

BACKPACKER'S PARADISE: A BUSINESS PLAN

by

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Abstract

This business plan outlines the concept, process, operations, marketing, risk factors, and financial forecasts for a Hostel located on the Sunshine Coast, just past Sechelt in Half-Moon Bay. Not including salary for the owner, a \$155,000 investment should net returns of \$18,000, \$47,000, \$55,000, \$65,000, and \$75,000 in years one, two, three, four and five respectively. Using a discount rate of 10%, these returns have a net present value of \$97,000.

Executive Summary

This business plan is for a hostel on the Sunshine Coast, and it is not a typical business plan. This plan is for someone who is looking for a change of pace and a different life. This is not a million dollar venture, but an opportunity to live on the Sunshine Coast. There is a livable income, a place to live, and a chance to run a business independently. As this plan does not involve a large net income, it should be started with the founder's money, with spare savings to help adjust for any shortfalls. This plan can be considered an early retirement plan for someone who loves company, working for themselves, and the type of life the Sunshine Coast offers. In the first year, this business can expect to make a net income of \$21,148. The salary would be drawn on net income as a dividend. Net Income should rise to at least \$77,000 in year five as word-of-mouth, advertising, and increased tourism draw more people to the hostel.

Table of Contents

Approval	ii
Abstract	iii
Executive Summary	iv
List of Figures	vii
List of Tables	viii
Introduction.....	1
Location	4
The Founders.....	6
Market Research.....	7
Direct Competitors	7
Gibsons	7
Roberts Creek	7
Sechelt.....	8
Egmont.....	9
Indirect Competitors	9
Target Market Demographics.....	12
Demand Estimation	12
External Forces	12
Ferry Traffic.....	13
Vancouver Hostel and Hotel Occupancy Rates.....	15
Sunshine Coast occupancy Rates.....	17
Final Demand.....	18
Facilities	19
Location.....	19
Buildings.....	19
Amenities Onsite	20
Nearby	20

Operations	21
Reservations and Check-in	21
Check Out	22
Marketing Plan.....	23
Pricing.....	23
Advertising	23
Financial Model.....	26
Exit Strategy	32
Growth Opportunities	33
Risk Factors.....	34
Reference List.....	36

List of Figures

Figure 1: Map of Sunshine Coast and Competitors	9
Figure 2:Langdale Ferry Traffic Year-Over-Year	14
Figure 3: All Traffic Versus Foot and Bus Traffic	15

List of Tables

Table 1: Hostel Rates on Sunshine Coast	23
Table 2: Calculation of Monthly Averages	26
Table 3: Projected Occupancy Rates for Year One by Month	27
Table 4: Projected Occupancy Rates for Year Two by Month	27
Table 5: Projected Occupancy Rates for Five Years by Year	27
Table 6: Operational Costs Drivers and Equity	29
Table 7: Start Up Costs	29
Table 8: Projected Income Statement for Five Years	31

Introduction

This business plan will describe the opportunity for establishing a hostel on the Sunshine Coast of British Columbia. A call in to one of the five reputable hostels currently serving the Sunshine Coast reveals that they are often fully booked in the summer months, and are infrequently empty even in winter.

Hostelling is a type of low budget accommodation used around the world by the backpacking community. The hostel in its original conception was an accommodation aimed at youth with limited budgets. In recent decades, however, anyone who has been to a hostel will instantly realize this is not the case. The busiest and best hostels offer high value to the varied traveller of all age groups and backgrounds who appreciate the low cost approach of the hostel operator. Styles of hostels range from student-like private dorm rooms, to larger multi-bed dorms, with and without breakfast, with and without a bar, in one building or a group of several buildings.

People from all walks of life that are trying to see as much of the world as possible or travel for extended periods of time are using hostel-style accommodations. A hostel is an inexpensive lodging which offers minimal service. Beds are sold as singles in a multi-bed dorm room or as private rooms with a small number of beds and shared kitchen and washroom facilities. The beds may be a part of or detached from a main room, which provides necessary functional space such as check-in area, office area, showers, toilets, and communal areas. Breakfast is sometimes an option and is typically

continental self-serve style. Additional services may or may not be sold at a hostel but nearby attractions and activities are well advertised. Hostels, like bed and breakfasts, provide a unique setting which allows people from around the world to mingle and share stories. The communal nature of the hostel is an experience in itself. The Bed and Breakfast's class of accommodation usually only allows guests to meet and mingle around the breakfast room. Hostels, on the other hand, have more common areas for the purpose of meeting other guests and enjoying time with them. Tight rooms with minimal furniture in hostels discourage people from mingling, so they are forced to head for the communal areas. Hostels seem to be most prevalent in countries like Canada, where staying at a hotel for any length of time can be hard on a budget-minded traveller.

British Columbia has its small share of hostels, however there are areas which are highly frequented, easily accessed, and yet do not meet the demand of this demographic. One of these areas is the Sunshine Coast. The Sunshine Coast is an ideal location for a hostel because of the laid back small-town feel, and its natural beauty. Besides abundant sun and a highly marketable name, the Sunshine Coast also has mountains, oceans, rivers, and the infrastructure to support a strong tourist economy. It is easily accessed from Vancouver Airport and by the city, and appeals to national, international and even local Greater Vancouver backpackers. For Vancouverites, it is a relatively affordable place to travel to and get away from the city for a couple of days, and it also attracts the international crowd with its rich, natural beauty. This business plan will describe the opportunity for opening a hostel on the Sunshine Coast, including a demand estimation based on available market data, an advertising campaign, an operations plan, and the expected costs and revenues based on all the aforementioned information with the best

and worst case scenarios spelled out. It will also look towards the future with exit and growth strategies.

Location

The Sunshine Coast is an ideal location for the operation. This community already has the easy-going backpacker feel to it. Hostels and other accommodations are booked solid for the summer well in advance, and sometimes for the shoulder season as well. There is a close proximity to Vancouver compared with the other islands that require more than one ferry and/or a two-hour ferry ride. Even the interior requires a long drive which can take two hours just to reach Chilliwack.

Land values on the Sunshine Coast are half to a third of the price of the Greater Vancouver area, most of Vancouver Island, and the other Gulf Islands. There are cheaper places to buy land in BC, however there are none that are also reasonably accessible and have the infrastructure to attract backpackers seeking nature while enjoying the comforts of civilization.

The Sunshine Coast is located approximately 16 km northwest of Vancouver as the crow flies. By car, it takes approximately 20 minutes from downtown to Horseshoe Bay, and then a 45- minute ferry which leaves every hour in the summer and every two hours in the winter. Total time by car is two to three hours depending on the timing of the ferry.

There is one city bus from downtown that goes directly to Horseshoe Bay and takes approximately hour. Again travel time would be two to three hours because there is no concern that the ferry would be overbooked for walk-on passengers. From the

airport it would be three to four hours currently, and possibly a half hour shorter when the Canada Line is complete.

The Sunshine Coast “boasts 14 more days of sun per year than Hawaii” and a 270-day growing season. “With an annual total of between 1,400 and 2,400 hours of sunshine - that's an average of 4 to 6 hours per day, depending on where the measurements are taken - bright days outnumber gloomy ones by a wide margin.” (BC Sport Fishing - Sunshine Coast, British Columbia Canada, 2008)

The ferry terminal, Langdale, is sparsely populated with little in the way of shopping. Gibsons, the next town along the Sunshine Coast Highway, is much more populated with approximately 4000 people. Another 20 minutes down the highway is Roberts Creek, a small and largely residential community of approximately 3000 people. Twenty minutes from Roberts Creek or 40 minutes total from the Langdale ferry is Sechelt, the largest town on the Coast with approximately 8000 people. (VancouverIsland.com)

Hopefully, the reader now has an idea of the idyllic location of the Sunshine Coast, a general understanding of the flow of traffic from Vancouver, and an idea of the size of the communities along the Sunshine Coast Highway. In summation, the Sunshine Coast has more sun than anywhere else in BC, reasonable land prices, a short ferry trip, lots of nature and activities for the adventurer, and an infrastructure to support tourism.

The Founders

The founder or co-founders would need extensive experience travelling and using hostels to understand what results in a good experience and what does not. They would also need construction experience and a network to offer guidance and lend a hand when necessary. Finally they would need some basic understanding of accounting practices.

The cabins are not difficult to build. Having a level foundation is the most critical part. Trades, of course, would be hired for the wiring and extensive plumbing.

Market Research

Direct Competitors

There are four hostels on the Sunshine Coast: two in Gibsons, one in Roberts Creek, and one in Sechelt.

Gibsons

Hostel Octavia in Gibsons is basically a house which is a little run down in a forest with some extra room for an RV and a few beds in one room. The owners appear very eccentric and the description on gobc.ca rambles on about community living. There are no online reservations nor the ability to check availability.

Wynten Blynkyn Inn is the second hostel in Gibsons. It is in a beautiful location right on the beach. A separate hut or possibly two house some dorms, while there are other rooms in the main house. They have their own website which has a few nice pictures but is extremely difficult to read and navigate. Again, there are no online reservations nor the ability to check availability. A couple of phone calls proved some weekends to be full and others available at a moment's notice, while all weekdays had openings.

Roberts Creek

Up the Creek Backpackers Lodge looks like a funky place started by an English couple in 2004 in Roberts Creek, approximately 20 minutes from Gibsons. They recently had an article written about them in the local business magazine (Mckague, 2009). The

couple is no longer together, but the hostel continues to thrive. In the article, Martin Prestige comments on a current expansion, and there is evidence of continued growth. While also not on the beach, there is beach advertised nearby and a check on the map shows it to be about 20 blocks away. A general store and café, the Gumboot, is within closer walking distance. Access is fairly easy by transit and is very bike friendly. They have a heavy focus on recycling, and heavily market their sustainability initiatives. They have their own website which is much easier to read than Wynkyn Blynkyn. Although they do not link to online reservations or availability through their own website, it can be accessed by going to Hostels.com or to BBSunshinecoast.com, the bed and breakfast and cottage association and booking website for the Sunshine Coast. They do list on their website a number of testimonials, although the most recent dates back to 2007.

Sechelt

The Upper Deck Guest House seems to be the most popular of all the hostels on the Coast. Sechelt has the largest community of the Lower Sunshine Coast, is twice the size of Gibsons, and almost three times the size of Roberts Creek. The Upper Deck is booked every weekend to the end of the summer, but weekdays are generally available with no notice. Their website is simple, easy to navigate, has just enough information about the hostel and area and also plenty of pictures and testimonials of the hostel and surrounding area. Again though, there is no on-line reservations nor availability on the website or anywhere else.

Egmont

Backeddy Resort and Marina is the last hostel on the Coast. Egmont is approximately an hour and a half from Sechelt on the Upper Sunshine Coast, and as such could be considered an indirect competitor. Backeddy appears to be a fishing lodge turned hostel, possibly from the downturn in the fishing tourism sector, as recently featured in Business in Vancouver newspaper. They feature a licensed pub on the premises and rates similar to all the other hostels. Backeddy is not listed on the map below, as it is far north of where the map ends.

Figure 1: Map of Sunshine Coast and Competitors



Source: Google Maps

Indirect Competitors

There are many indirect competitors on the Coast, ranging from strictly Bed and Breakfasts, cottages (a bed and breakfast without the breakfast), campsites, motels, or establishments which mix all three. Some are listed with the Chamber of Commerce, some with bbsunshinecoast.com, and some with Yellow Pages, or a mix. The campsites are listed on a couple of camping websites for camping in British Columbia.

On bbsunshinecoast.com, the bed and breakfast/cottage association and website for the Coast, there are approximately 88 hostels for the Lower Sunshine Coast, which consists of everywhere south of Half-Moon Bay.

There are 25 bed and breakfasts in Halfmoon Bay. They are the most booked accommodations of all the communities listed, and are largely booked a month in advance for the next six weeks in peak season. The more modern looking establishments with hardwood or laminate flooring and granite tile in the kitchen areas are the first to book and tend to include a slight premium over the older more mature rooms which look like something out of “Road to Avonlea” or an old English B&B.

There are 28 bed and breakfasts/cottages in Gibsons, which are generally more reasonably priced and more modern on average, yet are far less booked than Halfmoon Bay, and none are close to being even 50% booked.

There are 14 bed and breakfasts/cottages in Roberts Creek, including a listing for Up the Creek, the hostel. They are slightly more booked on average than Gibsons, but less than Halfmoon Bay. One in particular, which is a whole cottage, is booked all summer long.

Sechelt has 21 bed and breakfasts/cottages which vary widely from being completely booked to partially booked, to fully booked to the end of the summer. Unlike

Up the Creek, which markets itself as both a hostel and a bed and breakfast, Upper Deck is not listed here.

The Sunshine Coast Bed & Breakfast and Cottage Owners Association (SCBBCOA) started in 1999, and by 2002 had approximately 125 members which have fluctuated by plus or minus five since then, as people completely retire, or sell, or join. When interviewed, the association stated that the average occupancy rate is 18%, and has been fairly steady for the last 5 years. This past year, however, they have seen a dip of 2-3%. The low average occupancy number is a little skewed. The cottages are withdrawn during the winter for rental for extended periods of time, so although they are fully booked, they do not add to the occupancy numbers.

Bed and breakfasts or cottages, although more expensive, usually offer a less institutional setting than a motel. Still they are not true competitors to the hostel. They cater to an older demographic and have the ability to be much more private, although some do encourage mingling with guests by offering breakfast in communal areas. They are also three to ten times the price of the hostel. The cottages that have been around longer generally have the flower quilt pattern nostalgia of your grandmother's taste, while the newer accommodations feature a much more modern décor (although this does not guarantee a higher occupancy rate). On the whole, the more rustic and less modern cottages which still have style seem to be booked more than those which are brand new and fitted with state of the art appliances and bathroom fixtures. However, this may just be due to the likelihood that they have not been operating as long. The association's explanation for those cottages or B&Bs which have higher occupancy rates is visibility and established clientele. The ones that are booked up for the summer are the ones that

advertise on across-Canada websites and/or reach demographics in other countries, and have been operating the longest. The fact that some cottages are booked through to the end of September is encouraging for the tourist industry as a whole, but the low occupancy overall is very deterring for anyone thinking of opening a bed and breakfast on the Coast.

Target Market Demographics

The target market will be 18 to 34-year-old foreign travellers living on a budget and out of a backpack. There will be heavy marketing towards international travellers, however, considering the data provided by the 2007 Sunshine Coast Visitor study published in 2009 and the large amount of travellers from British Columbia and Canada, there will be some emphasis placed there also.

Demand Estimation

External Forces

A recent news story on the Country Brand Index (CBI) stated that Canada's international rating as a tourist destination has been increasing. It is now sitting as the number two country in the world as a tourist destination, up from sixth in 2007 and twelfth in 2006. Also in the story is a positive rating from The Lonely Planet, 2008 edition, rating Canada as a top country to visit (Canwest News Service, 2008).

It is only fair to acknowledge that tourist numbers are down by 1.3% for the first three months of this 2009 compared to the same period last year, and tourist spending is down 5.7%. This is the third straight decline in three quarters. (Financial Post, 2009).

Yet, compared to tourism for the world, this is relatively positive. Tourism numbers for the world were down 8% for approximately the same period (Ahmed, 2009).

Also, considering that the Canadian Tourism Commission's 2008 report stated there was growth of tourism in 2008 versus 2007 of 7.3%, a small dip of 1.3% is still considerable growth over the last two years (Bellaart, 2009).

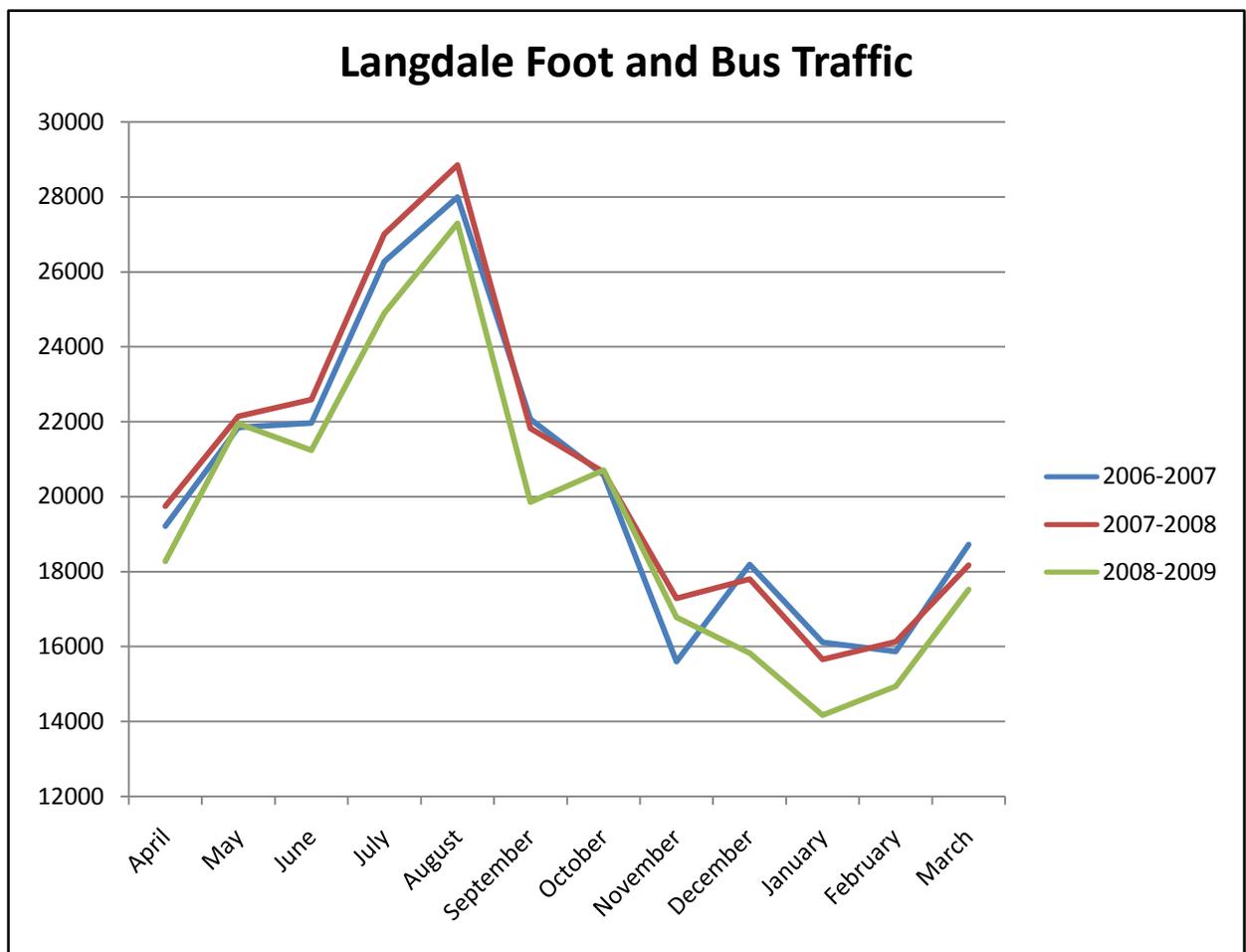
Mark Gupta of Easton's Group of Hotels has continued to spend money on upgrades and new hotel development. Knowing full well that new development does not happen overnight, he expects the industry to return and says you need to be ready for the upswing. The drop in occupancy rates from an average of 54% in the first four months of 2008 to 50% in the same period in 2009 is a 7% decline. Considering that previously mentioned tourist numbers are only down 1.3%, the difference can be largely attributable to a drop in business travel. Business travellers are not the hostel customer, and as such the drop in hotel occupancy rates can be discounted as not affecting the hostel target market. Also, despite the drop, as Mark Gupta stated, it is best to be ready for the upswing (Marr, 2009).

Ferry Traffic

The ferry traffic statistics year runs April to March. Using data graciously provided by the BC Ferry Corporation, and looking only at foot and bus traffic, numbers via Langdale to the Sunshine Coast saw an increase in 2007/2008 over 2006/2007; however, they decreased in 2008/2009. Winter numbers saw the largest drop at a peak loss of 2000 travellers, which means the decrease in summer numbers may be due to a decrease in local travel, that is people living on the Sunshine Coast travelling to

Vancouver less. Although highly plausible, this is mere speculation, and if true would actually show an increase in the number of summer travellers even in 2008. The gap between 2007/2008 and 2008/2009 starts to close again in March, a noticeable uptick every year as weather improves, which suggests tourist numbers are strong again and making up the difference.

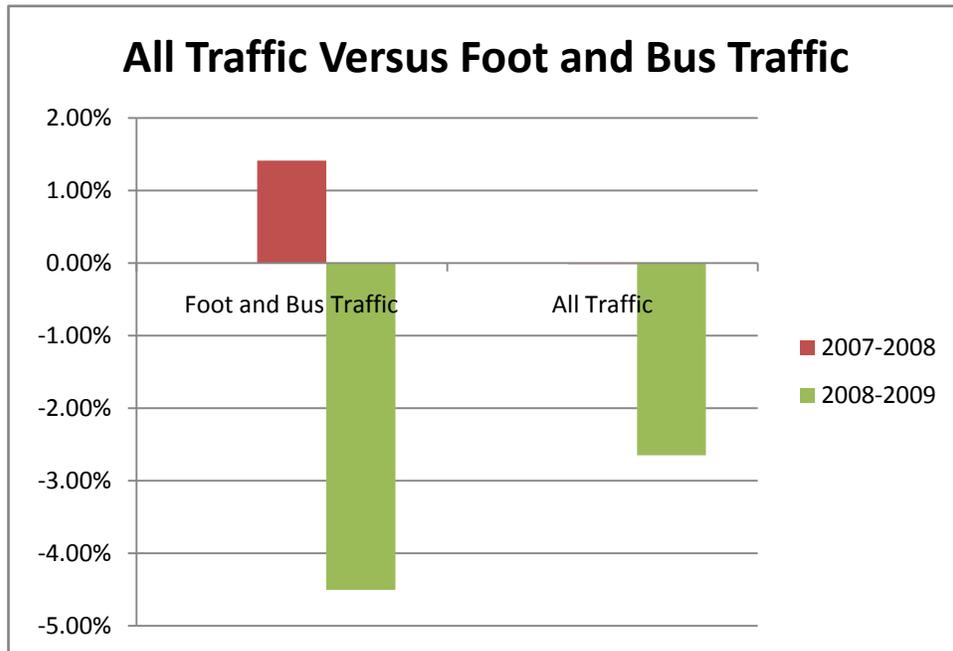
Figure 2: Langdale Ferry Traffic Year-Over-Year



Source: British Columbia Ferry Corp.

The next graph shows the year over year traffic growth. It illustrates that the above anomaly is not just related to foot and bus traffic, again possibly indicating there is less personal travel by locals. The period 2006-2007 is used as the base year at zero. Considering ferry traffic to Nanaimo via Horseshoe Bay is down 4%, this is a trend which is not specific just to the Sunshine Coast. Therefore there is nothing specific about the Sunshine Coast which is driving down traffic; ferry traffic to other destinations is down as well (Bellaart, 2009).

Figure 3: All Traffic Versus Foot and Bus Traffic



Source: British Columbia Ferry Corporation Table

Vancouver Hostel and Hotel Occupancy Rates

Speaking with staff at Vancouver’s high end hotels, summer 2009 occupancy rates are around 80% for the weekend and closer to 40% during the weekdays, compared with 100% every weekend for the summer of 2008, and still close to that on weekdays.

At Vancouver's more mid level hotels, staff describe the hotels currently as "dead" and more specifically running around 30-40%.

With the downturn in occupancy rates in Greater Vancouver and Nanaimo, the backpacking community is also proving to be not immune. A popular hostel in Vancouver, that wished to not be mentioned, would normally see 100% occupancy 99% of the time even as recent as the summer of 2008. They are now seeing 80% to 100% on weekends, more often on the 80% side. These are large hostels with over two hundred beds which are still charging over \$35 a night, so even 80% occupancy is fairly good. This hostel also belongs to a very large international network of hostels. Although belonging to a network helps with credibility, it does not necessarily help with visibility or rating. Credibility is the degree to which the hostel is recognized as a safe establishment with standards to adhere to, while visibility is how well it is marketed and easily found on the web. Rating is the cumulative ratings given to a hostel on a particular website such as hostels.com.

However, another chain of hostels known to be party hostels are around 63% full on a weekend in June, although there have been full past weekends and they will be full on future weekends. A possible reason these hostels are not as busy is they have lower ratings on hostels.com, a backpacking forum and hostel reservation and rating site, with comments reporting rougher areas and harder sleeps. The lower occupancy rate could also be an indication of the type of hostels the majority of backpackers like, that is to say quieter and safer ones, but this is just a hypothesis. Both hostels had clean conditions and friendly staff. Prices are a little lower compared to the previously mentioned hostels at \$24 dollars for a dorm room bed.

Although this is a select sample primarily based on who was willing to answer questions and using connections of the author, there are some reasonable conclusions. The research shows on the whole that the backpacker hostels and the high end hotels are doing better than the middle-of-the-road hotels and motels, which one might expect during an economic downturn. During downturns the middle often gets squeezed; for instance, a store like Macy's is not doing as well as a Nordstroms or Walmart.

Sunshine Coast occupancy Rates

Over on the Sunshine Coast, the occupancy rates of some of the hostels are higher than in Vancouver. Currently, at least two of the five visible hostels on the Coast are booked every weekend to the end of the summer. Of the other hostels which could be considered popular or at least a little more respectable, weekends they are generally available, although some are booked. Weekdays they are available at a day's notice everywhere. Winter is surprisingly not completely dead, although comments as to why were hard to come by. There is a cross country ski trail at Dakota Ridge which may be attracting some of the clientele.

As mentioned, the indirect competition is cottages and bed and breakfasts. While some of the cottages/bed and breakfasts are booked by the beginning of the summer through to mid-September, most seem to be between 10% and 80% booked, and more on the 10% versus the 80% side. According to the Sunshine Coast Bed & Breakfast and Cottage Owners Association, the biggest moderating factors are visibility, i.e. how well they market themselves on the Internet and other mediums and how long they have been operating.

Final Demand

Based on the above figures, demand has declined marginally over the past year because ferry traffic rates are slightly down, as well as occupancy rates at hostels in Vancouver. Relatively speaking, they are faring better than the hotels in Vancouver or across Canada, and many industries in general. Using growth figures of the past few years however, there is room for another hostel close to or slightly past Sechelt at the proposed location of Halfmoon bay. A recently created tourism advertising and promotion campaign for the Sunshine Coast started in 2007, as reported by the Sunshine Coast Bed & Breakfast and Cottage Owners Association, should have an effect on tourism to the area in the near future. The apparent lack of effect is likely due to the recent nature of the campaign, as it takes time for visibility and momentum to build, as well as the recent general downturn in the economy. As such, occupancy rates are set to approximately 70% for the summer weekends to start, rising to 90% in the second year, and 100% in the third year as the economy recovers a little more and word and advertising begin to have a greater effect.

Facilities

Location

The idea is to have a fair-sized piece of property in Halfmoon Bay where people can roam a little bit, without having to leave the hostel to get outside of a building.

Halfmoon Bay is approximately a 10-minute drive past Sechelt. Being just outside of Sechelt will be necessary to find a property large enough for the proposed operation, but close enough that it will still be accessible by bike or public transit.

Buildings

There will be at least five buildings to start, specifically three dorms, a private suite, a main building to house check-in areas, a washroom/shower room, and an open-plan kitchen/lounge area. The dorms will be approximately 12 X 16 feet in size. These measurements are standard measurements for which materials can be purchased and therefore will reduce waste and increase cost efficiency. The sizing allows for four double-twin size bunk beds and space for bags. Small lockers will be provided in the main building for valuable.

The main housing will be 40 X 32. There will be an 8 x 32 space for washrooms and showers, split by male and female, accessible both from within the main area and outside. Although some very busy hostels in Scotland have used a co-ed washroom, we have the room to split them up, and it will not cost much money to put in a dividing wall. The extra costs of the doors and dividing wall should be recouped by just using a curtain

for privacy in the shower, as opposed to a full door. One toilet and one shower stall per six people seems reasonable and is more than what is available in many hostels. This equates to two toilets and two stalls per male and female washroom. The main area is an open plan consisting of a kitchen, lounge area, and check-in desk area.

Amenities Onsite

Lawn games will be provided free of charge by the hostel. Five bikes will be available for rent for a small fee of \$15/day or \$3/hour. The bikes will be built and used for getting around, not high end mountain bikes. Higher end mountain bikes are provided by local bike shops for those wanting to be a little more adventurous.

Nearby

Bike the Sunshine Coast from Halfmoon Bay to Gibsons over two days through beginner to intermediate trails for \$110 to \$130, available as one of many trips on the Sunshine Coast run by greatexploration.com.

The Grasshopper Pub is just past Halfmoon Bay, approximately 20 minutes by bus from Sechelt, and a few minutes walk from Halfmoon Bay. It is a clean and friendly establishment offering a wide selection of beverages and a range of food for affordable prices. They also often feature a live band. This would be a main attraction for those wishing to get a bit more excitement and mingle with the locals. Sechelt has some establishments, however the Grasshopper is a top class establishment in a serene setting and would be closer to the proposed location than Sechelt.

Operations

Reservations and Check-in

iMagic Hotel is a software program that can handle on-line bookings, several users, hundreds of rooms, and is completely compatible with Microsoft Office for export of reports or queries using Microsoft's Access database management. It also integrates with quickbooks by exporting a CSV (comma separated values) file, and importing it using quickbooks. Software is \$199 for one computer/user, and up to \$399 for five computers/users.

As a self-serve establishment, check in can be done at any time with or without an attendant on duty when a room has been booked. Keys would be left at the check-in desk, and a camera pointed at the desk would help deter anyone from taking the key unlawfully. There is some concern over theft in Halfmoon Bay, and the communal nature of travellers means there is low risk with the guests themselves. This is the system that Up the Creek also uses, and they have not had any trouble in their past five years. When people show up without a reservation, a phone and phone number will be provided to contact the attendant and inquire about a bed. iMagic's reservation system allows for online management of a reservation system. The status of individual beds and rooms can be checked so that people can easily be booked in without an attendant physically present.

Check Out

Linen will be washed on every bed upon check out, and payment will be processed by cash or credit card.

Marketing Plan

Pricing

To be competitive with the neighbour's beds, our dorm beds have to be priced around \$22. Since we are including breakfast, \$24 seems reasonable. A surcharge of one to two dollars may be considered to pay for the linen washing, and to give an incentive to stay more than one night. Private dorms would have to be set at a maximum of \$60 to compete with the bed and breakfasts. Current rates for the hostels are below:

Table 1: Hostel Rates on Sunshine Coast

Hostel	Where	Dorm	Private
Wynken Blynken Nod	Gibsons	\$23	\$45
Hostel Octavia	Gibsons	\$25	n/a
Up the Creek	Roberts Creek	\$26	\$75
UpperDeck Guesthouse	Sechelt	\$22	\$40
Backeddy Resort and Mar	Egmont	19\$-37\$	\$100

Advertising

This hostel plans to use an effective low cost advertising approach through backpacker forums, free web building software, low cost hosting, and through placement in traditional backpacker guides as well as word of mouth through large backpacking networks. The current hostels on the Coast either do not administer their own websites and, if they do, they do not do a good job updating them. Also, where these hostels are listed on backpacker websites, few if any reviews of their hostels are mentioned. The advertising will be phased in in advance of the building to help with search engine

optimization and increase visibility in general so as when the business does become operational, it will hopefully hit the ground running.

The founders will create fictional user profiles of travelers on popular online backpacking forums and comment on other hostels which they have visited in the past. These user profiles can then comment and rate Backpackers' Paradise with some credibility. Listing with hostels.com and hostelworld.com will help increase visibility and make booking as easy as possible.

A good website with lots of pictures and testimonials and with online availability and reservations will be a massive step ahead of the competition. Wordpress is free software for designing a website, while a number of hosting companies offer annual hosting compatible with Wordpress for less than \$10 a month. iMagic Hotel, google calendar, or any number of other apps can integrate with Wordpress for online availability. Wordpress also has the ability to allow outside people to comment with or without registering.

Getting in the guide books will be a top priority. Lonely Planet appears to be the most popular, although it can take one to three years to get listed there. It will be easier to get listed with the localized websites and hostel-specific websites first, namely www.bigpacific.com, sunshinecoast.com, Vancouverisland.com, hostels.com, and pacifichostels.com.

The hostel will be marketed towards a younger crowd and will not be kid friendly. Drinking and smoking will not be actively discouraged as they are allowed at all the other hostels. Drinking and smoking will not be condoned and promoted, however by advertising it is strictly forbidden puts out a more conservative image. The idea of

having a larger space and property will allow people to hang out on the property without being confined to the dorms or lounge areas and have to spend money or energy adventuring around all the time. The Upper Deck Hostel in Sechelt does not allow the freedom of wandering on the property and people are fairly confined to one building in an industrial area. Have property that allows for greater freedom should help differentiate us from the competition.

Financial Model

Using the demand estimation, a monthly average matrix has been created which is driven by weekend occupancy rates. Weekday occupancy rates are set as 70% of weekend rates. Weekend rates ranges from 100% to 10% in 10% increments. The table below illustrates the process used for deriving average monthly occupancy rates. These monthly averages are then used as revenue drivers in the drivers table.

Table 2: Calculation of Monthly Averages

Days	MonthAverage	79%	71%	63%	55%	47%	39%	31%	24%	16%	8%
	Weekend Rates	100%	90%	80%	70%	60%	50%	40%	30%	20%	10%
	Weekday 70%	70%	63%	56%	49%	42%	35%	28%	21%	14%	7%
1	Friday	100%	90%	80%	70%	60%	50%	40%	30%	20%	10%
2	Saturday	100%	90%	80%	70%	60%	50%	40%	30%	20%	10%
3	Sunday	70%	63%	56%	49%	42%	35%	28%	21%	14%	7%
4	Monday	70%	63%	56%	49%	42%	35%	28%	21%	14%	7%
5	Tuesday	70%	63%	56%	49%	42%	35%	28%	21%	14%	7%
6	Wednesday	70%	63%	56%	49%	42%	35%	28%	21%	14%	7%
7	Thursday	70%	63%	56%	49%	42%	35%	28%	21%	14%	7%

As stated, the first year occupancy may be a little bit lower as the economy recovers and the occupancy has been set accordingly. Year two sees a small uptick in the summer months as advertising, repeat business, and visibility increases. Gains will be similar in years three through five with the added effect of a more robust economy allowing people to feel a little more comfortable with travelling.

Table 3: Projected Occupancy Rates for Year One by Month

	April	May	June	July	August	September	October	November	December	January	February	March	Year
	1	2	3	4	5	6	7	8	9	10	11	12	1
OccupancyRateDorm	31%	31%	39%	47%	55%	55%	24%	16%	8%	0%	0%	24%	28%
DormRental	226	226	283	339	396	396	170	113	57	0	0	170	2376
TotalRentals	226	226	283	339	396	396	170	113	57	0	0	170	2376

Table 4: Projected Occupancy Rates for Year Two by Month

	April	May	June	July	August	September	October	November	December	January	February	March	Year
	13	14	15	16	17	18	19	20	21	22	23	24	2
OccupancyRateDorm	39%	55%	63%	71%	79%	71%	39%	8%	8%	0%	0%	24%	38%
DormRental	283	396	453	509	566	509	283	57	57	0	0	170	3,281
TotalRentals	283	396	453	509	566	509	283	57	57	0	0	170	3,281

Table 5: Projected Occupancy Rates for Five Years by Year

	Year	Year	Year	Year	Year
	1	2	3	4	5
OccupancyRateDorm	28%	38%	42%	47%	52%
DormRental	2376	3,281	3,629	4,061	4,493
TotalRentals	2376	3,281	3,629	4,061	4,493

All of the costs are priced according to current quoted rates, except for the mortgage rate. A 5% interest average over five years is more reasonable than current rates. Build costs are also quoted on costs from three years ago when material prices were higher, but as such allows for a more conservative quote and buffers against unavoidable unforeseen obstacles. The main and washroom housing units are priced significantly higher to reflect the costs of plumbing and electricity.

Kitchen utensils are included under appliances and are priced according to used prices. Beds will be built to a standard plan already designed, will cost very little in materials, and will use foam mattresses.

Long-term debt will be paid by half of the net income. Negative net income will be supplemented by a short-term debt which will be paid off as soon as possible with the following year's retained earnings.

Salary is set at \$10535, used to pay a staff member \$10/hour 7 hours a day (10am to 5pm), seven days a week for five months to wash linen, tidy, and check in guests. Finding staff is not expected to be a problem. Based on 2006 Census data, there is high unemployment which is most likely attributable to few jobs in the area. It would not be a difficult or stressful job and would be ideal as extra income for recent high school graduates or as summer employment for current high school students. Ideally, one or two travellers during the summer months will exchange free room and board for part-time labour, and this is very common in hostels. One of the founders would be present at all times, living on the property in the private suite. If the founder also had other private accommodation on the Coast, this suite could be rented.

Having bikes available on the property will be a functional and entertaining activity for guests and an income generator for the hostel.

- A quality new bike is \$299 at Sport Check, while good condition used bikes are ~\$150.
- Ideally, start off with five used bikes and add as necessary. If used bikes are not readily accessible, the Sport Check bikes will work fine.
- Rentals will be priced at \$15/day or \$3/hour.
- An expense of 100 multiplied by the occupancy rate will cover parts and regular maintenance.

Table 6: Operational Costs Drivers and Equity

Taxes	
BusinessTax	2.50%
PropertyTax	5.60%
Investment	
Equity	145500
Other	
Maintenance	100
FoodPerRental	3
Salary	10535
BikeRental	15
BikeMaintenance	100
BeddingPerBed	20
Equipment/Appliance Upgrades	50
InventoryPerFood	1.30%
AccountingFees	150
Advertising	100

Table 7: Start Up Costs

Startup Cost					
		Appliances			
Property	100,000		Number	Cost	Total
BuildCostTotal	38000	Oven	4	300	1200
Appliances	4020	Fridge	3	300	900
LaywerFees	2000	Microwave	3	40	120
BikeCost	1000	BBQ	3	300	900
Games	200	Showers	3	100	300
OfficeEquipment	2000	Sinks	3	100	300
		toilets	3	100	300
		Total			4020
TotalStartUpCost	145500				

In the scenario described above, positive net income would be earned in the first year, rising to \$75,000 in year five. The table detailing the five-year forecasted income sheet is below.

Table 8: Projected Income Statement for Five Years

Income Statement	Year	Year	Year	Year	Year
	1	2	3	4	5
Revenue					
DormRevenue	54648	75466	83462	93398	103334
BikeRentals	8910	12304	13608	15228	16848
TotalRevenue	54648	87770.57	97070.4	108626.4	120182.4
Fixed Costs					
Maintenance	1200	1200	1200	1200	1200
Phone/Internet	960	960	960	960	960
Equipment/Appliance Upgrades	600	600	600	600	600
Utilities	3600	3600	3600	3600	3600
Insurance	2400	3600	3600	3600	3600
Administration	10535	10535	10535	10535	10535
PropertyTax	5600	5600	5600	5600	5601
AccountingFees	1800	1800	1800	1800	1800
Advertising	1200	1200	1200	1200	1200
TotalFixed	27895	29095	29095	29095	29096
Variable Costs					
BikeMaintenance	330	456	504	564	624
FoodCost	7,128	9,843	10,886	12,182	13,478
TotalVariable	7,458	10,299	11,390	12,746	14,102
TotalCosts	35,353	39,394	40,485	41,841	43,198
EBIT	19,295	48,376	56,585	66,785	76,984
Tax	482	1,209	1,415	1,670	1,925
NetIncome	18,813	47,167	55,170	65,115	75,059
Dividends	15,000	33,000	38,000	40,000	40,000

Exit Strategy

There are three exit strategies which all involve selling. One option would be to sell to one of the existing hostel chains which have a presence in BC, namely Samesun Hostels and Hostelling International. A private sale to another individual is a possibility by selling the land and the business or just the land, or leasing the land and the business.

Growth Opportunities

The growth opportunities are far more appealing and interesting. If occupancy rates grow to where the low utilization in the winter is offset by the extra revenue in the summer, then this makes good sense. A cap of 36 guests could be managed with the current space and would be the eventual limit. Additionally, or if the growth is not there, adding more services may attract the extra growth in occupancy rates and increase revenues. Kayak rental, if the hostel is close enough to the ocean, would be ideal. At \$500-\$1000 for a seafaring open-style kayak, this option would be very affordable and would produce returns similar in profit to the bike rental or more, considering many people may bike to the hostel.

A popular hostel model which has proved successful is the addition of a pub. The biggest obstacle would be obtaining the liquor license and ensuring revenue would exceed costs; however, with the space already paid for and the fact that most travellers enjoy a cold alcoholic beverage, it is doubtful this would be an issue. The pub would be similar to a club pub where only a few bottled and canned drinks are kept on hand to keep things simple and allow for cheap resale. There are few pubs on the Coast. A search on google, Yellow Pages, and bigpacific.com turned up only two pubs in Sechelt, three in Gibsons, and a one in between. Bigpacific.com turned up mostly cafes and places to get a quick bite rather than the more traditional casual pub.

Risk Factors

There are a number of risks associated with any new venture, and this one is no different. There are risks associated with the building of the hostel units, and more risks associated with the running of the establishment. The risks which are pre-operational are smaller and less likely to be a serious problem. There are potential problems related to building codes and passing inspection, but these issues are fairly easy to mitigate by buying the most recent British Columbia building code guide book. The guide can be downloaded as a .pdf, making it infinitely easier to search for a specific code. Having a qualified tradesperson visit and do the more technical tasks such as electrical or plumbing will also help with passing inspections and will provide a source of advice and guidance for the rest of the project.

During operations, there is a risk associated with the types of travellers. People travelling large distances for long periods of time, staying in varied and possibly dodgy establishments, have a possibility of carrying bed bugs or other human parasites which can be spread. Some hostels reduce the chance of this problem by not allowing sleeping bags. The sleeping bags, however, will end up in the hostel somewhere anyway, if not on the beds, so this does little to reduce the chance of spreading the bugs overall. By taking preventive measures such as regularly vacuuming mattresses, applying insecticide dust in the cracks of bed frames, and doing regular inspections, the chances and effects of a bed bug problem can be greatly reduced. There is a wealth of literature and products on controlling bed bugs available online as well.

This is not a glamorous job or a money printing venture, and that should reduce the risk of new incumbents and competition.

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