

HOMESTAY BUSINESS PLAN FOR YOURAN MOUNTAIN RESIDENT

Lisha wang*, Supot Rattanapun & Napaporn Khantanapha*****

**Graduate School, Southeast Asia University, Bangkok, Thailand,*

*E-Mail: *s6341b20034@sau.ac.th, **supotr@sau.ac.th, ***napapronk@sau.ac.th*

ABSTRACT

This paper aims to provide a business plan for establishing and running a homestay named Youran Mountain Resident in rural area of Beijing. The ambition of startup the business was attracted by the government support in developing homestay business. The attraction of the business will include organic food serving and childcare service available. These themes are aligned with the interest of the young family and healthy food demanded groups. The startup fund of the Youran Mountain Resident will be RMB 2 million and the intended to open branches within three years of operation. The homestay will include 20 rooms and various facilities that are designed to provide luxury service to customers. The business will able to survive at 30% of occupation rate given the homestay has the ability to adjust pricing during seasonal demand. The net present value for the next five years forecast is 13.14 million. The payback period is 2.57 years after startup, internal rate of return 104.36%, and the profit will be reinvested to open new branches to achieve the long-term goals.

Keywords: Homestay, Business Plan, Organic Food Serving, Childcare

INTRODUCTION & COMPANY DESCRIPTION

Beijing Youran Mountain Resident was established in 2020 with a registered capital of 2.2 million yuan. The company takes "integrity, pragmatism, responsibility, gratitude, and win-win" as its corporate values. The company has an experienced and professional operation and management team. The company aims to create a business chain of homestays, catering, natural agricultural products sales, organic vegetable picking, and free child-caring that focuses on the needs of high-end customers. The B&B creates a high-quality "local sense," personalized and exclusive accommodation environment with an excellent natural landscape. The catering uses scarce natural green wild vegetables, organic vegetables, poultry, etc., as the main raw materials for cooking, focusing on green and healthy (Lin et al. 2021). Another highlighted feature of service to customers was the child-caring services that enable guests to leave their children to either play with other guests or be babysit by specialists. The combination of the natural landscape, organic products, and child-caring created the "Youran" theme for guests, which means the feeling of carefree and leisurely, from the surrounding organic agricultural products.

INDUSTRY ANALYSIS

2.1 PEST Analysis

Policy environment: From a national perspective, the development of rural tourism and revitalize the rural strategy. Different departments have suggested a variety of support and encouragement policies. From the political perspective, Rural tourism development has been considered an effective way to boost the rural economy and help the lower-income group access the wealth from the national development.

Economic environment: According to data released by the National Bureau of Statistics on January 16, 2020, my country's per capita GDP exceeded US\$10,000 in 2019, and Beijing's per capita GDP exceeded US\$20,000. The tourism market maintained a steady growth trend, with a compound growth rate maintained at more than 13%.

Social environment: Tourism and leisure have become one of the essential lifestyles of Chinese people. Convenient transportation and growth of automobile consumption have further laid the foundation for the development of tourism demand, 61% of self-driving trips choose local homestays. And the main force of tourism is 25-35 years old (Insight 2018).

2.2 SWOT analysis

Strength: The strength of Youran Mountain Resident is that the natural resources surround the company with mountains and rivers, the resident is constructed with high hotel standards equipped with indoor and outdoor facilities such as a gym, high-speed internet network, bar, tea rooms, swimming pool, etc., The newly constructed facilities could allow the company to charge a higher price for guests because the quality is expected to be higher than competitors.

Weakness: The Youran Mountain Resident is far from the city. Another weakness is the capacity to hold guests. The number of rooms to help customers will be below 70 guests with about 20 rooms, which makes the resident not able to hold large events for high-profit margins.

Opportunities: The opportunities are that Youran Mountain Resident is that the growing number of middle and high-income group market. The middle-class group will be increased from 30% to 35% within the next 5 years, which means there will be more than 70 million population increased (Kearney 2021). The increasing demand for looking for personalized homestays and searching for a unique experience will raise the probability of increasing revenue for the Youran Mountain Resident. The location of the Youran Mountain Resident is near to the city, which also satisfies the demand of short travel of weekend holiday.

Threats: The potential threats of Youran Mountain Resident are that the business model is easy to imitate. If rivals try to enter the industry with a larger amount of capital investment, they will be more competitive than Youran Mountain Resident as the facilities and decoration will be more attractive to travelers. Another threat is that the unrest outbreak of pandemics that may continue impact to the tourism sector. Once the COVID-19 has been found in the region, the result will be catastrophic because the lockdown will greatly affect the source of income for Youran Mountain Resident.

2.3 Five Forces Model

Power of Suppliers: The bargaining power of suppliers is high due to large amount of potential homestay partnerships. The countryside will have many organic farms and products for supplying the Youran Mountain Resident, which granted the company higher power over the suppliers. In addition, a normal house is not able to engage in commercial activities, which requires Youran Mountain Resident to apply for a license for homestay.

Power of Buyers: The bargaining power of the buyers is at a normal level. The number of potential customers is high and the size order tends to be small. However, Youran Mountain Resident will be required to work with the online platform to promote the business. Without help from online platforms such as Ctrip (2021) or Dazhongdianpin (2021), the competitiveness of the business may reduce sharply.

Threat of Substitution: The threat of substitute products is very low because the alternative way for accommodation is only a hotel, which will have a much higher price than the homestays.

Threat of New entry: The threat of new entry is high because other homestays may apply for a license to operate the business. The entry barrier is low as little funds were required to start the business. For instance, the startup fund for Youran Mountain Resident is only RMB 2 million, which is not a significant amount for three to four shareholders given the current wealthy status of Chinese citizens. Every house with beds to spare can potentially become a homestay. Brand loyalty is also low due to the recognition of homestay brand is unfamiliar to customers. The switching cost is also low for customers because the price has the greatest influence on the demand.

Competitive Rivalry: The rivalry among existing competitors is high due to a large number of existing competitors and diversified business operations. The growth of industry also escalates the competition because a high margin attracts more home owners to join the business. The supply of tourism accommodation has increased 300% for the last 7 years (Jiang & Yin 2021).

MARKET ANALYSIS & MARKETING PLAN

Buyer Behavior

Organic Pursuer: The targeted customer of Youran Mountain Resident would have a strong preference for environmental protection. The survey has collected customers who will have an interest in spending time in organic food homestay at about 60.4%, and about 30.29% of participants stated that they have a strong preference for organic homestay.

Childbearing Family: The survey data collected shows the customer is willing to leave the children to be taken care of by the homestay. The 65.96% of the participants agree on taking care of children consumes massive energy and about 80.85% of participants did not reject the service of childcare provided by homestay.

The cost of homestay will be the most determinate factor when customers are making the purchase decision. The rival homestay would have different facilities and the main attractions for customers. The competitor analysis only sums up at 16% of the total homestay market share because the luxury homestay only contains about 20% of the total market share. In other words, Youran Mountain Resident is aim to achieve 4% of the total market share.

Marketing Plan

The overall marketing strategy keeps promoting Youran Mountain Resident on digital platforms such as Ctrip and Dazhong to maintain exposure and establish brand equity. Based on the sales process and marketing effort, Youran Mountain Resident is feasible to survive in the worst condition. The tool for the promotion mixes that is suitable for Youran Mountain Resident is advertising with the digital platform. The ideal platforms for advertising will Ctrip and Dazhong that the former app focuses on accommodation booking and the latter focuses on user reviews. Listing Youran Mountain Resident on Ctrip will help the homestay business gain more exposure and attract customers seeking organic food and childcare services. When collaborating with Ctrip, Youran Mountain Resident is expected to be promoted more frequently and receive more positive feedback and rating. The advertising should help Youran Mountain Resident gain popularity in a broad sense. As for the Dazhong app, advertising focuses on the quality and quantity of the review for the homestay experience. Dazhong shall help Youran Mountain Resident manage the user review content and emphasize positive feedback in future promotions. Meanwhile, Youran Mountain Resident will also pay attention to negative feedback and take advice from customers to improve the homestay service quality and establish brand equity.

MANAGEMENT TEAM AND COMPANY STRUCTURE

The management team will include the local resident investor and an additional hired manager to run the homestay business. The operation method of the business will be collaborating with local resident who also owns the share of the company, such method can increase the incentive of local manager to enhance the business performance. The owner of the business Mr. Wang will be the major shareholder of the company, and each branch will have a local resident for management purpose.

The organization structure of Youran Mountain Resident will have three separate functional division to manage the business, which are accommodation, organic food related, and childcare service divisions. The divisional management method will be useful in later expansion of the homestay business.

OPERATIONS & PRODUCTION PLAN

Operation Strategy: The operation strategy of Youran Mountain Resident will focus on the quality of services.

First of all, the company's mission is to provide the most satisfactory level of homestay experience to the customer. The second priority of Youran Mountain Resident is to grab more attention from potential customers by using objective marketing campaigns. The third priority is establishing a complete supply chain for the human resources and food supply business.

According to the survey result from competitors, most homestays were able to recover the initial investment with

In 2 to 3 years. Given the benchmark of a good homestay, Youran Mountain Resident will set the task of recovering

the RMB 1.5 million initial investment after the third year of opening. The medium-term stay shall last from 3 to

10 years. At the end of the medium-term stage, Youran Mountain Resident is aimed to have at least five franchises and a reliable supply chain in the Beijing, Hebei, and Tianjin region. For the long-term, the task is to spread the franchised homestay of Youran Mountain Resident to a national level and become a national brand.

FINANCIAL ANALYSIS & FEASIBILITY ANALYSIS

Financial Analysis:

The estimated revenue for the establish year would be about RMB 2.2 million and the growth rate will be at 10%, 15%, 40%, and 15% for the next four years. The estimated distribution of sales will be over 55% for the homestay accommodation, 25% % for the childcare service, 15% for organic food related revenue, and 5% for others. The net present value for the next five years forecasting is about 13.14 million. The payback period is about 2.57 years with the internal rate of return 104.36%.

Table 1 Income Statement for the Next 5 years

Income Statement Youran Mountain 5 Years Projections					
	2022	2023	2024	2025	2026
Revenue					
Accommodation	1,227,600	1,350,360	1,552,914	2,174,080	2,500,192
Organic Related	334,800	368,280	423,522	592,931	681,870
Childcare	558,000	613,800	705,870	988,218	1,136,451

	2022	2023	2024	2025	2026
Other	111,600	122,760	141,174	197,644	227,290
Total Revenue	2,232,000	2,455,200	2,823,480	3,952,872	4,545,803
Cost of Goods Sold	60,875	64,450	71,340	89,175	98,093
Gross Margin	121,750	128,900	142,680	178,350	196,185
Operation Expenses	121,750	128,900	142,680	178,350	196,185
Sales Expenses	60,875	64,450	71,340	89,175	98,093
Rent Expenses	304,375	322,250	356,700	445,875	490,463
Maintenance	60,875	64,450	71,340	89,175	98,093
Marketing	158,275	167,570	185,484	231,855	255,041
Delivery	24,350	25,780	28,536	35,670	39,237
Utilities	60,875	64,450	71,340	89,175	98,093
Depreciation	97,400	103,120	114,144	142,680	156,948
Office Supplies	24,350	25,780	28,536	35,670	39,237
Training	121,750	128,900	142,680	178,350	196,185
Total Operation Expenses	1,217,500	1,289,000	1,426,800	1,783,500	1,961,850
Operating Profit	811,600	932,960	1,117,344	1,735,498	2,067,163
Less Taxes	(101,450)	(116,620)	(139,668)	(216,937)	(258,395)
Net Profit	913,050	1,049,580	1,257,012	1,952,435	2,325,558

Table 2 Cash Flow Statement Youran Mountain 5 Years Projections

	2022	2023	2024	2025	2026
Cash Balance Beginning	2,000,000	1,272,650	2,259,223	3,443,778	4,348,080
Cash Flow from Operating Activities					
Net Profit	913,050	1,049,580	1,257,012	1,952,435	2,325,558
Training	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)
Marketing	(150,000)	(157,437)	(188,552)	(292,865)	(348,834)
Depreciation Expenses	97,400	144,430	166,095	232,532	267,412
Total Cash Flow from Operating Activities	810,450	986,573	1,184,555	1,842,102	2,194,136
Cash Flow from Investing Activities					
Childcare Facilities	(86,800)			(86,800)	
Electronics	(126,000)			(126,000)	
Property, Plant, and Equipments	(700,000)			(700,000)	
Farming Land	(25,000)			(25,000)	
Decorations	(300,000)			(300,000)	
Beddings	(300,000)			(300,000)	
Total Cash Flow from Investing Activities	(1,537,800)	0	0	(937,800)	0
Equity Contribution	-	-	-	-	-
Dividend	-	-	-	-	-

	2022	2023	2024	2025	2026
Total Cash Flow from Financing Activities	0	0	0	0	0
Net Chang in Cash Balance	(727,350)	986,573	1,184,555	904,302	2,194,136

Table 3 Pro Forma Balance Sheet

Balance Sheet Youran Mountain 5 Years Projections					
	2022	2023	2024	2025	2026
Current Assets					
Cash	500,000	550,000	632,500	885,500	1,018,325
Total Current Asset	500,000	550,000	632,500	885,500	1,018,325
Non-Current Assets					
Properties, Plant and Equipment	656,500	722,150	830,473	1,162,662	1,337,061
Furnitures	262,600	288,860	332,189	465,065	534,824
Electronics	196,950	216,645	249,142	348,798	401,118
Beddings	65,650	72,215	83,047	116,266	133,706
Childcare Facilities	262,600	288,860	332,189	465,065	534,824
Accumulated Depreciation	(131,300)	(144,430)	(166,095)	(232,532)	(267,412)
Total Non-Current Assets	1,313,000	1,444,300	1,660,945	2,325,323	2,674,121
Total Assets	1,813,000	1,994,300	2,293,445	3,210,823	3,692,446
Liabilities and Equites					
Current Liabilities	-	-	-	-	-
Account Payables	313,000	454,200	501,400	766,000	840,180
Non-Current Liabilities	-	-	-	-	-
Total Liabilities	313,000	454,200	501,400	766,000	840,180
Owner's Equity					
Capital	1,200,000	1,232,080	1,433,636	1,955,858	2,281,813
Retained Earnings	300,000	308,020	358,409	488,965	570,453
Total Owner's Equity	1,500,000	1,540,100	1,792,045	2,444,823	2,852,266
Total Liabilities and Equity	1,813,000	1,994,300	2,293,445	3,210,823	3,692,446

Feasibility Analysis

From the macro environment perspective, the homestay business has received supportive policy from government because it can increase the job opportunities for local economy and small enterprise. Youran Mountain Resident will able to access various resources and benefited from the policy to expand the business.

From the micro perspective, the financial statements provided shows the business is able to achieve the business expansion by opening branches in different location. As the income statement shown, the net profit could cover the initial investment within three years. Meanwhile, the questionnaire respond also shows that most of the founder could recover the startup funds within three years of home stay business operation.

CONCLUSION AND FUTURE WORK

The business model of Youran Mountain Resident required local resident as shareholder to join the development of homestay business, which increased the feasibility of expansion in the future. In addition, the company will further expand the business by using divisional cooperate structure, which makes the Youran Mountain Resident to have a high expansion potential.

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