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BUSINESS ADMINISTRATION AND MANAGEMENT

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Business Plan

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Cheap but Chic

ENJOY YOUR HOLIDAY -

IN WONDERFUL COLOGNE!

Contents

Contents	2
1 Introduction	3
2 Company idea	3
3 Market Analysis	4
3.1 Tourism in Cologne	4
3.2 Target group	6
3.3 Location	7
3.4 Real Estate	8
4 Organisation of the company	9
4.1 Legal form of organisation.....	9
4.2 Articles of Association	9
5 Investment Analysis	10
5.1 Cost calculation.....	10
5.2 Price determination	13
5.3 Cash-Flow and Dividend	15
6 Conclusion	17
7 List of Figures	18
8 Appendix A	19

1 Introduction

This business plan was developed by André Möller and Helmut Grauvogl as part of the exam of the lecture “business administration and management” offered at the ITT.

We had to evolve a business idea, to compute this idea according to the rules of economics and to present it during a meeting on the 20th of May, 2005.

After we caught the idea of a backpacker hotel we had to carry out comprehensive examinations. We studied the market of tenements concerning rent and purchasing prices, the need of low-budget hotels, the contemporary supply with hotels, appropriate locations, the need and prices of equipment and furnishings, the need of employees, costs of redevelopment, suitable size of a house and so on.

For our research we used the following sources: dailies, periodicals, internet, especially for information from the RDM (Ring Deutscher Makler), the tourism in Cologne, details about competing hotels and some details for computing the running costs.

After we had gathered a huge amount of data, we sorted it and calculated it by taking some assumptions into consideration we had to make in order to fulfill the analysis properly. The result is presented underneath.

2 Company idea

The idea issued from a “Kölsch mood” one night. After the Kölsch-effect was overcome on the next day and the idea of planning a backpacker hotel was still existing we decided to have a closer look on it. A rough estimation of the market showed that there was a demand for low-budget accommodations in Cologne and our business idea was proved worth for further computations.

Before starting the calculations we had, as mentioned above, to make some assumptions. We had to decide whether to rent or to buy the house. Our choice was purchasing, because you hardly can find a complete tenement to rent. One more reason was that you have to sign a long-term rental contract (at least ten years) if you want to convert or redevelop a rented house and you will be obliged to re-build the conversions after the contract is dissolved. We considered this term of about twelve years as long enough for financing the house (provided that each of us has EUR 250.000,- equity capital at his disposal for this sake). After this time we will be owner of this house by paying redemption instead of rent. We thought also about safeguarding our property. In consequence the best solution would probably be to concentrate the investment capital in a possessing company from which the more risky business running company has to rent the house and the furnishings. We renounced this option, because it would go beyond the limits of this assignment.

The same is applying to depreciation. A degressive depreciation would create a much better performance in the first few years of financing the business.

Furthermore we decided not to be involved as employees in the running business. If we change this condition the manager salaries of EUR 83,000.- could also be a source of additional profit.

3 Market Analysis

An internet-based market analysis has been conducted. The development of the tourism in Germany, North Rhine Westphalia and especially in Cologne has been analysed.

3.1 Tourism in Cologne

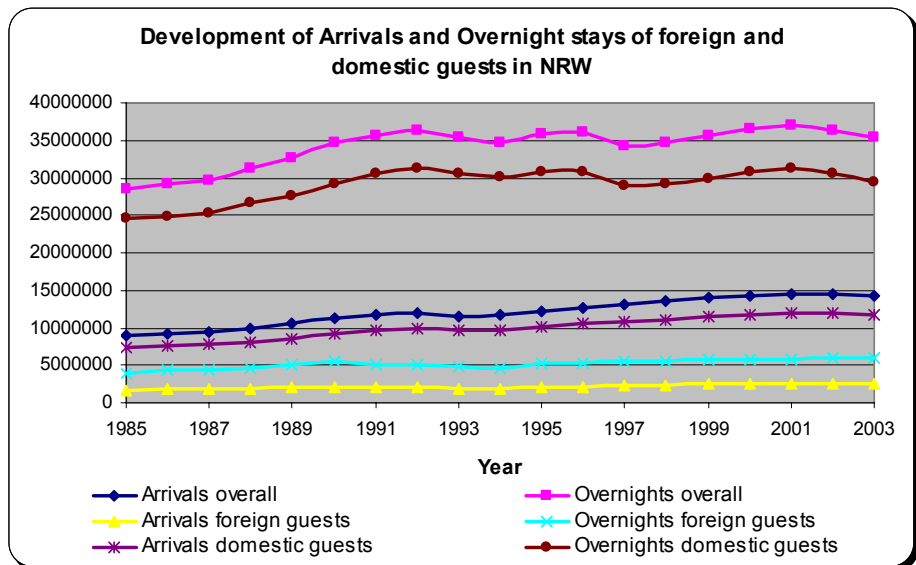
THE CITY TOURISM IS BOOMING - AND COLOGNE PARTICIPATES ALSO

With its current press conference, the Cologne Tourism GmbH, like already in the past years, was able to present again increases and a record result report. "The city tourism is booming, and Cologne participates also!", so the result of the two managing directors Josef Summer and Karl-Heinz Merfeld, who announced a plus of 11,9 per cent (2.128.686) in the arrivals of guests and a plus of 10,5 per cent (3.850.084) in guest overnight accomodation. For the first time in the history of Cologne thereby the two-million-border was exceeded with the arrivals of guests. Important is also, so Summers, "that the cathedral city constantly could add in the past five years without setbacks." [...] The overnight accomodation numbers of foreign guests rose somewhat more strongly, indeed around 13,7 per cent. Under the top ten of the source markets were the changes with the arrivals of guests significant in the following countries of origin, arranged after volumes: United Kingdom plus 17,1 per cent, the USA plus 27,1 per cent, Belgium plus 21,0 per cent and China plus 74,6 per cent.¹

The above citation marks the current situation as well as the forecast for the next years. The tourism in Germany, especially the city tourism, is booming. Particularly foreign travellers are visiting Cologne and staying overnight. But also national tourism is increasing; see the diagram for North Rhine Westphalia (NRW):

Figure 1
Development of tourism in NRW
 [Source: Landesamt für Datenverarbeitung und Statistik NRW]

Overnight stays of foreigners increased from 393898 in 1985 to 5962992 in 2003.



¹ Source: Press release on <http://www.koeln.de/tourismus>, 21.02.2005

At the same time, the market situation showed a following of this trend. The number of hotels increased during the last years to satisfy the growing demand for beds.

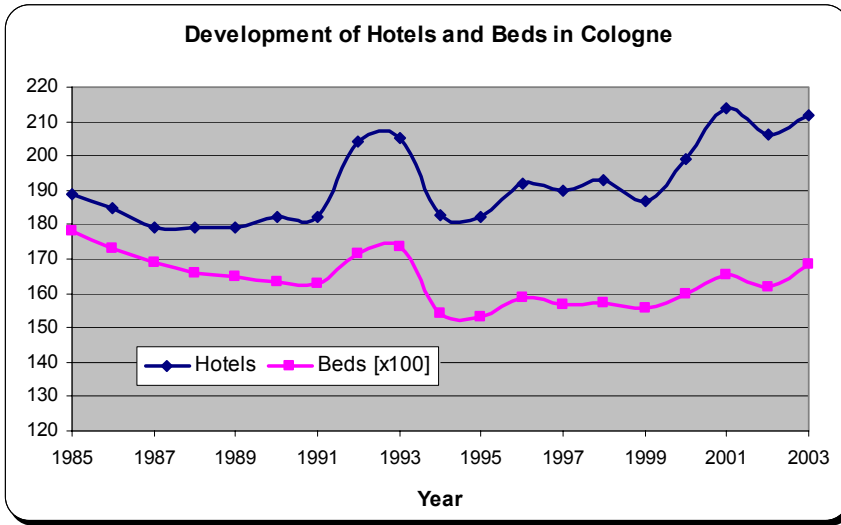


Figure 2 Development of hotels and beds in Cologne [Source: Landesamt für Datenverarbeitung und Statistik NRW]

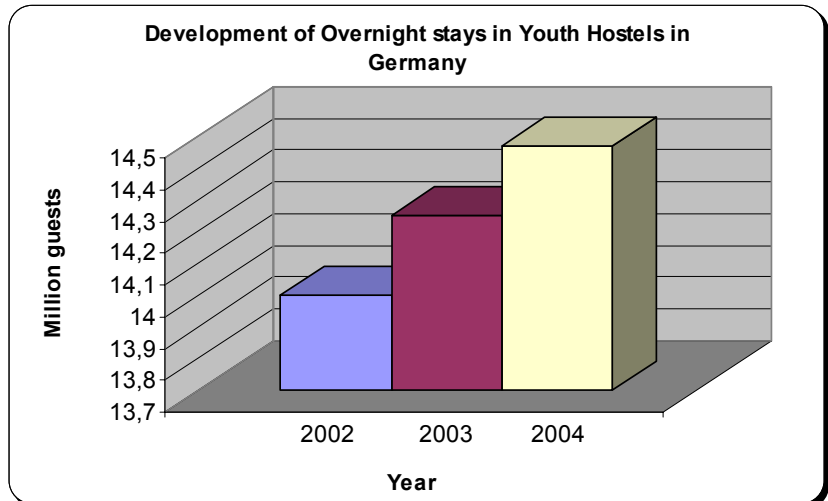
The number of hotel expanded from 1985 to 212. The total number of beds for travellers faced a hole in 1994, but then rose up again to 16842. Another fact is that the number of guests staying

in low-budget-hotels and youth hostels increased as well.

Figure 3 Development of overnight stays in youth hostels in Germany [Source: Statistisches Bundesamt]

In 2002, about 14 million guests in Germany stayed in youth hostels, in 2004 already more than 14470000.

In Cologne, this trend can be observed as well. The city is becoming more and more interesting for low-



budget-hotels. This is due to an increasing number of young travellers, whose budget is small but interests are various, such as nightlife and lifestyle, what the city offers. The demand for cheap hotels is definitely there, and the market responds with a cubing of youth hostels in Cologne from 1980 to 2004:

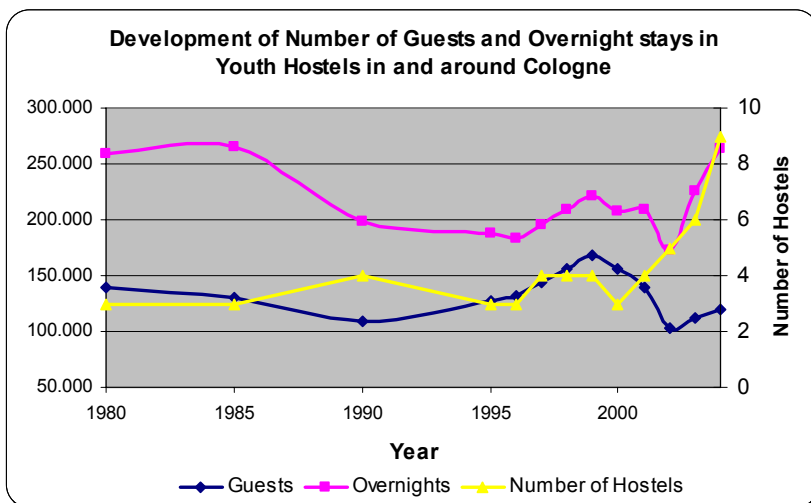


Figure 4 Development of youth hostels and guests in Cologne [Source: Amt für Stadtentwicklung und Statistik Köln]

The number of overnight stays is increasing again since 2000. This development will go on in the next years because of several events in and around Cologne, for example the world youth day 2005, the soccer world championship in Germany 2006 and others.

The current situation showed by the diagram regarding youth hostels and budget hotels such as backpacker hotels look like the following: there are four German youth hostels, two backpacker hotels and three budget hotels.

Following is a price comparison between three youth hostels and the two backpacker hotels:

Table 1 Price comparison of youth hostels and backpacker hotels in Cologne (n.a.=not offered)

Hotel	Single room	Double room	3-Bed-dorm	4-Bed-dorm	5-10-Bed-dorm	Linen	Washingmaschine	Breakfast
Station Backpackers	28	21	19	17,5	16	inkl.	4	3
Backpacker Hotel Bergheim	n.a.	15 Mo-Do / 19 Fr-So	16 Mo-Do / 19 Fr-So	17 Mo-Do / 19 Fr-So	n.a.	3	3	4,5
Youth hostel Riehl	34	27,5	22,2	22,2	22,2	inkl.	n.a.	inkl.
Youth hostel Deutz	39,5	28	23,5	23,25	23	n.a.	n.a.	n.a.
Youth hostel Hürth	n.a.	n.a.	n.a.	16,8	16,8	n.a.	n.a.	n.a.

3.2 Target group

They are travel joyful, they are financially strong - and they were underestimated long time as a target group of the tourism industry: Those nevertheless 15 million humans between 14 and 29 years in Germany. Now a study of the Cima City Marketing took the travel behaviour of young humans in Munich under the magnifying glass and promoted surprising to day. Central result of the study: "the youth tourism in Germany will be above all a city tourism". However 70 per cent of the asked 19 to 29-Jaehrigen and over 50 per cent of the 14 to 18-year-old undertake at least one city journey per year - particularly to Berlin, Munich, Hamburg and Cologne.

The motives for these journeys are far varied: They reach from the attendance of special meetings up to the inspection of historical objects of interest.[...]²

The authors of the above article see the 14-29 year old travellers as a main contributor to the tourism industry, especially in cities. This conclusion comprises a growing demand for places to stay for the travellers. Another study carried out by the City Tourism Bureau Cologne in occasion of the music festival and trade fair Ringfest in the year 2003 shows the connection between increasing amount of city travellers and the need for more low-budget-hosting.

² Source: Sterne Aktuell Hotelfachzeitschrift, Ausgabe 02/2003

"Where do you stay?" Survey for the music festival and trade fair RINGFEST 2003 in Cologne under 2000 young non-domestic people in the age from 14 to 29:

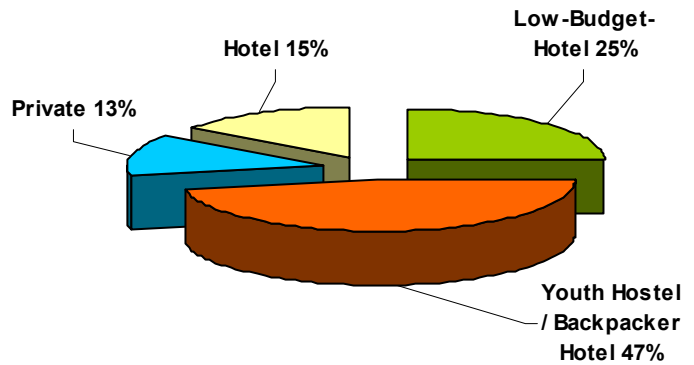


Figure 5 Survey for overnight stays [Source: Amt für Stadtentwicklung und Statistik Köln]

Almost the half of the people questioned stayed in youth hostels or backpacker hotels. As mentioned in the paragraph before, more events like the Ringfest are announced.

3.3 Location

The location of the directly competing hotels are shown below with the proposed location of the intended backpacker hotel.



Figure 6 Map of Cologne with locations of hotels

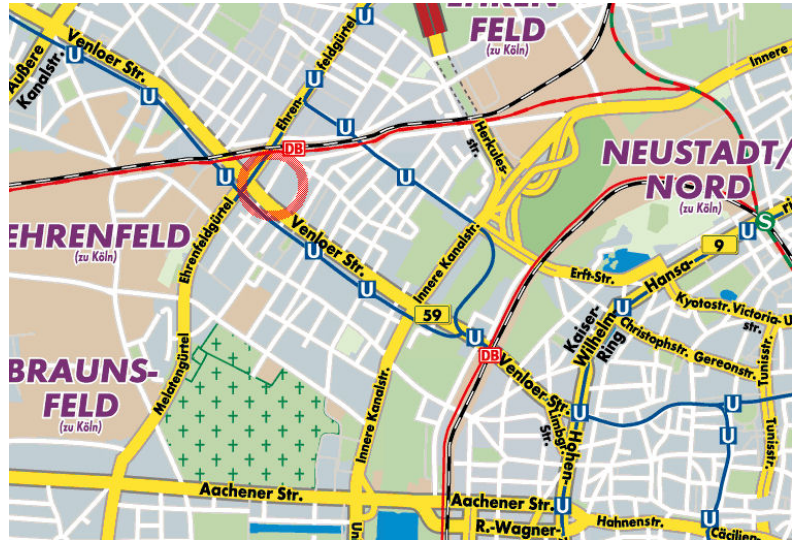
- New hotel
- Youth hostel Deutz
- Station Backpacker
- Youth hostel Kalk
- Youth hostel Riehl
- Backpacker Bergheim
- Youth hostel Hürth

There are two hotels in the inner city, particularly in the near of the main

train station (Station Backpacker) and at the other Rhine side in Cologne- Deutz (youth hostel Deutz). The area around the main train station and along the Rhine is known for high rents and real estate prices. Prices vary between 16 and 20 Euro per m² for a larger business or residential house. These prices are the main cost factor. Therefore, a location has been chosen where the prices are lower but the advantages of the inner city can be received, such as a good connection to the shopping malls and streets, the trade fair places and cultural places like museums.

As a very suitable suburb, Cologne- Ehrenfeld is a vibrant and living urban area with lots of stores, malls, bars, cinemas, discos and restaurants. Additionally, it has a perfect connection to all public transports like the underground trains or and the overland trains to all major cities in NRW.

Figure 7 Map of Cologne-Ehrenfeld with the proposed location of the backpacker hotel (see circle)



However, the prices are comparably low as well as real estate costs and rents.

Ehrenfeld is especially known for magnetizing young people such as students and travellers. Our research achieved no hostel or backpacker hotel in the area.

3.4 Real Estate

An on-site inspection has been accomplished and a suitable estate has been chosen. The ordinary house comprises three floors (ground, 1st, 2nd) with an area about 170m² per floor.

Figure 8 Proposed house in Cologne- Ehrenfeld (outer view –left, entrance – right)



The partitioning and bed occupancy looks like this:

1	bedroom with 5 bottom banks		20 beds	40 m ²
1	bedroom with 3 bottom banks		12 beds	30 m ²
2	double bedrooms	a 13 m ²	4 beds	26 m ²
1	traffic area (stairways, corridors ...)			20 m ²
1	bathroom, toilets ladies			15 m ²
1	gents			15 m ²

36 beds per 170 m²

The Ground floor is completely occupied without bedroom and the top floor is slightly smaller than the floors below (~ 150 m² with 15 beds).

Amount of beds:	$2 \times 36 + 20 =$	92 beds
Need of area (size of house):	$3 \times 170 + 150 =$	170 m²

The rent, based on a statement of the RDM (Ring Deutscher Makler) for this location and verified by the survey of newspaper advertisements, amounts excluding running costs 8,50 € per m². The price to buy the house (a tenement that needs redevelopment) would be about 1.100 € per m² according to the sources mentioned above.

The costs of redevelopment and conversion: this cost sum up to 600 € per m² including new installations (heating, electric, sanitation).

4 Organisation of the company

4.1 Legal form of organisation

The company has the legal form of an association with limited liability (GmbH – Gesellschaft mit beschränkter Haftung). The main reasons for choosing this legal form are:

- limited liability for each partner
- possibility to employ a manager for the business administration
- the company owners can decide how much shares they hold
- lower need of starting capital as in comparison of a stock corporation (AG)
- less foundation effort as AG

4.2 Articles of Association

See Appendix A.

5 Investment Analysis

5.1 Cost calculation

Table 2 Calculation of Investment costs and depreciation costs

Item	Investment	Depreciation time	Depreciation costs
	[€]	[years]	[€/year]
Real Estate			
House	660000	50	13200
Redevelopment	420000	50	8400
Furniture and Equipment			
55 Beds	11000	10	1100
55 Wardrobes	4400	10	440
1 Complete Office	4000	10	400
2 Gas oven	1400	10	140
2 Fridges	800	10	80
4 Tables	1600	10	160
8 Banks	800	10	80
2 Cupboards	2000	10	200
Dishes	400	5	80
Washing machine + Dryer	3000	10	300
Internet Computer, Phone	1500	5	300
Decorations	3000	10	300
Recreation Equipment	3000	10	300
Misc.			
Unforeseen	3000		
Cash	25000		
Total	1144900		25480

Table 3 Calculation of financing costs

Total Investment Costs			1144900
40% Equity capital			457960
60% credit capital			686940
Interest rate			7% p.a.
Running time [years]			10
Financing	Remaining Debt	Interest costs	Redemption
[year]	[€]	[€]/year	[€]/year
1.	686940	48086	68694
2.	618246	43277	68694
3.	549552	38469	68694
4.	480858	33660	68694
5.	412164	28851	68694
6.	343470	24043	68694
7.	274776	19234	68694
8.	206082	14426	68694
9.	137388	9617	68694
10.	68694	4809	68694
Total		264472	686940

Table 4 Calculation of Running costs

Item	Unit	Costs per Unit	Costs
	[Unit/year]	[€/Unit]	[€/year]
Heating	25000 Litre	47€/100Ltr	11750
Electricity	60000 kWh	0,25€/kWh	15000
Freshwater	65000 Litre/Ps	1,50€/m ³	5465
Waste			2000
Telephone			1500
GEMA fee			200
Advertising			3500
Laundry Service			10038
Insurances			3000
Loss by Vandalizing and theft			2000
Reserve found for Replacement			2000
GEZ			612
Total			57064

Table 5 Calculation of Employment costs

Employment	Empl. type	Gross Costs
		[€/year]
General Manager	full-time	45000
Deputy Manager	full-time	38000
Cleaner / Helper	full-time	32000
2 Night guards	temporary	9600
2 students	temporary	9600
Total		134200

Table 6 Calculation of total costs per year

Costs	1. Year	2. Year	3. Year	4. Year	5. Year
Depreciation	25480	25480	25480	25480	25480
Financing	48086	43277	38469	33660	28851
Personell	134200	134200	134200	134200	134200
Running	57064	57064	57064	57064	57064
Total	264830	260021	255213	250404	245595
Costs	6. Year	7. Year	8. Year	9. Year	10. Year
Depreciation	25480	25480	25480	25480	25480
Financing	24043	19234	14426	9617	4809
Personell	134200	134200	134200	134200	134200
Running	57064	57064	57064	57064	57064
Total	240787	235978	231170	226361	221553

5.2 Price determination

The price determination highly depends on the utilisation of the hotel.

As the market research concluded should the prices not exceed 16 EUR per bed in a dormitory and 20 EUR per bed in a double room to be the cheapest competitor among the low-budget-hotels in and around Cologne. The minimum price per bed can be calculated from the total costs per year. The calculation should contain a factor for the utilisation.

$$p = \frac{C \cdot u}{92 \cdot \text{days}} \quad [\text{EUR}]$$

p = minimum price

C = total costs /year

u = utilisation (percentage over the year or persons per night)

55 = number of available beds (maximum)

days = number of utilised days /year (maximum = 365)

The important unknown variable is the utilisation u. Because it is difficult to predict how the utilisation curve over the year and moreover of the future looks like, a minimum utilisation has been calculated. This minimum u shows beneath which amount of beds occupied per year the hotel can expect a profit. It guarantees a positive dividend. So it is more easy to predict the cost/profit relation for the coming years.

This minimum utilisation is calculated for the first year because in this year the highest costs are expected.

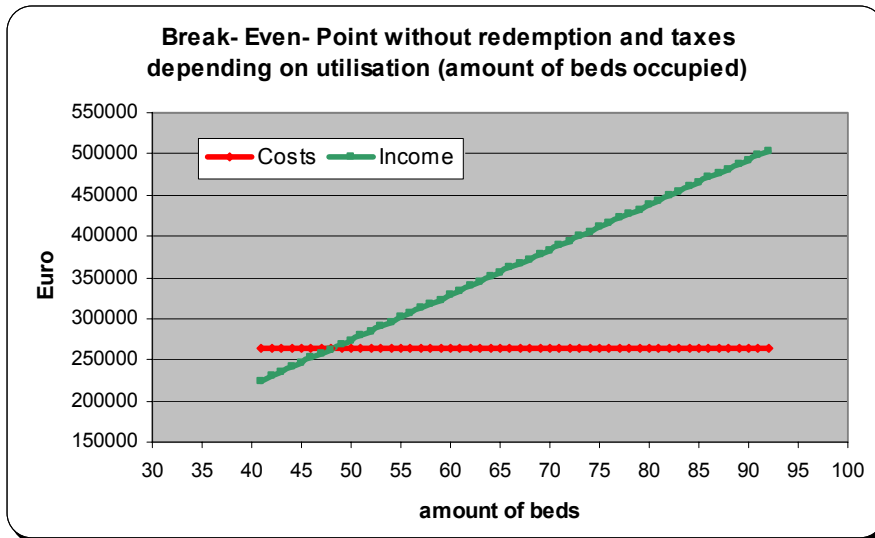


Figure 9 Cost/Income relation for the first year depending on utilisation (amount of beds occupied)

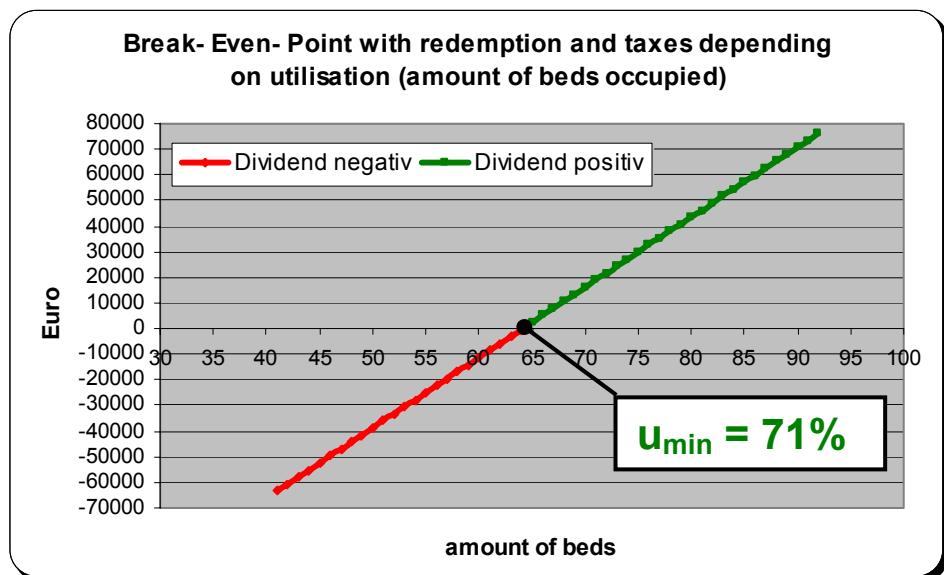
The break even-point, where the income crosses the cost curve in a positive direction, is located at an utilisation of about 50 beds. So if the hotel is occupied with

50 beds year-round, the hotel works with a positive outcome.

Figure 9 shows only the Cost/Income relation without taxes and redemption. To evaluate the profitability and dividend, the two main factors for the assessment of the company, have to be included.

Figure 10 positiv/negativ dividend calculation depending on utilisation

The dividend gets positive at an amount of beds occupied year-round of 64. This comes up to a percentage of 71 of utilisation.



This is the real utilisation value with which the forthcoming calculations have been conducted. This gives a security for the next years because the costs will be lower. Additionally, from experience, the number of guests per year will increase after the first year when the hotel is known in the market.

The calculation turns out a minimum average price per bed no matter what kind of bed. This price can be converted into suitable bed prices. Example:

Minimum price determined: 15 EUR per bed.

Price for a dormitory bed: 14 EUR (lowest in the market).

Price for a bed in a double room: 18 EUR (lowest in the market).

With one bed for a price of 18 EUR instead of 15 EUR and one bed for a price of 14 EUR instead of 15 EUR the income per bed increases with 2 EUR.

5.3 Cash-Flow and Dividend

Table 7 Calculation of Cash-Flow at 71% minimum utilisation and minimum average price of 15 EUR per bed

Utilisation	71%	71%	71%	71%	71%
	1. Year	2. Year	3. Year	4. Year	5. Year
Costs	264830	260021	255213	250404	245595
Price/Bed	15	15	15	15	15
Income	355875	355875	355875	355875	355875
Profit before tax	91045	95854	100662	105471	110280
Tax (50%)	45523	47927	50331	52735	55140
Profit after Tax	45523	47927	50331	52735	55140
Net profit + depreciation	71003	73407	75811	78215	80620
Redemption credit	68694	68694	68694	68694	68694
dividend	2309	4713	7117	9521	11926
Equity capital interest rate	10	10	11	12	12

Utilisation	71%	71%	71%	71%	71%
	6. Year	7. Year	8. Year	9. Year	10. Year
Costs	240787	235978	231170	226361	221553
Price/Bed	15	15	15	15	15
Income	355875	355875	355875	355875	355875
Profit before tax	115088	119897	124705	129514	134322
Tax (50%)	57544	59948	62353	64757	67161
Profit after Tax	57544	59948	62353	64757	67161
Net profit + depreciation	83024	85428	87833	90237	92641
Redemption credit	68694	68694	68694	68694	68694
dividend	14330	16734	19139	21543	23947
Equity capital interest rate	13	13	14	14	15

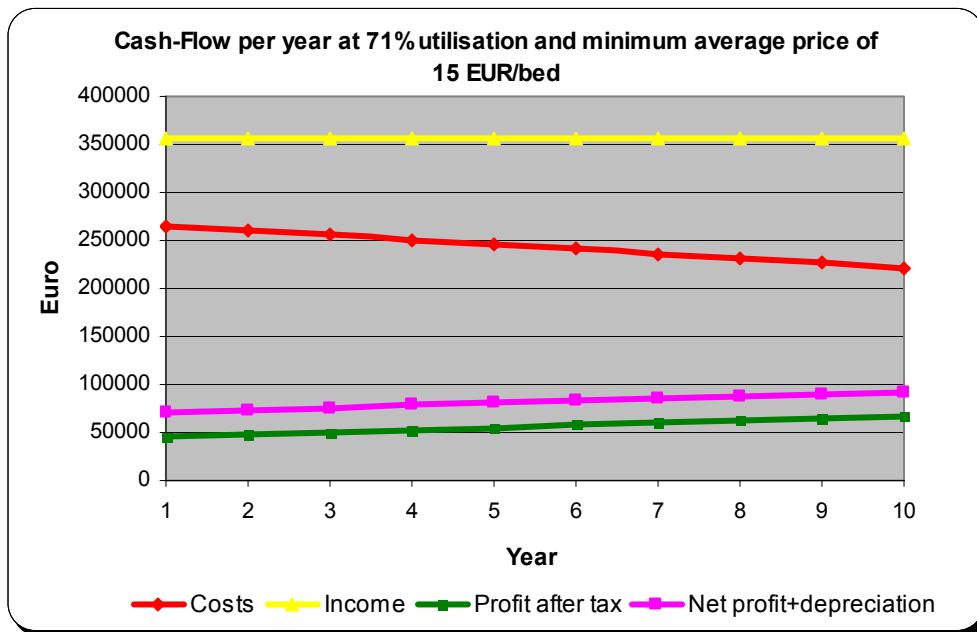


Figure 11
Cash-Flow:
Costs,
Income, Profit

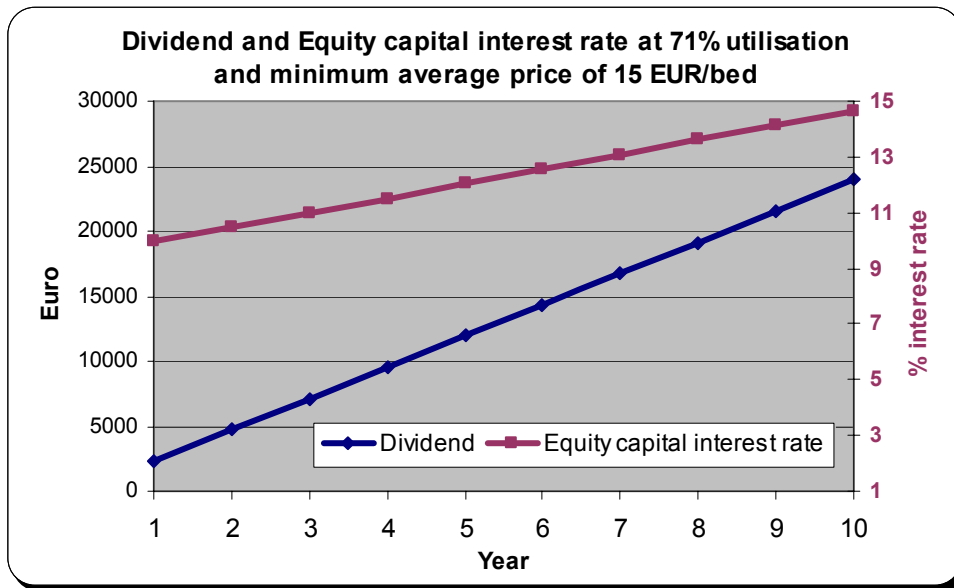


Figure 12
Dividend and
capital interest
rate

The company works profitable from the first year on.

6 Conclusion

The calculation is based on an average price per stay that is less than the minimum price of the competitors in this area. Nevertheless the dividend is already positive at an average utilisation of about 71 %. This utilisation should be no problem as we are facing events like world youth day 2005 or the soccer world championship in 2006 and others.

As before mentioned there is also the possibility of saving of at least one manager salary if a partner is keen to work in the hotel. And there are additional sources of benefit by -for example- building up a bar and pouring out drinks, offering breakfast, putting up gambling machines, opening a little shop

In consequence we could deliberate about a lower base salary for the manager with a higher performance-oriented additional allowance.

Remarkable is the high return of interests from equity capital.

This as well as the fast gain of property (purchasing and redevelopment costs are paid off in ten years) recommends this business plan especially as capital investment. Moreover there is the possibility of high deduction by no redemption after ten years.

One objective for the future could be to double this project, if there is enough investment capital at disposal.

Unfortunately we are at the time not in the condition to upset this idea (we are missing only a few bugs for the necessary sum of EUR 500.000,-).

7 List of Figures

Figure 1 Development of tourism in NRW [Source: Landesamt für Datenverarbeitung und Statistik NRW].....	4
Figure 2 Development of hotels and beds in Cologne [Source: Landesamt für Datenverarbeitung und Statistik NRW]	5
Figure 3 Development of overnight stays in youth hostels in Germany [Source: Statistisches Bundesamt].....	5
Figure 4 Development of youth hostels and guests in Cologne [Amt für Stadtentwicklung und Statistik Köln]	5
Figure 5 Survey for overnight stays [Source: Amt für Stadtentwicklung und Statistik Köln]	7
Figure 6 Map of Cologne with locations of hotels	7
Figure 7 Map of Cologne- Ehrenfeld with the proposed location of the backpacker hotel (see circle)	8
Figure 8 Proposed house in.....	8
Figure 9 Cost/Income relation for the first year depending on utilisation (amount of beds occupied)	14
Figure 10 positiv/negativ dividend calculation depending on utilisation.....	14
Figure 11 Cash-Flow: Costs, Income, Profit	16
Figure 12 Dividend and capital interest rate	17

8 Appendix A

Articles of Association

§ 1 Name, Location

- (1) The name of the company is 'Tropical Backpackers Cologne'
- (2) The company is located in Cologne, Germany

§ 2 Purpose

- (1) The purpose of the company is to provide a low-budget-hotel especially for backpack travellers. The hotel will have basic dormitory sleeping rooms, single and double rooms, a community kitchen, a men shower and bath, a women shower and bath, a recreation room and basic washing facilities. The aim is to keep the prices as low as possible for young travellers through keeping the service low without reducing the quality and but keeping a basic comfort ability.
- (2) The company can take part in other companies and establish local and foreign branches.

§ 3 Shared capital, Invested capital

- (1) The total capital of the company amounts to EUR 500.000
- (2) This capital is divided as follows:
 - a. Mr. Helmut Grauvogl with an investment of EUR 250.000 in cash.
 - b. Mr. André Möller with an investment of EUR 250.000 in cash.
- (3) The above mentioned persons are the only partners of the company.

§ 4 Activity Obligations

Each partner is obligated to be active due to an article of employment for the society as far as he is not exempted from the activity obligation by partner resolution.

§ 5 Regulation over Business Shares

The disposal of a business share or a part of a business share, in particular a transfer or a hypothecation, is permissible only with written agreement of all partners.

§ 6 Management

- (1) The company has two managers.
- (2) The managing directors are obligated to obey the instructions of the partners, to especially consider the agenda set up by the partners and do designated business only with their agreement.

§ 7 Representation

- (1) The society is represented individually by a managing director, if he is an exclusive managing director or if the partners authorized him for the single representation. In all other cases the society is represented jointly by two managing directors or by a managing director together with an attorney.
- (2) The following persons were designated as managing directors:
 - Mr. Helmut Grauvogl
 - Mr. André Möller

§ 8 Financial Year, End-of-Year procedure

- (1) The financial year is the calendar year.
- (2) The company starts on June 1st, 2005.
- (3) The first financial year ends on December 31st, 2005.
- (4) The end-of-year procedure is to be set up by the managing directors in the first three months of the financial year for the past financial year.

§ 9 Distribution of Profits

The partners have claim on the yearly surplus plus a profit brought forward and less a loss brought forward from previous account. By resolution over the use of the result the partners can refrain from the profit claim, in order to invest in the company. The distribution takes place in accordance with relationship of the business shares.

§ 10 Duration of the company

The company will remain open for undetermined time.

§ 11 Cancellation Clause

Each partner can quit the society relationship under adherence to one period from six months to the end of the calendar year.

§ 12 Proclamations

The proclamations of the society take place only in the federal legal gazette for the Federal Republic of Germany.

§ 13 Establishment Expenditure

The society bears the costs of the entry and proclamation (establishment expenditure) connected with the establishment up to an amount of altogether EUR 4000.

§ 14 Safe-guard clause

If one or more regulations of the present contract should be or become invalid, the this is not to impair the remaining regulations. The partners commit themselves to agree, in this case, to what the partners would have wanted, if they had foreseen the invalidity of the regulations. If such a will of the partners cannot be recognized, the an appropriate regulation is to be agreed upon, which comes as close as possible to the economic sense of the questionable regulations.

