

DEVELOPING A BUSINESS PLAN FOR A THREE STAR HOTEL

A Thesis

Submitted in partial fulfillment of the requirements for the award of
Master of Architecture degree in Building Management

by

M.ARUN PANDIAN (40840003)



**DEPARTMENT OF ARCHITECTURE
SCHOOL OF BUILDING AND ENVIRONMENT**

SATHYABAMA

**INSTITUTE OF SCIENCE AND TECHNOLOGY
(DEEMED TO BE UNIVERSITY)**

Accredited with Grade "A" by NAAC

JEPPIAAR NAGAR, RAJIV GANDHI SALAI, CHENNAI - 600 119

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BONAFIDE CERTIFICATE

This is to certify that this Report is the bonafide work of **M.ARUN PANDIAN (40840003)** who carried out the Thesis entitled "**DEVELOPING A BUSINESS PLAN FOR A THREE STAR HOTEL** " under our supervision from JAN 2022 to MAY 2022.

Internal guide
(Ar.SURYA RAJKUMAR)

Internal Panel Member
(Ar. SUKIRTHA SURESH)

External guide
(Ar. SARATH C. KANTH)

DR. DEVYANI GANGOPADHYAY
Head of the Department

Submitted for Viva voce Examination held on 06 - 05 - 2022.

Internal Examiner

External Examiner

DECLARATION

I **M.ARUN PANDIAN** hereby declare that the Thesis Report entitled “**DEVELOPING A BUSINESS PLAN FOR A THREE STAR HOTEL**” done by me under the guidance of **Ar. SURYA RAJKUMAR** (Internal) and **Ar. SARATH C. KANTH** (External) at Sathyabama Institute of Science and Technology is submitted in partial fulfillment of the requirements for the award of Master of Architecture degree in Building Management.

DATE : 06 - 05 - 2022.

PLACE : CHENNAI



SIGNATURE OF THE CANDIDATE

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ABSTRACT

Hotels differ from some of the more familiar real estate sectors, like residence and commercial sectors. Hotels offer investors the opportunity to further diversify their real estate portfolios while generating potentially attractive returns. Hotels are both real estate ventures and operating companies. Hotels are a specialist asset class requiring active and focused oversight. Hotels are dynamic income producing assets if bought, developed, operated and disposed of at the appropriate time would yield superior returns. The financial benefits of owning a hotel are clear, but the ability to experience it is unmatched in any other real estate investment.

Hospitality Property means a real estate development the primary usage of which is as a hotel or motel with individual rooms principally for short-term rental to tenants occupying same. In hospitality, current assets typically consist of cash, accounts receivable, inventory and prepaid. That's pretty much it for a hotel. For sure there are others but on a hotel balance sheet, we will always find these four. The number of rooms available for a hotel to sell or distribute across all channels is called an Inventory. An Inventory makes it possible to control what type of rooms and how many you make available to a particular market segment.

Tourism has become one of the most significant industries in the whole world, being in continuous change, either due the appearance of new types of offer, but also due the changes on the demand side, both influenced by the globalization and the internet, which increased the number of tourist and changed their motivations and behaviors. This way, and in order to compete and grow in this industry, it is crucial to define a suitable strategy.

A competitive pricing will be based on a strategy of cost leadership through the optimization of operations and processes. The business plan presents firstly an environmental and market analysis, highlighting Madurai's current hospitality industry and competition. After that, it defines the Hotel's target and positioning, as well as the strategy to pursue. Finally, it identifies the resources and investments required to implement and exploit the Hotel, followed by an economic and financial analysis that evaluate and support the project.

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CHAPTER 1

INTRODUCTION

1.1 INTRODUCTION

Hotels differ from some of the more familiar real estate sectors, like residence and commercial sectors. Hotels offer investors the opportunity to further diversify their real estate portfolios while generating potentially attractive returns. Hotels are both real estate ventures and operating companies. Hotels are a **specialist asset class requiring active and focused oversight**. Hotels are **dynamic income producing assets** if **bought, developed, operated and disposed** of at the appropriate time would yield superior returns. The **financial benefits of owning a hotel are clear**, but the ability to experience it is **unmatched in any other real estate investment**.

A business model describes how an organization creates, delivers, and captures value, in economic, social, cultural or other contexts. The process of business model construction and modification is also called business model innovation and forms a part of business strategy.

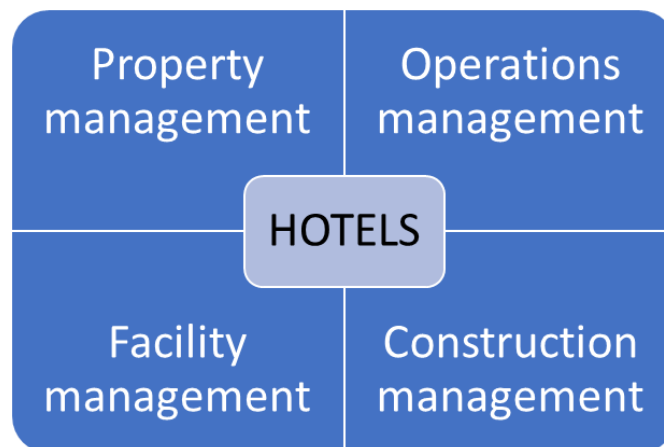


Fig 1.1 Different types of management in hotels

1.2 AIM

The aim is to create a business model for the up gradation of a non-star hotel to a three star hotel using a canvas model.

1.3 OBJECTIVE

- To identify the different strategic values involved in a business model canvas.
- To check whether Madurai has good demand for a three star hotel.
- To evaluate the different factors and different cost involved in it.
- To compare the present financial forecast with the proposed financial forecast.

1.4 SCOPE

- Study the life cycle of the hotel industry.
- Study market requirements and revenue generators in hospitality sector.

1.5 LIMITATION

- The study focuses only on three star hotel in the city of Madurai.

1.6 STAGES OF DISSERTATION

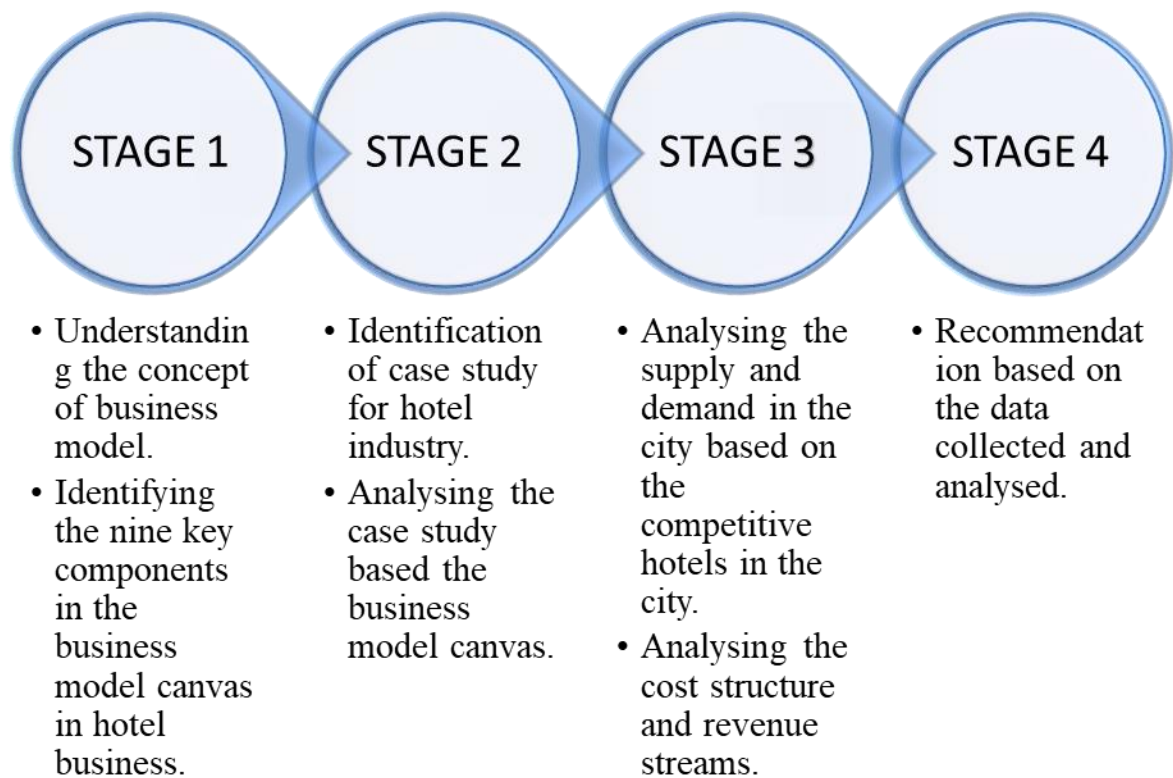


Fig 1.2 Different stages in this study

CHAPTER 2

LITERATURE REVIEW

2.1 RESEARCH JOURNAL REVIEWS

2.1.1 Journal 1 - Evaluating hotel feasibility studies: lender perspective

Abstract:

Feasibility studies are prepared to receive financing for lodging properties. Financial lenders require a feasibility study from independent professional experts. This study explores the importance and satisfaction to the financial lenders of the various sections of a feasibility study. In general, financial lenders place considerable importance on these studies but are less satisfied with the results. The greatest differences between the degree of importance and the degree of satisfaction are noted for sections they consider most important.

Scope of the study:

The purpose of this study was to survey large and small bank lending officers to identify the sections of a feasibility study they considered important and their satisfaction with the usefulness and reliability of the sections as currently prepared by consultants.

Methodology:

This research was based on a survey using a judgment sample consisting of large bankers (over \$2 billion in assets) and small bankers (under \$2 billion in assets), who were members of the Risk Management Association. Given the size differences, lending and risk profile of the loans, there could be a difference in perception between the two institutions on feasibility studies.

Structure of survey instruments:

The survey instrument was a self-administered and close-ended questionnaire with a combination of nominal, categorical and ordinal scale questions.

Section 1

The survey included general demographic questions like 'Is your financial institution best described as a regional bank, community bank or a mortgage bank?'

Section 2

The survey asked respondents to indicate the purposes for which they granted loans to the hotel industry (new construction, expansion, etc.). They were also asked to report the type of hotel (full service, luxury, etc.) to which they granted loans, the price categories of the borrowers (upscale, mid-scale, etc.) and the owner type (private, real estate investment trust, C-Corp, etc.) to which they granted loans.

Section 3

The respondents were asked to rate from 1 to 5 (the same scale used in Section 2 of this survey) the importance they placed on the typical items that would be found in the hotel feasibility studies that are presented to them. This included a list of the factors mentioned above under each of the following general categories: general market characteristics, project, site and neighborhood analysis, supply and demand analysis, recommended

facilities, occupancy and average daily rate (ADR) projections, and of course, financial projections.

Hotel lending criteria

Banks, both large and small, have well-established guidelines for lending. This study asked respondents to rate the importance of 16 lending criteria that lenders would consider in a loan of this type.

- Location of site or hotel
- Experience in hotel development and management
- Financial strength of applicant
- Economic climate: metropolitan area
- Fit of proposed project in the market
- Financial projections based on internal analysis
- Management affiliation
- Brand
- Performance of sponsors' other businesses
- Barriers to entry into the market area
- Financial institution's expertise
- Profitability of loan to your financial institution
- Economic climate: national
- Financial projections based on feasibility study
- Lending trend for specific property type
- Favorability of hotel sector with financial institutions

For the large lenders, the top three criteria were first, 'location of hotel', followed by 'experience in hotel development and management' and 'financial strength of applicant'. For the small lenders, 'financial strength of the applicant' was ranked first followed by 'location of hotel' and 'experience in hotel development and management'. Thus, the top three lending criteria were the same for both large and small lenders.

Consultant recommendation criteria

- Experience of market analyst researching and writing the report
- Local knowledge of market segments in subject market area
- Integrity of senior management responsible for engagement
- Professional reputation of the firm
- Consistent and recognized methodology used
- Timeliness of delivery of study
- Experience of senior management responsible for engagement
- Recommendations of other financial institutions
- Pricing and fees charged for
- Financing institution's professional reputation with firm

The top two criteria in the case of both the large and the small lenders were 'experience of market analyst researching and writing the report' and 'local knowledge of market segment in subject market area', respectively.

Other criteria

General market characteristics

- Major demand generators
- Tourism
- Seasonality of market area demand
- Economic climate

Project and site analysis

- Proximity of site to demand generators
- Site accessibility & Site visibility
- Physical suitability

Neighborhood analysis

- Construction and new developments
- Future expected changes in land use
- Review of land use & Description of buildings

Supply and demand analysis

- Analysis of competitive supply
- Analysis of historic occupancy by market segment
- Identification of competitive supply
- Projected growth of total market demand

Recommended facilities

- Meeting rooms and other facilities recommended
- Guest room recommendation
- Concept recommendation
- F&B facilities recommendation

Occupancy and room rate

- projections Sensitivity analysis (room rate projection)
- Sensitivity analysis (occupancy projection)
- Projected and stabilized average room rate
- Projected and stabilized annual hotel occupancy

Financial projections

- Total revenue
- Sensitivity analysis
- Net income
- Revenue and expense projection bases

Clearly, bankers, both large and small alike, consider the information in hotel feasibility studies to be important in the loan documentation process for hotel lending. This study also reveals that bankers are not satisfied with the information provided by the studies. In addition, there are some significant differences between the attitudes of large and small bankers towards these studies. Lenders are partly accountable for the deterioration of these studies for several reasons, including unrealistic or unclear expectations, low fees, a lack of understanding of the hospitality business and a lack of face-to-face interaction with consultants.

2.1.2 Journal 2 - What the Investor Should Demand - The Hotel-Motel Feasibility Study

Aim of the study:

The aim of this article is to point out the major demands that any investor should make of a formal feasibility study and tries to analyze the promising market projections and financial performance.

Brief:

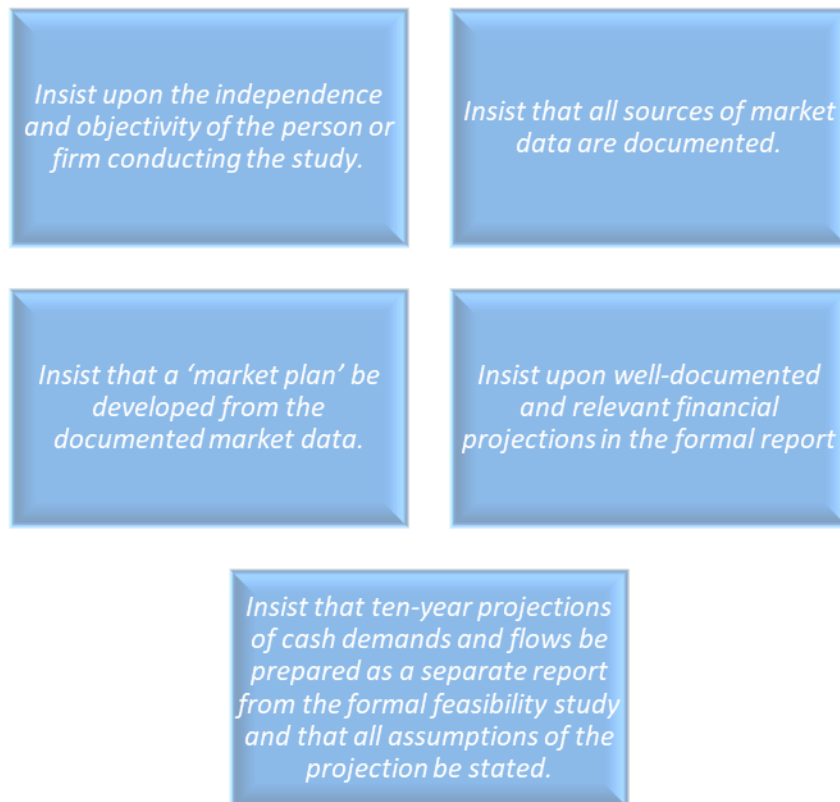


Fig 2.1 What the Investor Should Demand

Demand One:

Insist upon the independence and objectivity of the person or firm conducting the study. The person or firm conducting the study serves as a check on the project promoter's very human tendency to be influenced by wishful thinking and to play down or discount evidence which runs contrary to the project's success. A land developer, whose primary interest is

promoting the site's land value, may sacrifice the best interests of the motor inn's investors. The investors' interest is in the profitability, or the cash flow, of the on-going motor inn operation, not in the inflated value that the land takes once a motor inn is constricted on it.

Demand Two:

Insist that all sources of market data are documented.

As a preparer of feasibility studies, I offer the following cautions concerning sources:

- Chamber of commerce data of projected growth tends to be overly optimistic due to the chamber's promotional interest in the area.
- Projections compiled by local, regional and state governmental agencies tend to be more realistic.
- Present area occupancy rates and activity levels of existing operations

As a new first-class motor inn operation, you should be able to attain average room rates and occupancy levels somewhere between the median and upper quartile figures.

Demand Three:

Insist that a 'market plan' be developed from the documented market data.

The market plan's purpose is to estimate expected occupancy and activity levels at a period projected five years from the date of the study.

Exhibits 1 and 2 illustrate the market plan concept which should be a part of every feasibility study.

In Exhibit 1, the growth projections for the Suburban Motor Inn show an expected composite growth percentage of the market area between last five years.

Exhibit 2 conservatively projects the average annual occupancy of the last five years.

Demand four:

Insist upon well-documented and relevant financial projections in the formal report

Revenues should be based upon competitive rate structures which presently exist in the market area. Restaurant revenue and departmental profit should be in line with operating statistics of similar - type operations. Expenses should relate closely to industry study statistics or operating results of similar operations and then be adjusted for individual peculiarities of each property.

Failure to do such an up-date will result in a 5 to 10 percent understatement of expenses. A payroll staffing schedule complete with salaries should be compiled to project a realistic payroll expense for that area rather than using a misleading payroll average.

Operating statements for normal operating years projected through house profit should be included for three occupancy levels to indicate to you the substantial effect revenue fluctuations have on house profits, and consequently your return and cash flow.

Demand Five:

Insist that ten-year projections of cash demands and flows be prepared as a separate report from the formal feasibility study and that all assumptions of the projection be stated.

The formal study should project operating results only to house profit, thus allowing you flexibility when working out financing with prospective lenders. These projections are critical to you since they track the need for an excess of cash within the company.

The projections should include:

- Stated assumptions to include: interest rate, occupancy and activity levels, permanent mortgage amount and payment terms, depreciation policy, capital additions and replacements schedule and working capital loans by partners.
- Projection of the property's net income (loss) for the ten-year period. In this instance revenue is held constant after year one due to constant occupancy thereafter

2.1.3 Journal 3 - Determining the Investment Potential of a New Hotel - The Feasibility Study

Aim of the study:

This article's main purpose is to present a typical feasibility study outline for a new hotel and to list sources of information helpful in such analyses.

Supply and demand analysis:

- A. Definition and description of the local hotel market.
 1. Inventory of all acceptable transient accommodations, sub-grouped to indicate most competitive, fairly competitive, somewhat competitive
 - Number of rooms
 - Published rates
 - Map showing groupings of hotels by areas within the city.
 1. New hotel construction since 1967.
 1. Name of hotel and its location.
 2. Date of completion.
 3. Number of rooms.
 4. Quality and extent of facilities.
 2. Overall hotel occupancy.
 1. Historical trend since 1967 for total market.
 2. Current year occupancy.
- B. Identification of principal competitive hotels as to their:
 1. Location.
 2. Number of rooms.
 3. Average room rate.
 4. Occupancy.
 5. Quality of facilities and services offered.
 6. Composition of trade
- C. Analysis of principal sources of demand.
 1. Business travelers.
 1. Growth in airport
 2. Growth in employment and occupied floor space in primary central business district office buildings.
 3. Analysis of other available parameters indicating potential growth in demand from business travelers.
 2. Local convention business and meetings.
 1. Number of conventions.
 2. Number of delegates.
 3. Types of conventions.
 4. Sizes of conventions.

5. Seasonality of convention activity.
 6. Observable growth in convention trade.
 7. Public convention facilities currently available
 8. Convention facilities offered by competitive hotels
 9. Facilities required at planned hotel to serve desired convention business.
3. Area tourism.
1. Number of tourists.
 2. Seasonality.
 3. Spending characteristics.
 4. Purpose of visits and length of stay.
 5. Extent to which tourists are potential customers for proposed hotel.
 6. State and provincial liquor boards.
4. Other significant sources of demand, if any, such as nearby university, hospital, etc.

Site evaluation

- A. Description of sites selected - Site 1, Site 2, etc.
- A. Physical characteristics.
- Dimensions.
 - Existing improvements.
 - Estimated cost of site preparation required prior to commencement of construction.
 - Adequacy of land area for addition.
 - Soil conditions
- B. Other site data.
- Current ownership
 - Sign ordinances, especially for a motor inn project.
 - Cost.
 - Property taxes.
 - Zoning or height restrictions.
 - Access to and availability of adequate utility services.
 - Future street plans

Marketing plan

These are the initial general criteria given the architect prior to preparation of conceptual plans.

- A. Sizing - number of rooms.
- B. Quality and room mix.
- C. Special design concepts.
- D. Proportion of space devoted to:
- Guest rooms.
 - Food and beverage facilities.
 - Meeting and public areas.
 - Back of the house functions.
 - Parking.
 - Other facilities.

FINANCIAL ANALYSIS

- A. Estimated capital costs.
- B. Pro Forma Income Statement.
- C. Does indicated rate of return justify proceeding?
- D. Financing Plan.
 1. Evaluation of alternate methods of financing.
 - Own or lease.
 - If own, estimated amount of debt financing available from various sources.
 - Mortgage money.
 - Bonds or debentures.
 2. Costs of borrowed money from various sources.
 3. Equity capital requirements.
 - Sources of equity capital.
 - Relative percentage of equity participation by various principals involved.
- E. Preparation of Pro Forma Cash Flow and Capital Budgeting Statements.

2.1.4. Inference

JOURNAL 1

TOPIC	Evaluating hotel feasibility studies: lender perspective
AUTHOR	<i>A.J. Singh and Raymond S. Schmidgall</i>
SUMMARY	The purpose of this study was to survey large and small bank lending officers to identify the sections of a feasibility study they considered important and their satisfaction with the usefulness and reliability of the sections as currently prepared by consultants.
TAKE AWAY	This paper gives a brief about questionnaires, factors involved and the bankers thought.

JOURNAL 2

TOPIC	What the Investor Should Demand - The Hotel-Motel Feasibility Study
AUTHOR	<i>AMES J. EYSTER</i>
SUMMARY	The aim of this article is to point out the major demands that any investor should make of a formal feasibility study and tries to analyze the promising market projections and financial performance.
TAKE AWAY	This paper gives us knowledge about the basic demands of a investor to the consultancy which prepares the study.

	JOURNAL 3
TOPIC	Determining the Investment Potential of a New Hotel - The Feasibility Study
AUTHOR	JACK N. HODGSON
SUMMARY	This article's main purpose is to present a typical feasibility study outline for a new hotel and to list sources of information helpful in such analyses.
TAKE AWAY	This paper gives a brief detail about the different factors involved in the feasibility study of a new hotel.

Table 2.1 Summary and take away

2.2 FEASIBILITY STUDY

2.2.1. Introduction

Although there are similarities between hotel and other commercial property developments, hotel development has unique characteristics and requires specific management expertise. Hotels are usually 'single-use' properties, whose **primary revenue is generated from a service-based industry**. They have a market value directly related to their ability to generate future **net income by means of their operations**. The essence of successful hotel property development lies in understanding these unique characteristics. Various critical success factors for hotel development are identified and incorporated into a hotel property development framework, establishing a practical 'road map' for successful hotel developments. The validity of the proposed hotel property development framework will be accessed by intensive direct interviews with hotel development professionals.

2.2.2. Hotel lifecycle

A new hotel project life cycle is the structure underpinning delivery of new hotel projects. It is a conceptual model, defining the inter-related phases of new hotel projects, and provides a structure for governing the progression of the work:

New hotel project life cycles are predictive: the product and services to be delivered are well-understood, and there is a substantial base of industry practice. At the same time, project scope, and the budget required to deliver that scope, are generally determined very early on in the project life cycle.

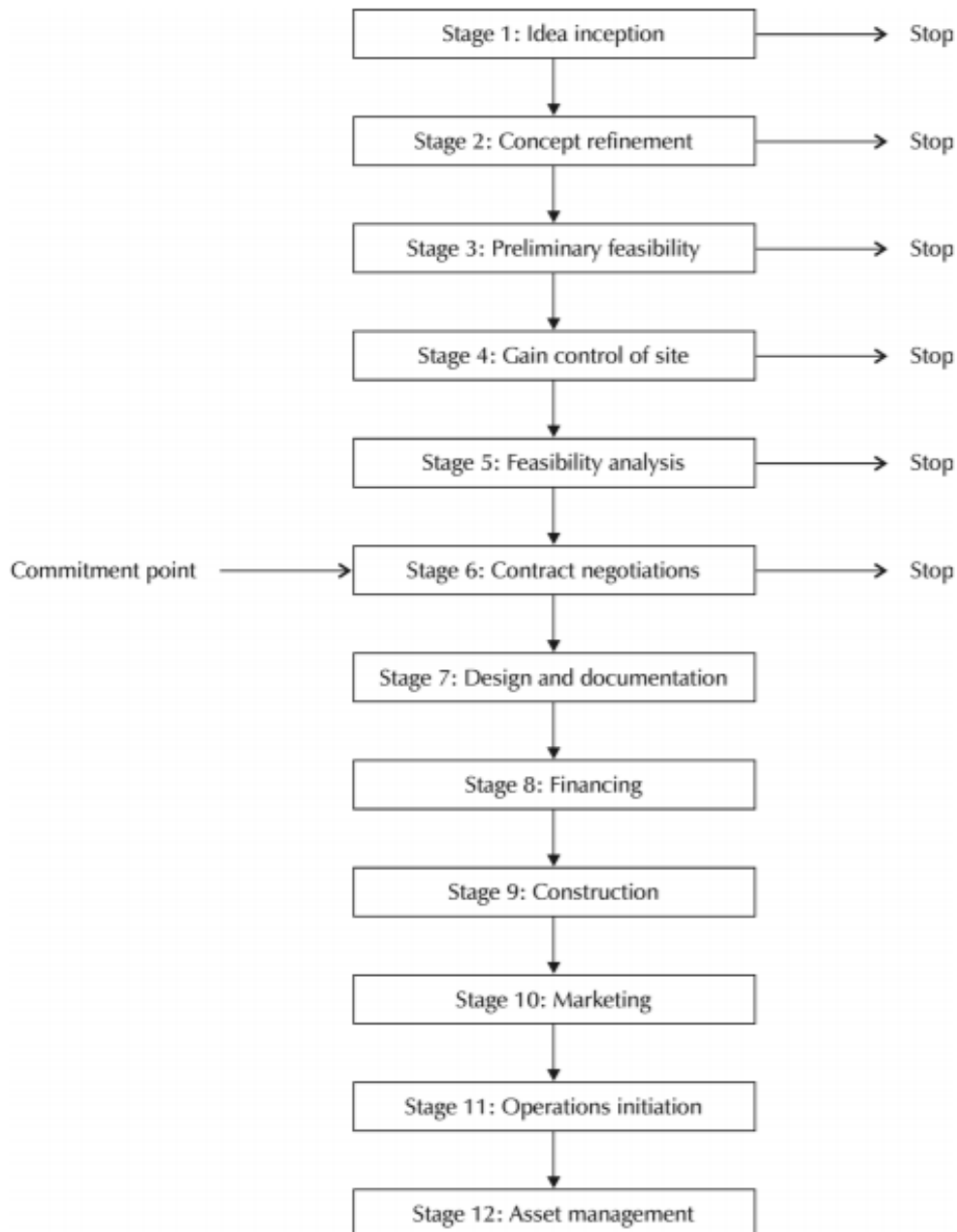


Fig 2.2 life cycle of hotel real estate

2.2.3 Hotel service product

The hotel service product as a bundle of features and benefits. It has three elements: a **core benefit**, an **essential facilitating service** and a **competitive supporting service**.

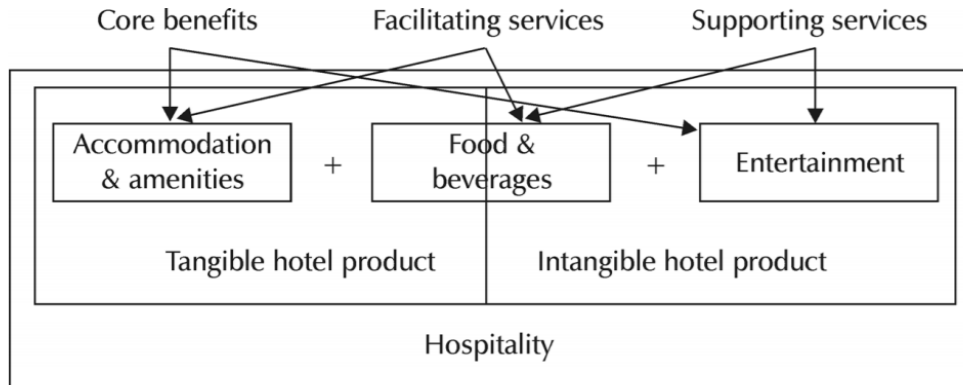


Fig 2.3 Hotel service product

2.2.4 Prefeasibility Studies

All investment projects start with *opportunity definition* - the exploration and identification of the project opportunity. An opportunity is typically analyzed first in a prefeasibility study to justify the investment of resources in pursuit of the project and the cost of a comprehensive feasibility analysis.

To determine the most appropriate use of *vacant land* or an *improved property*, a landowner or leasehold owner may conduct a *highest and best-use study (HBU study)*. The purpose of an HBU study is to establish what property development is physically possible, financially feasible, maximally productive, and legally permitted.



Fig 2.4 Preliminary feasibility study determinants

After project concept refinement, the *preliminary feasibility analysis* is commonly conducted by the developer for the "go/no-go" decision and to serve as the basis for the business case. This high-level market research and analysis and investment appraisal is generally based on secondary data that can be easily collected and worked out.

A preliminary feasibility study enables exploration of potentially interesting options before deciding to proceed with the project and for preparation of the *preliminary business case*. It assesses the basic conceptual, economic and financial viability of the proposed project chiefly to identify the costs and benefits of each opportunity and to eliminate those opportunities that are unsuitable.

If the prefeasibility study shows that the intended project to be promising, the developer can decide to study the investment opportunity in more detail and establish the scope of the study. The prefeasibility study must be conducted before the project's design to reveal the areas that require more attention in the comprehensive feasibility study.

2.2.5 Comprehensive Feasibility Studies

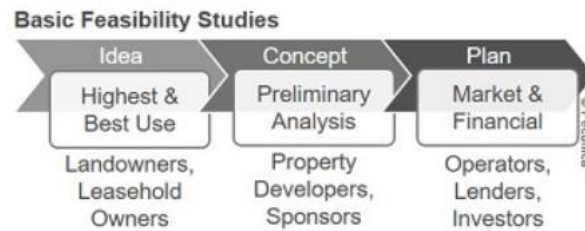


Fig 2.5 Basic feasibility study

A *comprehensive feasibility study* is an all-inclusive feasibility study that takes into consideration all aspects of a development project that can impact its success. It includes different types of studies that depend on the project's purpose and participants, any one of which could be the analyst's sole assignment in a particular situation:

Strategy study - Analysis of the project and the development objectives, policies, plans and decision criteria;

Legal study - Determination of the legal and political constraints and problems that may affect the project, including title, zoning and building code;

Compatibility study - Assessment of the suitability of the development project to surrounding land uses, municipal master plans, public policies, and environmental standards;

Architectural and engineering study - Evaluation of alternative land-use plans, structure and design alternatives, soil analysis, utility availability, etc.;

Location and market analysis - The study of the economic base and local market or related aggregate data to determine the general suitability of the location and market for the business;

Merchandising study - Analysis of the marketing factors for a product, such as consumers, competitive properties, sales and marketing, pricing, and absorption rate;

Market feasibility study (MFS) - Conducted to assess or reconfirm whether or not a development concept is supported by current and future market dynamics;

Financial-economic study - Financial analysis of the project, including cash-flow forecasts, tax and tax shelter planning, rate-of-return analysis, analysis of financing alternatives, capital budgeting analysis, cost-benefit analyses, and holding-period analysis.

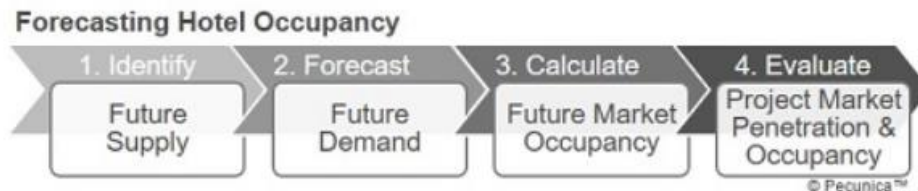


Fig 2.6 forecasting hotel occupancy

The feasibility of a development project can be determined only in terms of specified constraints and given resources. The consultant reaches a conclusion on whether or not a development project is feasible based on criteria provided by the developer.

When evaluated in terms of sustainability, the comprehensive feasibility study considers all significant environmental, social and economic factors. However, the feasibility criteria vary for each stakeholder.

2.3 HOTEL FEASIBILITY STUDY

A hotel feasibility study is generally required by the mortgage lender or investor before a developer or organization is able to move forward with constructing a new hotel. Typically completed by an independent third-party consultant who specializes in analyzing hotel projects, a feasibility study determines whether a proposed hotel development is economically feasible and if the value of the proposed project equals or exceeds the development costs when completed and operational. The hotel feasibility study will analyze revenues, expenses, and net income to determine the value of the proposed project compared to its projected development costs.



Fig 2.7 Hotel feasibility study

2.3.1 General characteristics of the market

A brief general description of the location, its population, important business activities, economic and population growth rates, and other relevant characteristics which relate directly to demand for hotel accommodations. Also included, especially for studies in foreign countries, would be any special political and/or financial considerations which might affect the project.

This section should be as concise as possible. Many miscellaneous general tables are undesirable; a good area map is useful. City or regional planning boards, port authorities, and chambers of commerce are often excellent sources of information on these topics.

Other possible references are area redevelopment agencies, state departments of commerce and/or economic and resource development, Department of Commerce area surveys, highway departments, local newspapers and libraries. When pertinent descriptive and statistical data have been collected and reviewed, interviews with knowledgeable local businessmen and civic leaders serve to verify and expand one's initial impressions of an area's vitality and future growth potential. Finally, remember the assignment is a hotel feasibility study - not formulation of a city's new urban planning program. Some analysts tend to over-research this subject.

The area, demographic, and neighborhood analysis evaluates the local economy surrounding the proposed hotel. The area analysis focuses on the social, economic, governmental, and environmental forces that influence the performance and valuation of a hotel property. Demographic information, including population, households, income levels, employment levels, etc., should be reviewed in detail to calculate the number of people and potential customers who live within the local and regional areas.

The following are some questions the study should answer:

Population trends: What is the area population and is the number increasing or decreasing?

Household growth: How large is the typical household?

Household economics: What is the unemployment rate? What is the median income? How much disposable income do area households have?

Area economics: Which large corporations are based in the area? Who is growing or shrinking? What is office vacancy rate?

Attractions: Are there tourist attractions in the area? What are the demand generators for leisure and group travelers?

Area transportation: How is access to airports, interstate and local highways, and rail stations compared to competition?

A neighborhood analysis of nearby commercial and tourist establishments is important since many successful hotel projects are proposed in areas with complementary real estate uses. Successful hotels are developed in neighborhoods where overnight guests are already traveling and looking for places to stay.

2.3.2 Supply and demand analysis

A macro-economic rather than a micro-economic approach is normally preferable when determining future hotel room demand in a given market. Macro-economic means looking at your market in the broad sense and anticipating what changes will occur in the future. Micro-economic projections for transient room usage involve individually quantifying, then totaling the increasing demand from all various sources in units of room nights.

Also, building a market by micro-economic techniques runs the risk of missing one or more important segments of demand. Unless correlated back to a macro-economic approach, demand may be understated and the influence of quality differentiation ignored.

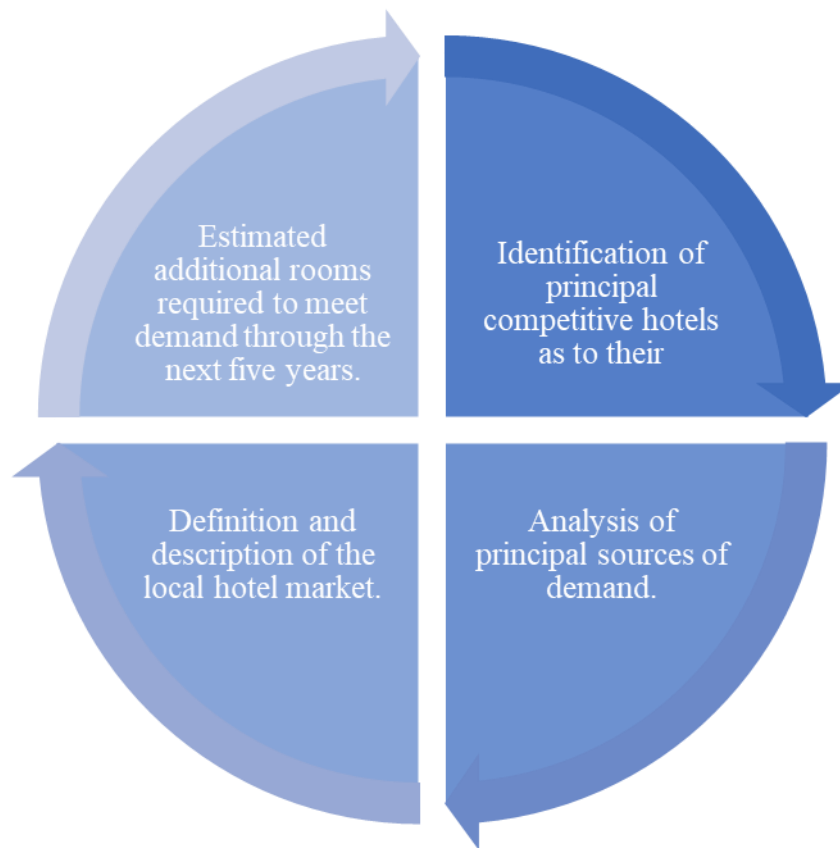


Fig 2.8 Supply and demand analysis

Definition and description of the local hotel market.

This division deals with three major circumstances:

- Inventory of Subject City hotels by area
- New hotel construction in Subject City.
- Hotels expected to be competitive with a proposed property

Identification of principal competitive hotels as to their

COMPETITIVE HOTEL MARKET - An inventory is made of all hotels in operation in the city under study, to which are added those under construction or in the planning stage. Those expected to be competitive with a proposed new hotel are analyzed in more detail.

Location.

Number of rooms.

Average room rate.

Occupancy.

Quality of facilities and services offered.

Composition of trade

Analysis of principal sources of demand.

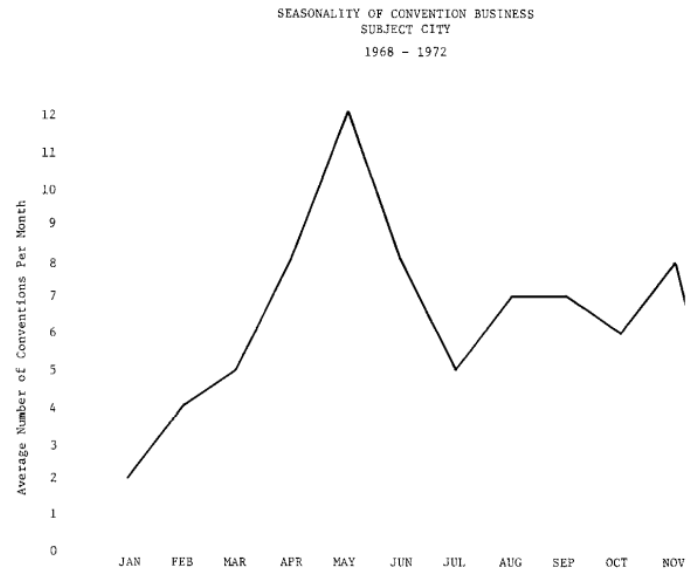
This part deals with the user. Convention seasons are very important for a hotel sector.

They are often recorded due to high demand. There are three types of major users in hotel.

Business travelers.

Local convention business and meetings customers Tourists

Year	Number of Conventions	Estimated Attendance	Estimated Total Convention Expenditures
1962	45	19,600	\$ 2,352,000
1963	64	23,600	2,832,000
1964	85	31,300	3,756,000
1965	77	24,900	2,988,000
1966	80	27,000	3,706,000
1967	83	43,550	5,531,000
1968	101	39,020	5,355,400
1969	97	30,600	4,201,000
1970	152	46,700	6,450,000
1971	194	51,650	7,105,000
1972	224	58,860	8,084,100



Convention seasons show demand for hotel space.

Fig 2.9 Demand based on convention

Estimated additional rooms required to meet demand through the next five years.

- First-class rooms needed now for 75% occupancy at competitive facilities. The 75% occupancy rate is normally used for it is a point of healthy balance between supply and demand, and a condition under which an owner can usually attain sufficient profit to justify his investment.
- Composite growth rate in sources of demand.
- What new hotels are under construction or in planning?
 - Name of new hotel.
 - Identity of developers and/or operators.
 - Location. Size.
 - Target date for completion.
 - Probability of realization of planned hotels.
- Will any existing competitive rooms be removed from the market or substantially downgraded during the next five years?
- Determination of additional rooms needed in future years based on the foregoing supply-demand analysis.
- Let us assume that City X has **1,500 competitive rooms in 6 hotels averaging 80% occupancy during the last year**. 1,500 rooms @ 80% occupancy = **1,600 rooms @ 75% occupancy**. Therefore, **100 more rooms can be supported now in City X**.

- Current demand level = current room inventory + number of additional rooms needed for now
- Total number of rooms needed in future years = current demand level X anticipated growth in demand

<i>Source Of Demand</i>	<i>Anticipated Growth Rate</i>	<i>Estimated Proportion Of Trade</i>	<i>Composite Rate Of Growth</i>
Business Travelers	9%	65%	5.85%
Convention Delegates	7%	10%	0.70%
Tourists	11%	25%	2.75%
Composite Demand		100%	9.30%

Fig 2.10 Demand based on growth rate

<i>Year</i>	<i>Total Rooms Required @ 75% Occupancy</i>	<i>Additional Rooms Required Each Year</i>
1972	1,600	100
1973	1,750	250
1974	1,910	410
1975	2,090	590
1976	2,285	785
1977	2,500	1,000

Fig 2.11 Demand based on occupancy

- Equals $(1 + r)^n$ where r is estimated composite rate of growth n is number of years in the future. It is dangerous to extend this projection on a compounded basis for more than five years, and only to that extent when there is ample justification to expect a sustained rate of growth. For longer periods or when leveling in growth rates is evident, arithmetic rather than exponential projections are more judicious.

2.3.3 Site evaluation

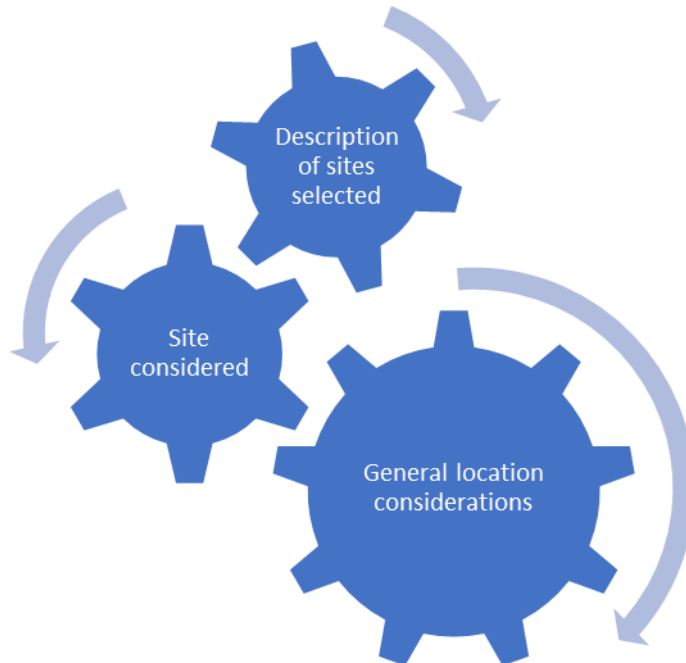


Fig 2.12 Site evaluation process

A. General location considerations.

1. General form of the city with a map .

1. The Central Business District and sub-centers of business activity.
2. Primary transportation routes and facilities.
3. Specialty shopping district.
4. Concentrations of dining and entertainment establishments.
5. Location of major cultural and athletic facilities.
6. Other locational factors affecting hotel site suitability.

2. Anticipated future real estate developments and trends in the city which will enhance or detract from a site's desirability.

B. Sites considered - map of locations.

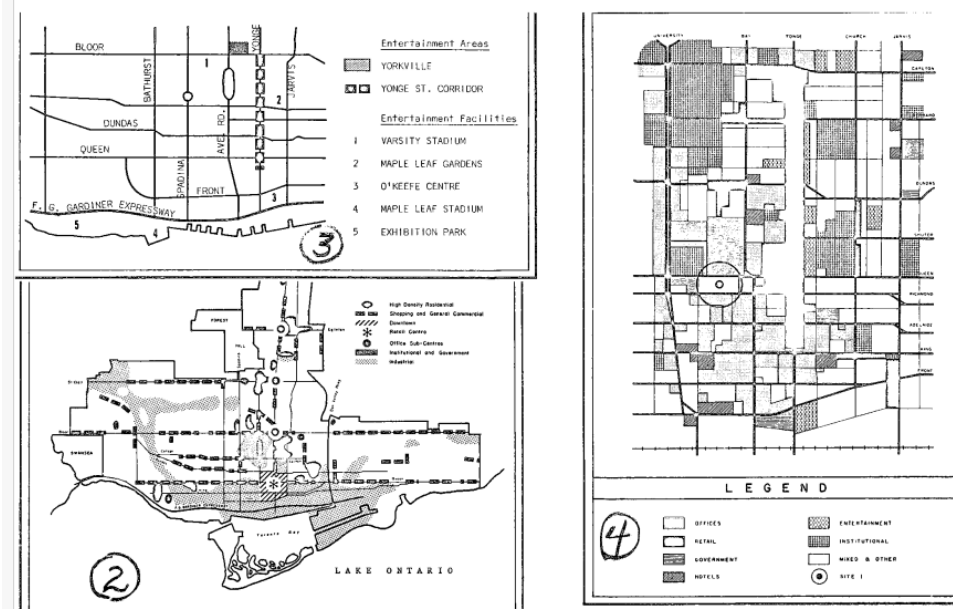


Fig 2.13 Site evaluation mapping

C. Description of sites selected - Site 1, Site 2

Possible sites and their cost are weighed against the new hotel's marketing objectives. Lot dimensions, municipal restrictions, plans for adjacent properties and access routes, and other related factors are considered. One site is selected and acquisition rights negotiated

Table 2.2 Site valuation

Description of sites selected	Site 1	Site 2
Physical characteristics.		
Dimensions.		
Existing improvements.		
Estimated cost of site preparation required prior to commencement of construction.		
Adequacy of land area for addition.		
Soil conditions		
Other site data.		
Current ownership		
Sign ordinances, especially for a motor inn project.		
Cost.		
Property taxes.		
Zoning or height restrictions.		
Access to and availability of adequate utility services.		
Future street plans		

2.3.4 Market analysis

A thorough market analysis of the local and regional hotel market is essential as the projections of financial performance will depend heavily upon the data gathered. The consultant will analyze occupancy, average daily rate (ADR), and revenue per available room (RevPAR) of a market area.

A hotel market report from STR and interviews with management of competitive hotels will help the consultant gain a greater understanding of the state of the hotel market. Additionally, the consultant will identify all new hotels that are proposed, under construction, and in development that could compete with the proposed resort project.

The following factors are critical to the market analysis:

Hotel competitors: How many competitors are in the market and to what degree are they competitive in terms of amenity offerings, affordability, etc.? How have they performed in past years in terms of occupancy, ADR and RevPAR?

Employer analysis: Who are the major employers that utilize hotels in the market? What are their training needs? Are there many meetings in the market?

Recent hotel openings: How many hotels have opened in recent years and how have they impacted the market?

Potential hotel openings: How many hotel projects are in the works? What types of hotels will they be? How many rooms will they have? What is their projected impact on the current supply and demand in the market?

Market segmentation and market penetration: What is the market segmentation and penetration of each competitor in the market? The consultant will review all market segments, including corporate, leisure, group, and contract markets. Hotels in the area that garner the largest share of the most relevant market segments will be the subject property's main competitors.

Projections: Based on the current market situation, how will the subject likely perform in terms of occupancy, ADR, and revenue per available room (RevPAR)? What are its potential penetration rates and market segmentation?

HOTELS IN SUBJECT CITY By Area							
AREA A	No. of Rooms	Room Rates (Minimum to Maximum)					
		Single	Double	Twin			
Hotel A 123 First Street	100	\$ 5.00 10.00	8.00 14.00	10.00 16.00			
					NEW HOTEL CONSTRUCTION SUBJECT CITY 1967 - 1972		
AREA B							
Hotel B Taylor & Olive	65	7.50 20.00	8.50 20.00	10.50 20.00	Hotel	Date Completed	No. of Rooms
Hotel C Main & First Streets	82	8.00 17.00	10.00 14.00	12.00 16.00	Hotel A	April 1967	71
TOTAL ROOMS AREA B	147				Hotel B	May 1967	100
							Small coffee shop
					Hotel C	May 1967	102
							Coffee shop, dining room, function space for 120
					Hotel D	April 1968	331
							Coffee shop, dining room, function space for 1,200
					Hotel E	February 1969	75
							Coffee shop, dining room, function space for 200
					Hotel F	May 1969	100
							Coffee shop, dining room, function space for 600
					Hotel G	June 1969	68
							Coffee shop, dining room, function space for 250
					Hotel H	November 1970	54
							Coffee shop only
					Hotel I	December 1970	200
							Coffee shop, dining room, function space for 100
					Hotel J	December 1971	100
							Coffee shop, dining room, function space for 300
					Hotel K	March 1972	400
							Coffee shop, dining room, function space for 500
					Hotel L	October 1972	118
							Coffee shop, dining room, function space for 300

1 — Inventory of Subject City hotels by
area (first of four pages).

2 — New hotel construction in Subject City.

Fig 2.14 Micro market analysis

An inventory is made of all hotels in operation in the city under study, to which are added those under construction or in the planning stage. Those expected to be competitive with a proposed new hotel are analyzed in more detail. Hotels are charted on area maps. The samples shown here are from different cities.

DIRECTLY-COMPETITIVE HOTELS
IN SUBJECT CITY
1972

<u>Hotel</u>	<u>No. of Rooms</u>	<u>Published Prices</u>			<u>Estimated Average Room Rate*</u>	<u>Reported Occupancy*</u>
		<u>Single</u>	<u>Double</u>	<u>Suite</u>		
Hotel A	264	\$ 17.50 18.50	21.75 24.75	32.50 57.50	\$20.50	92%
Hotel B	385	15.50 23.50	22.50 28.50	34.00 113.00	24.75	93
Hotel C	740	13.00 16.50	18.00 21.00		18.00	70
Hotel D	500	16.00 19.00	18.00 23.00	19.00 53.00	21.50	87
Hotel E	717	16.00 24.00	21.00 27.00	35.00 90.00	23.00	73
Hotel F	600	17.75 18.75	22.00 23.00	40.00 65.00	22.00	83
Total Average	<u>3,206</u>	<u>\$ 18.30</u>	<u>22.50</u>		<u>\$21.43</u>	<u>80%</u>

* These data are based on consolidated information received from a large number of sources. While some inaccuracies may exist, the data are believed to closely approximate actual average room prices and occupancy rates that are currently being attained.

Fig 2.15 Hotels expected to be competitive

2.3.5 Financial planning for new hotel developments

Project Costs

In the initial phases of project analysis, the developer and the Hotel System's Development Division (when the two entities are separate) usually prepare preliminary cost estimates based on the proposed scope of the project. At first, this is accomplished with minimum detail. The developer draws from his knowledge of local building costs and the Hotel's Development Division draws from their own previous experience on projects of similar size and quality, adjusting for local building conditions and special characteristics of the proposed structure. Each group's preliminary estimates are then compared, as shown in Exhibit 1, and discrepancies are discussed so each party gains an understanding of the other's expectations and a preliminary budget is agreed upon.

EXHIBIT 1				
COMPARATIVE PRELIMINARY COST ESTIMATES				
SUBJECT CITY HOTEL				
408 Rooms				
	DEVELOPER'S PRELIMINARY ESTIMATE		HOTEL MANAGEMENT'S PRELIMINARY ESTIMATE	
	Total	Per Room*	Total	Per Room*
Construction cost	\$ 6,120,000	15,000	7,250,000	17,770
Architectural and engineering fees	220,000	540	435,000	1,070
Design fees and expenses	75,000	185	125,000	305
Bonds	25,000	60	25,000	60
Legal fees	35,000	85	35,000	85
Interim financing	275,000	675	380,000	930
Taxes and insurance during construction	2,000	5	30,000	75
Title policy	15,000	35	15,000	35
Furniture, fixtures and equipment	1,400,000	3,430	2,050,000	5,025
Pre-opening expenses	750,000	1,838	625,000	1,530
Parking garage (pro rata share)	570,000	1,400	570,000	1,400
Overhead	25,000	60	25,000	60
Land	<u>600,000</u>	<u>1,470</u>	<u>600,000</u>	<u>1,470</u>
TOTAL	\$ <u>10,112,000</u>	<u>24,785</u>	<u>12,165,000</u>	<u>29,815</u>
*Rounded.				

Fig 2.16 Project Costs

Detailed Capital Budgeting

At completion of preliminary drawings, the developer and the Hotel's Development Division initiate a more detailed capital budgeting projection using the forms shown in Exhibit 2. This is not a one-time effort, but rather one which is refined at regular intervals throughout the development program. Each revision is dated to avoid confusion as to the most current estimate. Upon commencement of construction, forms similar to Exhibit 2 are used with six or more columnar spaces.

Institution of rigid cost controls and periodic reviews of expenditures are essential to ensure that a new hotel is completed within economic limits. Cost estimating is a team effort involving corporate management with outside contractors and consultants.

<u>PROJECT COST ESTIMATE</u> <u>SCHEDULE "A" SHORT FORM</u> <u>GENERAL CONTRACTORS COSTS AND FEES</u> <u>ARCHITECTS FEES AND EXPENSES</u> PROJECT: _____ PROJECT NO: _____ PREPARED BY: _____ DATE: _____ <u>CONSTRUCTION COSTS</u> For preliminary estimates using square footage costs GUEST ROOMS: (No. of Rooms) x (Average Sq. Ft.) = (Total) x (Cost per Sq. Ft.) = \$ _____ SUITES: _____ x _____ = _____ x _____ = \$ _____ CORRIDORS: _____ x _____ = _____ x _____ = \$ _____ COTTAGES: _____ x _____ = _____ x _____ = \$ _____ DINING AREA: (Seats) x (Average Sq. Ft.) = (Total) x (Cost per Sq. Ft.) = \$ _____ COFFEE SHOP: _____ x _____ = _____ x _____ = \$ _____ SPECIALTY DINING ROOM: _____ x _____ = _____ x _____ = \$ _____ COCKTAIL LOUNGE: _____ x _____ = _____ x _____ = \$ _____ BANQUET ROOMS: _____ x _____ = _____ x _____ = \$ _____ KITCHEN: _____ x _____ = _____ x _____ = \$ _____	<u>PROJECT COST ESTIMATE</u> <u>SUMMARY SHEET</u> The elements of the total costs of any major construction, renovation and refurbishing project are many and varied. These cost estimate forms have been developed to compile as precisely as possible the total amounts involved. The forms can be used in their entirety or separately as the scope of the project demands. In any case, each estimate prepared should be covered by this summary sheet. Two types of cost estimate forms are available for use. The first is referred to as "Short Form." These are to be used for the purpose of estimating costs on basis of schematic drawings or possibly none at all. The other or "Standard Form" is to be used when drawings have been brought to preliminary design or working stage of any contemplated project. PROJECT: _____ PROJECT NO: _____ PREPARED BY: _____ DATE: _____ <u>PROJECT COST ESTIMATE SUMMARY</u> <table border="0" style="width: 100%;"> <tr> <td>DEMOLITION/SITE PREPARATION</td> <td style="text-align: right;">\$ _____</td> </tr> <tr> <td>GENERAL CONTRACTORS CONSTRUCTION COSTS (SCHEDULE A)</td> <td style="text-align: right;">\$ _____</td> </tr> <tr> <td>GENERAL CONTRACTORS FEE (SCHEDULE A)</td> <td style="text-align: right;">\$ _____</td> </tr> <tr> <td>ARCHITECTS FEE AND EXPENSES (SCHEDULE A)</td> <td style="text-align: right;">\$ _____</td> </tr> <tr> <td>PROGRAMMING AND SUPERVISION COSTS (SCHEDULE A)</td> <td style="text-align: right;">\$ _____</td> </tr> <tr> <td>TAXES DURING CONSTRUCTION (SCHEDULE A)</td> <td style="text-align: right;">\$ _____</td> </tr> <tr> <td>INTEREST DURING CONSTRUCTION (SCHEDULE A)</td> <td style="text-align: right;">\$ _____</td> </tr> <tr> <td>AND RENT DURING CONSTRUCTION (SCHEDULE A)</td> <td style="text-align: right;">\$ _____</td> </tr> <tr> <td>INSURANCE DURING CONSTRUCTION (SCHEDULE A)</td> <td style="text-align: right;">\$ _____</td> </tr> <tr> <td>AND COSTS</td> <td style="text-align: right;">\$ _____</td> </tr> <tr> <td>FURNITURE AND FIXTURES (SCHEDULE B)</td> <td style="text-align: right;">\$ _____</td> </tr> <tr> <td>DESIGN FEES AND EXPENSES (SCHEDULE B)</td> <td style="text-align: right;">\$ _____</td> </tr> <tr> <td>RE-OPENING EXPENSES (SCHEDULE C)</td> <td style="text-align: right;">\$ _____</td> </tr> <tr> <td>CONTINGENCIES</td> <td style="text-align: right;">\$ _____</td> </tr> <tr> <td>_____</td> <td style="text-align: right;">\$ _____</td> </tr> <tr> <td>_____</td> <td style="text-align: right;">\$ _____</td> </tr> <tr> <td>_____</td> <td style="text-align: right;">\$ _____</td> </tr> <tr> <td>_____</td> <td style="text-align: right;">\$ _____</td> </tr> <tr> <td>_____</td> <td style="text-align: right;">\$ _____</td> </tr> <tr> <td>ESTIMATED TOTAL COSTS</td> <td style="text-align: right;">\$ _____</td> </tr> </table>	DEMOLITION/SITE PREPARATION	\$ _____	GENERAL CONTRACTORS CONSTRUCTION COSTS (SCHEDULE A)	\$ _____	GENERAL CONTRACTORS FEE (SCHEDULE A)	\$ _____	ARCHITECTS FEE AND EXPENSES (SCHEDULE A)	\$ _____	PROGRAMMING AND SUPERVISION COSTS (SCHEDULE A)	\$ _____	TAXES DURING CONSTRUCTION (SCHEDULE A)	\$ _____	INTEREST DURING CONSTRUCTION (SCHEDULE A)	\$ _____	AND RENT DURING CONSTRUCTION (SCHEDULE A)	\$ _____	INSURANCE DURING CONSTRUCTION (SCHEDULE A)	\$ _____	AND COSTS	\$ _____	FURNITURE AND FIXTURES (SCHEDULE B)	\$ _____	DESIGN FEES AND EXPENSES (SCHEDULE B)	\$ _____	RE-OPENING EXPENSES (SCHEDULE C)	\$ _____	CONTINGENCIES	\$ _____	_____	\$ _____	_____	\$ _____	_____	\$ _____	_____	\$ _____	_____	\$ _____	ESTIMATED TOTAL COSTS	\$ _____
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Fig 2.17 Detailed Capital Budgeting

Estimating Revenues and Expenses

Exhibit 3 illustrates the type of form used to prepare Pro Forma earnings projections for a proposed hotel operation. Without undue elaboration, each item is evaluated, based on findings of the market research portion of the feasibility study and drawing from current experience at existing properties and the expertise of operating management. Again, this is periodically refined right up to opening day. From the earliest stages of development, operating management plays an important role in reviewing the Development Division's cost and revenue analyses.

Exhibit 3
STATEMENT OF EARNINGS
250 Rooms
(\$1,000's)

YEAR	1975		1976		1977		1978		1979	
	\$	%	\$	%	\$	%	\$	%	\$	%
GROSS OPERATING REVENUE										
Rooms	1068	39.1	1265	41.5	1421	43.4	1549	44.5	1682	45.6
Food & Beverage	1420	52.0	1520	49.9	1581	48.2	1644	47.2	1710	46.3
Other Dept.	90	3.3	103	3.4	114	3.5	124	3.6	134	3.6
Sub-Rentals	148	5.4	156	5.1	158	4.8	161	4.6	163	4.4
All Other	3	.1	3	.1	3	.1	3	.1	4	.1
TOTAL GROSS REVENUE	2729	100%	3047	100%	3278	100%	3480	100%	3692	100%
OPERATING EXPENSES										
Rooms	374	13.7	405	13.3	426	13.0	434	12.5	471	12.8
Food & Beverage	1179	43.2	1231	40.4	1249	38.1	1266	36.4	1299	35.2
Other Dept.	99	3.6	109	3.6	114	3.5	124	3.6	134	3.6
Admin. & General	246	9.0	256	8.4	265	8.1	278	8.0	292	7.9
Advertising & Promotion	120	4.4	107	3.5	108	3.3	115	3.3	122	3.3
Maintenance & Utilities	150	5.5	165	5.4	174	5.3	184	5.3	196	5.3
Insurance & Taxes	150	5.5	156	5.1	162	4.9	169	4.8	175	4.8
Rent	0	.0	0	.0	0	.0	0	.0	0	.0
Depreciation	188	6.9	0	.0	81	2.5	415	11.9	404	10.9
TOTAL OPERATING EXPENSES	2505	92.0	2428	80.0	2580	79.0	2985	86.0	3093	84.0
OPERATING PROFIT	224	8.2	620	20.3	698	21.3	496	14.2	599	16.2
Interest	523	19.1	514	16.9	506	15.4	496	14.3	486	13.2
EARNINGS BEFORE TAXES	(299)	(11.0)	105	3.5	192	5.9	(0)	(.0)	114	3.1
Current Tax	0	.0	0	.0	0	.0	0	.0	57	1.5
NET EARNINGS	(299)	(11.0)	105	3.5	192	5.9	(0)	(.0)	57	1.5
STATISTICS										
OCCUPANCY	60.0%		66.0%		70.0%		73.0%		76.0%	
AVERAGE RATE	\$19.50		\$21.00		\$22.25		\$23.25		\$24.25	
	\$	%	\$	%	\$	%	\$	%	\$	%
DEPARTMENT PROFITS										
Rooms	694	65.0	860	68.0	995	70.0	1115	72.0	1211	72.0
Food & Beverage	241	17.0	289	19.0	332	21.0	378	23.0	410	24.0
Other Dept.	(9)	(10.0)	(5)	(5.0)	0	.0	0	.0	0	.0
TOTAL DEPT. GROSS PROFITS	926	33.9	1144	37.5	1327	40.5	1493	42.9	1621	43.9
TOTAL DEDUCTIONS	516	18.9	527	17.3	547	16.7	578	16.6	609	16.5
GROSS OPERATING PROFIT	562	20.6	776	25.5	941	28.7	1080	31.0	1179	31.9

Fig 2.18 Estimating Revenues and Expenses

2.4 HOW TO ENSURE INVESTOR GET THE MOST VALUE FROM THE HOTEL FEASIBILITY STUDY

Essentially, a feasibility study should answer the core questions a stakeholder would have about the likelihood of the project's success while integrating an exploration of the spectrum of development opportunities available. To get the most value from your report, here are some key recommendations.

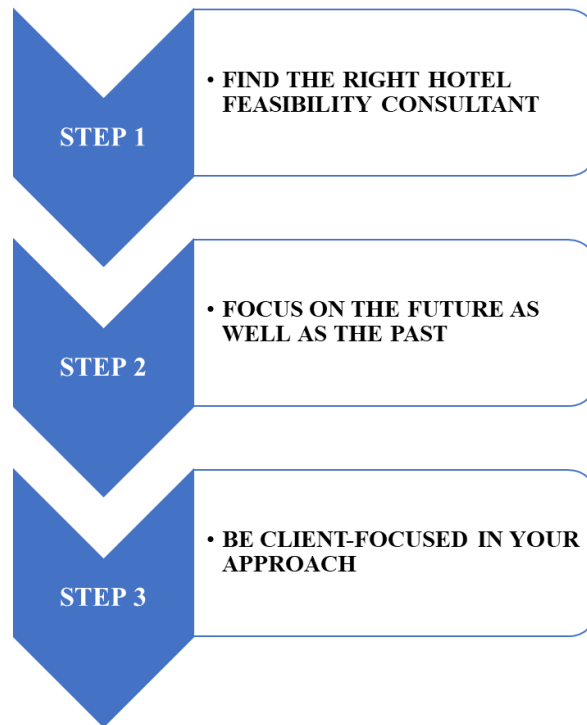


Fig 2.19 How to ensure investor get the most value from the hotel feasibility study

Step 1 – Find the right hotel feasibility consultant

Be sure to take the time to find the right consultant for your project. Ideally, you want someone who will get to know you, your project, and your vision, and can fully grasp what you're looking to achieve. Look for a hotel feasibility firm that goes beyond basic data analysis and will think outside the box, assessing all avenues and opportunities. The right hotel feasibility consultant can be a fantastic resource for guiding your project and should be able to showcase their direct experience with relevant developments in the hotel and resort industry.

Step 2 – Focus on the future as well as the past

Many feasibility studies focus primarily on historical revenue information and local market analysis, but consumer culture across the globe has changed rapidly in the last 18 months. As a result, the current and future expectations of business and leisure travelers are completely different from those just a few years ago.

A high-quality feasibility study for a project needs to assess future competitiveness and travel trends, while identifying and analyzing threats. One good example of this change in consumer culture is the increasing consumer demand for higher levels of sustainability, which will have a strong impact on commercial hotel success over coming years and is a strong example of the difference in expectations for a project in 2025 vs 2015.

Step 3 – Be client focused in approach

Always make sure that your end client's demands are at the core of your proposition. Take the time to evaluate the market, determine who your audience is, their values, travel needs, and economic position. By focusing on your target market, you can understand what's really

driving them in order to align your business more effectively. Make sure to build that strategy into your project's fundamentals. Whether you're focused towards events, retreats, romantic getaways, or city breaks, you need to ensure the guest demands and the future guest experience is assessed in practical and measurable ways as part of your competitive positioning.

2.5 KEY STEPS TO DELIVER THE FEASIBILITY STUDY



Fig 2.20 Key steps to deliver the feasibility study

Step 1 – Focus on a comprehensive hotel location analysis

In this stage, the physical size and location of the proposed development are analysed in detail. This includes site accessibility, visibility, and proximity to demand generators as well as evaluation of labour skills and vendors in the local area, existing infrastructure, communications infrastructure, zoning laws, local government restrictions, parking availability, and access to transport links like highways, airports, and railways.

The analysis will also evaluate the demographics, economic, and social conditions of the local area, looking at population trends, household growth, area economics, tourist attractions for business and leisure travelers, and businesses in the area. With sustainability and eco-friendly travel, experiential travel, corporate social responsibility, and buying local becoming big consumer trends in the marketplace, you need to have a detailed knowledge

of your local community in order to situate your hotel as an integrated and important part of it.

This can be critical in attaining local planning approvals, while also helping determine the amenities you should offer, the optimal room type and mix, parking requirements, and even forecasting future expansion. Additionally, it is also important to look at the scope of the project as a whole to understand different participants in your hotel development team and their roles, determining what expertise is needed to take your project from concept to brick-and-mortar reality.

Step 2 – Research a detailed, up to date hotel market analysis

Assessing demand generators - the current and future market expectations - is another important part of a feasibility study, essentially answering the question “If we build it, will they come?”. To forecast this accurately is challenging, however solid analysis is essential to understand the levels of demand that exist, where it lies, what draws people to your destination, and how these are related to the larger macroeconomic conditions and forecasts.

This part of the study tends to focus on two key areas – assessment of present and future demand in the market, given the current competitors to your proposed hotel or resort, and estimating operating income and expenses over the first 5-10 years to determine profitability.

This stage should also answer questions about defining your target market, learning what buying habits and values drive this market, understanding the market share more accurately, and starting the journey towards building market and brand awareness.

Additionally, this stage looks at your competition, answering questions about the performance and number of similar hotels and resorts in the area, their successful marketing tactics, recent new hotels being opened or hotels closing down, the market segmentation and penetration of competitors, and market projections on occupancy, average daily rate, and revenue per available room.

Step 3 – Understand the financial costs and forecasts

A feasibility study should lay out the financial costs of the project in detail, forecasting as accurately as possible the development of the hotel or resort, and the operating costs over the next 5-10 years. This is critical, as no matter how good an idea is, it's the financial impact that will be the most important deciding factor in moving ahead with the project.

This includes evaluating the resources needed to implement the project, where these resources are coming from and the costs involved, the realistic forecasting of income year-by-year, the break-even schedule, the financial risks associated with the project, staffing and labour costs according to area wage trends and government/union requirements, and even the cost of failure.

This may sound a little cold and bleak if you are passionate about your project, but it's critical to evaluate financial risks, be transparent, and develop the flexibility and insight needed to bring a project to life. Knowing the worst-case scenario is all about planning to prevent it.

Step 4 – Analyse and review your data to get a complete picture and develop flexibility

The feasibility study lays your concept out on the table, showcasing its viability through quantifiable, detailed data and expertise. This data is essential for not only the central decision of whether to move forward or not but also how to adapt the project to new opportunities the study has revealed. It raises awareness over risks that may not have been considered, looks at how market conditions or expectations may have changed, how the competition is performing and evolving and evaluates the business situation as a whole for a big picture view.

Proper analysis will help each stakeholder understand the proposal fully, and inform key decisions that will determine everything from architectural design and concept through to interior décor, tech solutions, staffing, vendors, amenities, and menus.

2.6 BUSINESS MODEL CANVAS

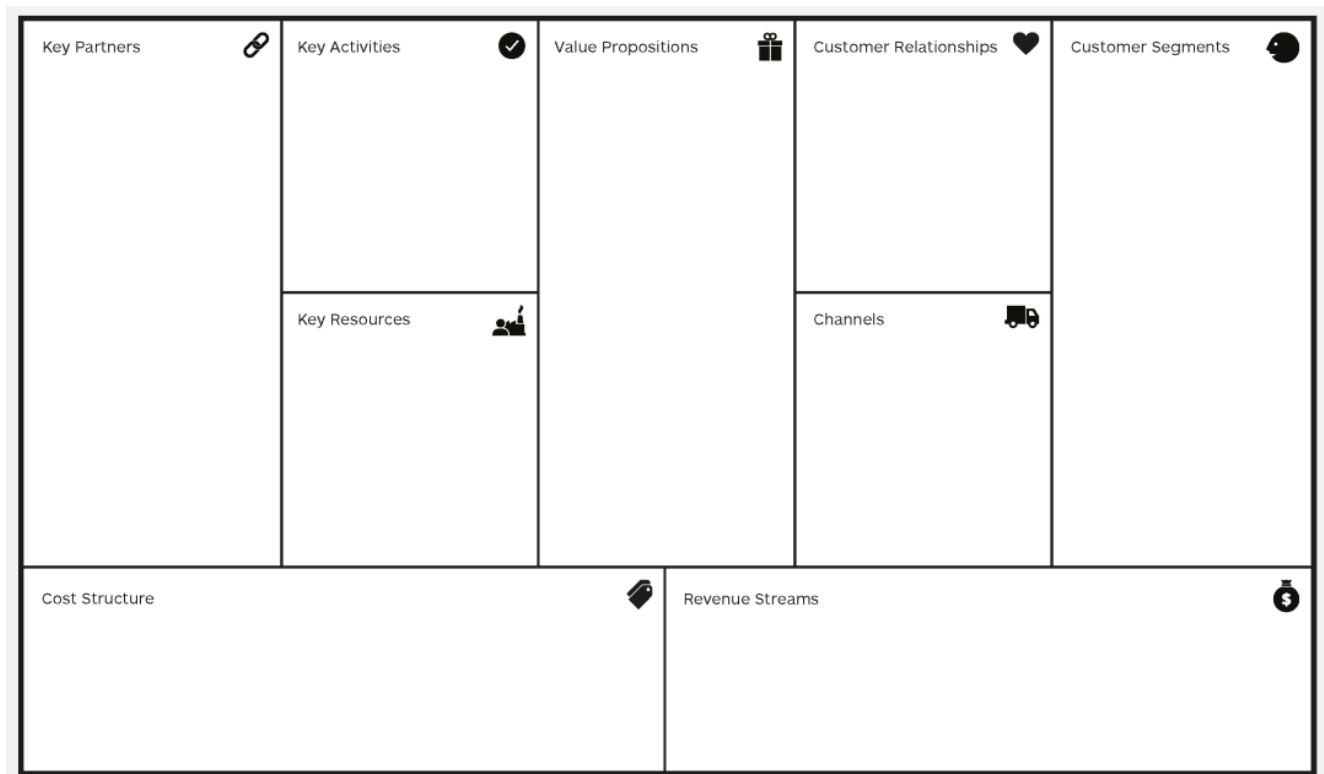


Fig 2.20 Business model canvas



Fig 2.21 Business model canvas division

2.6.1 Feasibility:

Key Resources:

The Key Resources describes one of the important assets required to make a business model work. Every business model requires Key Resources. These resources allow an enterprise to create and offer a Value Proposition, reach markets, maintain relationships with Customer Segments, and earn revenues.

- What key resources do our value proposition, channels, customer relationships, and revenue streams require?

There are 4 types of key resources,

- Physical resource
- Intellectual property
- Human resource
- Financial resource

Key Partnerships

The Key Activities Building Block describes the most important things a company must do to make its business model work. Every model calls for a number of Key Activities. These are the most important actions a company must take to operate successfully.

- Who are our Key Partners?
- Who are our key suppliers?
- Which Key Resources are we acquiring from partners?
- Which Key Activities do partners perform for us?

Three motivations for creating partnerships:

- Optimization and economy of scale
- Reduction of risk and uncertainty
- Acquisition of particular resources and activities

Key Activities

Our business model calls for a number of Key Activities. These are the most important actions our company must perform to operate successfully.

- What Key Activities do our Value Propositions require?
- Our Distribution Channels?

- Customer Relationships?
- Revenue streams?

Types of Key Activities:

- Production
- Problem solving
- Platform/network

2.6.2 Desirability

Value proposition:

Our Value Proposition is the reason why customers turn to our company over another. It solves our customer's problem or satisfies your customer's need. Each Value Proposition consists of a selected bundle of products and/or services that caters to the requirements of a specific Customer Segment.

- What value do we deliver to the customer?
- Which one of our customer's problems are we helping to solve?
- Which job are we helping the customer get done?
- Which customer needs are we satisfying?
- What bundles of products and services are we offering to each Customer Segment?

Types of Value Propositions

- Newness
- Performance
- Customization
- Design
- Brand/status
- Price
- Cost reduction
- Risk reduction
- Accessibility
- Convenience/usability

Customer relationship:

Our company should clarify the type of relationship we want to establish with each Customer Segment. Relationships are established through our different Channels. Relationships can range from personal to automated, from transactional to long-term, and can aim to acquire customers, retain customers, or boost sales (upselling).

- What type of relationship does each of our Customer Segments expect us to establish and maintain with them?
- Which ones have we established?
- How costly are they?
- How are they integrated with the rest of our business model?

Types of Customer Relationships

- Transactional
- Long-term
- Personal assistance
- Automated services

- Communities
- Switching costs
- Co-creation

Channels:

Our communication, distribution, and sales Channels comprise our company's interface with customers. Our Channels are customer touch points that play an important role in the customer experience.

- Through which Channels do our Customer Segments want to be reached?
- How are we reaching them now?
- How are our Channels integrated? Which ones work best?
- Which ones are most cost-efficient?
- How are we integrating them with customer routines?

Types of Channels

Owned Direct

Owned Channels have higher margins, but can be costly to put in place and to operate.

Partner Indirect

Partner Channels lead to lower margins, but they allow an organization to expand its reach and benefit from partner strengths.

Customer segment:

Customers comprise the heart of our business model. Without (profitable) customers, our company can not survive for long. In order to better satisfy our customers, we may group them into distinct segments with common needs, jobs-to-get-done, common behaviors, or other attributes. Our business model may have one or several large or small Customer Segments.

- For whom are we creating value?
- Who are our most important customers, clients, or users?

Types of Customer segments

- Mass market

The Value Propositions, Distribution Channels, and Customer Relationships all focus on one large group of customers with broadly similar needs

- Niche market

The Value Propositions, Distribution Channels, and Customer Relationships are all tailored to the specific requirements of a niche market. Such business models are often found in supplier-buyer relationships.

- Diversified

An organization with a diversified customer business model serves two unrelated Customer Segments with very different needs

- Multi-sided platforms (or multi-sided markets)

Some organizations serve two or more interdependent Customer Segments.

2.6.3 Viability:

Cost structure:

Creating and delivering value, maintaining Customer Relationships, and generating revenue all incur costs. Such costs can be calculated relatively easily after defining Key Resources, Key Activities, and Key Partnerships

- What are the most important costs inherent in our business model?
- Which Key Resources are most expensive?
- Which Key Activities are most expensive?

A Cost Structures can have the following attributes:

- Economies of scale
- Economies of scope
- Fixed cost
- Variable cost
-

Revenue streams:

Each Revenue Stream may have different pricing mechanisms, such as fixed list prices, bargaining, auctioning, market dependent, volume dependent, or yield management.

- For what value are our customers really willing to pay?
- How would they prefer to pay?
- How much does each Revenue Stream contribute to overall revenues in terms of percentages of the total?

There are several ways to generate Revenue Streams:

- Asset sale
- Usage fee
- Subscription fees
- Lending/Renting/Leasing
- Licensing
- Brokerage fees
- Advertising



Fig 2.22 Business model canvas questions

CHAPTER 3 CASE STUDY

3.1 HOTEL ROYAL COURT - MADURAI:

LOCATION:

No4, West Veli Street, Opposite to Railway Station, Madurai, Tamil Nadu 625001.

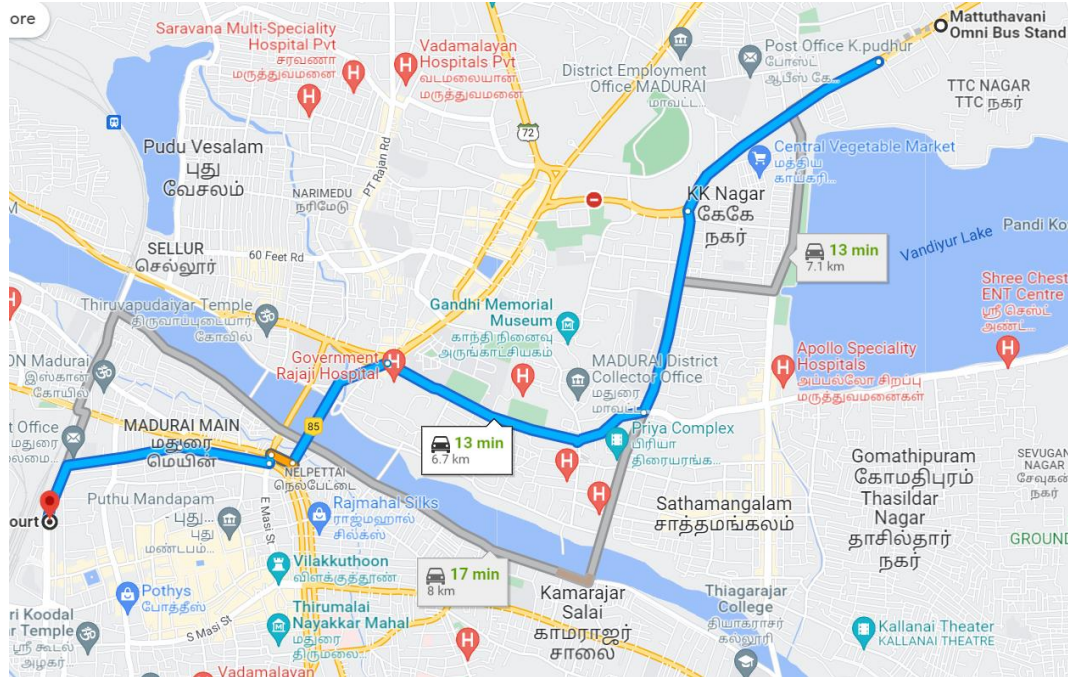


Fig 3.1 Location map

BRIEF:

Hotel Royal Court – Madurai 15 years legacy of delivering value and seamless customer experience. Being the best in enhancing hospitality experience in the city center has earned its reputation of being a cherished name in the corporate business and leisure tourism hospitality industry. They focus intimate attention to details, technology driven interaction offer a wide range of personalized and tailor-made services for our clients.

Table 3.1 Rooms description

TYPE OF ROOM	TOTAL NUMBERS	COST PER DAY (24 HOURS)
SUPERIOR - SINGLE	18	3400
SUPERIOR - DOUBLE	10	4200
PREMIUM - SINGLE	18	4100
PREMIUM - DOUBLE	10	4700
SUITE	4	7500
TOTAL	60	

Table 3.2 Facility table – specific to room

CASE STUDY - ROYAL COURT, MADURAI					
FACILITIES AND SERVICES	SUPERIOR		PREMIUM		SUITE
	SINGLE	DOUBLE	SINGLE	DOUBLE	SUITE
Full time operation 7 days a week in season	PROVIDED	PROVIDED	PROVIDED	PROVIDED	PROVIDED
Establishment to have all necessary trading licenses / Permissions	PROVIDED	PROVIDED	PROVIDED	PROVIDED	PROVIDED
Bedrooms, Bathrooms, Public areas and kitchen fully services daily	PROVIDED	PROVIDED	PROVIDED	PROVIDED	PROVIDED
Minimum size of bedroom excluding bathroom should be 130sq.ft.	165 sq.ft	165 sq.ft	210 sq.ft	210 sq.ft	330 sq.ft
Air – conditioning - 50 % of Rooms	100%	100%	100%	100%	100%
A clean change of bed and bath linen daily and between check –in	PROVIDED	PROVIDED	PROVIDED	PROVIDED	PROVIDED
Minimum bed width for single 90 cm and double 180 cm	(4.5' * 6.5') - 1 bed	(2.5' * 6.5') - 2 beds	(5' * 6.5') - 1 bed	(3' * 6.5') - 2 beds	(6' * 6.5') - 1 bed
Mattress thickness minimum 10 cm	20.3 cm	20.3 cm	20.3 cm	20.3 cm	25.3 cm
Minimum bedding 2 sheets, pillow and case, blanket, mattress protector / bed cover	PROVIDED	PROVIDED	PROVIDED	PROVIDED	PROVIDED
Hairdryers	PROVIDED	PROVIDED	PROVIDED	PROVIDED	PROVIDED
Drinking water with minimum one glass per guest.	PROVIDED	PROVIDED	PROVIDED	PROVIDED	PROVIDED
All 3 Star hotels shall have facility of a mini fridge	PROVIDED	PROVIDED	PROVIDED	PROVIDED	PROVIDED
Shelves / drawer space	PROVIDED	PROVIDED	PROVIDED	PROVIDED	PROVIDED
Wardrobe with minimum 4 clothes hangers per bedding	PROVIDED	PROVIDED	PROVIDED	PROVIDED	PROVIDED
Sufficient lighting (1 lamp per bed)	PROVIDED	PROVIDED	PROVIDED	PROVIDED	PROVIDED
A 5 amp earthed power socket	PROVIDED	PROVIDED	PROVIDED	PROVIDED	PROVIDED
A bedside table and drawer	PROVIDED	PROVIDED	PROVIDED	PROVIDED	PROVIDED
TV Cable if available	PROVIDED	PROVIDED	PROVIDED	PROVIDED	PROVIDED
A writing surface with sufficient lighting	PROVIDED	PROVIDED	PROVIDED	PROVIDED	PROVIDED
Chairs (wooden chairs - wc, cushion sofa -cs)	1 wc, 1 cs	1 wc, 1 cs	1 wc, 2 cs	1 wc, 2 cs	2 wc, 3 cs
Waste paper basket	1	1	1	1	3
Opaque curtains or screening at all windows	PROVIDED	PROVIDED	PROVIDED	PROVIDED	PROVIDED
A mirror at least half length (3 ft.)	PROVIDED	PROVIDED	PROVIDED	PROVIDED	PROVIDED
A stationary folder containing stationary	PROVIDED	PROVIDED	PROVIDED	PROVIDED	PROVIDED

A 'do not disturb' notice	PROVIDED	PROVIDED	PROVIDED	PROVIDED	PROVIDED
Night spread / bed cover	PROVIDED	PROVIDED	PROVIDED	PROVIDED	PROVIDED
All rooms with attached bathrooms	PROVIDED	PROVIDED	PROVIDED	PROVIDED	PROVIDED
Minimum size of bathroom (36sq.ft)	62sq.ft	62sq.ft	75sq.ft	75sq.ft	120sq.ft
1 bath towel and 1 hand towel to be provided per guest	1 set	2 set	1 set	2 set	2 set
Bath Mat	1	1	2	2	2
Guest toiletries to be provided. Minimum 1 new soap per guest. (1 set with 1 soap, 1 brush, 1 paste, 1 shampoo, 1 comb)	1 set	2 set	1 set	2 set	2 set
Clothes – hooks in each bath / shower room	PROVIDED	PROVIDED	PROVIDED	PROVIDED	PROVIDED
Sanitary bin	1	1	1	1	1
Each western WC toilet to have a seat with lid and toilet paper.	PROVIDED	PROVIDED	PROVIDED	PROVIDED	PROVIDED
All Star hotels shall provide water sprays or bidets or washlets or other modern water based post - toilet – paper hygiene facilities.	PROVIDED	PROVIDED	PROVIDED	PROVIDED	PROVIDED
Floors and walls to have non – porous surfaces	PROVIDED	PROVIDED	PROVIDED	PROVIDED	PROVIDED
Hot and Cold running water available 24 hours	PROVIDED	PROVIDED	PROVIDED	PROVIDED	PROVIDED
Shower cabin	PROVIDED	PROVIDED	PROVIDED	PROVIDED	PROVIDED
Mini locker	PROVIDED	PROVIDED	PROVIDED	PROVIDED	PROVIDED

Table 3.3 Facility table – general

FACILITIES & SERVICES (guest services)
Provision for wheelchair for the differently abled guest
Valet (parking) services to be available
Paid transportation on call
Ice (from drinking water) on demand
Iron and Iron Board facility
Acceptance of common credit cards and facility/ infrastructure for accepting/ making payments by digital transactions
Assistance with luggage on request
A public telephone on premises. Unit charges made known
Wake – up call service on request
Messages for guests to be recorded and delivered
Name address and telephone number of doctors with front desk
Access to travel desk facilities
Left luggage facilities
Provision for emergency supplies toiletries / first aid kit

FACILITIES & SERVICES (safety and security)
Metal detectors (door frame or hand held)
CCTV at strategic location
Verification
Staff trained in firefighting Drill
Security arrangements for all hotels entrances.
Each bedroom door to be fitted with lock and key, viewport / peephole & internal securing device
Smoke Detectors
Fire and Emergency alarms should have visual & audible signals.
First aid kit with over the counter medicines at the front desk
Fire Exit Signs on guest floors with emergency / backup power.
FACILITIES & SERVICES (communication)
Provide at least two multi – purpose sockets
A telephone for incoming & outgoing calls in the room
PC available for guest use with internet access
E -mail service
Fax, photocopy and printing Services
Parking Facilities
FACILITIES & SERVICES (GENERAL)
Lounge or seating area in the lobby
Reception facility
Valet (parking) services to be available
Availability of Room, F&B and other tariff
Public rest rooms for ladies and gents, a wash basin with running hot and cold water, a mirror, a sanitary bin with lid in unisex 7 ladies

toilet
At least one room for the differently abled guest
Ramps with anti -slip floors at the entrance. Minimum door width should be one meter to allow wheel chair access
Public Restrooms
One Multi – cuisine Restaurant cum Coffee Shop open from 07.00 am. To 11.00 pm. And 24 hr. Room Service.
Cutlery to be at least stainless steel

Organization structure:

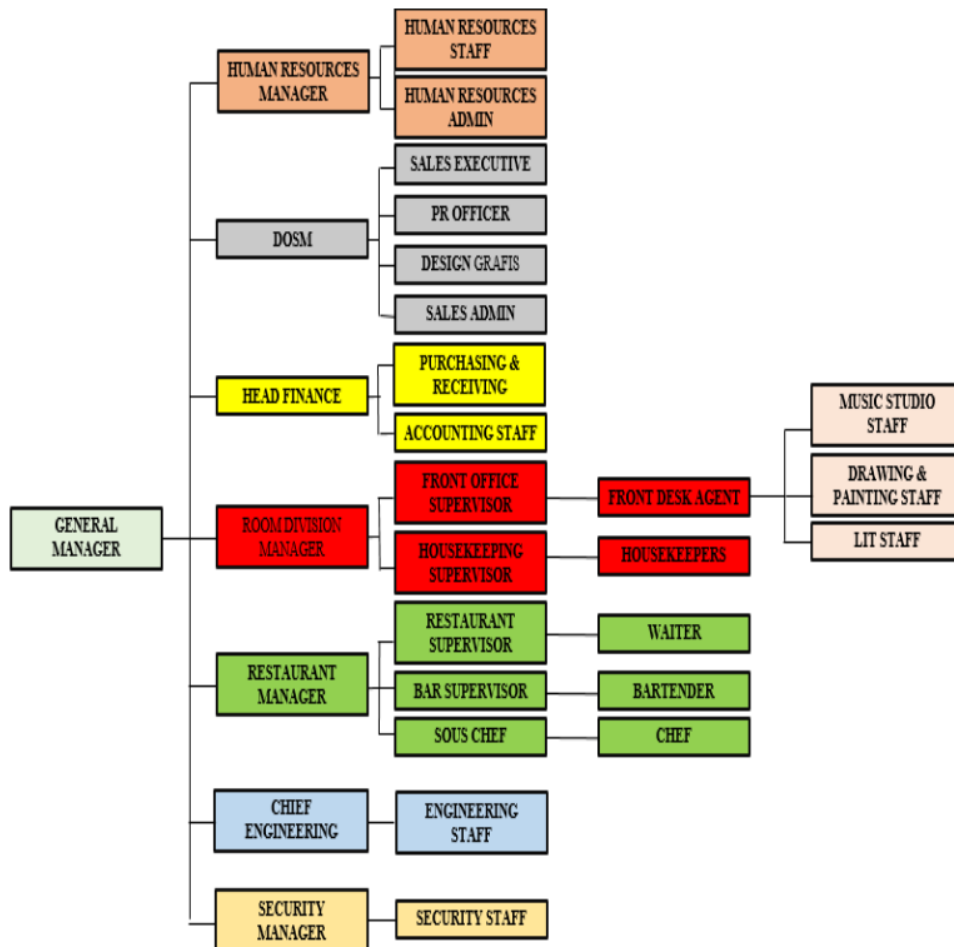


Fig 3.2 Organization structure

Table 3.4 Channel service

CHANNEL NAME	% OF THEIR SERVICE
Agoda	10%
HotelsCombined	15%
Make My Trip	15%
Trip advisor	20%
Kayak	15%
Skyscanner	20%
Goibibo	15%
Yatra	10%
Ease My trip	20%
Via	15%
Trivago	20%
Booking .com	15%
Expedia	15%
Ostravok	15%
Ebookers	15%
Travelocity	20%
Orbitz	15%
Priceline	10%
Hotels.com	15%
Bluepillow.com	15%
Watif	10%
Esky	15%
Find hotel	20%

Cost related to selling price:

Table 3.5 Cost related to selling price

COST SHEET											
TYPE	ROOM RENT	ELECTRICITY AND WIFI (2%)	GUEST SUPPLIES	BREAK FAST	GUEST AMENITIES (25%)	LEVEL 1 COST	PROMOTION (20%)	SELLING PRICE	CGST (9%)	SGST (9%)	TOTAL COST
SUPERIOR - SINGLE	₹ 1,911.11	₹ 55.56	₹ 50.00	₹ 250.00	₹ 566.67	₹ 2,833.33	₹ 566.67	₹ 3,400.00	₹ 306.00	₹ 306.00	₹ 4,012.00
SUPERIOR - DOUBLE	₹ 2,131.37	₹ 68.63	₹ 100.00	₹ 500.00	₹ 700.00	₹ 3,500.00	₹ 700.00	₹ 4,200.00	₹ 378.00	₹ 378.00	₹ 4,956.00
PREMIUM - SINGLE	₹ 2,366.34	₹ 66.99	₹ 50.00	₹ 250.00	₹ 683.33	₹ 3,416.67	₹ 683.33	₹ 4,100.00	₹ 369.00	₹ 369.00	₹ 4,838.00
PREMIUM - DOUBLE	₹ 2,456.54	₹ 76.80	₹ 100.00	₹ 500.00	₹ 783.33	₹ 3,916.67	₹ 783.33	₹ 4,700.00	₹ 423.00	₹ 423.00	₹ 5,546.00
SUITE	₹ 4,257.45	₹ 122.55	₹ 120.00	₹ 500.00	₹ 1,250.00	₹ 6,250.00	₹ 1,250.00	₹ 7,500.00	₹ 675.00	₹ 675.00	₹ 8,850.00

Table 3.6 Cost with out food

TYPE	COST WITH OUT FOOD
SUPERIOR - SINGLE	₹ 3,150.00
SUPERIOR - DOUBLE	₹ 3,700.00
PREMIUM - SINGLE	₹ 3,850.00
PREMIUM - DOUBLE	₹ 4,200.00
SUITE	₹ 7,000.00

Table 3.7 Average occupancy table

AVERAGE OCCUPANCY TABLE (2011 - 2021)													
TYPE	JAN	FEB	MAR	APR	MAY	JUN	JULY	AUG	SEP	OCT	NOV	DEC	AVG.
SUPERIOR - SINGLE	77%	61%	60%	76%	75%	63%	64%	58%	56%	53%	51%	69%	64
SUPERIOR - DOUBLE	79%	66%	59%	78%	73%	67%	67%	63%	59%	58%	53%	72%	66
PREMIUM - SINGLE	73%	59%	60%	72%	69%	57%	62%	59%	58%	62%	53%	60%	62
PREMIUM - DOUBLE	75%	64%	57%	79%	76%	59%	69%	56%	53%	64%	55%	58%	64
SUITE	79%	53%	51%	63%	68%	55%	62%	52%	50%	48%	49%	51%	57

Table 3.8 Average income statement

PRIMARY INCOME STATEMENT (AVERAGE)					
TYPE	NO. ROOMS	NO. ROOMS AVAILABLE	YEARLY OCCUPANCY	ROOM COST	TOTAL INCOME
SUPERIOR - SINGLE	18	6570	64	3150	₹ 1,32,45,120.00
SUPERIOR - DOUBLE	10	3650	66	3700	₹ 86,43,200.00
PREMIUM - SINGLE	18	6570	62	3850	₹ 1,61,88,480.00
PREMIUM - DOUBLE	10	3650	64	4200	₹ 98,11,200.00
SUITE	4	1460	57	7000	₹ 65,40,800.00
				TOTAL INCOME	₹ 5,44,28,800.00

Table 3.9 Total income statement

TOTAL INCOME STATEMENT		
TYPE	PERCENTAGE	COST
ROOMS (WITH OUT FOOD)	56.7	₹ 5,44,28,800.00
FOOD AND BEVARAGE	37.5	₹ 3,59,97,883.60
OTHERS	5.8	₹ 55,67,672.66
TOTAL INCOME	100	₹ 9,59,94,356.26

3.2 M3 BOTIQUE HOTEL - MADURAI:

LOCATION:

No, 24, Panagal Rd, Madurai, Tamil Nadu 625020

BRIEF:

Set within 20-minutes' walk of Alagar Kovil, the excellent M3 Boutique Hotel Madurai comprises 27 rooms with views over the city. Free Wi Fi is available in the rooms as well as a free car park, a restaurant and complimentary private parking are available on site. Guests can avail themselves of air-conditioned rooms equipped with wireless Internet, satellite TV and free Wi-Fi. Bath sheets, free toiletries and slippers are also included in the units.

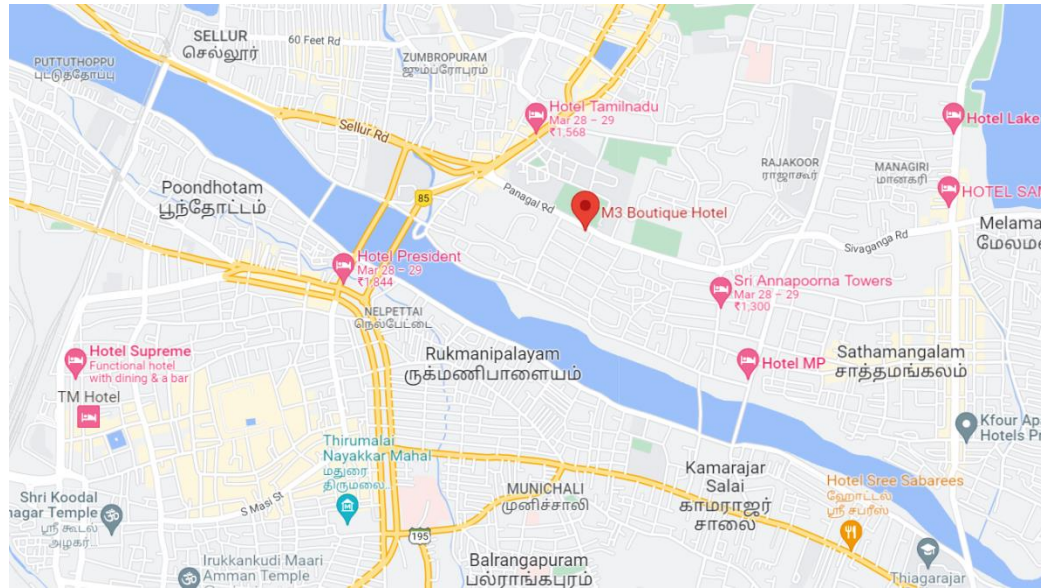


Fig 3.3 M3 location

Table 3.10 Cost as per type of room

TYPE OF ROOM	TOTAL NUMBERS	COST PER DAY (24 HOURS)
SUPERIOR	15	1500
PREMIUM	10	1700
SUITE	2	2200
TOTAL	27	

Table 3.11 M3 botique facilities in room

CASE STUDY - M3 BOTIQUE , MADURAI			
FACILITIES AND SERVICES	SUPERIOR	PREMIUM	SUITE
Full time operation 7 days a week in season	PROVIDED	PROVIDED	PROVIDED
Establishment to have all necessary trading licenses / Permissions	PROVIDED	PROVIDED	PROVIDED
Bedrooms, Bathrooms, Public areas and kitchen fully services daily	PROVIDED	PROVIDED	PROVIDED
Minimum size of bedroom excluding bathroom should be 130sq.ft.	145 sq.ft	180 sq.ft	210 sq.ft
Air – conditioning - 50 % of Rooms	100%	100%	100%
A clean change of bed and bath linen daily and between check –in	PROVIDED	PROVIDED	PROVIDED
Minimum bed width for single 90 cm and double 180 cm	(4.5' * 6.5') - 1 bed	(5' * 6.5') - 1 bed	(6' * 6.5') - 1 bed
Mattress thickness minimum 10 cm	20.3 cm	20.3 cm	25.3 cm
Minimum bedding 2 sheets, pillow and case, blanket, mattress protector / bed cover	PROVIDED	PROVIDED	PROVIDED
Hairdryers	PROVIDED	PROVIDED	PROVIDED
Drinking water with minimum one glass per guest.	PROVIDED	PROVIDED	PROVIDED
All 3 Star hotels shall have facility of a mini fridge	NO	NO	PROVIDED
Shelves / drawer space	PROVIDED	PROVIDED	PROVIDED
Wardrobe with minimum 4 clothes hangers per bedding	PROVIDED	PROVIDED	PROVIDED
Sufficient lighting (1 lamp per bed)	PROVIDED	PROVIDED	PROVIDED
A 5 amp earthed power socket	PROVIDED	PROVIDED	PROVIDED
A bedside table and drawer	PROVIDED	PROVIDED	PROVIDED
TV Cable if available	PROVIDED	PROVIDED	PROVIDED
A writing surface with sufficient lighting	NO	PROVIDED	PROVIDED
Chairs (wooden chairs - wc, cushion sofa -cs)	NO	1 wc	3 cs
Waste paper basket	1	1	1

Opaque curtains or screening at all windows	PROVIDED	PROVIDED	PROVIDED
A mirror at least half length (3 ft.)	PROVIDED	PROVIDED	PROVIDED
A stationary folder containing stationary	NO	NO	PROVIDED
A 'do not disturb' notice	PROVIDED	PROVIDED	PROVIDED
Night spread / bed cover	PROVIDED	PROVIDED	PROVIDED
All rooms with attached bathrooms	PROVIDED	PROVIDED	PROVIDED
Minimum size of bathroom (36sq.ft)	55sq.ft	55sq.ft	70sq.ft
1 bath towel and 1 hand towel to be provided per guest	1 set	1 set	1 set
Bath Mat	1	1	1
Guest toiletries to be provided. Minimum 1 new soap per guest. (1 set with 1 soap, 1 brush, 1 paste, 1 shampoo, 1 comb)	1 set	1 set	1 set
Clothes – hooks in each bath / shower room	PROVIDED	PROVIDED	PROVIDED
Sanitary bin	1	1	1
Each western WC toilet to have a seat with lid and toilet paper.	PROVIDED	PROVIDED	PROVIDED
All Star hotels shall provide water sprays or bidets or washlets or other modern water based post - toilet – paper hygiene facilities.	PROVIDED	PROVIDED	PROVIDED
Floors and walls to have non – porous surfaces	PROVIDED	PROVIDED	PROVIDED
Hot and Cold running water available 24 hours	PROVIDED	PROVIDED	PROVIDED
Shower cabin	NO	NO	PROVIDED
Mini locker	NO	PROVIDED	PROVIDED

Table 3.12 M3 boutique facilities in general

FACILITIES & SERVICES (guest services)
Provision for wheelchair for the differently abled guest
Valet (parking) services to be available
Paid transportation on call
Ice (from drinking water) on demand
Iron Board facility
Acceptance of common credit cards and facility/ infrastructure for accepting/ making payments by digital transactions
Assistance with luggage on request

A public telephone on premises. Unit charges made known
Wake – up call service on request
Messages for guests to be recorded and delivered
Name address and telephone number of doctors with front desk
Access to travel desk facilities
Left luggage facilities
Provision for emergency supplies toiletries / first aid kit
FACILITIES & SERVICES (safety and security)
Metal detectors (door frame or hand held)
CCTV at strategic location
Verification
Staff trained in firefighting Drill
Security arrangements for all hotels entrances.
Each bedroom door to be fitted with lock and key, viewport / peephole & internal securing device
Smoke Detectors
Fire and Emergency alarms should have visual & audible signals.
First aid kit with over the counter medicines at the front desk
Fire Exit Signs on guest floors with emergency / backup power.
FACILITIES & SERVICES (communication)
Provide at least two multi – purpose sockets

A telephone for incoming & outgoing calls in the room
PC available for guest use with internet access
E -mail service
Fax, photocopy and printing Services
Parking Facilities
FACILITIES & SERVICES (GENERAL)
Lounge or seating area in the lobby
Reception facility
Valet (parking) services to be available
Availability of Room, F&B and other tariff
Public rest rooms for ladies and gents, a wash basin with running hot and cold water, a mirror, a sanitary bin with lid in unisex 7 ladies toilet
At least one room for the differently abled guest
Ramps with anti -slip floors at the entrance. Minimum door width should be one meter to allow wheel chair access
Public Restrooms
One Multi – cuisine Restaurant cum Coffee Shop open from 07.00 am. To 11.00 pm. And 24 hr. Room Service.
Cutlery to be at least stainless steel

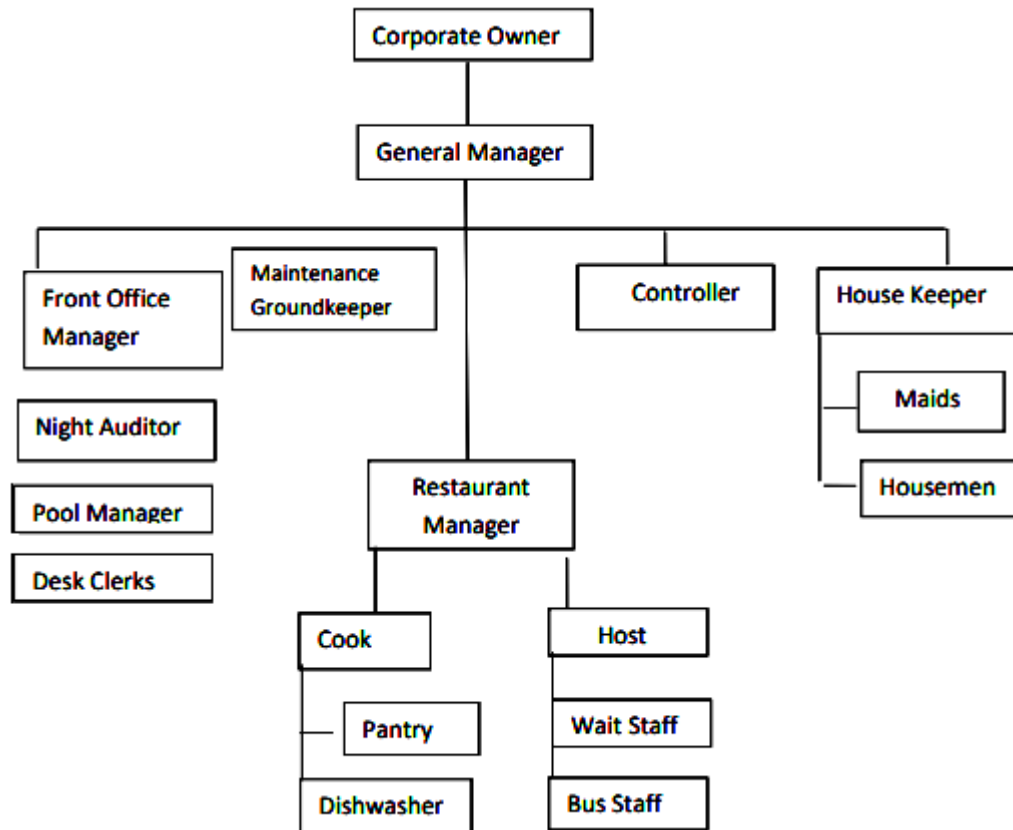


Fig 3.4 M3 organization structure

Table 3.12 M3 botique channels service

CHANNEL NAME	% OF THEIR SERVICE
Agoda	10%
HotelsCombined	15%
Make My Trip	15%
Hotels.com	15%
Kayak	15%
Esky	15%
Goibibo	15%
Yatra	10%
Watif	10%

Via	15%
Bluepillow.com	15%
Booking .com	15%
Expedia	15%
Ostravok	15%
Ebookers	15%
Priceline	10%
Orbitz	15%
Priceline	10%

Table 3.13 M3 botique cost related to selling price

COST SHEET											
TYPE	ROOM RENT	ELECTRICITY AND WIFI (1%)	GUEST SUPPLIES	BREAK FAST	GUEST AMENITIES (10%)	LEVEL 1 COST	PROMOTION (15%)	SELLING PRICE	CGST (9%)	SGST (9%)	TOTAL COST
SUPERIOR - DOUBLE	₹ 822.86	₹ 12.91	₹ 50.00	₹ 300.00	₹ 118.58	₹ 1,304.35	₹ 195.65	₹ 1,500.00	₹ 135.00	₹ 135.00	₹ 1,770.00
PREMIUM - DOUBLE	₹ 817.97	₹ 14.64	₹ 50.00	₹ 300.00	₹ 295.65	₹ 1,478.26	₹ 221.74	₹ 1,700.00	₹ 153.00	₹ 153.00	₹ 2,006.00
SUITE	₹ 1,161.49	₹ 18.94	₹ 50.00	₹ 300.00	₹ 382.61	₹ 1,913.04	₹ 286.96	₹ 2,200.00	₹ 198.00	₹ 198.00	₹ 2,596.00

Table 3.14 Case study inference

INFERENCE	
ELECTRICITY AND WIFI	In order to reduce the electricity cost they have used solar panels and used less energy electrical equipments.
GUEST SUPPLIES	They provide only important supplies like (soap, brush, paste, etc) and avoid supplies like slippers, hot drink tray, etc.
BREAK FAST	They provide less varieties in their break fast.
GUEST AMENITIES	The amenities are less in this hotel compared to royal court. (like gym, yoga room, etc)
PROMOTION	The channels they select will have less than 15% of service charge.
TAXES	The taxes are common in both the case studies.

CHAPTER 4 DATA ANALYSIS



Fig 4.1 Steps of data analysis

4.1 SUPPLIES AND DEMAND ANALYSIS:

Table 4.1 Travellers index (as per tourism department)

TRAVELERS PERCENTAGE		
MONTH	DOMESTIC	FOREIGN
JANUARY	9.6%	12.3%
FEBRUARY	8.4%	10.9%
MARCH	8.2%	9.7%
APRIL	8.4%	9.3%
MAY	8%	8.9%
JUNE	8.2%	5.6%
JULY	8.1%	7.4%
AUGUST	7.9%	6.2%
SEPTEMBER	7.9%	5.7%
OCTOBER	7.8%	6.6%
NOVEBER	8.3%	7.1%
DECEMBER	9.2%	10.3%

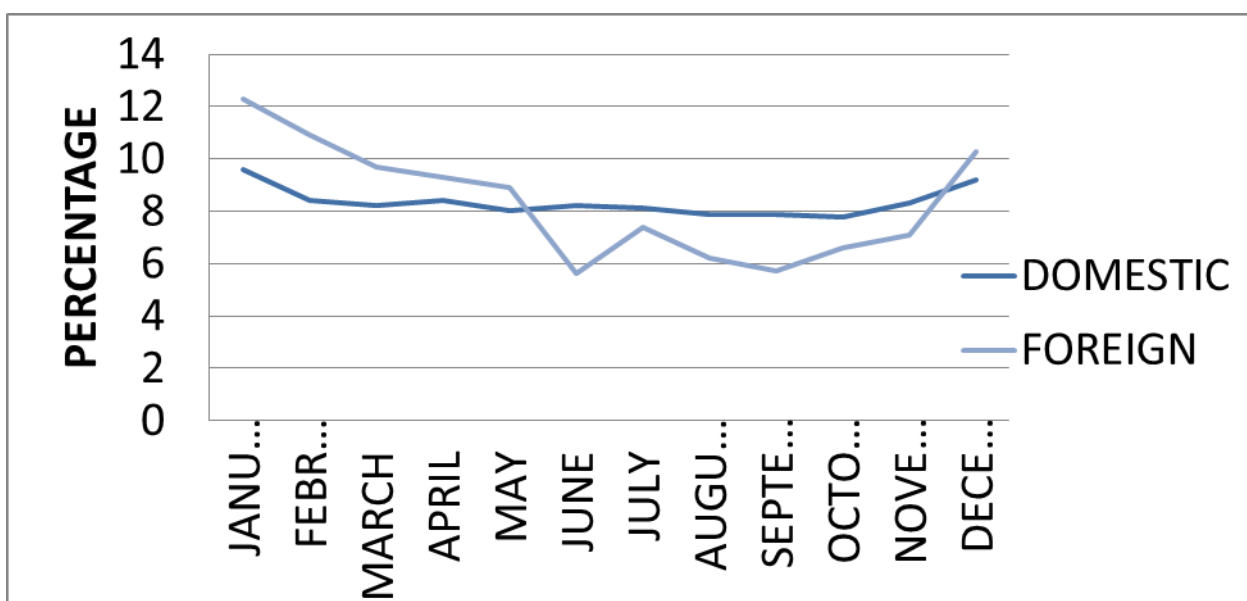


Fig 4.2 Travellers index

Table 4.2 Travellers index forecast

	2019	2023	2024	2025	2026	2027
DOMESTIC	11661031	12663880	13752973	14935729	16220202	17615139
FOREIGN	269937	283974	298740	314275	330617	347809
TOTAL	11930968	12947853	14051714	15250004	16550819	17962948
ROOMS REQUIRED / YEAR	5965484	6473927	7025857	7625002	8275409	8981474

INFERENCE:

The 75% occupancy rate is normally used for it is a point of healthy balance between supply and demand. But the city's average occupancy rate is only 60.3% (as per Tamilnadu tourism department) the demand is less in the city already so there is no need of adding extra room to the selected hotel.

4.2 MARKET ANALYSIS:

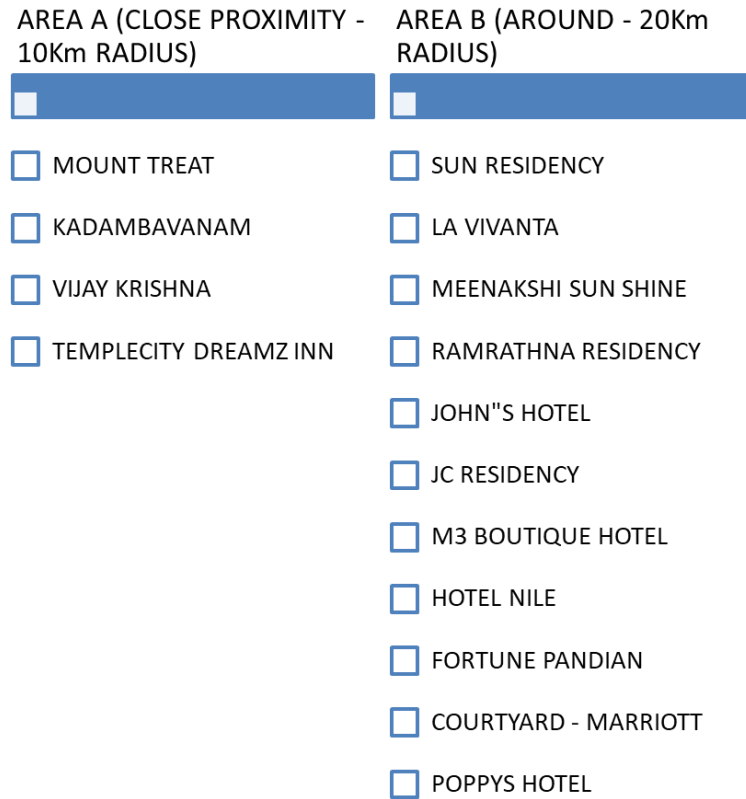


Fig 4.3 Competitors based on close proximity



Fig 4.4 Market analysis steps

4.2.1 Comparison of cost

Table 4.3 Cost comparison

COST STATEMENTS						
NAME	TYPE	DELUXE	SUPER-DELUXE	SUITE	EXTRA BED	AVERAGE ROOM RATE
AREA A (CLOSE PROXIMITY - 10Km RADIUS)						
MOUNT TREAT	RESORT	0	4800	5600	800	5200.0
KADAMBAVANAM	RESORT	2000	2700	3300	800	2666.7
VIJAY KRISHNA	LODGE	1800	2500	0	500	2150.0
TEMPLECITY DREAMZ INN	NO STAR HOTEL	1000	2000	0	700	1500.0
AVERAGE		1600	3000	4450	700	3016.7
AREA B (AROUND - 20Km RADIUS)						
SUN RESIDENCY	NO STAR HOTEL	700	1100	0	700	900.0
LA VIVANTA	NO STAR HOTEL	3200	4000	4800	1000	4000.0
MEENAKSHI SUN SHINE	NO STAR HOTEL	1700	2100	2500	700	2100.0
RAMRATHNA RESIDENCY	NO STAR HOTEL	2300	3000	0	700	2650.0
JOHN"S HOTEL	NO STAR HOTEL	3000	5000	0	800	4000.0
JC RESIDENCY	3 STAR	0	7000	10000	1500	8500.0
M3 BOUTIQUE HOTEL	NO STAR HOTEL	1300	1500	1700	500	1500.0
HOTEL NILE	NO STAR HOTEL	1500	2000	2500	500	2000.0
FORTUNE PANDIAN	3 STAR	5000	8000	12000	1500	8333.3
COURTYARD - MARRIOTT	5 STAR	7000	8000	12000	1500	9000.0
POPPYS HOTEL	3 STAR	4000	5000	7500	1000	5500.0
AVERAGE		2970.0	4245.5	6625.0	945.5	4613.5

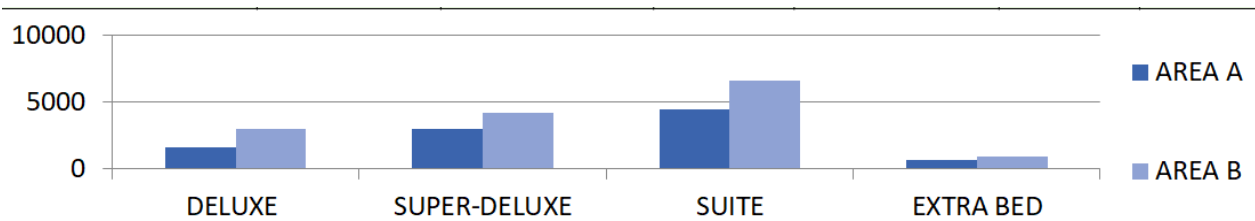


Fig 4.5 Cost comparison

4.2.2 Location analysis

Table 4.4 Location analysis

LOCATION ANALYSIS										
NAME	Madurai Railway Station	Mattuthavani Bus Terminus	Madurai Airport	Aarapalayam Bus Terminus	Average	Azhagar Kovil	Meenakshi Temple	Tirumalai Nayakkar Palace	VANDIYOOR LAKE	Average
	TRANSPORTATION					ATTRACTING SPOTS				
AREA A (CLOSE PROXIMITY - 10Km RADIUS)										
MOUNT TREAT	19.4	15.3	28.6	18.1	20.4	3.8	18.9	19.3	19.2	15.3
KADAMBAVANAM	25.1	22.6	31.7	30	27.4	10.1	21.3	23.2	21.5	19.
VIJAY KRISHNA	6.5	1.6	15.1	6.1	7.3	14.5	5.7	5.8	5.4	7.9
TEMPLECITY DREAMZ INN	6.4	1.4	14.9	6.1	7.2	14.7	5.6	5.7	5.2	7.8
AVERAGE	14.4	10.2	22.6	15.1	15.6	10.8	12.9	13.5	12.8	12.5
AREA B (AROUND - 20Km RADIUS)										
SUN RESIDENCY	6.8	1.1	14.8	6.9	7.4	15	5.9	5.8	4.6	7.8
LA VIVANTA	5.7	0.1	13.9	5.8	6.4	15.8	4.8	4.8	2	6.9
MEENAKSHI SUN SHINE	6.4	0.7	14.5	6.5	7.0	15.3	5.5	5.4	1	6.8
RAMRATHNA RESIDENCY	7.8	0.6	17.2	8.7	8.6	15.4	5.5	5.3	4.2	7.6
JOHN'S HOTEL	6.7	0.35	18.3	7.3	8.2	16.8	5.9	6.1	3.9	8.2
JC RESIDENCY	3.9	4.1	18.8	4.7	7.9	17.6	2.5	2.7	3.5	6.6
M3 BOUTIQUE HOTEL	2.8	3.6	16.8	3.7	6.7	18.7	1.8	1.6	2.4	6.1
HOTEL NILE	4.8	1.4	17.9	5.6	7.4	17.9	4.3	4.4	2.8	7.4
FORTUNE PANDIAN	3.7	2.1	12.4	3.7	5.5	17.2	2.9	3.1	3	6.6
COURTYARD - MARRIOTT	12.6	1.9	12.6	4	7.8	17	3.2	3.3	4	6.9
POPPYS HOTEL	7.2	1.5	15.1	7.3	7.8	14.8	6.3	6.2	4.9	8.1
AVERAGE	6.2	1.6	15.7	5.8	7.3	16.5	4.4	4.4	3.3	7.2

4.2.3 Facilities analysis

RELAXATION	FOOD AND BEVERAGE	GENERAL	ACCESIBILITY	IN ROOMS
 Fitness center	 Bar	 Cash withdrawal	 Airport transfer	 Air conditioning
 Hot tub	 BBQ facilities	 Concierge	 Bicycle parking	 Closet
 Massage	 Coffee shop	 Currency exchange	 Car park	 Clothes rack
 Sauna	 Kitchen	 Daily housekeeping	 Rental car	 Linens
 Spa	 RESTAURANT	 Dry cleaning	 Shuttle service	 Mini bar
 Swimming pool	 Room service [24-hour]	 Elevator	 Taxi service	 Mirror
 Ticket service		 Ironing service	 Valet parking	 Shower
 Tours		 Laundry service	 Security [24-hour]	 Telephone
 Yoga room		 Luggage storage	 Front desk [24-hour]	 Toiletries

Fig 4.6 Facilities

Table 4.5 Facilities analysis

FACILITIES						
NAME	RELAXATION	FOOD AND BEVERAGE	GENERAL	ACCESIBILITY	IN ROOMS	SUM
AREA A (CLOSE PROXIMITY - 10Km RADIUS)						
MOUNT TREAT	6	6	6	8	9	35
KADAMBAVANAM	8	6	8	7	9	38
VIJAY KRISHNA	1	4	6	5	8	24
TEMPLECITY DREAMZ INN	3	4	4	5	4	20
AREA B (AROUND - 20Km RADIUS)						
SUN RESIDENCY	2	3	5	7	8	25
LA VIVANTA	2	4	6	6	8	26
MEENAKSHI SUN SHINE	3	4	6	5	8	26
RAMRATHNA RESIDENCY	2	3	7	5	8	25
JOHN'S HOTEL	2	3	6	5	8	24
JC RESIDENCY	9	4	8	6	9	36
M3 BOUTIQUE HOTEL	2	4	6	7	9	28
HOTEL NILE	1	3	7	3	8	22
FORTUNE PANDIAN	7	5	9	9	9	39
COURTYARD - MARRIOTT	9	6	9	9	9	42
POPPYS HOTEL	5	4	7	6	8	30

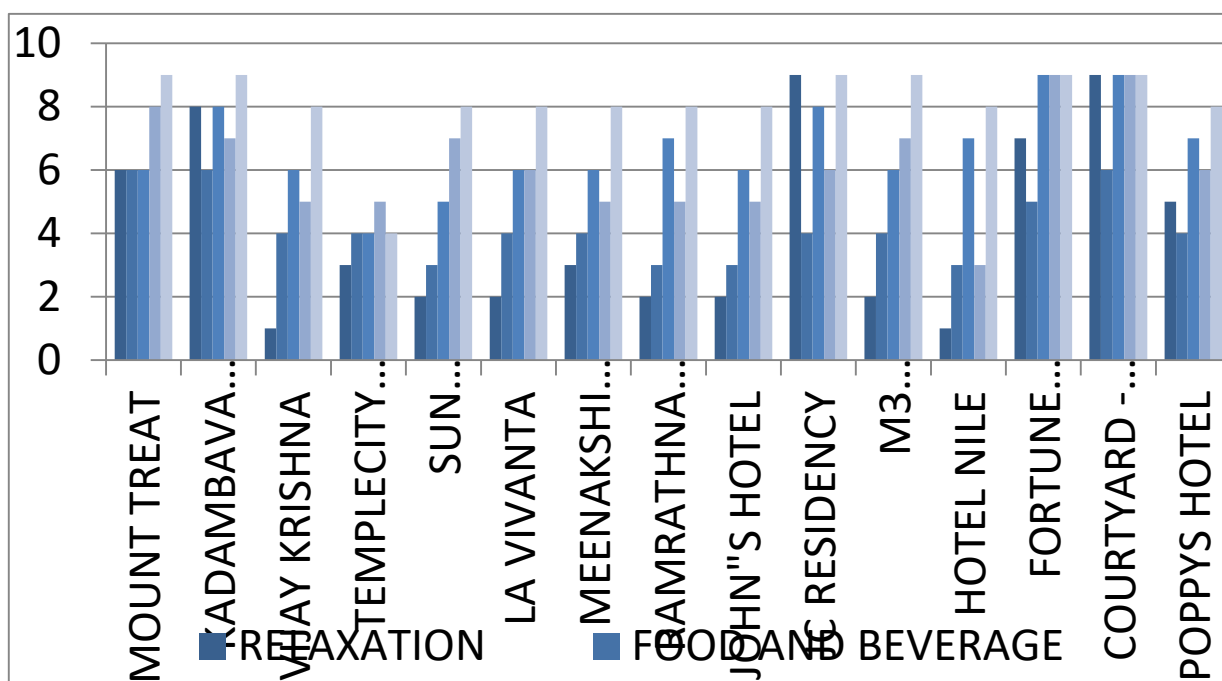


Fig 4.7 Facilities comparison

Table 4.6 Facilities needed for up gradation

No	FACILITIES & SERVICES	Yes / No
01	Full time operation 7 days a week in season	Y
	Establishment to have all necessary trading licenses / Permissions	N
	24hr. lifts for buildings higher than ground plus two floors	Y
	Bedrooms, Bathrooms, Public areas and kitchen fully services daily	Y
	All floor surfaces clean and in good shape	Y
	Minimum 10 lettable rooms, all rooms with outside windows / ventilation.	Y
	Minimum size of bedroom excluding bathroom should be 130sq.ft.	Y
	Air – conditioning - 50 % of Rooms	Y
	A clean change of bed and bath linen daily and between check –in	Y
	Minimum bed width for single 90 cm and double 180 cm	Y
	Mattress thickness minimum 10 cm	Y
	Minimum bedding 2 sheets, pillow and case, blanket, mattress protector / bed cover	Y
	Hairdryers	N
	Drinking water with minimum one glass per guest.	Y
No	FACILITIES & SERVICES	Yes / No
	Mini bar / Fridge All 3 Star hotels shall have facility of a mini fridge and all 4 Star, 5 Star, and 5 Star Deluxe hotels shall have a the facility of mini bar.	N

	Shelves / drawer space	Y
	Wardrobe with minimum 4 clothes hangers per bedding	Y
	Sufficient lighting (1 lamp per bed)	Y
	A 5 amp earthed power socket	Y
	A bedside table and drawer	Y
	TV Cable if available	Y
	A writing surface with sufficient lighting	Y
	Chairs	Y
	Waste paper basket	Y
	Opaque curtains or screening at all windows	Y
	A mirror at least half length (3 ft.)	Y
	A stationary folder containing stationary	Y
	A 'do not disturb' notice	N
	Night spread / bed cover	Y
	Energy saving lighting	Y
	Linen Room	Y
No	FACILITIES & SERVICES	Yes / No
	All rooms with attached bathrooms	Y
	Minimum size of bathroom (36sq.ft)	Y
	1 bath towel and 1 hand towel to be provided per guest	Y
	Bath Mat	Y
	Guest toiletries to be provided. Minimum 1 new soap per guest.	Y
	Clothes – hooks in each bath / shower room	Y
	Sanitary bin	Y
	Each western WC toilet to have a seat with lid and toilet paper.	Y

	All Star hotels shall provide water sprays or bidets or washlets or other modern water based post - toilet – paper hygiene facilities.	Y
	Floors and walls to have non – porous surfaces	Y
	Hot and Cold running water available 24 hours	Y
	Shower cabin	N
	Water saving taps and showers	Y
	Energy saving lighting	N
	Lounge or seating area in the lobby	N
	Reception facility	Y
	Valet (parking) services to be available	Y
No	FACILITIES & SERVICES	Yes / No
	Availability of Room, F&B and other tariff	Y
	Public rest rooms for ladies and gents, a wash basin with running hot and cold water, a mirror, a sanitary bin with lid in unisex 7 ladies toilet	N
	At least one room for the differently abled guest	N
	Ramps with anti -slip floors at the entrance. Minimum door width should be one meter to allow wheel chair access	Y
	Public Restrooms	N
	One Multi – cuisine Restaurant cum Coffee Shop open from 07.00 am. To 11.00 pm. And 24 hr. Room Service.	Y
	Cutlery to be at least stainless steel	Y
No	FACILITIES & SERVICES (code of conduct for safe & honourable tourism)	Yes / No
	Display of pledge	N

	Training for 'Code of Conduct for safe & Honourable Tourism'	N
	Maintenance of Action Taken Report with regards to compliance of the provisions of the Code.	N
	Focal points / Nodal officers	N
No	FACILITIES & SERVICES (kitchen)	Yes / No
	Refrigerator with deep freezer	N
	Segregated storage of meat, fish and vegetables	N
	Tiled walls, non slip floors	Y
	Colour coded synthetic chopping boards	N
	Head covering for production staff	N
	Daily germicidal cleaning of floors	Y
	Good quality cooking vessels / utensils	Y
	All food grade equipment containers	Y
	Drinking water	Y
	Ventilation system	Y
	Garbage to be segregated – wet and dry	Y
	Wet garbage area to be airconditioned	N
	Receiving areas and stores distinct from garbage area.	Y
	Six monthly medical check ups for production staff	Y
	First aid training for all kitchen staf	Y
	Pest control	Y
No	FACILITIES & SERVICES (staff)	Yes / No
	Staff uniforms for front of the house.	Y
	English speaking front office staff	Y

	Percentage of Supervisory staff (40%)	N
	Percentage of skilled staff (30%)	Y
	Staff Rest Rooms	Y
	Staff locker Rooms	Y
	Toilet facilities	Y
	Separate Dining area & Facility	Y
No	FACILITIES & SERVICES (eco friendly practices)	Yes / No
	Sewage Treatment Plant	Y
	Rain Water Harvesting	Y
	Waste management	Y
	Pollution control methods for air, water and light	N
	Introduction of non CFC equipment for refrigeration and air conditioning and other Eco-friendly measures / initiatives.	N
No	FACILITIES & SERVICES (guest services)	Yes / No
	Provision for wheelchair for the differently abled guest	N
	Valet (parking) services to be available	Y
	Paid transportation on call	N
	Ice (from drinking water) on demand	Y
	Iron and Iron Board facility	N
	Acceptance of common credit cards and facility/ infrastructure for accepting/ making payments by digital transactions	Y
	Assistance with luggage on request	Y
	A public telephone on premises. Unit charges made known	N
	Wake – up call service on request	Y
	Messages for guests to be recorded and	N

	delivered	
	Name address and telephone number of doctors with front desk	Y
	Access to travel desk facilities	N
	Left luggage facilities	Y
	Provision for emergency supplies toiletries / first aid kit	Y
No	FACILITIES & SERVICES (safety and security)	Yes / No
	Metal detectors (door frame or hand held)	N
	CCTV at strategic location	Y
	Verification	Y
	Staff trained in firefighting Drill	N
	Security arrangements for all hotels entrances.	Y
	Each bedroom door to be fitted with lock and key, viewport / peephole & internal securing device	Y
	Smoke Detectors	N
	Fire and Emergency alarms should have visual & audible signals.	N
	First aid kit with over the counter medicines at the front desk	N
	Fire Exit Signs on guest floors with emergency / backup power.	Y
No	FACILITIES & SERVICES (communication)	Yes / No
	Provide at least two multi – purpose sockets	Y
	A telephone for incoming & outgoing calls in the room	Y
	PC available for guest use with internet access	N

	E -mail service	Y
	Fax, photocopy and printing Services	Y
	Parking Facilities	Y

4.3 FINANCIAL ANALYSIS:

4.3.1 Capital cost

Table 4.7 Present capital cost

COST OF INVESTMENT					
land details					
total land		cost per sq.ft		total cost	
20627		₹ 900.00		₹ 1,85,64,300.00	
Stamp duty		₹ 12,99,501.00		₹ 1,98,63,801.00	
Registration fee		₹ 7,42,572.00		₹ 2,06,06,373.00	
total land cost				₹ 2,06,06,373.00	
building details					
built up area in one block		no. of blocks		other built up area	
26772		1		1120	
total					
27892					
hard cost estimates					
description		Rs.per sq.ft		area	
civil work		1650		27892	
electrical		115.5		27892	
plumbing		99		27892	
interior		110		27892	
instruments and appliances		100		27892	
total		2074.5			
total					
₹ 5,78,61,954.00					
soft cost estimates					
description		percentage		hard cost	
Design		3.50%		₹ 5,78,61,954.00	
Supervision		2%		₹ 5,78,61,954.00	
Management		2%		₹ 5,78,61,954.00	
operating cost		3%		₹ 5,78,61,954.00	
Contingency		2%		₹ 5,78,61,954.00	
total		12.00%			
total					
₹ 69,43,434.48					
development value					
total hard cost		₹ 7,84,68,327.00		Economic Age	
soft cost		₹ 69,43,434.48		Annual Dep Rate	
total development cost		₹ 8,54,11,761.48			
Net Dep Rate		0.00%		Actual Age	
Dev Cost After Depreciation		₹ 8,54,11,761.48		Net Dep Rate	
				0.00%	

Table 4.8 Capital cost for added facility

COST AS PER FACILITIES			
Description	No. of units	cost per unit	total cost
Mini bar / Fridge	24	5000	₹ 1,20,000.00
Shower cabin	24	10000	₹ 2,40,000.00
Public rest rooms for ladies and gents	500 sq.ft	1500	₹ 7,50,000.00
Refrigerator with deep freezer	1	15000	₹ 15,000.00
Provision for wheelchair for the differently abled guest	1	400000	₹ 4,00,000.00
Iron and Iron Board facility	24	1000	₹ 24,000.00
Metal detectors (door frame or hand held)	1	30000	₹ 30,000.00
Smoke Detectors	1	2300000	₹ 23,00,000.00
Fire and Emergency alarms should have visual & audible signals.			
First aid kit with over the counter medicines at the front desk			
PC available for guest use with internet access	2	8000	₹ 16,000.00
Roof top restaurant	2000 sq.ft	1800	₹ 36,00,000.00
Total cost			₹ 74,95,000.00

Table 4.9 Increase in capital cost

INCREASE IN COST OF INVESTMENT	
PRESENT COI	₹ 8,54,11,761.48
SOFT COST FOR UPGRADE	₹ 25,000.00
FACILITY COST	₹ 74,95,000.00
INCREASED COI	₹ 9,29,06,761.48

4.3.2 Organizational chart and salary sheet

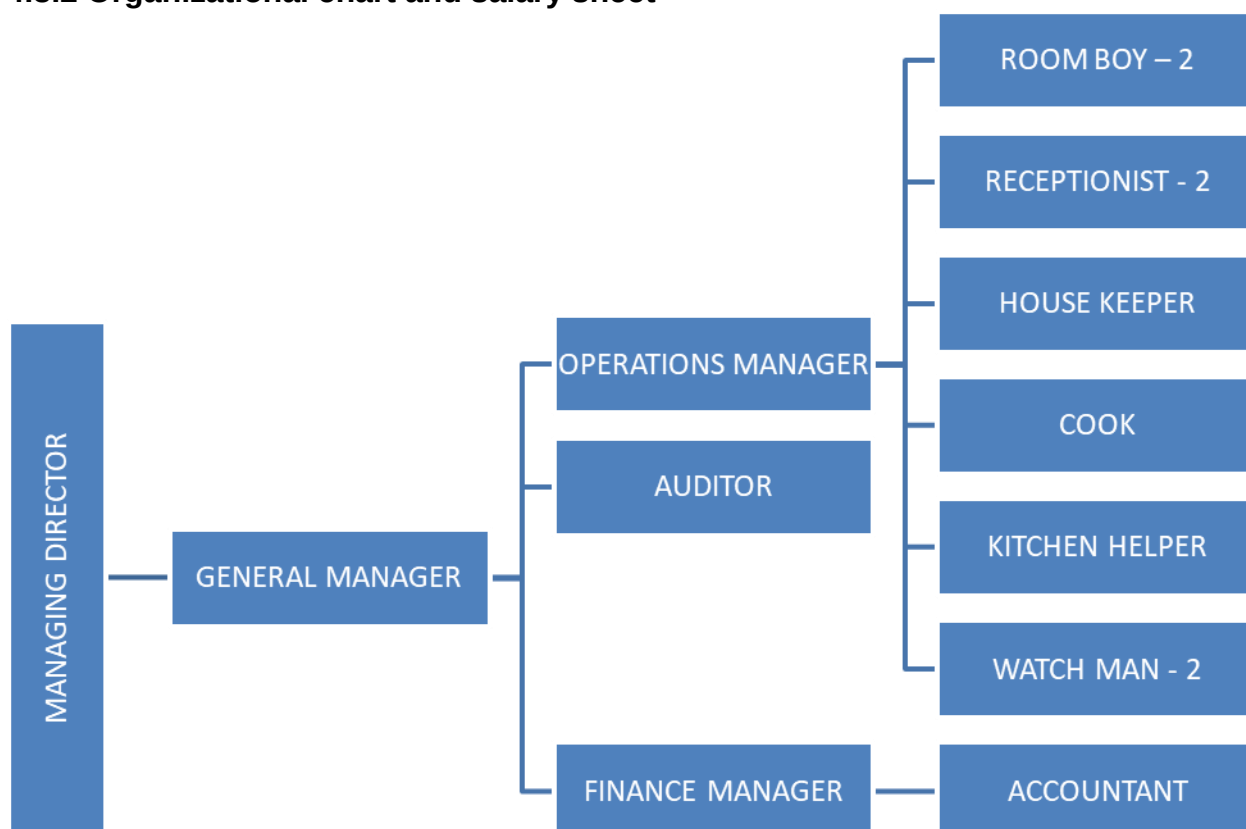


Fig 4.8 Present organizational chart

Table 4.10 Present salary sheet

SALARY SHEET (present)			
HEIRARCHY	NO OF WORKERS	COST PER PERSON	TOTAL COST
Managing director	1	40000	₹ 40,000.00
General manager	1	30000	₹ 30,000.00
operations manager	1	20000	₹ 20,000.00
auditor	1	5000	₹ 5,000.00
finance manager	1	15000	₹ 15,000.00
receptionist	2	12000	₹ 24,000.00
room boy	2	10000	₹ 20,000.00
house keeper	1	10000	₹ 10,000.00
watch man	2	8000	₹ 16,000.00
cook	1	12000	₹ 12,000.00
kitchen helper	1	8000	₹ 8,000.00
accountant	1	12000	₹ 12,000.00
total salary			₹ 2,12,000.00

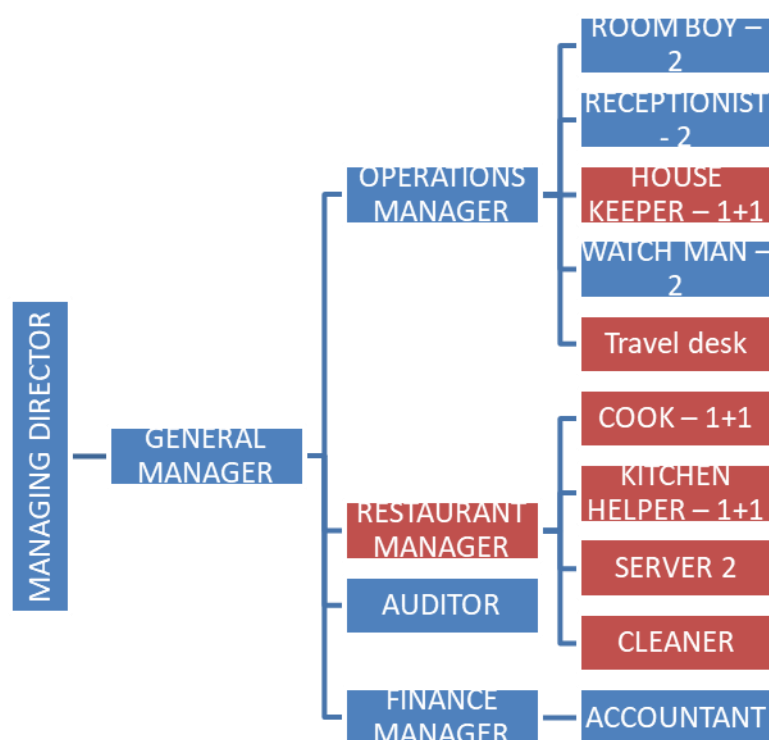


Fig 4.9 Proposed organizational chart

Table 4.11 Proposed salary sheet

SALARY SHEET (proposed)			
HEIRARCHY	NO OF WORKERS	COST PER PERSON	TOTAL COST
Managing director	1	40000	₹ 40,000.00
General manager	1	30000	₹ 30,000.00
operations manager	1	20000	₹ 20,000.00
restaurant manager	1	15000	₹ 15,000.00
auditor	1	5000	₹ 5,000.00
finance manager	1	15000	₹ 15,000.00
receptionist	2	12000	₹ 24,000.00
room boy	2	10000	₹ 20,000.00
house keeper	2	10000	₹ 20,000.00
watch man	2	8000	₹ 16,000.00
cook	2	12000	₹ 24,000.00
kitchen helper	2	8000	₹ 16,000.00
server	2	10000	₹ 20,000.00
restaurant cleaner	1	10000	₹ 10,000.00
accountant	1	12000	₹ 12,000.00
travel desk	1	12000	₹ 12,000.00
total salary			₹ 2,99,000.00

4.3.3 Cost related to selling price

Table 4.12 Present cost related to selling price

COST SHEET - PRESENT											
TYPE	ROOM RENT	ELECTRICITY AND WIFI (1.5%)	GUEST SUPPLIES	BREAK FAST	GUEST AMENITIES (10%)	LEVEL 1 COST	PROMOTION (15%)	SELLING PRICE	CGST (9%)	SGST (9%)	TOTAL COST
SUPERIOR - DOUBLE	₹ 822.86	₹ 12.91	₹ 50.00	₹ 300.00	₹ 118.58	₹ 1,304.35	₹ 195.65	₹ 1,500.00	₹ 135.00	₹ 135.00	₹ 1,770.00
PREMIUM - DOUBLE	₹ 1,024.09	₹ 17.22	₹ 50.00	₹ 300.00	₹ 347.83	₹ 1,739.13	₹ 260.87	₹ 2,000.00	₹ 180.00	₹ 180.00	₹ 2,360.00
SUITE	₹ 1,848.54	₹ 27.55	₹ 50.00	₹ 300.00	₹ 556.52	₹ 2,782.61	₹ 417.39	₹ 3,200.00	₹ 288.00	₹ 288.00	₹ 3,776.00

Table 4.13 Proposed cost related to selling price

COST SHEET – PROPOSED (based on the average cost from market analysis)											
TYPE	ROOM RENT	ELECTRICITY AND WIFI (1.5%)	GUEST SUPPLIES	BREAK FAST	GUEST AMENITIES (10%)	LEVEL 1 COST	PROMOTION (15%)	SELLING PRICE	CGST (9%)	SGST (9%)	TOTAL COST
SUPERIOR - DOUBLE	₹ 1,213.81	₹ 17.22	₹ 50.00	₹ 300.00	₹ 158.10	₹ 1,739.13	₹ 260.87	₹ 2,000.00	₹ 180.00	₹ 180.00	₹ 2,360.00
PREMIUM - DOUBLE	₹ 1,711.13	₹ 25.83	₹ 50.00	₹ 300.00	₹ 521.74	₹ 2,608.70	₹ 391.30	₹ 3,000.00	₹ 270.00	₹ 270.00	₹ 3,540.00
SUITE	₹ 2,398.17	₹ 34.44	₹ 50.00	₹ 300.00	₹ 695.65	₹ 3,478.26	₹ 521.74	₹ 4,000.00	₹ 360.00	₹ 360.00	₹ 4,720.00

4.3.4 Net present value and payback period

Table 4.14 Net present value for present scenario

Net Present Value				
S.No	FV	$(1+R/100)^n$	N	PV
1	86,46,203	1.04	1	₹ 83,13,657
2	1,03,25,280	1.08	2	₹ 95,46,302
3	1,18,38,461	1.12	3	₹ 1,05,24,349
4	1,33,19,566	1.17	4	₹ 1,13,85,621
5	1,49,33,250	1.22	5	₹ 1,22,74,043
6	1,63,16,754	1.27	6	₹ 1,28,95,368
7	1,78,20,137	1.32	7	₹ 1,35,41,840
8	1,78,20,137	1.37	8	₹ 1,30,21,000
9	1,94,55,191	1.42	9	₹ 1,36,68,959
10	2,31,74,167	1.48	10	₹ 1,56,55,637

Table 4.15 Net present value for proposed scenario

Payback Period		
Cumulative	Difference	
₹ 83,13,657	-7,70,98,104	
₹ 1,78,59,958	-6,75,51,803	
₹ 2,83,84,307	-5,70,27,454	
₹ 3,97,69,928	-4,56,41,833	
₹ 5,20,43,971	-3,33,67,790	
₹ 6,49,39,339	-2,04,72,422	
₹ 7,84,81,179	-69,30,582	
₹ 9,15,02,179	60,90,418	7.5
₹ 10,51,71,138	1,97,59,377	
₹ 12,08,26,775	3,54,15,014	

Table 4.16 Payback period for present scenario

Net Present Value				
S.No	FV	$(1+R/100)^n$	N	PV
1	66,39,491	1.04	1	₹ 63,84,126
2	1,15,27,328	1.08	2	₹ 1,06,57,663
3	1,36,53,799	1.12	3	₹ 1,21,38,178
4	1,55,57,073	1.17	4	₹ 1,32,98,251
5	1,74,10,362	1.22	5	₹ 1,43,10,049
6	1,94,26,673	1.27	6	₹ 1,53,53,182
7	2,11,33,628	1.32	7	₹ 1,60,59,821
8	2,11,33,628	1.37	8	₹ 1,54,42,135
9	2,29,84,802	1.42	9	₹ 1,61,48,817
10	2,71,76,680	1.48	10	₹ 1,83,59,591

Table 4.17 Payback period for proposed scenario

Payback Period		
Cumulative	Difference	
₹ 63,84,126.41	-8,65,22,635	
₹ 1,70,41,789.05	-7,58,64,972	
₹ 2,91,79,966.59	-6,37,26,794	
₹ 4,24,78,217.43	-5,04,28,544	
₹ 5,67,88,266.03	-3,61,18,495	
₹ 7,21,41,447.77	-2,07,65,313	
₹ 8,82,01,268.33	-47,05,493	
₹ 10,36,43,403.49	1,07,36,642	7.3
₹ 11,97,92,220.55	2,68,85,460	
₹ 13,81,51,811.60	4,52,45,051	

4.3.5 Comparison between present and proposed

	PRESENT	PROPOSED	INFERENCE
CAPITAL COST	₹ 8,54,11,761.00	₹ 9,26,06,761.00	The facilities of cost 74,95,000 is added to the present capital cost to convert it to a three star hotel.
PAYBACK PERIOD	7.5 YEARS	7.3 YEARS	There is no big difference in the payback period between the present and the proposed.
PROFIT -end of 10 years	₹ 3,54,15,014	₹ 4,52,45,051	In case of profit, we get an extra profit of 98,30,000 at the end of 10 years. So proposed three star hotel is profitable than the present hotel running.
IRR	8.77%	9.78%	In case of IRR we can see that IRR is higher in proposed three star hotel than the present hotel.

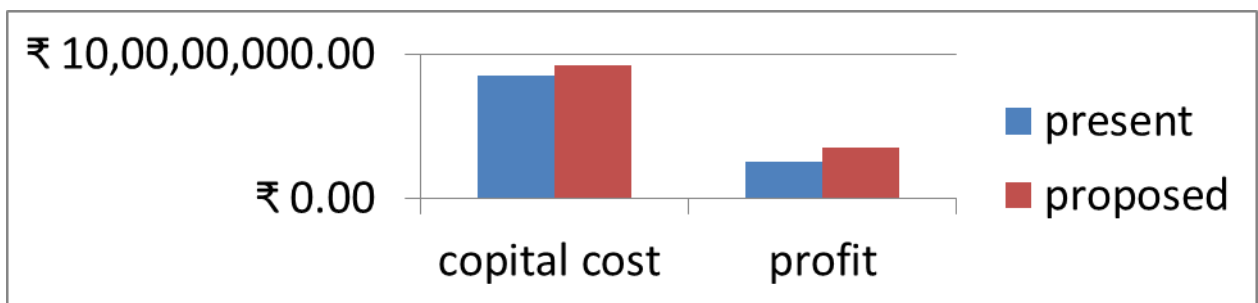


Fig 4.10 Comparison chart

CHAPTER 5

SUMMARY AND CONCLUSION

Tourism is one of the largest industries in the world, having a huge significance in the development of different countries worldwide. In India, this industry has a great strategic importance due to its capacity for wealth-generation and job-creation, presenting clear competitive advantages.

Supply and demand analysis :

The 75% occupancy rate is normally used for it is a point of healthy balance between supply and demand. But the city's average occupancy rate is only 60.3% (as per Tamilnadu tourism department) the demand is less in the city already so there is no need of adding extra room to the selected hotel.

Market analysis :

Market was split into 2 area and the analysis was done. From this analysis we found the average room rate in area A is 3016 and in area B is 4600. And based on facilities analysis we derived new facilities which should be added the hotel to make it a three star hotel.

Financial analysis :

The present and proposed financial statements are analyzed separately to find IRR, payback period and profit. Based on which we conclude that proposed three star hotel is profitable than present hotel.

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