

# Business Plan

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## Hotel Budget

SAMPLE

## **Executive Summary**

Esteemed tours currently provides tour guide services to visitors to Country X as well as other key services such as transportation and hotel bookings at discount prices to tourists. Through our well established business network we have been successful in providing a high quality services to all our clients.

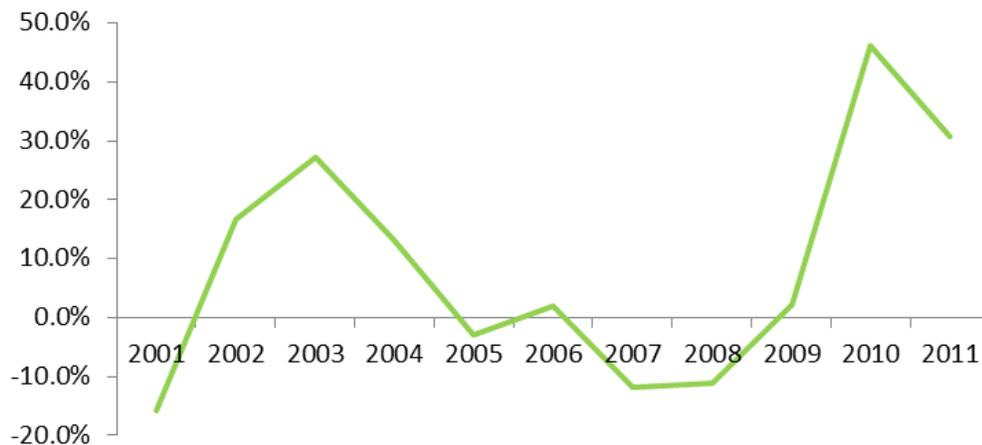
Given the fact that Country X has always been a premier destination for tourism, it has attracted a number of new businesses into the industry. Following the end of the 30 year civil conflict, a significant boom was witnessed in the tourism industry with many industry experts stating that growth could be expected to continue into the years to come.

While this is good news to our company, it also increases the challenges that we would face as the attractiveness of the industry is bound to draw new competitors. Therefore, it is common business sense to identify new streams of revenue based on our existing core competences in order to achieve sustainable growth.

### **1.0 Strategic Business Review**

#### **1.1 Business Background.**

Country X has always been considered as a premier tourist destination for with the industry achieving significant growth following the end of the civil conflict. Tourist arrivals in Oct 2012 was 80,379 (+15.5% YoY), with total arrivals for the year up 16% YoY to 774,151. The total number of arrivals for 2011 reached 855,975 registering a significant growth of 31% YoY. The government of Country X is targeting 1 million arrivals by the end of 2012 along with an ambitious target of welcoming 2.5 million visitors by the end of 2016.



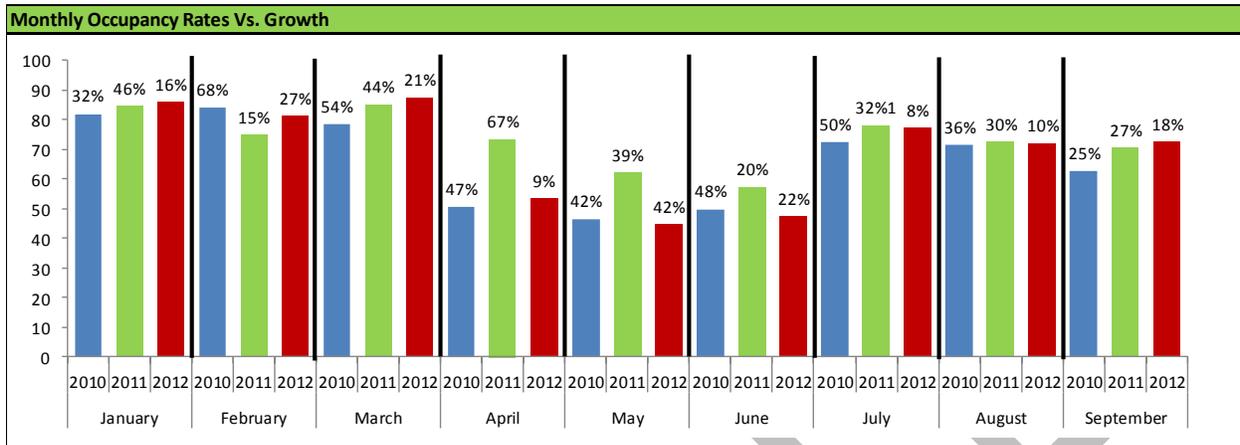
A large number of foreign investments have been flowing into the country targeting the hotel and travel sector, namely large hotel chains such as Hyatt, Starwood, Onyx, Mövenpick, Shangri-La, and ITC. Further, a consortium led by Asian Resorts & Casinos is to build a \$3bn tourism city in Katana and PJ Group is to complete Country X's first 7 star hotel, "Isle of Agnes" within two years where room rates are expected to be between \$5,000-10,000. As of July 2012, the government had received 217 investment applications worth \$2.14bn of which 129 had been approved that involved building 9,364 hotel rooms as the government aims to increase the number of available rooms to 40,000 by 2016 to meet target arrivals of 2.5m visitors.

Country X was also named as the number one destination to visit in the world for 2013 by "Lonely Planet", based on new emerging places to visit such as Kalpitiya, Puttalam lagoons and Arugam Bay along with rating Country X as a value for money destination.

Further, The World Travel Market, named Country X as a "new emerging travel powerhouse" along with Indonesia, Malaysia, Mexico and Argentina. Re-emergence after the civil war, investing in infrastructure and the beauty of destination were identified as key highlights for the tourism industry in Country X.

However, despite the construction of high-end hotels and the government's sponsorship in attracting a large number of visitors to the country, it has been noticed that the

occupancy rates in the country's leading hotels have not improved in line with the growth of arrivals.



According to the latest data recorded by the Country X Tourism Development Authority (XTDA), occupancy levels for September 2012 were 72.5%, a marginal increase compared to the previous year which was 70.6%. This is despite 10% YoY growth in arrivals. Therefore it is clear that despite the increase in the number of arrivals to Country X, occupancy rates in leading hotels have not improved. In fact, declines were reported during some months when compared to previous years.

One key speculation is that tourists are mainly selecting budget hotels that do not come under the purview of XTDA. Moreover, a report published by Vox & Co, a consultancy firm, stated that Country X runs the risk of being considered as an over-priced tourist destination as pricing has increased by 75% over the last decade; with little to no proportionate increase in value or service.

This provides the ideal opportunity for our company to establish a budget hotel that targets cost conscious visitors who spend most of the time traveling the country rather than being confined to a hotel room. Therefore we propose to develop a 10 room hotel in City X, Central Province that includes an apartment that is fully furnished with kitchen utensils as well. We believe that it would be a very lucrative investment and would enable us to tie up our tour guide and transport services to the new venture as well.

## 1.2 Environmental Analysis

In order to analyze the business environment, we use the PEST analysis which is commonly used to analyze the external environment that influences business operations. The analysis will help identify the key factors that would direct the development of our proposal of building a budget hotel.

**Political:** The policies and procedures that are established by the Country X's government have a significant impact on business operations in Country X. Following the end of the civil conflict that threatened to divide the nation, economic and social stability has given a big boost to the tourism industry. Moreover, the government is extremely keen on ensuring continuous growth of the industry which is a huge incentive to our company. Further, in the government's budget for 2013, it has been proposed to offer a 25% discount on lease rentals to all local investors, to encourage more construction of hotels and resorts. Concessions on land leasing would be offered to foreign investors who form equity partnerships of at least 30% with local investors.

**Economic:** In 2011, the Country X's economy grew by 8.3%. Moreover, despite the Asian Development Bank (ADB) projecting a growth of only 5.5% for the South Asian region, ADB forecasts Country X's GDP to grow by 6.5% in 2012. Business confidence remained strong as many companies reported improved business performance during 3Q12. However, interest rates remain high as the government attempts to curtail private borrowings. Moreover, inflation reached a 3 month high of 9.5% in November 2012 as food prices continue to rise.

**Social:** A key concern over the years has been the possible damage to culture and society through foreign influences. Moreover, citizens are keen on ensuring that the natural environment is unharmed through business operations. Concerns have also been raised over a possible rise in nationalism in Country X resulting in a travel warning being issued by the United Kingdom to all British citizens travelling to the country. However, in terms of the tourism industry, Country X's citizens are considered friendly and helpful with hotel staff that is courteous and polite.

**Technology:** As of late, technology has begun to play a very crucial role in the hotel and travel sector in Country X. Many people chose the internet to do bookings due to convenience and special rates that are on offer for online bookings. Therefore, we plan to establish our own website and to link it with well-known websites such as agoda.com, srilanka.com and tripadvisor.com. While these websites provide a wonderful opportunity to our company in the form of promoting the new venture and attracting new customers, we are also mindful of the fact that any negative comments on these websites could be damaging to our business reputation as these websites are highly regarded internationally.

Further, the use of social media websites such as twitter, facebook.com etc. provides the ideal opportunity to reach a large customer base at a very low cost.

### **1.3 SWOT analysis**

A SWOT analysis is an analytical technique that is used to support strategic decisions. The general acceptance is that strategies should be developed around the strengths of the organization and the opportunities in the business environment. Therefore, by conducting a SWOT analysis we were able to highlight the Strengths, Weaknesses, Opportunities and Threats of the business. The objective is to match the strengths to the opportunities in the industry and convert weaknesses into strengths.

**Strengths:** A key strength of the company is the experiences it has gained in the tourism sector through its existing operations. The knowledge gained on business operations, requirements of travellers and strong network could be utilized to make the new hotel venture a success. Moreover, the existing business operations could easily be integrated with the proposed hotel operations enabling us to provide a complete package to our customers, thereby giving us a competitive advantage.

**Weaknesses:** Despite the knowledge gained through our guide and transport services to the travel sector, the company does not have the required direct knowledge of

operating a hotel. This would require new staff to be recruited and training to be provided.

**Opportunities:** As mentioned, the growing tourism industry in Country X provides a clear incentive for entering into the hotel business. Government policies are aimed at developing the industry with incentives being provided to local investors to construct hotels. Moreover, as mentioned earlier there seems to exist a growing demand for budget hotels. While most large companies focus on developing high end hotels, we are presented with the ideal opportunity of serving a growing niche market.

**Threats:** A key concern for the company would be the existing level and nature of rivalry in the tourism industry. Given the high level of attractiveness, it is very likely to draw in more players which could result in price competition eroding profit margins. Further, certain policies could impact the tourism business negatively. For example in October, the President of Country X issued a directive that all private camp sites constructed in national parks to be removed with immediate effect. As a result, many tourists cancelled their trip to the country all together.

#### **1.4 Stakeholder values**

There are many stakeholder involved in the business and managing their expectations is a key challenge as the expectations of all stakeholders could not be met, requiring compromise.

**Investors:** Individuals who have provided funding to the business would require the company to generate high returns and would carefully scrutinize the operations of the business to identify any activities that are deteriorating the value of their investments. Further, they would wish for the company to invest in new revenue streams to ensure a steady flow of income to them.

**Customers:** Given the current economic situation, cost conscious travellers are keen on receiving value for money. Therefore the company has to ensure that services to the customers are of high quality and not overpriced. At the same time, the company would

have to balance the expectations of the investors who would require high returns which conflicts with the interest of the customers. Further, the company would have to closely analyze the customer's value perception.

**Staff and management:** It is the staff that directly converse with the customers. Therefore it is important to ensure that staff is well compensated for their services to ensure that they provide a very good service in turn to customers. Management too play a crucial role in creating value for customers and managing their expectations. Therefore they too would expect to be compensated well.

## **2.0 Strategic business direction and purpose**

The main focus of the company is to continue its growth in the travel and leisure sector and to diversify into related and profitable operations to ensure sustainability. Given the fact that we expect high levels of competition in the future, it is critical that the company identifies niches in the market and makes timely investments.

### **2.1 Vision:**

The company wishes to be a well-known brand in the hospitality industry among tourists and locals. We wish to provide a unique experience to all our customers with a view for providing value for money. Such operations would make Country X to be considered as an affordable place to visit while ensuring that the expectations of the traveller are fully met.

### **2.2 Mission:**

The existing operations of the company involve providing transport services for foreign visitors and locals. Further, based on customer requests, we make lodging arrangements for our travellers at very competitive prices through our extensive network. Advice is provided to visitors on travel arrangements and other key information such as what should be avoided when touring the country. We intend to integrate our business with social media websites and other key sites used by international travellers to create awareness. We wish to expand our business into the hotel sectors which would enable us to provide a complete package at better rates and that are uniquely tailored to meet the expectations of our customers.

## **2.3 Competitive Positioning**

The company faced intense competition in the industry prior to the boom in the industry as existing players competed to obtain market share in a low-growth industry. However, following the growth of the industry, the market share to compete for has increased along with more players competing for it. Therefore with a focus on providing customers with value for money, the new investment in creating a budget hotel would place the company in a unique position in terms of a cost advantage. However, while gaining a competitive advantage in the travel sector, the company would encounter new rivalry in the hotel sector.

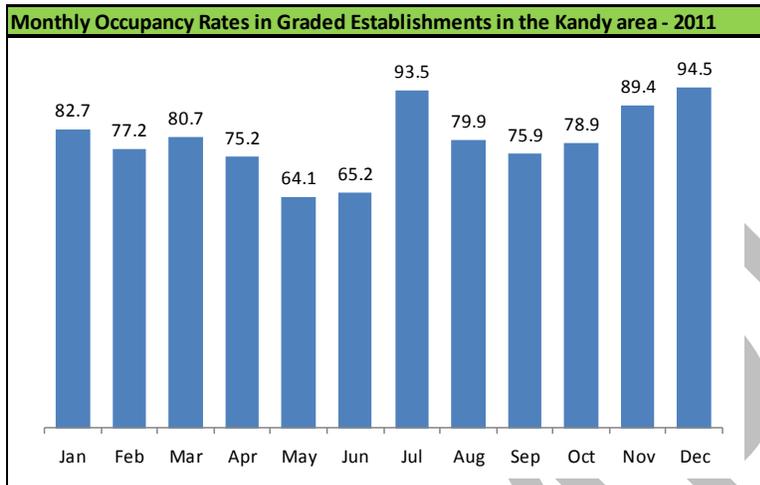
## **3.0 Strategic business plan.**

Our strategy of creating a budget hotel revolves around the growing demand for such accommodation in the country where as major hotel investments have been targeting the high-end market. According to Asia Economy Hotels Research 2012, it was revealed that more than 50% of the respondents stated that they would consider staying at an economy hotel on future trips for both business and leisure. Industry experts believe that “growth will come from looking down-market at low-cost, high-return economy hotels” combined with the increased use of budget airlines. This was further iterated by HVS South Asia Chairman Mr. Manav Thadani who stated that the country should also focus on the budget and mid-market hospitality segment.

According to XTDA data, the largest percentage of hotel rooms in the country continues to be Unclassified, with no star rating (36% in 2011 vs. 22% for 5 star). Of foreign guest nights, unclassified established claimed a stake of 21%, second behind 5 star establishments.

Therefore, we intend to be well placed through our investments to make maximum use of future demand in the economy hotel sector. Despite a large number of players already operating in the industry, future growth would ensure that new entrants too would be able to run profitable operations.

We propose to construct a 10 room budget hotel in the heart of City X in close proximity to the lake. City X was chosen as the destination due to its high popularity among visitors. According to a survey conducted by the XTDA, 63% of the survey participants confirmed visiting City X in 2011 compared to 61% for Colombo. Moreover, City X recorded an annual occupancy rate of 79% for 2011.



The rooms will include basic amenities with additional services upon request. Meals could be provided on request for dine in or takeaway upon requests at an additional fee. Thereby the customer would only have to pay for lodging. This would be ideal for the traveller who would not be confined to the hotel room and wish to explore the country.

With City X being a midpoint to many other popular destinations in the island, many travellers could use our hotel as a place of rest on a long journey.

For visiting families, we propose to construct a fully furnished apartment along with kitchen utensils. The apartment would be able to accommodate 6 to 8 visitors and would include a private pool as well for a time of relaxation.

We believe that the existing operations of the company could be integrated with the proposed hotel where the combined operations would be beneficial to each other.

#### **4.0 Financial objectives**

The financial statements below depict the expectations of the company from the proposed hotel operations. The projections are for a period of six years.

#### **4.1 Revenue Analysis**

We propose to charge a rental of AED2000 and AED4000 per budget room and the apartment initially in order to gain market share. Our aim is to improve revenue through high occupancy rates rather than increasing rentals. We initially estimate occupancy rates of around 60% and to grow gradually as awareness about the hotel grows in the market. We intend to construct two additional budget rooms by 2016 along with a marginal increase in rental prices. However, this will depend on the prevailing market conditions.

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Occupancy Rates	60%	65%	75%	75%	75%	75%
<b>Revenue</b>	4,380,000	4,745,000	5,475,000	6,570,000	7,391,250	8,212,500
No. of apartments	1	1	1	1	1	1
Rental per day	4000	4000	4500	4500	5500	5500
Days per year	365	365	365	365	365	365
	1,460,000	1,460,000	1,642,500	1,642,500	2,007,500	2,007,500
Occupancy Rates	60%	70%	75%	75%	80%	80%
<b>Revenue</b>	876,000	1,022,000	1,231,875	1,231,875	1,606,000	1,606,000
<b>Total Revenue from rentals</b>	5,256,000	5,767,000	6,706,875	7,801,875	8,997,250	9,818,500

AED	2013	2014	2015	2016	2017	2018
Net Income	1,020,280	1,300,585	1,740,253	2,041,978	2,369,299	2,578,718
Working Capital Adjustments						
Inventories	(250,000)	(50,000)	-	(50,000)	-	(1)
Receivables	(282,800)	(25,550)	(46,994)	(57,250)	(62,269)	(41,063)
Payables	155,540	14,053	25,847	31,488	34,248	22,584
Depreciation	450,000	450,000	450,000	487,500	487,500	487,500
Operating cash flows	1,093,020	1,689,088	2,169,106	2,453,716	2,828,778	3,047,738
Investment Activities	(9,000,000)			(750,000)		
Financing Activities						
Equity Capital	500,000					
Opening Cash		(7,406,980)	(5,717,893)	(3,548,787)	(1,845,071)	983,707
Net Cash Flow	(7,406,980)	1,689,088	2,169,106	1,703,716	2,828,778	3,047,738
<b>Closing Cash</b>	<b>(7,406,980)</b>	<b>(5,717,893)</b>	<b>(3,548,787)</b>	<b>(1,845,071)</b>	<b>983,707</b>	<b>4,031,445</b>

## 4.2 Income Statement

We wish to achieve net revenues of AED9.8m in six years along with net profits of AED2.5m. We intend to maintain a steady net profit margin of 25%. Gross profit margins are expected to be around 45% as cost of goods sold has been estimated at

55% of revenue based on our research in the budget hotel sector. Promotional activities include the placement of banner advertisements on well-known travel related websites and magazines in circulation. However, the cost structure could be negatively impacted by high inflation rates in the future and cost reduction measures would have to be taken as it could make inroads into profit margins. Further, revenue could be impacted by the number of tourists expected to visit the company not materializing. Another key concern would be the level of competition.

Rs.	2013	2014	2015	2016	2017	2018
<b>Revenue</b>						
Room Rental	5,256,000	5,767,000	6,706,875	7,801,875	8,997,250	9,818,500
Other Services	400,000	400,000	400,000	450,000	500,000	500,000
<b>Total Revenue</b>	<b>5,656,000</b>	<b>6,167,000</b>	<b>7,106,875</b>	<b>8,251,875</b>	<b>9,497,250</b>	<b>10,318,500</b>
<b>Growth YoY</b>		9%	15%	16%	15%	9%
Cost of Goods Sold	3,110,800	3,391,850	3,908,781	4,538,531	5,223,488	5,675,175
Gross Profit	2,545,200	2,775,150	3,198,094	3,713,344	4,273,763	4,643,325
Administrative Expenses	630,720	692,040	804,825	936,225	1,079,670	1,178,220
Promotional Activities	500,000	350,000	150,000	150,000	150,000	150,000
Other Expenses	394,200	432,525	503,016	585,141	674,794	736,388
<b>Net Profit</b>	<b>1,020,280</b>	<b>1,300,585</b>	<b>1,740,253</b>	<b>2,041,978</b>	<b>2,369,299</b>	<b>2,578,718</b>
<b>Gross Profit Margin</b>	45%	45%	45%	45%	45%	45%
<b>Net Profit Margin</b>	18%	21%	24%	25%	25%	25%

**4.3 Balance Sheet** – Provides an overview of the financial health of the company. The balance sheet of the company for the next six year period is as follows.

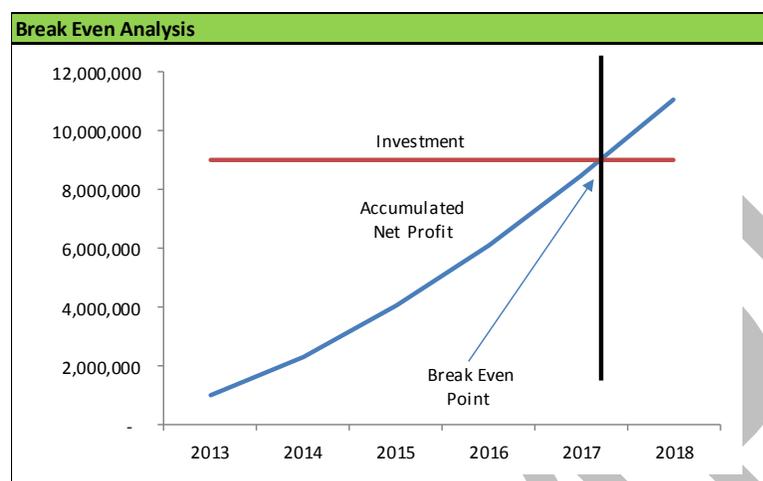
Rs.	2013	2014	2015	2016	2017	2018
Property, Plant and Equipment	9,000,000	8,550,000	8,100,000	8,400,000	7,912,500	7,425,000
Depreciation	450,000	450,000	450,000	487,500	487,500	487,500
Net	8,550,000	8,100,000	7,650,000	7,912,500	7,425,000	6,937,500
Cash and equivalents	(7,406,980)	(5,717,893)	(3,548,787)	(1,845,071)	983,707	4,031,445
Inventories	250,000	300,000	300,000	350,000	350,000	350,001
Receivables	282,800	308,350	355,344	412,594	474,863	515,925
<b>Total Assets</b>	<b>1,675,820</b>	<b>2,990,458</b>	<b>4,756,557</b>	<b>6,830,023</b>	<b>9,233,569</b>	<b>11,834,871</b>
Trade payables	155,540	169,593	195,439	226,927	261,174	283,759
Total liabilities	155,540	169,593	195,439	226,927	261,174	283,759
Equity	500,000	500,000	500,000	500,000	500,000	500,000
Accumulated Profit / Loss	1,020,280	2,320,865	4,061,118	6,103,096	8,472,395	11,051,113
<b>Equities and liabilities</b>	<b>1,675,820</b>	<b>2,990,458</b>	<b>4,756,557</b>	<b>6,830,023</b>	<b>9,233,569</b>	<b>11,834,871</b>

#### 4.4 Cash Flow Statement

Rs.	2013	2014	2015	2016	2017	2018
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Closing Cash	(7,406,980)	(5,717,893)	(3,548,787)	(1,845,071)	983,707	4,031,445

#### 4.5 Project Break Even

We believe that the company would be able to completely recover the initial investment within a period of just over 5 years. We believe that hotel would able to provide steady streams of profits to the company in the long term and support our existing operations. As mentioned previously, our initial objective is to generate revenue growth by attracting a large customer base as opposed to increasing rentals as the main focus is attracting the growing number of cost conscious travellers.



## 5.0 Conclusion

It is clear that the company wishes to enter into a sector that has been growing in recent times and has a strong potential to do so in the future as well. Competition is expected to be high with large investments coming through, mainly focusing on the high end market. However, the company has identified a growing demand for low cost lodging in the form of budget hotels. This demand has surprisingly has not appeared on the radar of institutional investors. Hence, we are provided with the opportunity to cater a product to a growing market. It has to be mentioned that there are already a number of operators in the budget hotel sector. However, we expect high growth in demand to make the sector profitable for new entrants as well. We aim to establish a strong customer base by offering value for money and by providing a unique product to our customers that would be priced very competitively. Thereby, we would gain a prime mover advantage and our strong customer base would act as an effective entry barrier. Moreover, a strong brand name would enable us to avoid any price wars that would erode our profits. We aim to create awareness through social media websites and the

other travel websites that reaches a large network at minimum cost. We as a company believe that this is the ideal time to invest in the sector given the high growth projections as well as the support the sector is currently receiving from the government.

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