas once a year. However, due to the severe economic downturn in the latter half of last year, soon-to-be-released data as of 2008 will be slightly diminished (1-3% down) from 2007.

The Japanese spa market can be divided broadly into 2 categories. First group is "foreign type" that is mainly derived from Western and Asian spa services. The main target of this market (w/o fitness gym) seems to be the beauty oriented ladies around their 30's - 50's. This market has emerged and grown rapidly since around 2002 and acquired almost 40% of the market share today. The other is "original type" that consists of unique spa services originally developed in Japan. The target is broad-range customers who want simple relaxation. As this market has already achieved greater experience since long ago, it's made up of more than half of the market. We infer from the trend on the series of official figures that the resort hotel and Onsen-Ryokan will expand their share (around 10% up on each) but fitness gym and Super-Sento will lose (about 10% down) on the contrary.

| Category | Type of Facility | Market Share | |
|---------------|---|--------------|-------|
| Foreign type | Urban hotel | 2.4% | 39.5% |
| | Resort hotel | 11.4% | |
| | Large commercial establishment (mall, complex etc.) | 2.6% | |
| | Esthetic salon / Beauty parlor | 0.3% | |
| | Fitness gym | 22.8% | |
| Original type | Onsen-Ryokan (traditional posada with hot springs) | 33.5% | 54.9% |
| | Super-Sento (amusement public bath center) | 21.4% | |
| Others | | 5.6% | |

*Source: Ministry of Economy, Trade & Industry (Mitsui Knowledge Industry), as of 2007

ECONOMIC CRISIS

IMF projects the rate of growth of the world's economy this year will be down -1.3%. Especially the Japanese rate of decline is down by -6.2% which is the worst among the advanced nations of the world. Japan has fallen into the red in terms of revenue and expenditure on trade. These are the worst figures in 28 years and the Japanese economy will be faced with the seriousness of this current economic crisis, due to the fact that Japan's economic structure has depended heavily upon exports. Also, the number of Western business travelers to Japan has decreased since last summer, mostly because of the high exchange rate of Yen, the sudden increase in fuel plus a host of other factors.

The rate in the guest room operation of 20 major hotels in Tokyo showed a drop of -10% on average in February 2009. Even famous hotels of which guest rooms usually operate at 80%, have shown a decline in the rate of guest room operation to approximately less than 50%. In recent years high-end hotels have opened because of the easing restrictions on urban development. However when under recession, there is a disparity of demand and most hotels decide to change their accommodation fees. Not negligible numbers of these high-class hotels lower their pricing (sensitively) to the current state of the economy. Many of the Japanese people who temperate in travelling abroad (plus 1.3 million comparing to last year) tend to choose domestic destinations mostly. In consideration of this tendency, hotels shift their target from travelers from other countries to Japanese domestic customers. All the while, there have been some conditions to use hotels' spas in the past but now they have opened their doors to general visitor and provided temporary discounts especially to their members.

After 2008, 19 of the well-established Ryokans (Japanese-style hotels) went bankrupt, although some Ryokans are coming back to life again one after another as luxurious retreats. They have acquired not only Japanese domestic tourists but also foreign guests including the wealthy classes from China. Consequently, the Japanese Spa industry hasn't shown a sharp reduction in markets like other industries. However, it is considered that the Japanese Spa industry has entered a time of weeding out, after the rapid growth of the market by the year before last came to an end.

Additionally, I would infer from the trend of discount campaign at urban / resort hotels, revenue from the "foreign type" market will be down around 10-20% by the year end of 2009. But I suppose revenue from the "original type" market will maintain the current level because increase trend of domestic tourists must support their revitalization.

LATEST PROJECTS IN JAPAN

On schedule

- ◇ Mercure Hotel Sapporo – Hokkaido (2009) by Mitsui Fudosan
- ◇ Westin Hotel Sendai – Miyagi (2010) by Mori Trust
- ◇ St. Regis Hotel Osaka – Osaka (2010) by Sekisui House

Delayed

- ◇ Park Hyatt Yokohama – Kanagawa (2011) by Mori Building
- ◇ Aman Kyoto – Kyoto (2008) by Aman Resorts
- ◇ Marriott group – Hokkaido (2012) by Mitsui Fudosan (developer)

Suspend / Unconfirmed

- ◇ Otemachi (Brand to be announced) – Tokyo (2014) by Tokyo Tatemono
- ◇ W Hotel Yokohama – Kanagawa (2011) by Pacific Holdings
- ◇ Courtyard By Marriott Nara – Nara (2010) by Zephyr
- ◇ Sheraton Hotel Hiroshima – Hiroshima (2010) by Yamato System
- ◇ Sheraton Ginowan – Okinawa (2010) by Joint Corporation
- ◇ Banyantree Yaeyama – Okinawa
- ◇ Sesoko Beach – Okinawa

Bankrupt major developers and the application of the Civil Rehabilitation Law happened in succession due to constant breakdowns or the restraints from foreign financial organizations. More than half of the 5-star hotels scheduled to be constructed in a few years time have been obliged to postpone or even freeze their plans of opening these new high-end Spas.

Trend Setting: Celebrated hotel spas including the CHI spa in the Shangri-la Tokyo (opened in 2009) have had their presence felt in the center of Tokyo. Since most of them provide world-class spa services within a Japanese atmosphere, Japanese wealthy classes and visitors from abroad enjoy the Japanese experience in the western-style hotels. Several hotel developments (as mentioned above) are currently in progress in Hokkaido, Kanagawa prefecture (Yokohama, Hakone), Kyoto and Okinawa and have an abundance of tourist attractions and a healthy local economy.

Meanwhile, well-established Japanese Ryokans are very well acquainted with the beauty of the surrounding scenery just familiar with the local residents, a degree of prime products of the sea and countryside while retaining time-honored traditional culture within famous hot spring locations.

Such Ryokans are coming back as high-end Ryokans and modernized designers' Ryokans introducing innovative design such as "Japanesque art Nouveau", open-air onsens using mineral water from the natural springs and spa services, accommodating a limited number of guests for the greatest experience. Also these Ryokans provide meticulous attention and luxurious hospitality to their guests which the larger hotels cannot, such Ryokans attract those people who are beginning to lose interest in Hotel Spas.

ADAPTATIONS TO CRISIS

Recently, the co-operation between hotels and Ryokans have started to introduce mutual guests to one another. This co-operative exchange is to acquire each of the others premium clientele (i.e. the co-op-



SPA INDUSTRY BRIEFING: *Japan*

eration of the Mandarin Oriental Tokyo wanting local wealthy classes from other regions and a high-end Onsen Ryokan in Hakone, Gorakadan aiming to attract the foreign visitors). Also the Royal Park Hotels having a reservation center responding in foreign languages, work as an agency for reservations for Ryokans in Tokyo and enrollment.

In local areas there is a considerable weight of investment in tourism, each as a whole is trying to give life to local enterprises and economy. On one remote island of Okinawa for instance, the local government gave financial assistance to a new spa's product development using local mineral water and salts and with the co-operation of the local university and related companies, and they succeeded in producing charming spa products.

Although, the Hoshino Resort has been striving for their projects to reinvigorate local economies including the development of spa resorts with the co-operation of a foreign investment bank, they have decided to shift over to closer connections with a local bank which offers them lesser risks than the off-shore bank. The Japanese Spa industry is now gaining the power of having to make some radical 'original ideas' because of the recession.

OPPORTUNITIES

Unprecedented chance for local tourism

- ◇ Super discount of expressway toll has begun (only \$10 from everywhere to everywhere!)
- ◇ Japan Railways also started discount campaign to compete with the above (toll discount)
- ◇ Excellent HRs with overseas experience or foreign-affiliated spas return to local businesses
- ◇ Many renewal-opened Onsen-Ryokans have scattered throughout Japan
- ◇ Increase of vacation days due to company cost-savings (especially for "golden week")

Result-oriented / evidence-based approach

- ◇ Visible effectiveness (with evidence) of spa service become more important than pampering
- ◇ Regional joint study on effectiveness of spa / health-tourism by vicinal university, spa schools and some related companies in Okinawa have been launched
- ◇ There aren't full-fledged destination spas yet in Japan and the idea of "wellness" is not yet penetrated all Japanese spa-goers (-> that leaves place of market entry for destination operators)
- ◇ Collaboration with Onsen operators by destination spas may bring a break through

Potentiality of foreign visitors

- ◇ Although the numbers of foreign visitors represent a radical drop after the last summer, year-to-year comparison of the total annual visitors stepped up 1% (2007-2008) by the tireless effort of “Visit Japan Campaign”
- ◇ Foreign tourists tend to seek the “unfound retreats” (especially, well-heeled tourists from China which has about 30 million persons who have over \$1 million of personal assets)
- ◇ Western visitors prefer to learn the traditional culture -> Japanese traditional tea ceremony and art of flower arrangement could be potential contents of educational spa activities

It seems that the economic crisis brought Japanese spa industry various opportunities and fresh visions and provided temporary discounts especially to their members.

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