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BANYAN TREE (B)

Xia Yang and Tom Gleave

Banyan Tree (B) is the second case in the Banyan Tree case series. In this case, the Banyan Tree Hotels and Resorts had engaged itself in an aggressive market expansion programme. Major activities in the expansion programme included the internal development of more resort and spa locations as well as the establishment of some tie-up agreements with selected external parties who could facilitate rapid and wide market penetration. Among the immediate tasks for finalising the expansion programme was to determine the impact that these internal as well as external efforts would have on the company's future.

Ivey-Nanyang Case Writer Tom Gleave prepared this case under the supervision of Associate Professor Xia Yang. The case is based on public sources, internal company sources and interviews with key personnel from Banyan Tree Hotels and Resorts. The authors would like to acknowledge the support of Banyan Tree Hotels and Resorts. The authors may have disguised certain names and other identifying information for confidentiality. As the case is not intended to illustrate either effective or ineffective practices or policies, the information presented reflects the authors' interpretation of events and serves merely to provide opportunities for class discussion.
In April 2002, Chairman and CEO of Banyan Tree Hotels and Resorts (BTR) Ho Kwon Ping paused for a moment to consider the company’s growth efforts to date and its future strategic direction. Over the past three years, BTR had developed several new resorts and spas, including additions to its flagship Banyan Tree brand and the launch of a new brand - Angsana. Revenue among the various resorts and spas had been steadily increasing by about 15 percent per year up to September 11, 2001, when some momentum was later lost due to the fallout from terrorist incidents in the United States. As the negative effects of these incidents dissipated, BTR’s revenue growth returned to previous levels. Buoyed by this upswing and recognising that it had limited time to penetrate key markets before they became saturated, BTR committed itself to an aggressive market development programme. These activities were expected to include the internal development of more Banyan Tree and Angsana locations as well as the establishment of tie-up agreements with selected external parties who could facilitate rapid and wide market penetration. Given the various growth avenues facing the company, Ho decided to step back to assess the implications that these activities would have on the company’s future.

**RECENT DEVELOPMENTS**

After the Asian financial crisis tapered out in 1998, tourism in the region began to increase. By 2000, the number of travellers had grown to almost 112 million, some 14.5 percent or twice the average global rate of that in 1999. The countries that had shown the greatest increases were China, Cambodia, Malaysia, Thailand, Vietnam, Indonesia and Australia, which had hosted the Olympic Games in Sydney. Many were intra-regional tourists, thus extending an earlier trend that saw more Asians favouring trips closer to home. Many tourists from all points of origin had responded to developers who diversified their product offerings, particularly those offering so-called “eco-tours”, which became the region’s fastest growing segment.¹

Prompted by the region’s economic rebound and convinced that certain markets were not being tapped, BTR unveiled a new brand concept in December 1999 with the launch of its Angsana Spa at Dusit Laguna Phuket. This stand-alone spa concept was developed in response to repeated requests from various three- and four-star quality hotel owners who were interested in providing their guests with a service similar to that offered by the high-end Banyan Tree Spas. The Angsana Spa was positioned as more contemporary and affordable than the traditional Banyan Tree concept. Angsana Spa’s design features and furnishings were more modern and less exclusive than Banyan Tree’s, and a 90-minute massage cost US$55 versus US$85 at a Banyan Tree Spa.

The name and logo for the new brand was taken from the angsana tree, a tall tropical rainforest tree noted for its fragrant golden flowers that would burst into bloom for a day, close and bloom again on the next day. This behaviour was intended to be a metaphor to encourage people to “live life spontaneously” and “savour time” before it passed. (See Exhibit 1 - Angsana Logo.) The response to the new concept was very positive, thus prompting BTR to quickly develop five more stand-alone Angsana Spas at other hotels in Thailand. These included Sheraton Grand Laguna Phuket, Laguna Beach Resort Phuket and Allamanda Laguna Phuket.

In June 2000, BTR revealed its first combined Angsana Resort and Spa, which it developed and managed on Bintan Island. The new 120-unit resort was located less than one kilometre away from Banyan Tree Bintan in Indonesia. The resort was intended to appeal to young couples with no more than two children, who were looking for an alternative to the large family resorts that were available, such as Sedona and Club Med. To this end, the rooms and suites were contemporary in style, forgoing the need for traditional furnishings and lavish fabrics. A variety of recreational and sporting activities was available, including swimming, snorkelling, tennis and golf (at the nearby course designed by golfing legend Greg Norman). To cater to all tastes, a range of Asian and international cuisines were available from the resort’s Lotus Café. Unlike its key competitors, the resort came with both the branded Angsana Spa and Angsana Gallery.

The initial price for one night in a standard room was US$175 compared to US$90 at Sedona and US$370 at Banyan Tree Bintan. Like the stand-alone spas, the combined Angsana Resort and Spa was successful at the outset, which increased BTR’s confidence as it rolled out similar properties near

Cairns, Australia (adjacent to the Great Barrier Reef) and in the Maldives, where it had already built a Banyan Tree resort. A fourth Angsana Resort and Spa was established in a hillside setting, about 40 kilometres from central Bangalore with the help of the Prestige Group, an India-based property developer. The Prestige Group built the infrastructure while BTR managed the daily operations and the marketing of the resort and spa.

BTR engaged in a variety of activities to create awareness of its Angsana brand. Most advertising efforts consisted of placements in trade magazines like TTG Asia and TravelWeekly East. Moreover, placements were made in newspaper supplements that focused on specific themes, such as vacation options in the Maldives. The company was also able to gain press coverage in a variety of Singapore-based magazines, many of which targeted young women, such as Cleo, Wedding and Home & Décor. Several related articles were also published in certain local English and Chinese language newspapers. International press coverage was also gained through articles written by the likes of Vacation Times and Selling Long Haul.

In contrast to the approach taken by Banyan Tree, BTR decided to work with 10 to 12 wholesalers and retailers in each major market in Europe and Asia in an effort to generate greater awareness of the Angsana brand. Some awareness generating potential was also provided by Small Luxury Hotels (SLH), which agreed to allow Angsana's property in Australia to be profiled in its exclusive listings after it determined that the resort met SLH's exacting standards. Commenting on the property after he made his inspection, SLH representative Michael Hall stated, "One thing that the Angsana Resort and Spa has that no one else has - it was quite magical being able to walk from the Resort onto the beautiful landscaped gardens and through the palm trees directly onto the sandy beach." Hall's overall evaluation of the resort was "good" in the areas of service, accommodation and food while the staff was rated "excellent".

On January 1, 2002, BTR assumed full control of the former Westin Banyan Tree Hotel in Bangkok. The property was renamed Banyan Tree Bangkok, making it the first city hotel managed under the Banyan Tree banner. Prior to the re-branding, the hotel underwent a US$3 million renovation that involved the addition of a swimming pool, new spa and F&B facilities. The existing Banyan Tree Spa services available on the 51st to the 54th floors were extended to the 20th and the 21st floors. A Banyan Tree Gallery was also established on the 20th floor. All existing restaurant and bar services were upgraded and a new restaurant, Saffron, was added. Saffron specialised in Thai cuisine and was available at all other Banyan Tree resort properties. The hotel's published prices started at US$300 per night for a deluxe suite and rose to US$1300 per night for the Presidential Suite. In an effort to generate high occupancy and awareness of its re-opening, the hotel offered customers a discount. For example, a Banyan Tree Club Suite was priced at US$150 - US$170 per night based on double occupancy, and included an array of bonuses, such as a 10 percent discount at all of the hotel's restaurants and a 20 percent discount on any spa service. This rate was on par with what other luxury hotel operators were charging. The re-branded hotel was expected to generate marketing synergies with Banyan Tree Phuket through the creation of twinning packages aimed at business executives interested in combining business and pleasure.

In March 2002, BTR soft-opened its fifth combined Banyan Tree Resort, Spa and Gallery in the Seychelles. The Seychelles is well-known for having some of the finest beaches in the world as well as being home to two UNESCO World Heritage Sites. Given the remoteness of the location and the need for extra environmental awareness, the cost to develop the comparatively small 36-unit property reached about US$40 million, considerably more than any previous BTR investment.

By April 2002, BTR operated a total of nine combined resort, spa and gallery properties as well as six stand-alone spas and galleries. (See Exhibit 2 - Listing of BTR’s Branded Properties.) The quality of the service and experiences provided at the resorts continued to impress industry watchers as evident from Banyan Tree’s ability to continue receiving various awards, which numbered over 40 to date. In addition to SLH’s endorsement, the Angsana Resort and Spa in Australia was awarded a five-star rating by the Australian Automobile Association (AAA), making the property highly recommendable to the AAA's members.

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3 The Australian Automobile Association’s (AAA) five-star rating was equivalent to a four-star rating in most other tourist markets.
BTR's track record of being able to steadily increase revenues since it started continued although total revenues in the fourth quarter of 2001 fell short of the company's forecast. This was a direct result of the fallout from terrorist attacks in the US on September 11, 2001. These attacks sent shock waves around the world which in turn, plunged the global airline and tourist industries into a crisis. As the memories of these events faded, tourist traffic in Asia began to pick up.

AVENUES FOR GROWTH

BTR's senior executive team believed that it needed to adopt an aggressive growth strategy in order to secure the company's future. The impetus for adopting this strategic approach stemmed from the realisation that there was a finite number of locations considered suitable for such a high-end resort concept as Banyan Tree and, to a lesser extent, the Angsana brand. In addition, many of the world's leading four- and five-star class hotel and resort players were continuing their aggressive market development patterns. Moreover, an increasing number of boutique hotels and niche players were also trying to secure positions in key markets throughout the world. (See Exhibit 3 - The Small Luxury Hotels of the World's Asia Listings April 2002.) These trends led BTR's management to conclude that the longer the company waited before acting, the greater the chance it would get shut out of selected markets.

One way in which BTR hoped to achieve rapid and wider market penetration was through the use of brand extensions with selected luxury class hotel and resort players. To this end, the company entered into negotiations with the Oberoi Group, India's most respected luxury class hotel and resort chain. The discussions to date indicated a commitment by BTR to develop its core spa business by establishing no fewer than six new stand-alone spas at various Oberoi locations in India, Mauritius and Indonesia. The name of the spas was expected to be Oberoi Spa by Banyan Tree. In rationalising this particular growth opportunity, Edwin Yeow, BTR's Joint Managing Director and Senior Vice President of Marketing, commented:

The pool of spa customers in Asia continues to grow dramatically because spas are being viewed now more than ever as a sanctuary to escape from present day concerns. Customer traffic is climbing significantly throughout the region even though there has been a drop in certain Western markets. With so many global issues affecting everyday life, spas are fast becoming a safe haven for guests to relax and ease their minds.

The main reason why we are looking at working so closely with the Oberoi Group is because of their access to the Indian market. Many people erroneously assume that India is poor and backward all over but in fact it has one of the highest concentrations of millionaires anywhere in the world. The problem for us is that India is a difficult place to do business so tying up with the Oberoi Group seems to be the most logical way to penetrate the market. There is a strong compatibility in the positioning between their brand and ours, and they have first-rate local knowledge.

Another growth avenue that was being seriously considered would involve a possible tie-up with Asia Food & Properties (AFP), the owner of the Westin Hotel in Shanghai, one of the fastest developing cities in the world. Shanghai had long been considered China's most cosmopolitan city and served as the country's window to the outside world. After over two decades of economic reform, per capita income in the city had risen to over US$4,500 with many Shanghai citizens becoming "nouveau riche". Attracted by the increasing purchasing power available in the city, the Four Seasons Group had recently established one of its highly regarded hotels in Shanghai. These factors prompted BTR to work with the owner to develop a Banyan Tree Spa inside the six-star hotel.

One of the more significant decisions that BTR faced was to determine whether it should develop and manage a combined Banyan Tree Resort, Spa and Gallery in Bali (Indonesia) and/or Chiang Mai (Thailand). Given the magnitude of the potential investments involved, Yeow used a wide range of criteria to help guide the decision-making process. The criteria were:

- Cultural richness - the uniqueness of the indigenous people, including their customs, festivals and architecture.
- Economic indicators - the host country's recent economic performance and future outlook.
• Political and social stability - the degree of security within the country.

• Source market - an assessment of demand characteristics that identifies who goes to the market, when, how frequently and why.

• Current competitors - analyses supply side characteristics by determining what luxury resort options are available and whether or not they have spas and/or galleries.

• Supply chain partners - the willingness and ability of wholesalers and retailers to support the location in general and the resort in particular.

• Accessibility - the determination of how long and how much effort would be required to reach the resort from major points of origin.

• Price - the level of 'pain' that targeted customers would be willing to endure.

• Cost - the amount of investment required

• Site - the degree of exclusivity and quality of the visuals offered by the environment. (This was the factor Ho considered most important.)

Apart from the various initiatives involving the Banyan Tree brand, BTR intended to develop more Angsana stand-alone spas and city clubs. To this end, ongoing discussions had been held with property developers and hotel owners in two different locations - Double Bay in Sydney, Australia, and the island of Guam. The latter destination is a major hub for many US-based travellers who use the island as a funnelling point flying into and out of Asia. The arrangements that BTR were currently pursuing in these locations would involve tie-ups with suitable local partners. In the case of Guam, BTR had already entered into formal negotiations with Marriott International to formalise an agreement that would allow BTR to operate and market an Angsana Spa within Marriott International’s existing hotel on the island. In the case of Angsana city clubs, BTR will manage a new building in Taichung, Taiwan.

LOOKING AHEAD

It had been eight years since BTR built its first Banyan Tree resort. Since then, the company had grown considerably by internally developing its prized Banyan Tree brand of resorts, spas and galleries and by launching the Angsana brand in an effort to exploit further opportunities in the market. The pace of these developments had left the company’s senior management team satisfied with what had been accomplished to date. Still, Ho knew that he could not rest on his laurels. This was because time was of the essence if BTR was to exploit the remaining growth opportunities available in the market. This, in turn, raised the possibility of working increasingly with external parties to achieve the company’s growth objectives. With so many things going on at once and the potential for more opportunities to arise at any given moment, Ho decided it would be prudent to assess BTR’s growth strategy to date and the implications that this strategy held for the company’s future development prospects.
EXHIBIT 1

ANGSANA LOGO

Source: Banyan Tree Hotels and Resorts

EXHIBIT 2

LISTING OF BTR’S BRANDED PROPERTIES

Hotels & Resorts

Banyan Tree Phuket          Angsana Bintan
Banyan Tree Bintan          Angsana Great Barrier Reef
Banyan Tree Maldives        Angsana Bangalore
Banyan Tree Seychelles      Angsana Maldives
Banyan Tree Bangkok

Each Banyan Tree property included a Banyan Tree Spa and Banyan Tree Gallery
Each Angsana property included an Angsana Spa and Angsana Gallery

Angsana Spas & Galleries (stand-alone)

Dusit Laguna Phuket
Green View, Chiang Mai
Laguna Beach Resort Phuket
Panwaburi Phuket
Sheraton Grande Laguna Phuket
Allamanda Laguna Phuket

Source: Banyan Tree Hotels & Resorts
EXHIBIT 3

THE SMALL LUXURY HOTELS OF THE WORLD’S ASIA LISTINGS
(APRIL 2002)

Legend - Selected Establishments

3. Soneva Fushi Resort & Spa, Maldives
4. Banyan Tree Maldives
12. Banyan Tree Phuket
17. Banyan Tree Bintan
18. The Oberoi Seminyak
20. The Oberoi Lombok
24. Soneva Gili Maldives
25. Banyan Tree Bangkok

Note: None of above map numbers refers to any large five-star hotel chains (e.g. Four Seasons, Ritz-Carlton) nor any Amanresort. Banyan Tree Seychelles is not listed on this map but it is listed by SLH. There are no Angsana Resorts listed on this map.

Source: Small Luxury Hotels of the World Website.