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European Hostel Business Model

Grand Tree Hostel Business Model

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ABSTRACT

This study aims to figure out the most stable and efficient way to start-up a European hostel in Vietnam. By applying customer development theory in start-up, the thesis writer first forms his hypothesis of the service and the target market, and then has done some hypothesis tests by conducting surveys with the potential customers and performing a market analysis. Only since the hypotheses get tested, a next step of customer development theory will be carried on. By mentioning the next step, the writer means searching for a proper business model for a hostel start-up in Vietnam.

The thesis has been divided into three main parts. The first part is to find out the feasibility of the business idea, by analyzing the target market by its size, its achievability, its stability and its profitability. After that, the service concept is tested by conducting a survey. Finally, an existing hostel is examined, in this case – CheapSleep hostel in Helsinki, to figure out the business model. Based on the examined business model, a new business model for a start-up is developed, which must assure to fit the conditions of a start-up.

There are several findings in this study. First, there is a sizeable, profitable and achievable youth hostel market in Vietnam thanks to a steady growth in tourism environment in Vietnam and in tourist arrival. Second, there is a need for better accommodation for economy travelers in Vietnam. To get more specific, there is a need for a European trendy hostel. Finally, the business model for a start-up is not similar to an existing business. It is much more complicated since a business must be built before getting running. Thus, the business model for a start-up is also developed into two phases, starting-up phase and running phase.

Key words: European trendy hostel, business model, customer development model, start-up, Vietnam

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1 INTRODUCTION

The introduction part includes background of the thesis, objectives and research questions. Besides, it also gives reader the thesis scope and limitation as well as a theoretical framework. In addition, research methodology and data collection also will be discussed. Finally, a thesis structure provides the reader a general picture of this thesis.

1.1 Background

Despite the world economic recession in these recent years, the globe has seen an impressive growth of tourism and its total contribution to the world gross domestic product (GDP). For the year of 2011 and 2012, traveling and tourism have contributed for the world GDP growth with the number of nearly 3% and 3% respectively. This growth is much faster than the number of the growth of the world economy as whole, 2.3 %; and other specific industries like manufacturing, financial & business services and retail. (Economic Impact Research 2012.)

Tourism in Vietnam is also an important component to the GDP growth with a contribution approximately 6% annually, according to Hoang Anh Tuan, Vietnam's Minister of Culture, Sports, and Tourism (Vietnam Briefing Magazine and daily news services 2013). Besides, tourism has supported 1,831,500 jobs directly in 2012 (3.8% of total employment) (World Travel & Tourism Council 2013). Despite the fact that tourism has been an integral part of the national economy, there is huge distance of tourism development between Vietnam and its neighbors. The index of tourism contributing to the total GDP of Thailand and Singapore are 16.7%, and 11.3% respectively.

From the year 2002 to 2012, Vietnam has received a big increase in the number of international tourists coming to Vietnam, 2,429,600 to 6,847,678. The average growth number of international tourists is 9.8% annually (Vietnam National Administration of Tourism, 2012), so there is huge room for tourism development in Vietnam, and it promises a bright future for investment in Tourism in Vietnam.

The author is spending his third year in Europe. During his years in Europe he has traveled in nearly 15 countries over the continent, from the resident country Finland to the South of Europe like Italy, France, Spain to the Eastern and Western of Europe like Germany, Austria, Hungary, etc. At the beginning, he travelled for leisure. After few trips he realized that he really enjoyed his stays at hostels, and has begun thinking of opening a hostel in his own country. So now he travels to observe and to learn of what creates a good hostel. There are many types of hostels depending on the location, the customer needs and the owners' purpose, like eco-hostel, beach hostel, family hostel or party hostel. According to Oxford dictionary (2014), hostel is defined as place providing inexpensive food and accommodation for a certain type of people like students, workers or travelers. While the hostel management website considers a hostel as a place offering short-term stays including common areas and communal facilities for individually (typically backpackers) or groups (Hostel Management 2013).

Nowadays, with the diversification of lodging industry, a hostel obviously does not offer a stay to sleep only. A traveler expects more than just a bed; he wants the hostel to become a part of his travel experience. He would love to enjoy the hostel environment with different people from all around the world, meet and make friend to others. And a hostel which can provide a good environment to create a good experience is a good choice. To prepare for the author's intention of opening a youth hostel in Vietnam, he has spent 3 months in summer of 2013 and another one month in 2015 to do market analysis of Vietnam hostel market and two customer surveys to evaluate the quality of small hotel and existing hostel in Vietnam. And the result is that there is a small number of small hotels and hostels which really focus on customer experience. There is a distance between what a Western customer wants and what a Vietnamese lodging business can provides. In other words, the thesis writer believes Vietnamese lodging business at the moment only supply what they have but not what their Western customer desire.

At the same time, the author attended a conference by Professor Steve Blank in Helsinki talking about new business start-up philosophy- Customer Development Model. The new business start-up philosophy tries to point out the reason why adopting traditional business start-up fails the start-up, and why we should try to

search for a proper business model instead of business plan like in traditional start-up way.

In brief, the thesis aims to find out if a European trendy hostel¹ can fit the market in Vietnam. And if it does, what is a proper business model for a hostel start-up?

1.2 Thesis objectives and research questions

The author's intention is to open a Youth Hostel in Vietnam, so the thesis is going to find a proper business model by then the author will start-up his hostel business based on the found business model. This thesis will search for the answer of research questions:

Is there a youth hostel market in Vietnam, and is it sizeable, stable, profitable and achievable enough?

What is the proper business model for starting up a European trendy hostel?

To sum up, the thesis objective is to assist the author in preparing the starting up process by answering these research questions. With the information on the target market, the found business model, and then it will be easier for the author to get started.

In order to answer these above research questions, the author has designed some sub research questions:

What is the hospitality market in Vietnam like?

How attractive is the hostel market?

¹ A European trendy hostel provides not a place for youth traveler to sleep but also a beautifully and creatively decorative place. Moreover, the place is designed to improve the social interaction between the travelers, and to boost the local culture understanding for the travelers (Bourget 2015).

What is a European trendy hostel? How is it different from other budget accommodation?

What is a business model of an existing hostel in general?

What is an initial business model for my hostel?

1.3 Scope and limitation

This thesis is developed to figure out the hostel business model which is seen as the first step in many steps leading to a real business. An action plan with specific tasks will be prepared then. As a preparation step for the author to start-up his own hostel, it must be realistic and applicable. However, it takes time to research different business models of successful businesses as well as doing-well-startups. In the scope of this thesis, there is actually one hostel business model, CheapSleep, has been analyzed during the time of the thesis writer working there. To close the gap, he has visited a lot of other hostels around Europe to observe and to get a business model for starting-up hostel as close as possible, such as Wombat the Base Hostel in Vienna, in Munich, in Berlin, Plus hostel in Venice and Florence, Generator hostel in Copenhagen, X hostel in Budapest, Sant Jordi hostel in Barcelona.

Regarding the limitation of this thesis, first of all, Vietnam is chosen as the location for launching the start-up venture because it receives a huge tourist arrival every year. However, far beyond that the author selects Vietnam to open his hostel, mostly the author's hometown. And he can resort to different resources that he cannot approach if he runs the business in anywhere else. Moreover, market analysis has not been performed yet so the selection is only based on initially subjective desire of the author. Secondly, the limitation can come from the size of participants taking the survey in this thesis. There were only 18 out of 25 people agreed to take the survey. The size is quite small which limits the

reliability of the survey itself. Last but not least, although the author has spent a long time for travelling to observe and to work in hostels around Europe, there are many other successful hostels which he has not been able to visit. The hostel business model, therefore, is limited to the author experience.

1.4 Theoretical framework

The thesis aims to find a proper business model which will be a good start for a startup. There are nine of ten startups failing to keep doing business after their first three years. So the author mission is to find a new way of start-up making sure the best possibility for his venture business to thrive. This leads the author to research traditional way of startup to figure out why most of the startups do not succeed, and why only one of ten startups succeeds.

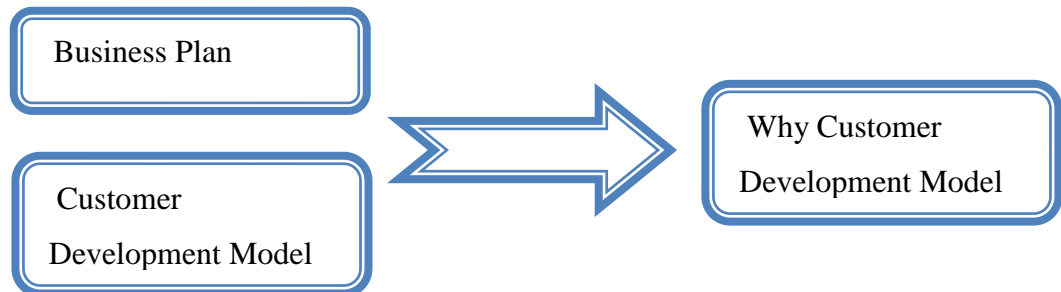


FIGURE 1 . Theoretical Framework

For the theory part, the author first presents a traditional way of start-up, a business plan. And then he will give a brief explanation of the new way start-up, the Customer Development Model. And it is because the customer development model is developed based on the knowledge of business model canvas, so the thesis is also going to describe what a business model canvas really is and how it supplements for the customer development model. Finally, the theory will come to the end with the explanation and conclusion of why adopting of the customer development model instead of business plans as guiding theory for starting up.

1.5 Research methodology and data collection

The research methodology is described in the following figure:

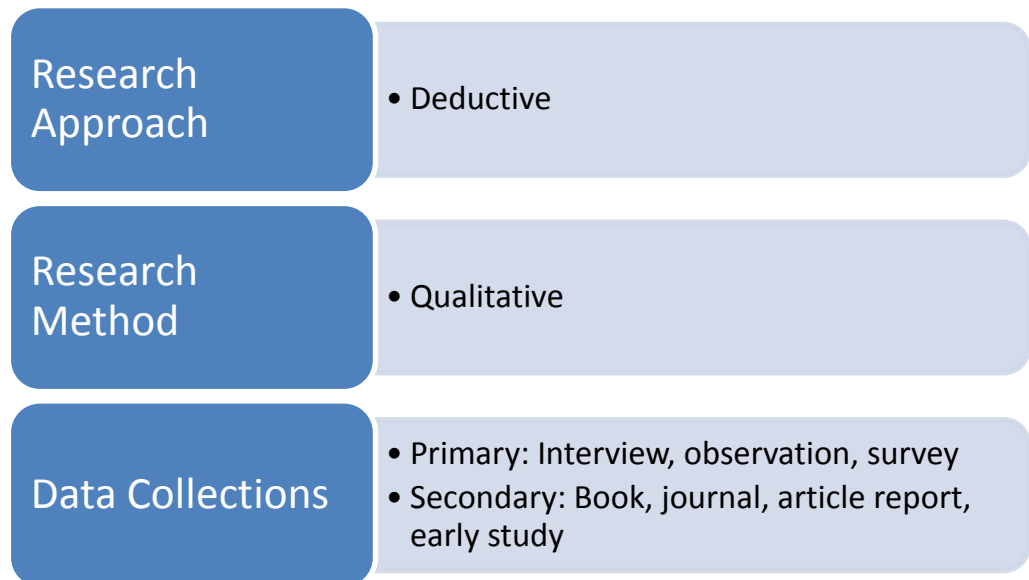


FIGURE 2. Research Methodology

Burney (2008) presents two methods of reasoning research approach, deductive and inductive approach. In deductive approach, the research begins from general, moving to specific. Starting with a theory, researchers make their own hypotheses. Through observations, these hypotheses will be confirmed. (Burney 2008.)

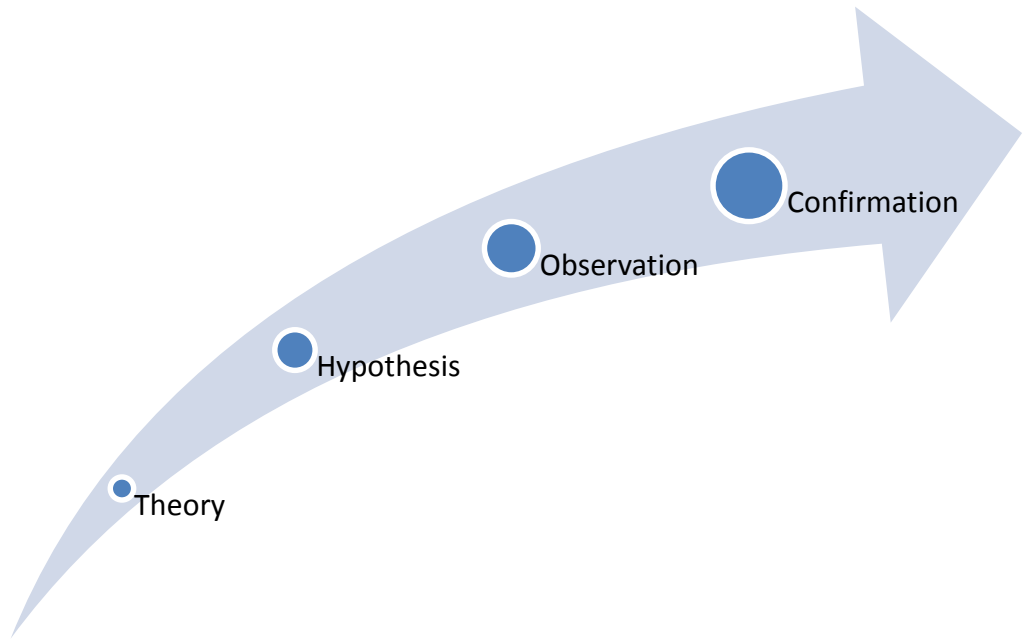


FIGURE 3. Deductive approach method

In contrast, inductive methods lead from observation, going through pattern and tentative hypothesis and then conclude with a new theory. This method moves from specific observations to broader generalizations and theories. (Burney 2008.)

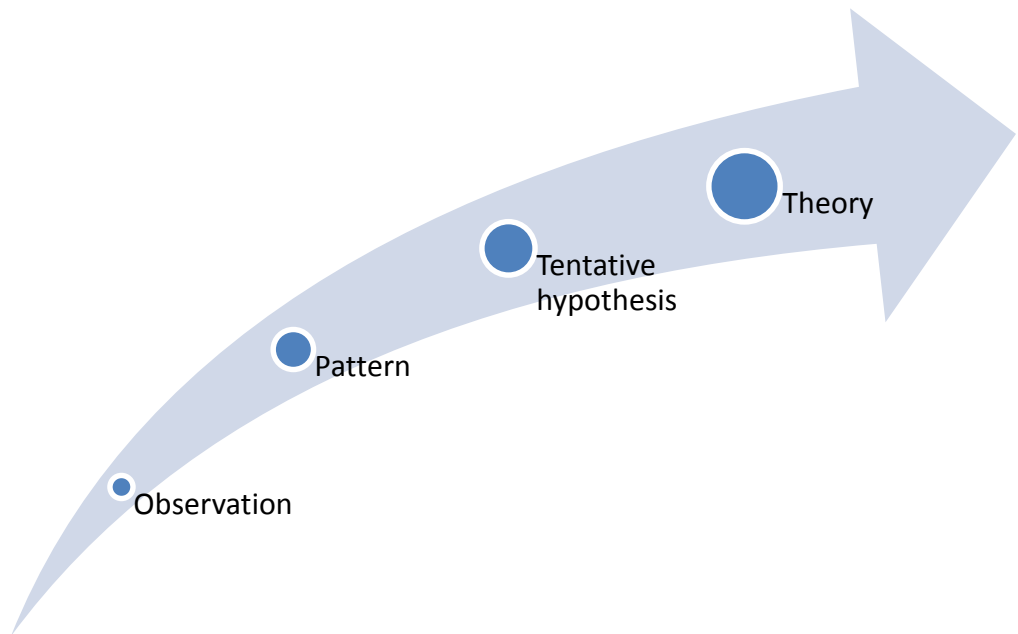


FIGURE 4 . Inductive approach method

This thesis is going to apply the deductive research approach because it moves from the general theory of entrepreneurship – Customer Development Model to the author’s hypothesis of starting-up business model. Through observations, the author finally will or will not confirm the hypothesis of starting-up business model.

Coming to the research method, qualitative method will be applied. C.R. Kothari (2004, 3) defines types of research as qualitative and quantitative. While quantitative research measure and quantify data to draw the relationship between variables, qualitative research deepen data with why and how question to gain an understanding of reasons and motivations. And it is because the thesis objective is to find a proper business model to start-up; the author has to find answer for questions like how a customer makes his buying decision, why a customer accepts a value proposition or prefers a method of payment. Thus, the qualitative research method is chosen as the main research method.

Moving to data collections, the research data are both primary and secondary data. For the theory part, secondary data are mainly exploited such as books, journal, article, and company reports; while the empirical part comes with both primary data and secondary data. The secondary data is used for instance, company reports, government official statistics, and early studies. These numbers will be used for better perceiving of the target market. Together with the primary data such as interview, observation and survey are conducted with potential customers or a case company to understand the case company business model and customer desire better. (Kothari 2004, 3.)

1.6 Thesis structure

The thesis is constructed in five parts with seven chapters. The table below will demonstrate specific goals of each chapter. Five parts are introduction, theoretical, empirical, conclusion and summary. Among these parts, the theoretical and empirical parts are the most important parts. The theoretical part aims to explain the theory of business plan, customer development model, and business model

canvas in order to give the audience a basic understanding of these theories and to draw the distinction between the traditional method of start-up and the new method of start-up. Besides, the theory of Porter's Five Forces Model is introduced, which helps the author to analyze the hostel market in chapter 3. Meanwhile, the empirical part includes chapter 3, 4, 5 tackling with the research questions. Chapter 3 named market analysis, which is designed to answer for the research question 1- what is the hospitality market in Vietnam like and is it a desirable market to enter in? Firstly, this chapter is going to collect general information of Vietnam tourism in order to give the reader an overview of tourism industry in Vietnam. Next, the reader will get to the main point of this chapter, the demand and the supply of backpacker market in Vietnam. This part is going to answer for the question if there is a youth hostel market in Vietnam or is the market sizeable, stable, profitable and achievable enough? Only being able to answer this question, the author can carry on his idea of starting-up a hostel. Finally, the author will try to analyze the attractiveness of the hostel market in Vietnam by applying Porter 5 forces. So the chapter 3 searches for information of external environment to find an answer for the author hypothesis of the market. Moving on, in chapter 4 the author creates his hypothesis of the value proposition of his hostel; in other words he tries to create a vision of his hostel- what does it look like, what the hostel can offer to his guests. The last chapter of the empirical part is chapter 5, which aims to finalize the initial business model onto which a hostel can be build. In chapter 5, the author presents a business model of CheapSleep hostel, an existing hostel. From the business model of an existing hostel, the data from the customer survey and the tested hypothesis of the hostel from chapter 4, the author will sketch the initial business model. In brief, the chapter 4 and chapter 5 will both find answer for the research question 2- what is made up a start-up business model?

TABLE 1 . Thesis structure

Thesis structure	Introduction Chapter 1
------------------	--------------------------------------

	Theoretical Chapter 2	Empirical Chapter 3,4,5	
	Business plan	Chapter 3: Market analysis 1. General information of VN tourism 2. Demand and supply of backpacker market 3. Market analysis using Porter 5 forces	Answer for research question 1: How is the hospitality market in Vietnam?
	Customer development model	Chapter 4: The hostel concept	Answer for research question 2: What is made up a start-up business model?
	Business model canvas	Chapter 5: Business model	Answer for research question 2 What is made up a start-up business model?
	Conclusion Chapter 6		

	Summary Chapter 7
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Moving further, chapter 5 customizes the discovered business model of an existing hostel, and makes changes to fit with the condition of a start-up. At this time, a newly proper business model has been ready for the entrepreneur to build his own hostel. And then chapter 6 makes conclusion of the most important findings and insights which contribute to the decision making of the entrepreneur to start-up. Afterwards, chapter 7 summarizes the whole thesis.

2 THEORETICAL PART

In this chapter, the main theory is customer development model. There are supplementary theories which help to shed light on understanding the main theory, are theory of business model, and the theory of business model canvas. Besides, the theory of business plan will be presented which the author adds on, in order to explain better the reasons why adopting customer development model instead of business plan as guide map for start-up. Finally, the theory of Porter five forces which is supplementary for the main theory, and is necessary in helping answering the first research question, is there a youth hostel market in Vietnam?

2.1 Customer development model

Inside this section, the thesis presents the origin of customer development model theory, from the days of the work by Steve Blank himself to the days the work was developed both by him and his student Eric Ries. After that, we will take a closer look at the customer development model, getting inside the process of customer development model step by step.

2.1.1 Origin of customer development model

In the mid 1990s, Steve Blank, after 21 years being cofounder in 8 high technology companies, retired and wrote a book to reflect his own experience of starting up business, *The Four Steps to the Epiphany: Successful Strategies for Products that Win*. For the first purpose of writing this book, he has prepared it as his class text in Stanford University. But very soon later, his methodology about customer development had become a cornerstone of the customer development model startup movement, which was adopted and developed by Eric Ries one of the best students of Steve Blank. The Customer Development methodology

created a scientific approach to business which can be used by startups and entrepreneurs to discover and develop a better understanding of their consumer. Together with product development methodology, customer development methodology has completed the product market fit of a startup venture. (Blank 2013.)

2.1.2 Customer development process

In the book, “The Startup Owners’ Manual: The Step-by-Step Guide for Building a Great Company”, Steve Blank points out that a startup is not a smaller version of a large company but a temporary organization designed to search for a repeatable and scalable business model. He clearly distinguishes between a large company and a start-up. A large company is an institution with a known business model which is executing its operation plan. And a startup with unknown business model tries to operate as the way of a large company, will soon get failed. (Blank & Bob 2012, 43.)

Thus, Steve Blank (2012, 157) presents customer development process as a step-by-step guide for startup venture which involves 2 phases “Searching for the business model” and “Executing the business model”.



FIGURE 5. Customer Development Process (Blank 2013)

Under each phase, we have two sub-phases. In the search phase, there are customer discovery sub-phase, and customer validation sub-phase. In the execution phase, the sub-phases are customer creation and company building.

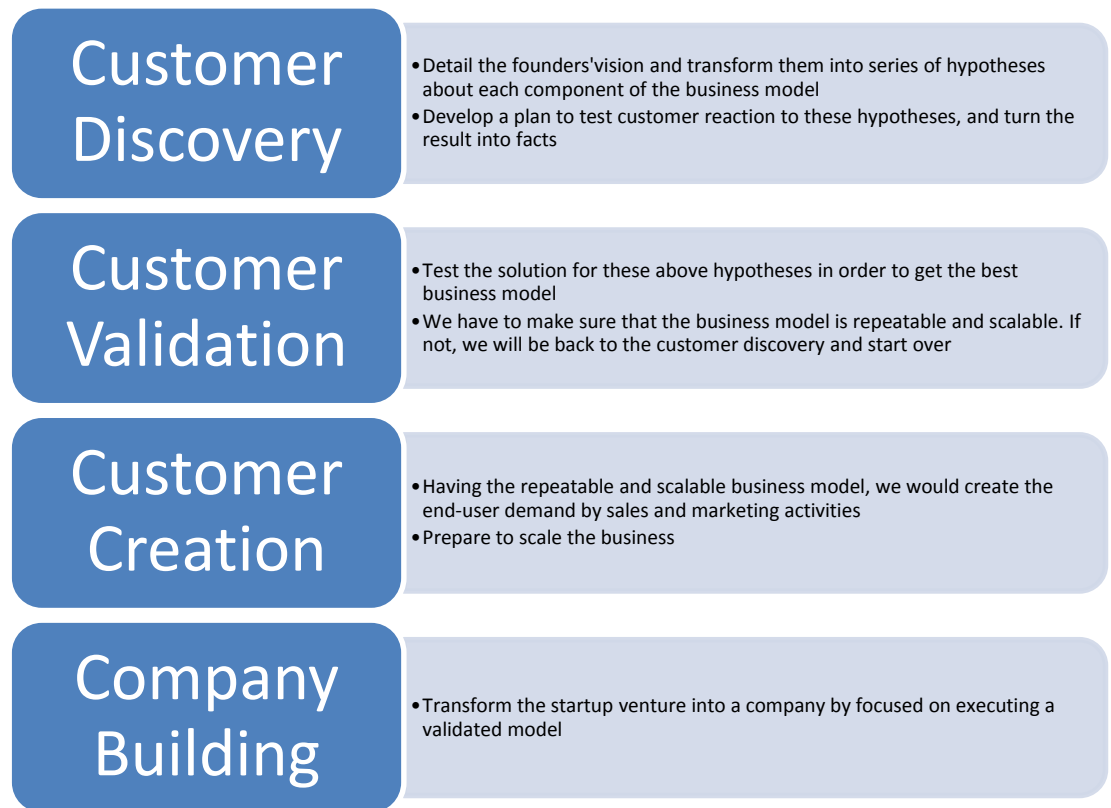


FIGURE 6. Customer Development Process (Blank & Bob 2012, 69)

For the sub-phase customer discovery, the founders develop their visions into hypotheses. Every assumption of the founders of business model, like market segmentation, customer needs, target customer, market size, and key activities are not proven. And the founders form a customer development team, and lead the team to prove that these assumptions exist by capturing the reaction from the customer. (Blank & Bob 2012, 25.)

Next, the customer development team develops solutions for the hypotheses and test if these solutions work to the target customer. For example, the customer development team assumes that left-handed people behave differently to right-handed people. So the team would make some customer surveys to find out if the tailored products or services are good for the left-handed people. If the left-handed people agree that some products which is designed for the right-handed people is

really concerned to them; the team will decide to develop the solution. Later on, the team checks the customer reaction to assure if these solutions really work or not, and to assure if the customer is willing to pay for the solutions. Similarly, the customer development team has to test the solutions for other parts of the business model by measuring if these solutions are good for the business and add more value for the customer. Finally, if all the answers are yes, the customer development team finalizes the business model, and move to the execution phase. (Blank & Bob 2012, 27.)

After the customer validation phase, the startup venture has its own completed business model which includes components like the value proposition, the key activities, and the channel. So for the first step of Execution Phase, the customer development team settles down things, following the sale roadmap from the business model to create the end-user demand. Spending money effectively for the marketing and sales activities to boom the demand is a critical step. (Blank & Bob 2012, 29.)

The final step is to transform the startup into a company, which means to switch the mode from “searching-focused” to “executing-focused” completely. It means it is the time to build the company with formal, structured departments and to operate as a real company, not a start-up venture anymore. Finally, the business environment changes, and the best business model today can be obsolete one tomorrow. Thus, it a must to develop the business model continuously to adapt to changes. (Blank & Bob 2012, 30.)

2.2 Business model

The business model is an important part of the customer development model. By continuous developing the business model, the customer development model gets completed. Hence, the thesis must show clearly what business model is, and what business model type which the customer development model resorts to.

2.2.1 Business model definition

Peter Drucker, one of the best-known pioneers in exploring the field of management, defines the business model term as:

“A business model is nothing else than a representation of how an organization makes (or intends to make) money (Johnson 2010, according to Drucker).”

Similarly, Dummies and Financial Times describe a business model as a method or a mean by which a company tries to capture value from its business. A business may be based on many different aspects of a company, such as how it makes, distributes, prices or advertises its products. (The Financial Times 2013.)

In the mean time, Alexander Osterwalder and Yves Pigneur think of a business model more specifically as:

“A business model describes the rationale of how an organization creates, delivers, and captures value (Osterwalder & Pigneur 2010, 14).”

2.2.2 Business model canvas

There are different types of a business model which have been introduced over years like Hofferen’s dynamic business idea model, the atomic business model of Weill and Vitale, and the component business model (technique developed by IBM- International Business Machines Corporation). However, Steve Blank (2012, 36) has chosen business model canvas of Alexander Osterwalder and Yves Pigneur as the framework for Customer Development because of its easy-to-understand, and practicality. The Business Model Canvas is used as a scorecard to monitor the progress of “searching for the business model” by capturing the founder visions into hypotheses into the nine building blocks which illustrate the details of a company: product, customers, channels, demand creation, revenue models, partners, resources, activities and cost structure.

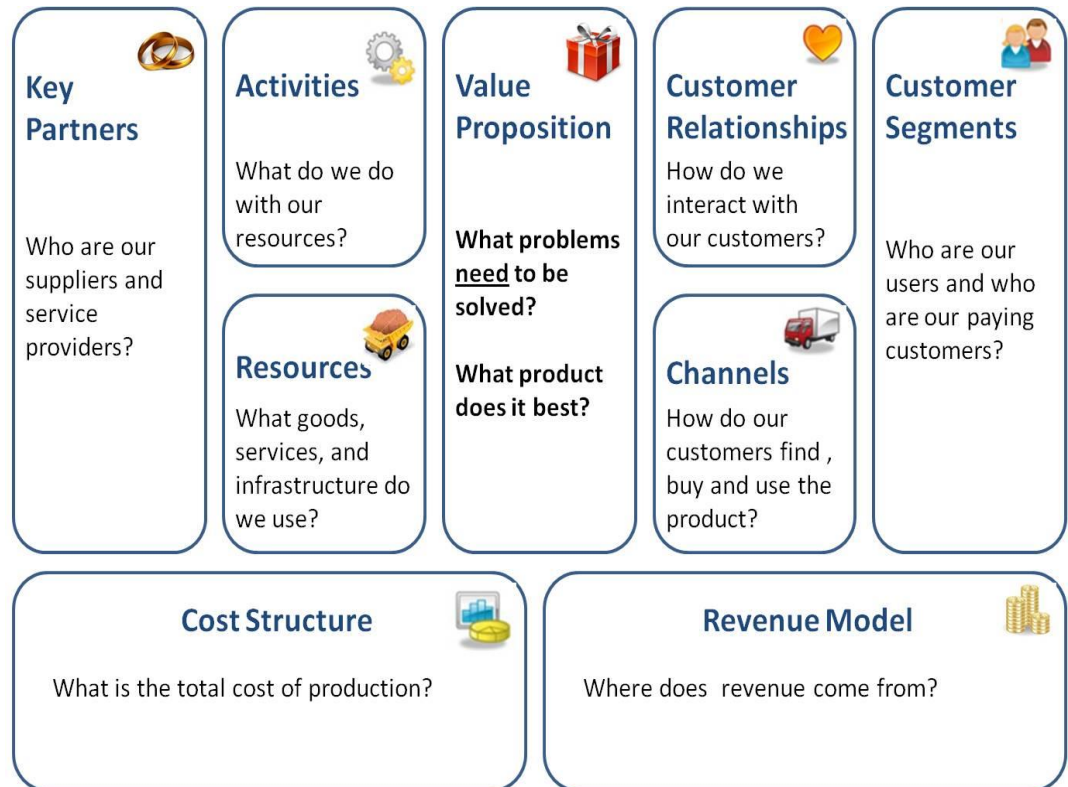


FIGURE 7. Business model canvas (Five Whys, 2013)

Alexander Osterwalder (2010) constructs the business model canvas as 9 building blocks which are

1. Value Propositions
2. Customer Segments
3. Channels
4. Customer Relationships
5. Revenue Streams
6. Key Resources
7. Key Activities
8. Key Partnerships
9. Cost Structure

These 9 building blocks demonstrate 4 main areas of a business: customers, offer, infrastructure, and financial viability. We will go through each of 9 boxes to understand exactly what constructs a business.

Value Proposition

Value proposition is understood as what the company offers to its customer in order to get the profit back. The Value Proposition can be products or services and delivered to the customer through Channels. (Osterwalder & Pigneur 2010, 19.)

Customer Segments

Every company needs to segment its customers to serve them best based on different customer needs, different distribution channels, different desire, and types of relationship between the company and the customer, and different profitability. A company can stick to one type or multi-type of customers to serve depending on the company capability. (Osterwalder & Pigneur 2010, 20.)

Channels

The channels are depicted as the way a company communicate and deliver its value propositions to its customer segments. The author also describes the channels as 5 distinct stages with different channel types.

Channel Types		Channel stages				
Own	Sales force	1.Awareness	2.Evaluation	3.Purchase	4.Delivery	5.After sales
	Direct Web sales	How do we raise awareness	How do we help customers evaluate our organization's Value Proposition?	How do we allow customers to purchase a specific product and a service	How do we deliver a Value Proposition to customers?	How do we provide post-purchase customer support?
Partner	Own stores	about our company's products and services?				
	Indirect Wholesaler					

FIGURE 8. Channel types and stages (Osterwalder & Pigneur, 2010)

There are several functions which are raising awareness among customers, helping customer evaluate a company's products and services, allowing a customer to purchase a company's products and services, delivering a value proposition to customers, and providing post purchase customer support. (Osterwalder & Pigneur 2010, 26.)

Customer Relationships

As its name implies, this block describes the type of the relationship which a company would like to have with its customers. The company can have different customer relationships with its different customer segments depending on the company's purpose like customer acquisition, customer retention, or boosting sales. (Osterwalder & Pigneur 2010, 28.)

Revenue Streams

A company creates value for its customer with its desire to bring money back. And each money stream from each customer segment contributes to the company revenue streams. There are several ways to generate the revenue streams:

Asset sales: the company sells its ownership rights of a physical product to its customers.

Usage fee: the company serves its customers in order to capture the revenue stream.

Lending/renting/leasing: as the term implies, the company will lend/rent/lease its right to use a particular asset for a fixed time for its customers.

Licensing: the company has its copyrights ownership to a product or a service, and then it would agree for its customers to use the company's idea or invention of products or services.

(Osterwalder & Pigneur 2010, 30.)

Key Resources

Key resources are resources that make the business model works. Key resources can be physical resource like building, vehicles, point-of-sales system, or can be intellectual resource, human resource, or financial resource. Each business which operates in each industry could have different key resources. Some technology companies like Microsoft or Yahoo place intellectual resource and human resource as the most important resource. But hotel corporations like Intercontinental, Hilton, Hyatt emphasize on physical resource, human resource, financial resource rather than intellectual resource. (Osterwalder & Pigneur 2010, 34.)

Key activities

Similar to key resources, key activities are ones that make the business model works. In other words, there are activities which are critical to the company's success than other activities. For example, a manufacturing firm would decide the production activities as the most important activities, while consultancy McKinsey emphasizes problem solving activities. (Osterwalder & Pigneur 2010, 36.)

Key partnerships

Business today is believed to be done not only by a company on its own but also by a network it involves. In other words, the business needs a whole supply chain works good. Even Apple Corporation needs other hardware suppliers to make a wonderful iPhone. Thus, a company needs to describe its partnerships to key partners for a good co-development.

Osterwalder and Pigneur present 4 different types of relationships:

Strategic alliances between non-competitors

Cooperation: strategic partnership between competitors

Joint ventures to develop new businesses

Buyer-supplier relationships to assure reliable supplies

(Osterwalder & Pigneur 2010, 38.)

Cost Structure

Last but not least, this building block presents the most important costs during the operation. It tells which key resources are most expensive, which key activities are most expensive, and helps to restructure the cost of the business. (Osterwalder & Pigneur 2010, 40.)

2.3 Business plan

Under this section, the author tries to give a clear definition and to clarify the importance of business plan in start-up. Furthermore, the elements constitute a business plan also be discussed.

2.3.1 Business plan definition

A business plan is a written statement that describes and analyzes our business and gives detailed projections about its future. Business plan gives the reader an overview of the company background and its mission statement. Moreover, it provides information of a market and an industry in which the business operates. And then, a business plan also describes how the company operates and achieves its goals. Finally, a business plan covers financial aspects of starting or expanding our business- how much money we need, and how we will pay it back. (McKeever 2015, 8.)

2.3.2 Business plan elements

A normal business plan consists of 9 elements

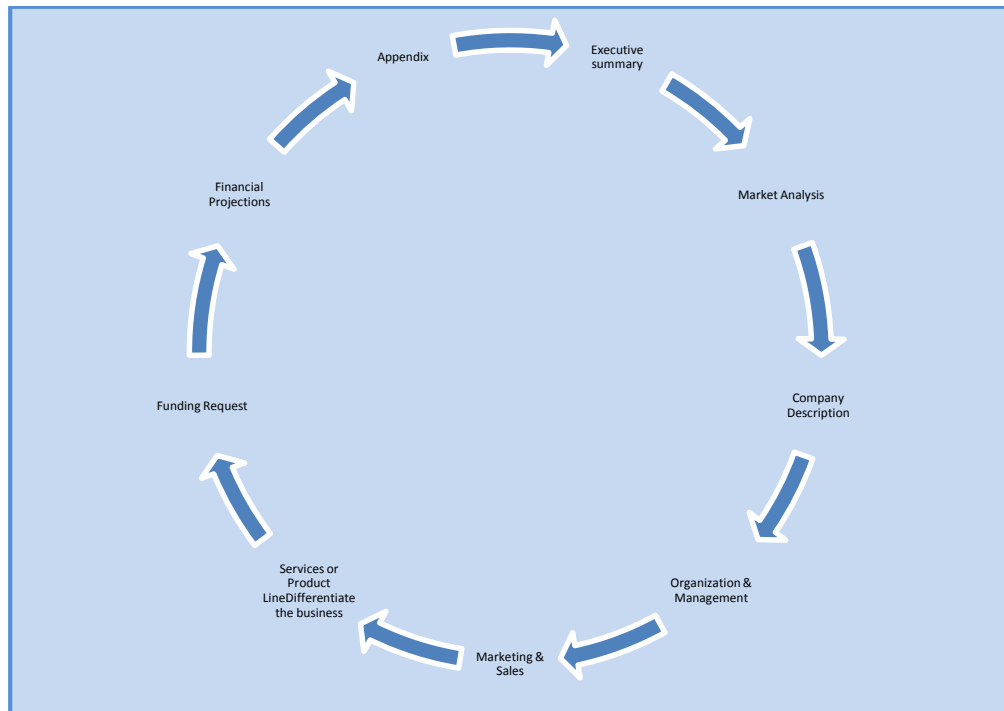


FIGURE 9. Business Plan Structure (U.S Small Business Administration 2013)

(U.S Small Business Administration 2013.)

- **Business plan executive summary**
A snapshot of a business plan mentions company profile and goals
- **Market Analysis**
Analyzing information of business industry, market and competitors
- **Company description**
Giving information of what company offers, the market in which the company operates
- **Organization and Management**
Providing information of an organization structure
- **Marketing and Sales**
Describe how a company approaches its market, and what is the company sale strategy?
- **Service or Product Line**
Describe what a company sell, and how does a company add value for its customer, how long is product life cycle
- **Funding Request**
Prepare information of how to achieve capital and get funded
- **Financial Projections**
Predict a company financial situation by making balance sheet, income statement, and cash flow for the next 3-5 years
- **Appendix**
Useful place to include information such as resumes, permits and leases

(U.S Small Business Administration 2013.)

According to Mike McKeever (2015, 8), an entrepreneur needs many reasons to write a business plan. A business plan could be used for internal purposes or as a selling document to share with the outsiders. For the internal purposes, the founders write the business plan to define the destination where the business could run to. The business plan, in this situation, will be like a roadmap to show if the business is on its track or gets lost.

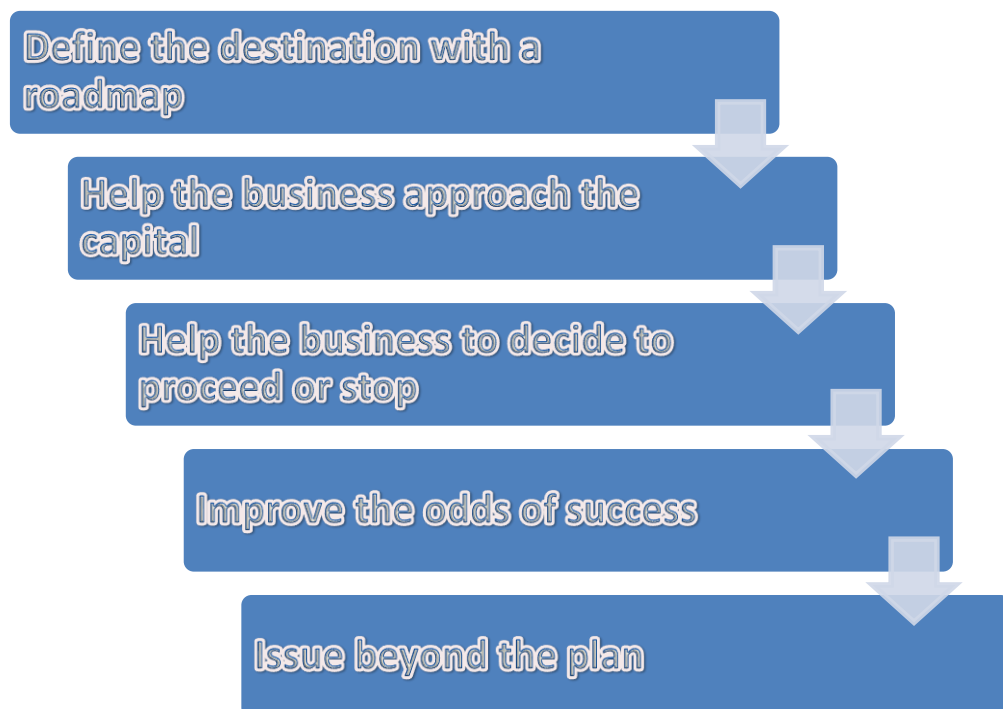


FIGURE 10. Why we write a business plan (McKeever 2015, 8)

As a roadmap, a business plan helps an enterprise monitor its progress and decide to keep doing or to stop the business. In addition, a good business plan could improve the odds of success because opening or expanding a business comprises of so many risks and uncertainties. A good business plan helps to predict and minimize the risks. Finally, one of the most important features of business plan is to help a business approach its capital investors. Many banks and venture capital firms require a good business plan to evaluate the probability of providing capital. (McKeever 2015, 8.)

2.4 Reasons adopting customer development model instead of business plan

“Business plans rarely survive first contact with customers”

(Blank & Bob 2012, 35.)

“People like to come in with this four year plan, but when you get married to the plan you stop being creative and stop making changes,”

(Business Insider 2013, according to Arnoldi.)

According to the U.S Small Business Administration (2003), over 50% of small businesses fail in the first year and 95% fail within the first five years. After a decade, Shikhar Ghosh, a senior lecturer at Harvard Business School reported the number of start-up surviving after ten years is 35% (Gage 2012). For decades, entrepreneurs begins their startups with a business plan which describes company background and missions, analyzes and predicts financial aspects for an average of 4 years (McKeever 2015). Entrepreneurs today have more knowledge of starting up a company, but the failure rate is still high- 75 percent. It should have something wrong with the traditional method which an entrepreneur establishes his own business.

Steve Blank (2013) suggests that a startup company is not a small version of a big company. A big company makes its plan based on its collected data and facts; however, a small one makes its plan based on nothing but assumptions. It is because no one can forecast complete unknowns. Furthermore, Steve mentions a big company operating with a known business model which describes clearly how the company can make money. Meanwhile, a startup begins from nothing. Thus, it must search for a business model before running with a plan. It is why an entrepreneur begins with a dedicated business plan will not succeed. (Blank, 2013.)

Moreover, he also says that a normal successful startup only survives and grows after plan E, F, G, and H not plan A. It means a normal successful startup learns

by its failures. It learns to succeed but does not plan to succeed. A traditional business plan based on desk research, isolated to the fact, is made for 3-5 years and emphasizes on execution. The market place changes all the time while the business plan is static and cannot change flexibly. In brief, Steve Blank criticizes the inflexibility of traditional business plan and prefers the customer development model which focuses on hypotheses, testing, learning and iteration. In other words, customer development model prepares for success, not make plan for success. (Blank, 2013.)

2.5 Porter's Five Forces Model

In 1979, Michael Porter introduced his new theory of assessing industry rivalry for the first time, through it revealing a new way to evaluate the attractiveness of a market. His study shows that competition not only exists by direct form between direct competitors but also other forms like threat of new entrants, bargaining power of suppliers, bargaining power of buyers, threat of substitute products or services. (Grant 2010, according to Porter 2008.)

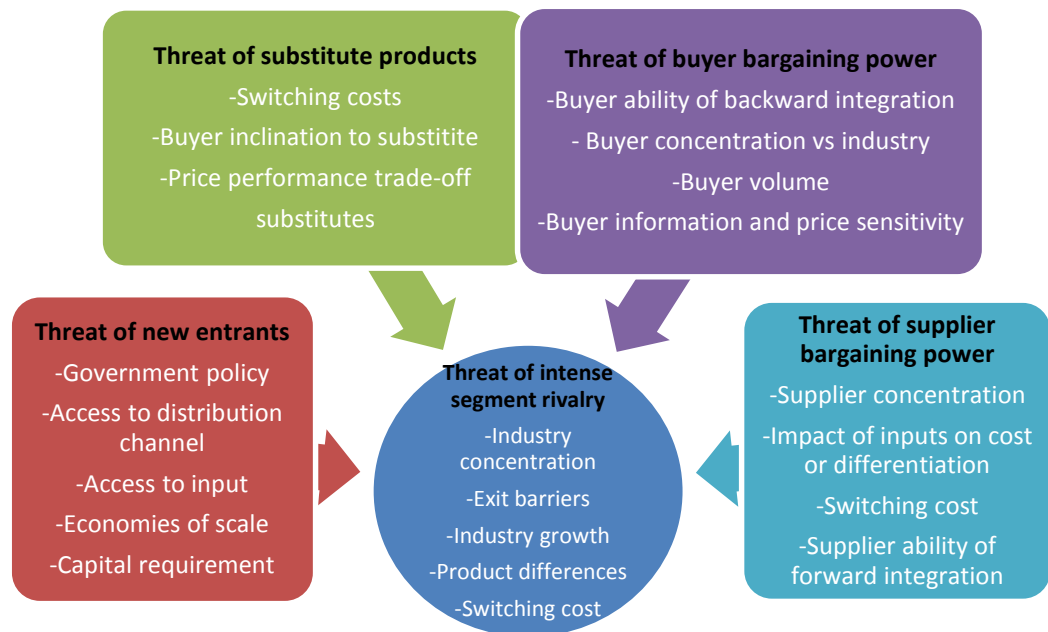


FIGURE 11. Porter Five Forces (Adopted from Grant 2010)

Threat of new entrant

The new entrants add more competitiveness to the industry, since they enter the market. With adding more capacity, they also desire more market shares which put more pressure on the market. In turn, by taking over the business from existing players who want to leave the market at that moment; they could make the entry exit less difficult. (Hollensen 2014; Porter 2008.)

The threat of a new entrant is high or not, depending on some barriers they have to overcome to enter the market, for example, the government policy, the access to distribution channel, the access to input, the require capital and so on. (Grant 2010, according to Porter 2008.)

Bargaining power of supplier

A powerful supplier can put more competitiveness on the market by charging higher prices, shifting costs to industry participants. They use their advantage of

economic size or advantage of being a mono-supplier to increase more their negotiating power to the industry participants. (Porter 2008.)

The pressure from a supplier varies is based on the fluctuation of other conditions like the supplier concentration, impact of inputs on cost or differentiation, switching cost, or supplier ability to get a forward integration. The less concentrated of the supplier, the less power from the supplier; the less switching cost, the less pressure from the supplier; the less possibility of forward integration from the supplier, the less impact from the supplier. (Porter 2008.)

Bargaining power of buyer

The bargaining power of the buyer is the ability of the buyer to bargain and then decrease the price of an offered product or the ability to demand a better service or a product, which causes the business a higher production cost. The buyer takes advantage of high bargaining position, since the buyer is the only one, or the buyer makes a large quantity of product. (Henry 2008; Porter 2008.)

The bargaining power of the buyer is determined by the number of buyers or buyer concentration, buyer volume, buyer information and price sensitivity. If the business relies on only a few buyers, it gives the buyers more power to negotiate the contract between it and the buyer. Similarly, since the buyer volume takes a large part of the product or the service of the business; the buyer will have greater power to negotiate the contract about a price term, a service quality term and so on. Moving further, the buyer information and price sensitivity also affects to the relationship between the buyer and the business. The less informative of the buyer, the less possibility of them to switch the service or the product.

The threat of substitute products

Substitute products are defined as the ones satisfying the same need but are produced from different raw materials (Bamford & West 2008).

The threat of substitute product is high since trade-off price, and switching cost is

low. The low price of a substitute product sets a ceiling price for other products performing same functions (Porter 2008).

Rivalry among existing competitors

The threat of intense segment rivalry measures competitive intensity between a company and its competitors to fight for market share at the others' expense. The companies have the same customer and they have to deal with each others to win the largest market share as possible (Porter 2008).

The threat of rivalry among existing competitors is high since the numbers of competitor are numerous, the exit barrier of market is high, the industry experiences a slow growth, or the competitors are productive and committed to the leadership of the market (Porter 2008; Grant 2010).

3. TOURISM INDUSTRY AND HOSTEL MARKET IN VIETNAM

In this chapter, the thesis covers two major areas:

Tourism industry in Vietnam

Demand and supply of the hostel market

In addition, it includes a market analysis using Porter's 5 forces analyzing tool.

In the tourism industry in Vietnam, the author presents general information of tourism and the number of tourist arrivals to Vietnam, trends of tourism arrivals to Vietnam during the latest 10 years. Coming after that is the tourism environment in Vietnam and its competitiveness to its neighbors – the ASEAN countries (Association of Southeast Asian Nations). For the next area, the hostel industry in Vietnam, the industry is presented in terms of structure, its segmentation, and its sizes.

3.1 General information of tourism industry in Vietnam

A general look at the tourism in Vietnam and its numbers

The accommodation industry constitutes a major part of the tourism industry. Therefore studying the tourism industry gives the author a better view before studying the accommodation industry.

Tourism development in Vietnam has been recognized only since Vietnam's economic reform known as "Doi Moi" in 1986. Tourism development is identified as "an important strategic orientation in the socio-economic policy in the process of industrialization and modernization of the country" (Bao Moi 2010, according to Communist Party of Vietnam 1994). Strategy for tourism development of Vietnam 2001-2010 aims to make tourism as one of the most economic contributing factors, and targets to be the center among tourism destinations of the

region. The government also desires to turn Vietnam into the most developing tourism destination of the region². For the specific goals, the government expects foreign tourist arrivals will reach the number of 5.5 to 6 million, and gross income from tourism will be achieved 4.5 USD billions. (Vietnam Tourism Department 2013, according to the Government of Vietnam 2002.)

According to general statistics office of Vietnam (GSO), Vietnam's tourism has developed quickly at an average increase of 9.8% annually. Vietnam has placed at 4th within the ASEAN community regarding international tourist arrivals. At the beginning of 1995, Vietnam attracted 1.35 million of international tourist, and this number increased to 6 million at the end of 2011. Vietnam's tourism has suffered greatly after the world economic recession at the beginning of 2009, and has recovered unbelievably in 2010 with the growth of 33.9% compared to the number of one year ago. These numbers reflex that Vietnam's tourism has achieved its plan for development of 2001-2010. (General Statistics Office of Vietnam 2013.)

(In thousands)

TABLE 1. Visitors Arrivals by Country of Destination, 2004-2011 (The Association of Southeast Asian Nations 2013)

Country of Destination	2004	2005	2006	2007	2008	2009	2010	2011	Share (%) 2011
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Brunei Darussalam	119	127	158	179	226	157	214	242	0.3
Cambodia	1,055	1,422	1,700	2,015	2,125	2,162	2,508	2,882	3.5
Indonesia	5,321	5,002	4,871	5,506	6,429	6,324	7,003	7,650	9.4
Lao PDR	895	1,095	1,215	1,624	2,005	2,008	2,513	2,724	3.4

² The term "region" is unclear in this situation, because the Strategy for Tourism Development of Vietnam 2001-2010 also does not clarify this term. This term could mean ASEAN countries.

Malaysia	15,703	16,431	18,472	20,236	22,052	23,646	24,577	24,714	30.4
Myanmar	657	660	653	732	661	763	792	816	1.0
Philippines	2,291	2,623	2,688	3,902	3,139	3,017	3,520	3,917	4.8
Singapore	8,375	8,942	9,752	10,288	10,116	9,681	11,639	13,171	16.2
Thailand	11,737	11,517	13,822	14,464	14,597	14,150	15,936	19,098	23.5
Vietnam	2,928	3,468	3,583	4,150	4,254	3,772	5,050	6,014	7.4
ASEAN	49,082	51,914	59,914	62,285	65,605	65,680	73,753	81,229	100.0

Regarding the number of international tourists to Vietnam, statistics retrieved from ASEAN Secretariat show that Vietnam has seen a dramatic increase from 2,928 thousand to 6,014 thousand between 2004 and 2011. With 6 million tourists coming to Vietnam, Vietnam has accounted for 7.4 percent in total for ASEAN as a whole, and ranks at 5th after Malaysia, Thailand, Singapore, and Indonesia.

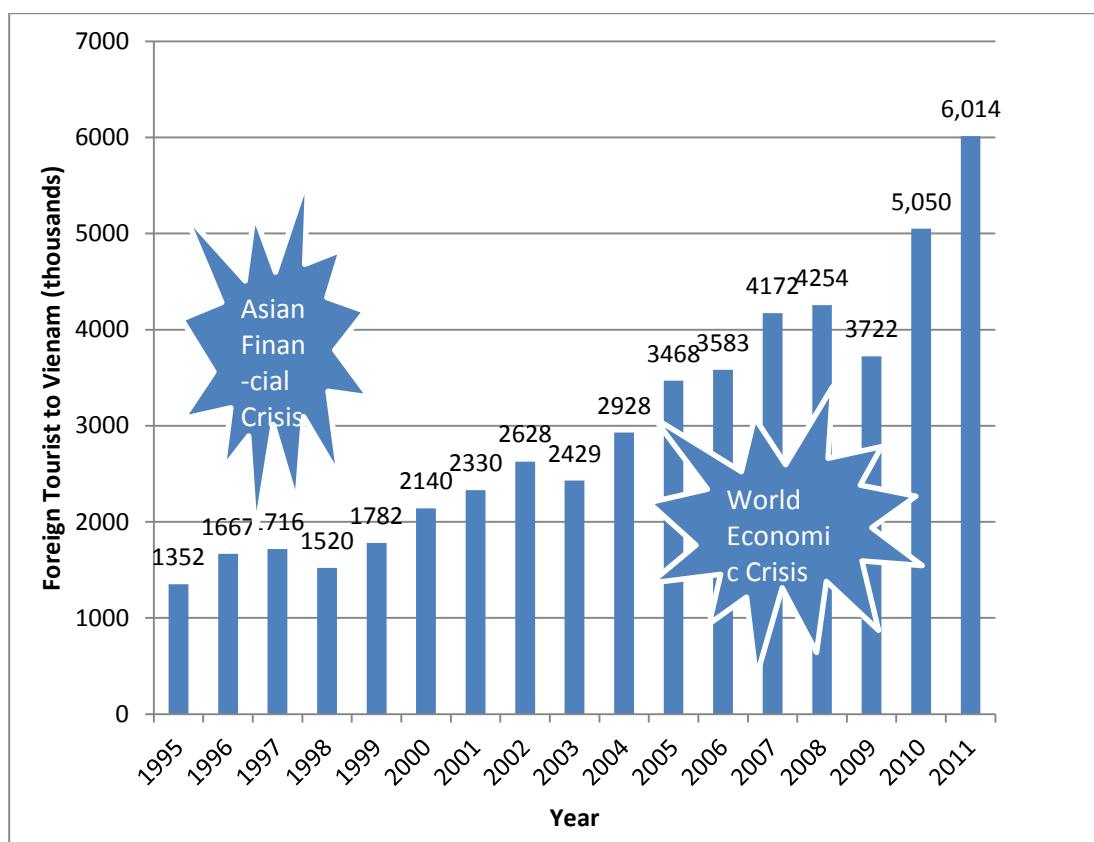


FIGURE 12 . Foreign tourist to Vietnam (Ministry of Culture, Sports, & Tourism, 2012)

Another important index for Vietnam's tourism development is the rate of growth of visitors' arrivals. With 10.8 percent annual growth, Vietnam's tourism currently grows quickly at number 3rd within ASEAN behind Lao PDR, and Cambodia.

TABLE 2 . Rate of Growth of Visitors Arrivals by Country of Destination, 2004-2011 (The Association of Southeast Asian Nations 2013)

Country of Destination	2004	2005	2006	2007	2008	2009	2010	2011	2004-2011
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Brunei Darussalam	-87.4	7.0	24.3	12.9	26.4	-30.3	36.1	13.0	10.7
Cambodia	50.5	34.7	19.6	18.5	5.5	1.7	16.0	14.9	15.4
Indonesia	21.7	-6.0	-2.6	13.0	16.8	-1.6	10.7	9.2	5.3
Lao PDR	40.6	22.4	10.9	33.6	23.5	0.2	25.1	8.4	17.2
Malaysia	48.5	4.6	12.4	9.6	9.0	7.2	3.9	0.6	6.7
Myanmar	10.0	0.5	-1.1	12.1	-9.7	15.4	3.8	3.1	3.2
Philippines	20.1	14.5	2.5	15.0	1.5	-3.9	16.7	11.3	8.0
Singapore	36.7	6.8	9.0	5.5	-1.7	-4.3	20.2	13.2	6.7
Thailand	16.4	-1.9	20.0	4.6	0.9	-3.1	12.6	19.8	7.2
Vietnam	20.6	18.4	3.3	15.8	2.5	-11.3	33.9	19.1	10.8
ASEAN	27.9	4.5	11.0	9.4	5.3	0.1	12.3	10.1	7.5

Looking at the chart above, we can see the growth path of Vietnam's tourism development in recent years. The number of 2007 is quite impressive with 15.8% growth number, compared to the average growth number of ASEAN 9.4%. And in the following years 2008 and 2009 due to the global economic recession, Vietnam's tourism has been affected greatly with slowly movement of growth in 2008 and even decreased dramatically in 2009. But Vietnam's tourism has been bounced miraculously with 33.9 percentage of growth.

Along with the radical growth, tourism has also contributed strongly to the Vietnamese economy. Tourism income has directly accounted for 4.5 % GDP in 2012 corresponding to VND 129,969 billion, and is forecasted to rise by 7.9% in 2013 (World Travel & Tourism Council 2013; Ministry of Culture, Sports, & Tourism 2012).

Tourism environment in Vietnam and its competitiveness

Tourism environment consists of factors that build up an ecosystem for tourism to develop. These factors are classified into 3 categories:

- A. Regulatory framework.** These factors are determined by the government policy.
- B. Business environment and infrastructure.** This category includes elements of the business environment and the “hard” infrastructure of a country.
- C. Human, cultural, and natural resources.** This category includes the “softer” infrastructure like human, cultural, and natural elements. (World Economic 2012.)

Each country builds up its competitiveness based on these factors:

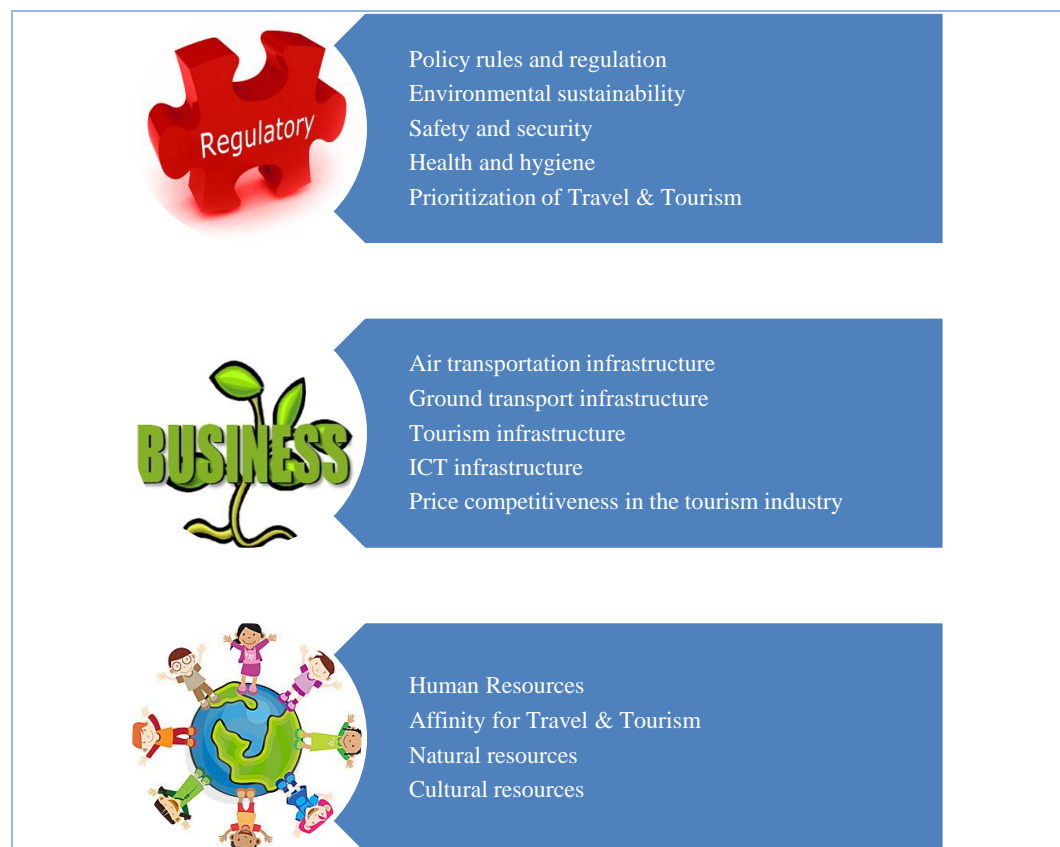


FIGURE 13 . Competitive factors of tourism. (World Economic 2012.)

These factors can be very different, varying from country to country, and countries must take consideration of these factors well to attract more tourists. For a country like Vietnam, there are a lot of things needed to improve to raise its tourism competitiveness. The author is going to present what Vietnam has done well, and not so far.

According to the ASEAN travel & tourism report 2012, Vietnam ranks at 5th among 8 countries in ASEAN³. Singapore takes the first place from the analysis, and following by Malaysia, Thailand, Brunei Darussalam, and Indonesia. Grading 3.9 points on scale of 7, Vietnam only places above Philippines, and Cambodia. (World Economic 2012.)

Score (1-7)

Scale

TABLE 3. Competitiveness index of ASEAN nations. (World Economic 2012.)

Pillar	Singapore Vietnam	Malaysia Philippines	Thailand Cambodia	Brunei ASEAN	Indonesia
(average)					
TTCI 2011	5.2 3.9	4.6 3.7	4.5 3.4	4.1 4.2	4.0
1. Policy rules and regulation	6.0 4.2	6.0 4.4	5.1 4.4	4.4 3.4	3.7 4.4
2. Environment sustainability			4.9	4.6	4.2

³ Due to lack of information, Lao PDR and Myanmar are excluded from the analysis

	3.6	3.9	4.1	4.2	4.3
	4.2				
3.Safety and security	6.1	4.5	4.4	5.7	
	4.7	4.8	4.1	4.6	4.9
4.Health and hygiene	5.2	4.5	4.4	4.7	
	2.6	4.1	3.8	1.5	3.8
5.Prioritization of Travel & Tourism		6.4	4.8	4.9	
	3.3	5.7	4.0	4.5	5.8
	4.9				
6.Air transport infrastructure		5.0	4.2	4.5	
	4.0	3.3	2.7	2.8	2.3
	3.6				
7.Ground transport infrastructure		6.6	4.6	4.1	
	4.2	3.2	3.2	2.8	3.0
	4.0				
8.Tourism infrastructure	5.1	3.6	4.9	2.8	
	2.0	2.1	2.6	1.4	3.1
9.ICT infrastructure	5.2	3.7	2.9	3.9	
	2.5	3.2	2.5	1.9	3.2
10.Price competitiveness	5.1	5.6	5.2	5.8	
	5.6	5.2	5.2	5.1	5.3
11.Human resource	6.1	5.2	4.8	5.1	
	5.0	4.9	4.7	4.3	5.0
12.Affinity for Travel & Tourism		5.7	5.4	5.3	
	4.5	4.2	4.5	4.6	5.3
	4.9				
13.Natural resources	2.6	4.5	4.6	4.0	

	4.7	3.6	3.3	3.5	3.9
14.Cultural resources	3.9	3.8	3.8	3.9	1.8
	3.5	3.6	2.2	1.6	3.0

With health and hygiene, cultural resources, and policy rules and regulation, Vietnam is doing well in these 3 criteria of the 14 criteria, graded higher than the average score of ASEAN. Regarding policy rules and regulation, Vietnam is not seen as doing well in the ease of starting a business since it takes 10 procedures to start a business. Meanwhile, Vietnam has made some improvement after several policy reforms. The time to start a business in Vietnam is as not quick as in other advanced countries. But it is 3 days less to start a business in comparison of the average time of other countries in East Asia & Pacific (34 days compared to 37 days). Moreover, the cost to process the start-up is much lower than the average one of others in East Asia & Pacific, 7.7 in Vietnam and 29.8 in East Asia % Pacific countries⁴. Other factors like the ability to attract foreign direct investment (FDI), the protection of property rights, visa requirement stringency are also considered in evaluating the policy rule and regulation of one country. (The World Bank 2014; World Economic 2012.)

Next, though Vietnam scored higher than the average index of ASEAN regarding health and hygiene, Vietnam is still facing serious problems such as access to improved drinking water. Moreover, the availability of physicians and hospital beds is an ongoing issue in Vietnam as well. The fact that 2 to 3 patients to share a hospital bed in Vietnam is not rare, especially for the hospitals in big cities like Hanoi or Ho Chi Minh (Thai Binh Department Health 2010). One plus for Vietnam tourism is its cultural resources. Cultural resources include the number of UNESCO cultural World Heritages sites, sport stadium seat capacity, and the number of international fairs and exhibition. Vietnam has 6 heritage elements including both tangible and safeguarding intangible heritage. (World Economic 2012.)

⁴ percentage of income per capital

For the picture of tourism in Vietnam, three positive competitiveness factors seem trivial while Vietnam has 11 factors which need improvement to catch up to the tourism average development of ASEAN. Environmental sustainability got concerned recent years; safety and security is really an issue to Vietnam's tourism at the moment since the disorder traffic, robbery and violence are popular. Besides, the tourism infrastructure including hotels, ATM accepting Visa cards and car rentals also really need to develop, since there are only two companies operating in Vietnam. ICT infrastructure – the online environment for planning journey and purchasing travel and accommodations- is quite new in Vietnam now. There are only few companies competing within this area. Identically, air and ground transportation and connectivity, and human resources are concerns. The direct routes to Vietnam and the number of airport do not meet the demand; the service quality during flight is weak. Along with the weak of infrastructure for ground transportation and connectivity, Vietnam still has not paid enough attention for human resources. The number of vocational school and professional school for tourism does not satisfy the market requirements. Not only the number of educational institution but also the quality of education is facing problems. There are many graduate students cannot find himself a job. Some has to accept seasonal recruitment; some has to work with a job not related to his training major. (Tuoi Tre News 2015; Nguyen 2009.)

In conclusion, although the government has seen tourism as a key driver for the economy and has made great effort to improve, the tourism atmosphere in Vietnam is still evaluated as weak compared to other countries in ASEAN. It is obvious that there must be huge things which need improvement in Vietnamese tourism.

3.2 Demand and supply of hostel market

As mentioned before in the Introduction, according to Oxford dictionary (2014), a hostel is defined as a place providing inexpensive food and accommodation for a certain type of people like student, workers or travelers. Hostel in many countries

is categorized in the same category with budget hotel, bed and breakfast. People who usually stay in hostel are backpackers.

Before analyzing the demand and supply of the hostel market (backpacker market to some extent) the author would like to make clear the term- backpacker.

Macmillan dictionary defines backpacker as people who are young with a tight budget travelling around an area on foot or public transportation, often carrying a backpack (Macmillan Dictionary 2013). While Philip Pearce, in *Backpacker Tourism: Concepts and Profiles*, classifies backpacker as budget-based youth traveler owning characteristics like a preference for budget accommodation; an emphasis on meeting other travelers; an independently organized and flexible travel schedule; longer rather than very brief holidays and an emphasis on informal and participatory holiday activities (Pearce 2008). By its statistics, Destination New South Wales in Australia sees backpacker as tourists with tight budgets but spend more in the end, travel further and stay longer than other travelers. The typical backpacker is ranging from 18 to 25 who are educated, adventurous and price conscious. In brief, there are slightly difference between definition of backpacker, most researcher share a common viewpoint that backpacker is young with tight budget for travel. (Tourism New South Wales 2010.)

Because tourism is not really developed in Vietnam, the statistics as well as research on backpackers is rare in Vietnam. Therefore, the author has to calculate himself the market size based on the combination of the result of WYSE (World Youth Student & Education) Travel Confederation Independent Traveller Survey 2007 and the result of Vietnamese GSO (General Statistics Office) survey of tourism expenditure in 2009.

3.2.1 Demand of backpacker market

The calculating of backpacker market's demand is first started by calculating the number of backpackers among young tourists in the global scale. After having the distribution of the number of backpackers among young tourists around the world, the youth tourists in Vietnam are counted based on the report of Vietnam's

tourism office and Vietnamese GSO. Next, the distribution number of global backpacker is applied to find out there are how many backpackers among young tourists in Vietnam. Final, the demand of the backpacker market, in other words the number of beds for these backpackers, is calculated by multiplying the number of backpackers with the average nights, a backpacker will spend in Vietnam.

TABLE 4. Distribution of survey respondent by world region/subregion. Adopted from (World Tourism Organization 2008)

Regions/subregions	Number of answers	Survey respondent (%)
Africa	70	0.8
Asia/Pacific	1,453	17.0
North America	1,525	17.9
Latin America	840	9.8
Europe	4,653	54.5
Total	8541	100

The WYSE (World Youth Student & Education) Travel Confederation Independent Traveller Survey 2007 has been conducted by 8541 respondents throughout 5 regions.

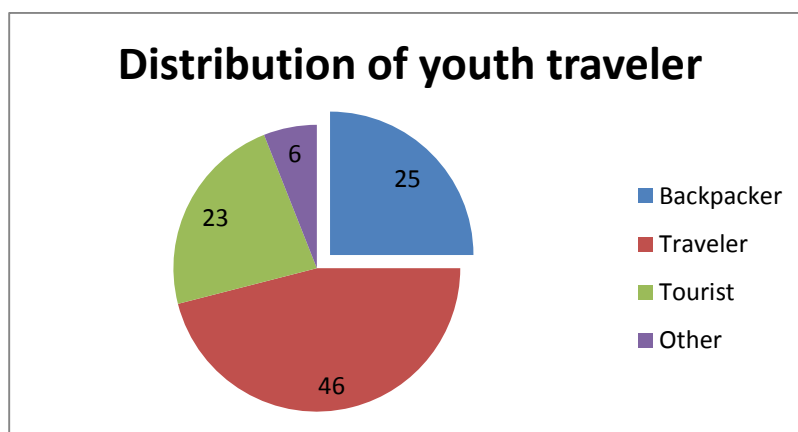


FIGURE 14. Travel style of young people 2007. Adopted from (World Tourism Organization 2008)

There is a quarter of young people from 8541 respondents above who define themselves as backpackers, less than a quarter as tourists and half of the respondents saw themselves as travelers. (World Tourism Organization 2008.)

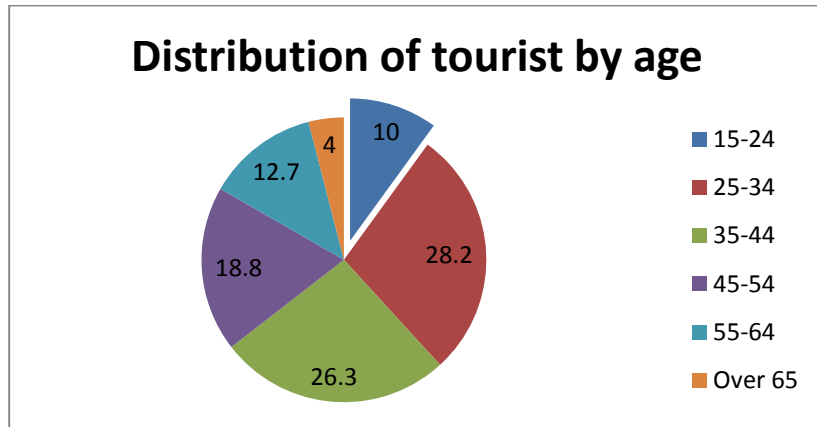


FIGURE 15. International tourist age distribution by percentage

Moving on the number of international tourists in Vietnam, according to Vietnam Tourism Office, the number of tourists in 2013 is 7,572,352 (Ministry of Culture, Sports & Tourism 2013). 10% of total international tourists are young travelers; it means there are 757,235 young travelers. Besides, following the survey of the WYSE (World Youth Student & Education) which is presented above, a quarter of young travelers define themselves as backpackers. Thus the backpacker number in Vietnam should be 189,308 people.

The backpacker demand depends on the backpacker duration trip. According to the statistics from Vietnamese GSO releases in 2009, the average trip length of the traveler age from 15-24 is around 17.2 days (General Statistics Office 2009).

Therefore, the backpacker demand will be calculated by:

$$Q = N * d$$

Q: total backpacker demand (in bednight)

N: number of backpacker (in person)

d: the average trip length (in day)

So that we have:

$$Q = 189,308 * 17.2 = 3,256,097 \text{ bednights}$$

3.2.2 Supply of backpacker

The WYSE travel confederation independent traveler survey in 2007 gives some statistical facts on the youth travel spending pattern.

TABLE 5. Backpacker Spending Pattern. (World Tourism Organization 2008)

World	World	World	
Trip length (53 days)	Percentage (%)	Total per trip	Per day
Transportation to/from the primary destination			
Transportation between secondary destination	13.84	\$247	\$4.66
Accommodation	26.38	\$470.6	\$8.879
Food and drinks	22.01	\$392.6	\$7.4
Communication (phone,internet,postcard)	5.97	\$106.6	\$2.011
Activities and entertainment	16.32	\$291.2	\$5.494
Other	15.48	\$275.6	\$5.2
Total	100%	\$1783.6	\$33.644

Statistically, the average young person's trip length is 53 days. Their total spending without transportation from/to the primary destination is \$1783.6. It means that each day they spend \$33.644. The accommodation expense accounts for 26.38% of the total expense, corresponding to \$470.6 for total, and \$8.879 per day. The latest data retrieved from WYSE survey 2012, the accommodation spending raises to \$500 per trip which corresponds to \$9.43 per day. (World Tourism Organization 2008.)

TABLE 6 . Hotel market in Vietnam 2010. (Ministry of Culture, Sports & Tourism 2011.)

Total number		5 star hotel		4 star hotel		3 star hotel		2 star hotel, 1 star hotel and non-star hotel	
Hotel number	Hotel room number	Hotel number	Hotel room number	Hotel number	Hotel room number	Hotel number	Hotel room number	Hotel number	Hotel room number
12.000	235,000	46	11,756	110	13,493	235	16,353	11,609	193,398

According to the Ministry of Culture, Sport and Tourism in Vietnam, in 2010 there are 193,398 rooms. The average price of 1 star hotel and 2 star hotel ranges from \$12.93 to \$15.19. For the non-star hotel the average price is \$13.92. In the meantime, the price survey of 1-2 star hotel and hostel of Price of Travel, the leading company in surveying the backpacker market, ranks Vietnam as one of the cheapest destinations for backpacker. The hostel price for backpacker in Vietnam ranges from \$3 to \$12. (Price of Travel 2014; General Statistics Office 2009; World Tourism Organization 2008.)

In conclusion, the backpacker demand is estimated at 189,308 people. The hotel room supply is estimated at 193,398 rooms. The expected accommodation backpacker price is \$9.43. The actual price of accommodation for backpacker in Vietnam ranges from \$3 to \$12. For this part, the author is trying to find the answer for the research question number 1 concerning - Is there existence of the backpacker market or is the market sizeable, stable, profitable and achievable

enough? By now, the answer is that there is a market for backpacker tourism since there are demand and supply. And then the market is sizeable enough for the author chasing the idea of starting up a hostel business specializing for the backpacker.

3.2.3 Market analysis using Porter five forces

Micheal Porter recognized five forces that determine the attractiveness of a market, by it a company can make decision to enter this market or not. Moreover, knowledge of the market helps the company to better adapt to the market pressure, to defend itself from the five forces (Hollensen 2008 ,78). These five forces include threat of intense segment rivalry; threat of new entrants; threat of new products; threat of buyers' growing bargaining power; and threat of suppliers growing bargaining power. (Henry 2008, according to Porter 2006.)

3.2.3.1 Porter five forces analyzing tool

Each force is constructed by numeral factors. And then, each factor will be evaluated if it is a contributor to the market competitiveness or not. And the combination of the factors will determine if the force is good or not good for the market competitiveness. Finally, the combination of all forces will determine the attractiveness of the market.

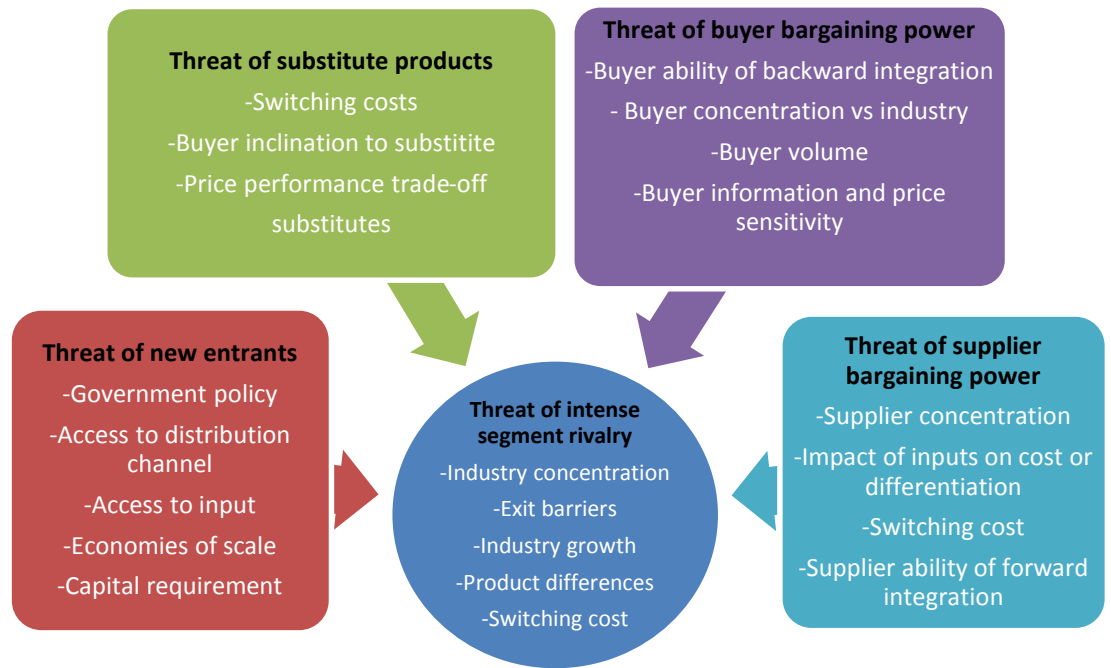


FIGURE 16 . Porter five forces (Adapted from Grant 2010)

The thesis is going to go through each factor under each force. Each factor which contributes to the increase of industry attractiveness is marked with plus sign (+), and each factor which drives the industry attractiveness lower is marked with minus sign (-). Each force can be evaluated from low, low to medium, medium, medium to high and high impact to market attractiveness level. Each force which receives an equal number of plus sign (+) and minus sign (-) will be evaluated as medium. Each force which receives more plus sign (+) or more minus sign will be evaluated toward high impact or toward low impact. And the combination of all the forces will determine the attractiveness of the market.

Low	2 minuses (-)(-)
Low to medium	1 minus (-)
Medium	Equal number of plus sign and minus sign
Medium to high	1 plus (+)
High	2 pluses (+) (+)

Threat of new entrant

The new entrants add more competitiveness to the industry, since they enter the market. In turn, by taking over the business from existing players who want to leave the market at that moment; they could make the entry exit less difficult (Hollensen 2014).

Government policy

According to the Investment Law of Vietnam in chapter 5, article 29 there are sectors in which investment is conditional. Item (a) states that sectors which impacts on national defense and security, social order and safety must be conditional (Allens 2001, according to Act on Vietnam Investment Law 2005). By this law, the State set control on the investment on accommodation industry which the State believe affecting to social order and security. And every investor must be passed some conditional processes conducted by the local police office in order to apply for a business registration certificate to the Authority Planning and Investment. There are total of 7 documents which need to be ready for the registration process (Decree of certification business registration for accommodation service 2006). It challenges the growth of new entrants to this market which do not contributes to the increasing of industry competition. The less competition, the more appealing the industry will be. We have one plus sign (+).

Access to distribution channel

The distribution channel of a hostel or hotel is constructed by 5 primary channels, each of which will have several sub-channels. The channels are:

1. Call center or 800 number or “voice” (Automatic Distribution Call center)
 2. GDS (Global Distribution System)
 3. Hotel’s own website or brand.com
 4. Online travel agency (OTA)
 5. Property direct/other
- (Green & Lomanno 2012)

The complexity of hostel distribution channel is to manage the rates and bed availability in a timely manner in hundreds of channels. While GDS helps a hostel to distribute its availability to the customers to thousands of travel agents; the OTAs include sites like Expedia, Travelocity, Orbitz operating as a traditional wholesaler. These sites get the room rate with a wholesale price from the hostels – 10% to 35% below retail price; and distribute the hostel room with a retail price.

A hostel can decide to distribute its available space through other channels like direct booking at the property or at hostel's own website. The new entrants enter the market have to estimate the availability of its customer on each specific channel. This is really challenging for the new entrants because they have no historical data to support their estimation. It is even more important since the distribution room rate makes direct impact to both the hostel revenue and the hostel operating cost. Each distribution channel requires a different operating cost. This is really an obstacle in which new entrant need to overcome which do not contribute to the increasing of industry competition. The less competition, the more appealing the industry will be. We have one plus sign (+).

Access to input

A hostel is expected to offer a cheap place and other added services for its visitor to stay. While the property offers a stay, the hostel staff work together to create added value for its visitor. The property requires a lot of things to be done before the opening day such as: land, construction, office equipment, furniture, architecture, working capital and so on (Rutheford & Fallon 2007, 29-35).

The land price and the rent for the real estate retail market in Vietnam is an obstacle for an entrant. According to CBRE Vietnam, global leader in real estate services, the house price is 25 times as much as a Vietnamese annual income. At the same time, the house price in European countries, Thailand, and Singapore is 7 times, 6.3 times and 5.2 times as much as a person annual income respectively (CBRE Corporation 2013). The retail rent rate is also high in Vietnam since compared to other neighbor countries like Thailand, Singapore, and Malaysia. While GDP per capital in Vietnam in 2012 is nearly \$1800 USD, and GDP per

capital in Thailand in 2012 is nearly \$5490 USD; the rent rate in Vietnam is higher the rate in Thailand (\$223 USD in Ho Chi Minh, and \$139 USD in Hanoi per square meter versus \$118 USD in Bangkok) (CBRE Corporation 2013; World Bank 2013.)

For these reasons, the access to input makes it more difficult for an entrant to get into the industry which does not contribute to the increase of industry competition. The less competition, the more appealing the industry will be. We have one plus sign (+).

Economies of scale

A business can gain benefit from scaling its business. By doing so, it can reduce the fixed cost per product or service. The more products or services being offered, the less fixed cost coming with the products or services will be. A hostel chain can gain the benefit from economies of scale, thanks to its bulk purchasing or operating cost like advertising cost or distribution cost. An entrant which cannot afford for bulk purchasing; for instance, loading its housekeeping inventory or making order for furniture, will have to pay for the furniture with a higher price. Similarly, the distribution and advertising cost for a new hostel will be charged more compared to existing individual hostel or hostel chains. In Vietnam market, the hostel industry has only emerged. There are not so many hostel chains so that the economies of scale does not affect greatly to an entrant, which help to increase the number of new entrant and then increase the industry competition. The more competition, the less appealing the industry will be. We have one minus sign (-).

Capital requirement

Accommodation in general and the hostel industry specifically is capital intensive which requires a high fixed cost for initial investment and a huge size of cash for management activities (Cheng 2013). Hostel industry requires a big investment

both on property and in initial construction. The capital requirement for new entrants is even larger in Vietnam where the property price is 25 times as much as a Vietnamese annual income. At the same time, the property price in European countries, Thailand, and Singapore is 7 times, 6.3 times and 5.2 times as much as a person annual income respectively (CBRE Corporation 2013). The huge capital requirement makes the market less attractive which corresponds to a minus sign (-).

To sum up, under the force – threat of new entrant- there are 3 plus signs (+) and 2 minus signs (-). Therefore, the general evaluation of this force impact to the market attraction is medium to high.

Threat of substitute products

Substitute products are defined as ones satisfying the same need but are produced from different raw material (Bamford & West 2008). Therefore, substitutes to the hostel industry are other forms of leisure accommodation like camping, recreational vehicle. Substitutes are expected to perform same function, and the threat of substitute is high since the price of substitute is considered low enough to motivate the customer overcomes the switching cost (Davies & Lam 2001). In this case, the customer is expected to change their buying behavior from staying in hostel to staying in camping sites, recreational vehicle or relative's house. However, the statistics of General Statistics Office in 2009 show other forms of leisure accommodation like camping or recreational vehicles are not popular in Vietnam (General Statistics Office 2009). So it can be said that the threat of substitute products in the hostel industry is rare in Vietnam. The effect of substitute products to the industry competition is low. The low competitiveness from the substitute products means the high level of attractiveness for hostel industry.

Threat of buyer bargaining power

The bargaining power of buyer is the ability of the buyer to bargain and thus decreases the price of offered product or the ability to demand a better service or a product, which causes the business a higher production cost. The buyer takes

advantage of high bargaining position, since the buyer is the only customer of the business or the buyer makes a large quantity of product. (Henry 2008.)

Buyer ability of backward integration

In the hostel industry, the customer consists of individual purchasers, not business customers. The customers are backpackers who travel with a tight budget and cannot afford a night in a hotel. Therefore, it is impossible for a customer to pose a threat of backward integration with any hostel, which makes the hostel industry less intensive. With low threat of backward integration from buyers, this makes the hostel industry more attractive. It means a plus sign (+).

Buyer concentration versus industry

Buyer concentration refers to the number of buyers and their ability to acquire a sale from a company. Buyer concentration is low since the top buyer holds less than 10% of a firm sale. Furthermore, buyer concentration is medium and high if the top buyer acquire for between 10% to 25%, and more than 25% of a firm sale respectively (Sawant 2008). The lower the buyer concentration, the lower the business risk of being dependent on the buyer. In other words, the business can minimize its risk of being dependent on the buyer when it distributes the product or the service to a large quantity of buyers. Back to hostel industry, as mentioned above, the buyers or customers are individuals who only book few beds for their trips. So there are no top buyers who hold more than 10% of a firm sale, which means that the buyer concentration in hostel industry is low. Low buyer concentration means less dependency on the customer which will ease the business. It makes the hostel industry less intense. We have one plus sign for market attractiveness (+).

Buyer volume

As mentioned earlier, the hostel industry buyer is comprised of individual backpackers who travel independently with a tight budget. The backpacker need is only one bed per night, which is different to hotel industry. In hotel industry, the guest includes both leisure and commercial travelers. The traveler will book an entire room, but not only a bed. Moreover, the buyer purchase can come from

travel agency companies which will book a large number of rooms. For this feature of the hostel industry, the buyer volume is low which leads to low threat of buyer bargaining power. This contributes to the less intensity of industry. This leads to one plus sign for market attractiveness (+).

Buyer information and price sensitivity

The advent of Internet has changed the way people communicate and trade. Travelling is one of areas people most taking advantage of the internet to get to know the destination, to make hotel and hostel reservations, to book transport tickets and accommodation. Direct reservation has shifted to digital reservation. While the direct reservation in accommodation industry has decreased continually from 39% to 33% during 1995-1999; the electronic reservation has taken account for one in five of all hotel rooms in 2000 and has had great increase to 35% in 2010 (Green & V.Lomanno 2012; G.Rutheford & J.O'Fallon 2007, 26). Until 2012, Internet booking has made up over 80% of the total, compared with 63% in 2007; face-to-face travel agency bookings dropped from 21% in 2007 to 15% in 2012 (STAY WYSE Association 2012, 10). Together a great shift to digital reservation, the boom of online travel agencies (OTA- Expedia, Booking.com, Hostelbooking.com) and meta-search engine (e.g Google, Hotel Finder, Room Key), social network (e.g Facebook, TripAdvisor), travel blogs or sites (priceoff.com) help the traveler from getting travel destination information, making plan to reviewing and comparing travel services. The travelers nowadays are really getting aware of the tourism industry.

Six out of ten leisure travelers get online to search for the lowest possible price for travel services, and there are only 10 percent of would-be guests who decide to book a hotel room after their first site. Another 43 percent will visit two or three sites and 22 percent visit four or more site before making their final booking decision (Rutheford & Fallon 2007, 27). It proves that travelers are price sensitivity buyers. In Vietnam, the number of online travel agencies and tourism companies are increasing. There are search engines developing to customize the hotel and hostel market in Vietnam like Agonda.com, Khachsenre.net, Ivivu.com.

Besides, there are other tourism services specializing for backpackers like Triip.me, website for local people designing a city tour for individual travelers. The wide spread of tourism information and the feature of buyer price sensitivity makes the hostel industry easier for new entrant to enter, but put the intense competition for existing current ones. This makes the industry more intensive. The more competition, the less appealing the industry will be. We have one plus sign (+).

In conclusion, we have 3 plus signs and 1 minus sign. This means that buyer bargaining power has high impact on the market attractiveness.

Threat of supplier bargaining power

A supplier supplies the raw materials which are necessary for production. In the hostel industry, a hostel does not produce any product but creates services which contribute good experiences for its visitor. Suppliers can be a furniture manufacturer, housekeeping suppliers and distribution suppliers such as online travel agencies (OTA- Expedia, Booking.com, Hostelbooking.com), a meta-search engine (e.g Google, Hotel Finder, Room Key), a social network (e.g Facebook, TripAdvisor), travel blogs or sites (priceoff.com). A hostel needs to upgrade its out-of-date furniture to improve guest experiences, needs to replenish its housekeeping supplies like mattresses and linens. Moreover, a hostel also requires an efficient distribution channel to maximize the occupancy rate. To do that, the hostel has to make a good deal with online travel agencies and meta-search engines, travel blogs to increase the hostel presence to its customer.

Supplier concentration

The furniture and interiors market in Vietnam used to be overrun by Chinese products, but there have been some positive changes for local products. The product designs from Vietnam were not as diversified as Chinese ones. But the manufacturers in Vietnam nowadays are getting more professional since they recruit more professional interior designer both foreign and Vietnamese designer.

Although the manufacturers from Vietnam have made some effort to compete to foreign products, they still lack qualities to become the leaders in the industry. Most of the manufacturers in Vietnam are still small and medium size ones. And the industry is still open for all manufacturers both from abroad and from Vietnam. Thus, the supplier concentration for furniture and interior is low in Vietnam, which causes the industry less attractive. (Vtown 2013.)

In contrast to the low concentration of furniture and interior supply, the distribution supply for the hostel market is highly possessed on the hands of online travel agencies, HostelWorld and HostelBookers. Besides the supply concentration is rising even higher since the Web Reservations International (WRI), the parent company of HostelWorld, acquired its main competition- HostelBooker (May 2013). Obviously that a hostel can list its available rooms on other OTAs like Expedia or Booking.com; however, the higher commissions from these sites prevent the hostels to do it. The hostels operate differently to hotels; they charge the customer much cheaper for a room. That is why the distribution network for hotels like Expedia or Booking.com works a little for them. The high concentration of distribution supplier makes the industry less compelling.

For the supplier concentration, we have high concentration of distribution suppliers, and low concentration of furniture and interior suppliers. It means we have one plus sign (+) and one minus sign (-) at the same time. So the effect of supplier concentration to the threat of supplier bargaining is medium.

Impact of inputs on cost or differentiation

For the hostel industry, the hostel service is the final offering to the customer thus the basic input are constructed by the management fee, the distribution fee, and the operation fee. For a hostel recurring expense, the management fee is often the software expense which the hostel pays monthly. The management software is utilized to input data of booking and reservation, data of additional expense, and so one. The aim is to manage and unify the data with solely one management software. In addition to the management fee, the distribution fee which is normally the expense paid for a third-party booking website, and the operation fee which is the combination fee of Internet expense, telephone expense and utilities

expense. These fees cover for 20.13% total expense. (Matsis 2012.) So the impact of input on the cost is not huge. The impact of input on differentiation is not evaluated as great as the impact of labor and experienced trained personnel in hospitality industry; the two critical factors for differentiation would be a great location for the hostel target customer and the quality of service (Cheng 2013). The weak impact of input on cost or differentiation means the less threat from supplier bargaining power causing the market more attractive. We have one plus sign (+).

Switching cost

Switching cost occurs when the company wants to change from its current suppliers to other suppliers. The cost can include the fee for installation of new equipment, the fee for training the company staff to get used to the new supplier system, new equipment, and so on (Groucutt & Leadley & Forsyth 2004). For hospitality industry, as mentioned above, the main suppliers are furniture manufacturers, housekeeping suppliers and distribution suppliers such as online travel agencies. The furniture purchase is often made at the initial days of the hostel; there is rarely switching cost for the kind of suppliers. Another supplier is distribution suppliers who help the hostel distribute its available beds to the guest. However, the hospitality industry is quite different to other industries. The hospitality industry maximizes its revenue through maximizing its distribution channels. A hostel can distribute its beds through its online website, through Global Distribution System (GDS), through tourism companies and through online travel agencies (OTA). It rarely a hostel will close its door totally to any distribution channels, and open totally to other channels. So it seems no switching cost for distribution suppliers. The final supplier for a hostel would be housekeeping supplier. The input from housekeeping supplier is not crucial to the success of hostel business, so the switching cost, if happens, is not high. The low impact of switching cost makes the hostel industry more attractive. We have one plus sign (+).

Supplier ability of forward integration

Forward integration from the supplier or backward integration from the buyer is a really low threat because of the huge required capital. Even many international hotel chain companies or hostel chain companies operate as operators or managers instead of owners. (Cheng 2013.) The low threat of supplier ability of forward integration certainly adds more positive things for the market attractiveness. Therefore, it would be another plus sign (+).

To sum up, under the force, threat of supplier bargaining power, we have four factors. Among these four factors, there are three positive factors which add more attractive to the market, and one medium factor. Therefore, this force really has high impact on the market attractiveness level.

Threat of intense segment rivalry

The threat of intense segment rivalry measures the competitive intensity between the company and its competitors to fight for the market share at the others' expense. The companies have the same customer and they have to deal with each others to win the largest market share as possible.

Before getting the whole picture of competitive intensity, a company must identify its competitors within an industry, and then take action to measure the industry rivalry. Competitors can be classified on different sectors as (1) small domestic firms whose tiny, premium markets; (2) strong regional competitors; (3) big new domestic companies exploring new markets; (4) oversea firms, which either take effort to set up in small niches or try taking advantage of inexpensive labor force; (5) newer entries, such as firms offering their products online. (Porter 2008.)

A customer a hostel could target is the one with a tight budget for accommodation, around USD\$ 8.8 per day (World Tourism Organization 2008). Based on this important criteria, the accommodation can be found in Vietnam are

cheap hotel or budget hotel, 1 star hotel, other hostels, bed and breakfasts (Hostelworld 2014; Agoda 2014). Most of the accommodations are small domestic firms, some are strong regional competitors. There are no big new domestic companies, no overseas firms or newer entries.

Industry concentration

Michael Porter emphasizes that the number and size of direct competitor together with the equally balanced competitors make a great competition. Most of hotel, hostel and other accommodations for the budget customer segment in Vietnam are private-owned, family-owned (Hostelworld 2014; Agoda 2014). This makes the market segment fragmented and more intense to compete. However, lack of professional brands in the budget segment also leaves the segment a great room for development. With the low industry concentration, the market becomes more competitive. So this makes the market unattractive which leads to one minus sign (-).

Industry growth

The tourism market in Vietnam has had a remarkably growth rate during the last ten years with an annual average growth of 9.8%; while the international tourist growth rate coming to Vietnam is 10.5% annually (General Statistic Office 2013). The growth rate of accommodation supply, during 2002-2007, varies from 20.4% to 34.37% and during 2008-2012 is between 7.7% and 14.6% (Vietnam Tourism Department 2014). Another important index of the industry growth is EBITDA (Earnings before interest, taxes, depreciation, and amortization) which achieved 28.2%, 28.2% and 34% for 3 continuously years from 2012 to 2014. All of the indexes give a good signal for hotel industry growth in Vietnam, which clearly shows the attractiveness of doing business in accommodation industry in Vietnam. So for the industry growth we have one plus sign (+).

Exit barrier

Exit barrier keeps the existing business in an industry. A business must consider economic, strategic factors before deciding to quit the industry. Hospitality is an industry with a typical high exit barrier, which requires a large investment for fixed cost, both the specialized assets and the labor agreements. Thus, to exit the industry will cause the investors a high cost which makes the industry less attractive into the investors' eye. For this factor, exit barrier, we have one minus sign (-).

Product differences

Differentiation strategy is popular in the hospitality industry, caused by the varying demand. An accommodation can differentiate itself through product features, complementary services, technology embodied in design, location, service innovation, superior service, creative advertising, and better supplier relationships leading to better services (Cathy 2011). The hostel market in Vietnam is mostly differentiated through product features, complementary services, location, and better relationships which lead to better services.

Differentiating through product feature, each hostel will supply its guest with different kind of rooms and beds depending on the guest need. For example, a dormitory room with multiple beds, deluxe room, standard room, superior room, and so on. Or one can differentiate through complementary service like offering rental car and bicycle, free walking tour, add-on selling, or holding public events. The more differentiated, the more attracting a market will be. The harsh competition or the head-to-head competition can be avoided by finding easily a nich market. This contributes to the market attractiveness, which means another plus sign (+).

Switching cost

In the hospitality industry, a customer can easily change his booking from one to another. There are several booking online websites that do not even charge its customers a booking fee or a deposit, such as booking.com. If these websites do

charge, it ranges from 10-12% of total payment. It is obviously that switching cost is not high in the hospitality industry. The low switching cost makes the industry harshly competitive, which puts the market attractiveness down. Therefore, we have another minus sign (-).

After going through 5 factors under the force – the threat of intense segment rivalry – we have 3 minus signs (-) and 2 plus signs (+) so that this force can be evaluated as low to medium impact to market attractiveness.

TABLE 7. Foster five forces analysis of Vietnam market

Force	Factor	Evaluation of factor	Evaluation of Force
Threat of new entrant	Government Policy	(+)	Medium to High
	Access to distribution channel	(+)	
	Access to input	(+)	
	Economy of Scale	(-)	
	Capital requirement	(-)	
Threat of substitute products	No substitute products		High
Threat of buyer bargaining power	Buyer ability of backward integration	(+)	High
	Buyer concentration versus industry	(+)	
	Buyer volume	(+)	
	Buyer information and price sensitivity	(-)	

Threat of supplier bargaining power	Supplier concentration	Medium	High
	Impact of inputs on cost or differentiation	(+)	
	Switching cost	(+)	
	Supplier ability of forward integration	(+)	
Threat of intense segment rivalry	Industry concentration	(-)	Low to medium
	Industry growth	(+)	
	Exit barrier	(-)	
	Product differences	(+)	
	Switching cost	(-)	

In brief, the attractiveness of hostel market is high.

The five forces which affect hostel market attractiveness in Vietnam are threat of new entrant, threat of substitute product, threat of buyer bargaining power, threat of supplier bargaining power, threat of intense segment rivalry. Three out of five are evaluated as high impact to the market attractiveness; while one is medium to high. This market analysis answers for the sub research questions which are what is the hospitality market in Vietnam like and how attractive is the hostel market?

4 THE HOSTEL CONCEPT

This chapter is going to cover the author's business philosophy and the author's hypothesis of value proposition and the process of how the hypothesis is made. As Steve Blank (2013) suggests in his start-up theory, the first phase of Customer Development Model is Customer Discovery. At this time, the entrepreneur starts with clearly defining his hypothesis of value proposition (product/service) offered to his customers. Only being tested means being accepted by the customer, the hypothesis of value proposition become a potential product or a potential service to the market.

4.1 How the hypothesis is made

At first, the hypothesis of value proposition is made from observation. Everything started in summer of 2012, at that time the author first visited a trendy European hostel, Wombat hostel in Vienna. He was really interested in that kind of accommodation, and realized that there is nothing like the Wombat hostel in his own country. After that, he crossed by an article on Hostel News Now, Trendy Hostel Emerged as budget busters which shows the new wave of new kinds of staying for the youth traveler (Bourget 2012). From that moment, he came up with the idea of starting up a trendy hostel in Vietnam. To do that, he needs to define what a traditional hostel is and what a trendy hostel is. Keeping that in mind, he traveled around fifteen countries in Europe and Tokyo in Japan, Singapore, visited a lot of hostels like Wombat hostel in Vienna, Budapest and Munich; X hostel in Budapest, Plus hostel in Venice, and in Florence, Generator hostel in Copenhagen, Khaosan World Asakusa hostel in Tokyo, and so on. They are typical trendy hostels (Bourget 2012). The author also visited some traditional hostel in Europe and in Vietnam. Furthermore, he has worked in CheapSleep hostel in Helsinki, Finland to get closer look of the hostel business. By the time, he gets clear of what makes a basic stay from traditional hostel and what makes an added value stay from trendy hostel.



FIGURE 17. Timeline formation of the hypothesis

Kothari, in his book, *Research Methodology: method and technique*, shows the importance of observation in collecting primary data. Observation will become a scientific tool since the observer makes observation with a formulated research purpose. The observation is and then called the structured observation. In this case, the thesis writer made observations with a clear research purpose from the beginning- to classify a traditional hostel and a trendy hostel. Moreover, to make a structured observation valid and reliable, the observer needs to record and check the subjective of the observation subject. (Kothari 1985, 96.)

Besides, there are types of structured observation which are participant and non-participant types of observation. If the observer makes himself involved into the observation subject, for example, becoming a member of the group he is observing; the observation is participant observation. Otherwise, the observation is non-participant observation. (Kothari 1985, 96). The thesis writer has visited all the hostels as a traveler or has worked at the hostels. In this case, the thesis writer has involved into the observation subject. So the observation to form the hypothesis here is the participant observation.

4.2 Hostel Business Philosophy

The business philosophy focuses on two points which are low cost and creativity. The low cost feature is based on operational excellence. The lodging sector under three stars in Vietnam has not been developed including mostly family-oriented business and rarely professional lodging business (Nguyen & Tran 2014). Focusing on set-up professional management, the case hostel could create competitive advantage which leads to low cost and better service to its guests. Along with low cost feature, the case hostel would do everything to create a unique experience stay for its guests, making the hostel not simply a place to sleep but an unforgettable experience during the trip experience. A unique experience can be created by focusing on the creativity and innovation. By applying the creativity on the architecture and the interior design, the hostel can deliver the pleasure to its guests, or even more make its guest over-satisfied. Along with visual creativity, other senses like sound, touch, smell can be developed. Furthermore, the creativity in operation also can help to reduce the cost.

4.3 The Hypothesis of Value Proposition

The author categorizes the guest needs into two categories, which are basic need and added value need. A guest coming to a hostel will basically search for a good sleep, a good resting place, a good location, and a safe place. Only after being fulfilled these basic needs, a guest would require more added values. The added values would be sense-related things like sight, sound, touch, smell, and taste; social interaction, other supporting activities for their trips.

4.2.1 Basic Needs

Sleep

A good sleep will include: a clean and comfortable bed together with mattress, pillow and blanket. More importantly, there are no bed-bugs at all.



FIGURE 18. Dormbed (Hostel Khaosan Asakusa 2014)

A good sleep also means no noise, no light and good air quality which refers to good ventilation.

A normal temperature means the room temperature is not too cold or too warm.

Eating

A hostel could have a kitchen. If there is not a kitchen, the hostel should be near food stores or restaurants. If there is a kitchen, the kitchen should be clean and fully equipped.



FIGURE 19. Kitchen (Hostel Dictionary 2014)

There are fridges to store food and sticker or marker to mark the food.

There are enough kitchen ovens and sinks

Location

A hostel should be near to public transportations, tourist attractions, convenient stores, and bars and restaurants. Besides, it must be in a safety neighborhood.

Safety

There are lockers inside a hostel room for guests to store their luggages. A hostel also needs a gate building control and a camera and security system. Besides, a fire alarm system is always in good condition.

4.2.2 Added Value

A. Added Value based on human senses

a) Sight

First impression of the hostel will be young at heart; so the adjective could be described are youthful, colorful, creative, and uniquely. The deeper layer of sight impression is green. The hostel must be natural which would be a blend of natural light, natural material and plant.

Room

Every room must have a focus point. For example, bed or locker which are designed creatively

Every room has to be designed coordinately with the hostel decoration theme

The room must be beautiful in details such as decorative

exterior wall or mural decoration.

Corridor

A corridor helps to connect all other parts of the hostel. So it must be related to the general theme of the hostel, and also connected to the theme of each floor, and then the theme of room. It speaks up the hostel characteristics itself



FIGURE 20. The Front Side (The Suga'n 2014)

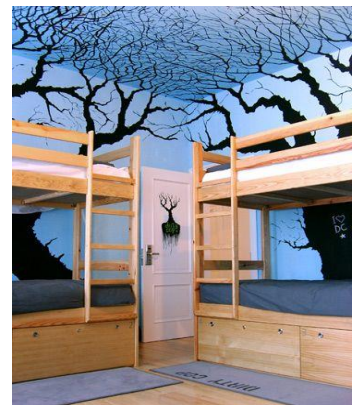


FIGURE 21. Hostel Dormroom (Lounge 2014)

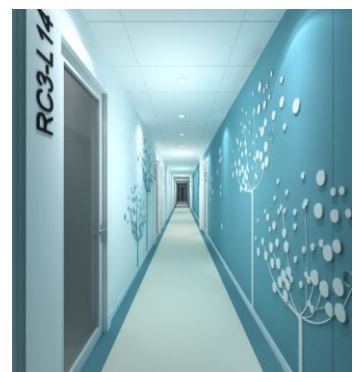


FIGURE 22. Creative Hostel Corridor

Bathroom and Toilet

The toilet and bathroom must be clean, warm, and comfortable. There are separated bathrooms for male and female

Common Area and Specific Area

It is one of the most important areas in the hostel. The main character of the hostel will be seen here. Interior design, architecture must be creative and help to facilitate social connection between travelers. One of the things to differentiate the hostels to other is specific areas in which local culture can be displayed here. Local culture can be displayed as local artwork, local handicrafts, local music, local artists or influentially local people. This area can help to facilitate local culture education for the hostel guest, which completes the guest experience of the whole trip.



FIGURE 23. Hostel Common Area (FPT University 2014)

b) Sense = lighting and air quality

The hostel wants to bring a feeling to its guests that they are so connected to the nature. Thus the natural light is preferred in architecture of the hostel. Moreover, the natural light can help to grow the plant inside the hostel and eases the guests' mind. So there might be skylight and mirror used in architecture to increase the density of natural light. Besides, good ventilation makes sure the best air quality for guests. Using natural materials and



FIGURE 24. The hostel Staircase (Canberra 2014)

natural senses for interior design, such as flowers or plants, brings good feelings to the guest.

c) Sound

A good sound system is designed all along the hostel can ease the guest mind.

d) Touch

A clean surface of all the things is a must inside the hostel. The wall hostel could be covered or painted in a different way, such as a mosaic wall.

B. Added Value based on Social Interaction

Recognized that people have a need for social interaction, the author tries to set up the hostel as a place in which people can easily make their connection to the outside world. The hostel would have to be creative to make it as a place facilitate interaction between travelers inside hostel,

interaction between travelers and local people (hostel can arrange some events within a month for local artist like local musicians or singer, local painter and local young people come to perform their performances and talk. The hostel will have theme and topic for each event)

The hostel must build and act like a community hub in which travelers can share their stories about the life, the trip (how they grow up after the trip to destination country, what really important to their life). People here are encouraged to share their travel experience for the ultimate purpose making the best travel experience for everybody. Making the guest life better, making them love this life more is the ultimate purpose of the hostel.



FIGURE 25. Hostel Common Area (Generator 2014)

C. Added value based on staff attitude and other supports

Staff attitude to the guest can be classified into three phases:

At the time of greeting, the staff must be liable to deliver the welcome and happiness to the guest. There will be a detailed process of how to greet the guest.

During the guest stay, the staffs help the guest to easily get to know the hostel.
Help the guest things related to the trip

After the guest stay, the staff must say good bye and figure out how to serve the guest better in the future

Other supporting activities: the hostel would create a network of other key partners to help the guest during the guest stay. This network makes sure the guest trip experience is a wonderful and complete trip experience.

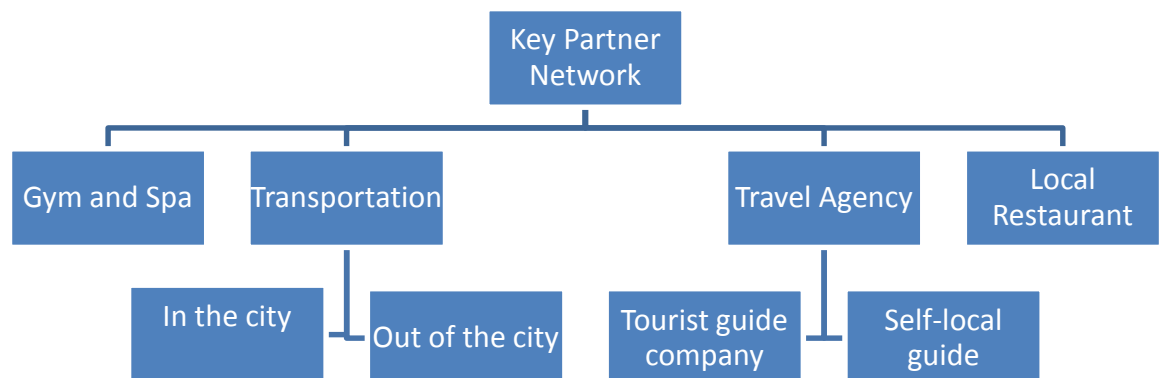


FIGURE 26. Key Partner Network

4.4 Value hypothesis testing

This subchapter discusses how the survey has been designed and how the questionnaire has been formed. It also talks about execution phase in which how the primary research has been executed. Finally, the result of the research is analyzed.

4.4.1 Survey design and questionnaire formation

The survey is designed to collect the primary data after the research problem is recognized. There are some methods to conduct a survey via questionnaires, interviews, experiments or product tests with consumers.

Relating to this study, the research problem is the hypothesis of value proposition which is stated in the earlier part of this chapter. Thus, the research problem is to figure out if the guest's need difference between two kinds of staying: a basic stay and a value-added stay. The main things needed to find out in the survey will be:

How do the guests enjoy a basic stay?

How much are they willing to pay for a basic stay?

How do the guests enjoy a value-added stay?

What value-added stay is important to the guests?

How much are they willing to pay for a value-added stay?

In designing primary research, questions are designed either as closed ones or open ones. The closed questions are structured with limited selections for the answer, for example: the type of yes or no question; while the open question gives the respondent a free response (Kothari 1985, 97).

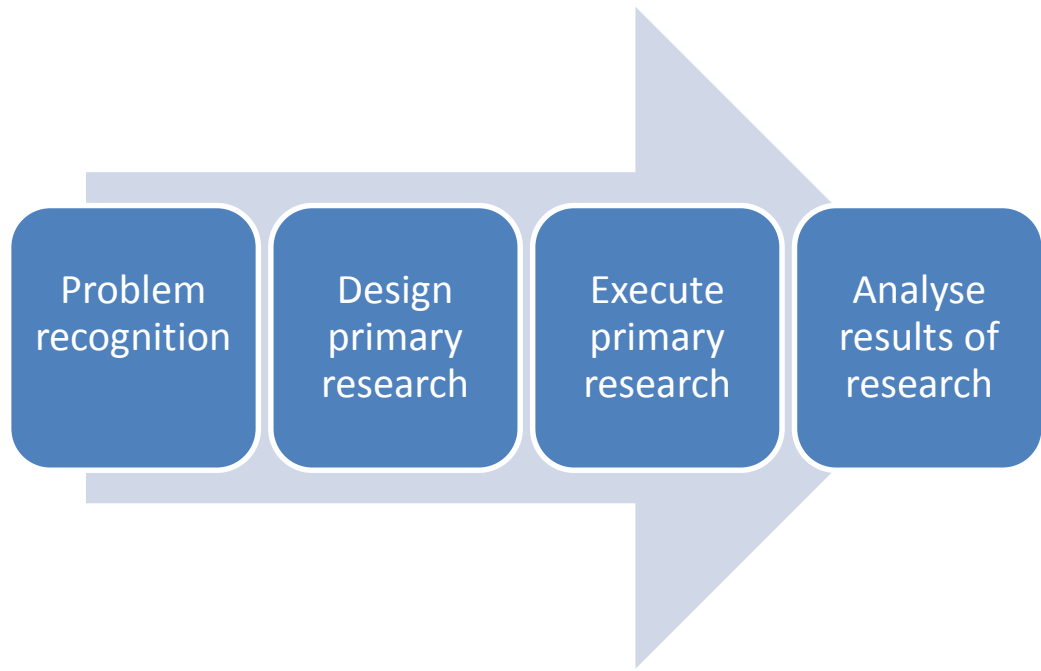


FIGURE 27. The market research process (adopted from Blythe 2005, 102)

Back to the thesis, the survey has 10 questions including 9 closed questions and 1 open question which are separated into 2 different categories, basic stay and added-value stay.

4.4.2 Execute primary research

The survey had first designed in June 2013, and conducted in Hanoi, Vietnam from 15 of June, 2013 to 30 of June, 2013 by face to face survey. There were 25 people being approached; and 7 people refused to take the survey. The survey locations were the main tourist hotposts and attractions; the hostels, bars and pubs in Hanoi.

At first, the survey participants were introduced to the hostel concept and the trendy hostel concept. The basic stay was introduced with some pictures of popular hostels in Hanoi; and then the pictures of popular European hostels like The Sukan Hostel, Dictionary Hostel, Generator hostel, were handed-out to give the participant a general idea of what trendy hostel is. After the participants were

quite sure of what a basic stay and added-value stay are, the interview were conducted.

4.4.3 Analyze the result of research

The result of research is divided into two main parts the basic stay and added value stay. The first part aims to figure out how satisfied of the guest is for the basic stay; how much they are going to pay for this kind of stay; what do they prefer, a bed or a private room; how much they are actually paying for their stays now.

After given a presentation of a typical basic stay in hostel in Vietnam, the questions for the first part are asked:

1. How is this basic stay scored for your expected stay? Grade it from 1-10 here, please
2. Which do you prefer, a bed or a private room?
3. How much are you willing to pay for a dorm bed?
4. How much are you willing to pay for a private room?
5. How much are you paying now for your staying in Vietnam per night?

And coming after the presentation of an added value stay, the questions for the second part are:

6. How important is of the added value from creative architecture and beautiful interior to your stay in a hostel? Grade from 1-10, please
7. How important is of the added value for social interaction to your stay in a hostel? Grade from 1-10, please. Do you want to pay more for the added value? If yes, please follow these questions.
8. Which do you prefer, a bed or a private room?

9. How much are you willing to pay for a dorm bed?

10. How much are you willing to pay for a private room?

Basic Stay

1. How is this basic stay scored for your expected stay? Grade it from 1-10 here, please

There were 18 participants. Two of them did not give the answer. Five participants scored the basic stay at 4. Similarly, five participants scored the basic stay at 5 and 6. Only one participant gave the basic stay a grade of 7.

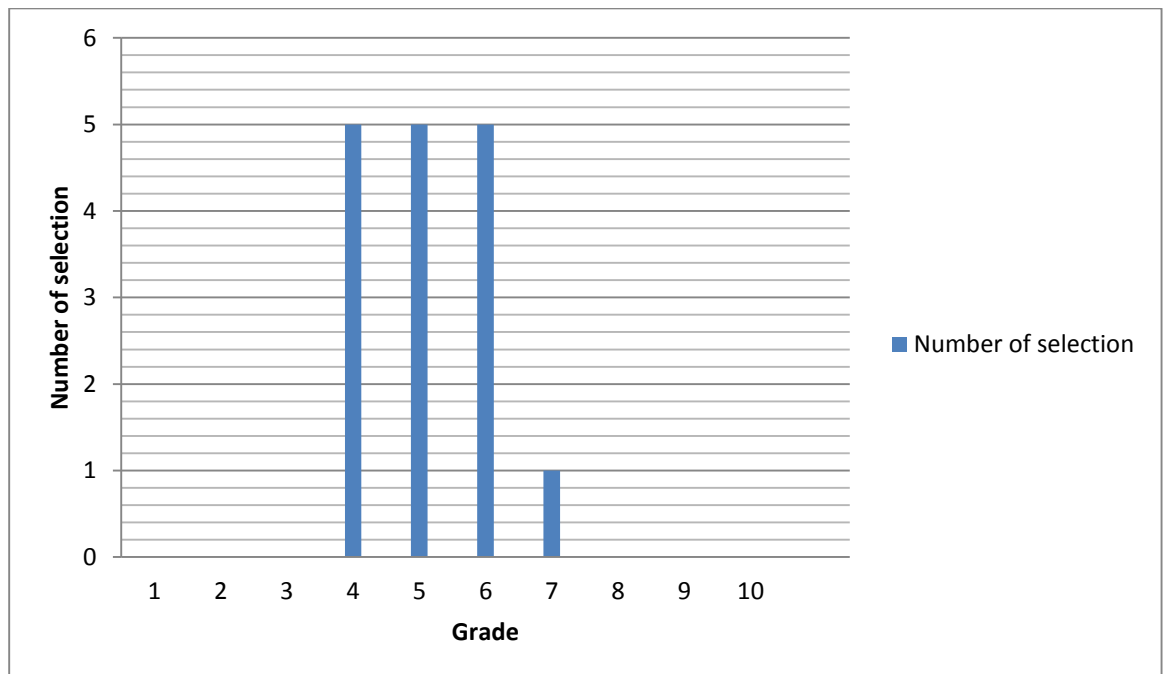


FIGURE 28. Score for the importance of basic stay

The average score for the basic stay is 5.125.

2. Which do you prefer, a bed or a private room?

Coming to a question of preference, a bed or a private room, the selection for bed got one more selection than for private room. There were 18 participants. There

were 11 votes for bed and 10 votes for private room. There were 3 people who have equal preference for bed and private room, so they selected both options.

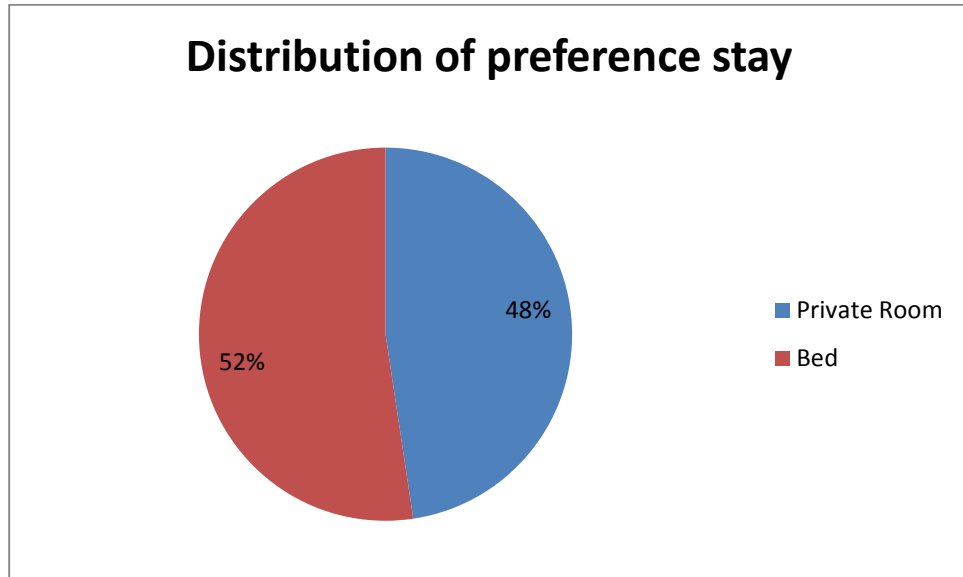


FIGURE 29. Distribution of preference stay

The percentage of preference for bed is a little higher than private room which is 52% and 48% respectively.

3. How much are you willing to pay for a dorm bed?

There were 13 of 18 people giving their answer for this question. The price options are 3-5 USD; 5-10 USD; and 10-15 USD. However, there were some participants who selected two of three at the same time. There were 10 people who selected two price options. Thus, the total selections being made were 23.

TABLE 8. Price option for dorm bed (Basic Stay)

Price option for dorm bed	Number of selection
3-5 USD	6
5-10 USD	11
10-15 USD	6

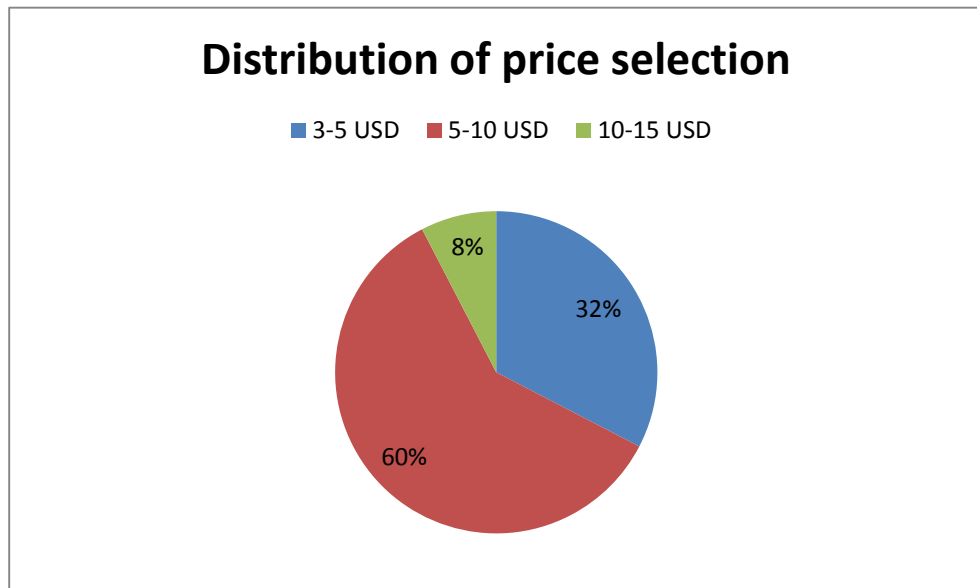


FIGURE 30. Distribution of price selection (Basic stay- dorm bed)

The distribution of price selection shows that the most preferred price is between 5-10 USD with 60%. Coming right after the price range 5-10 USD is 3-5 USD with 33%. The price between 10-15 USD gets only 7% of preference.

4. How much are you willing to pay for a private room?

There were 12 people giving the answer about the prefer price for the private room. The price options are included 20-25 USD; 25-30 USD, 30-35 USD, 35-40 USD.

There were several people picking more than one price option.

TABLE 9. Price option for private room (Basic stay)

Price option for private room	Number of selection
20-25 USD	10
25-30 USD	12
30-35 USD	10
35-40 USD	2

There are not much difference between price options, 20-25 USD; 25-30 USD; 30-35 USD; since the percentage fluctuation is only 6%. The percentage for 20-25 USD, 25-30 USD, and 30-35 USD are 30%, 36%, and 30% respectively. However, since the price is up to next level of 35-40 USD, the preference is dramatically changed. There are only 4 percent of total selection is for 35-40 USD price option.

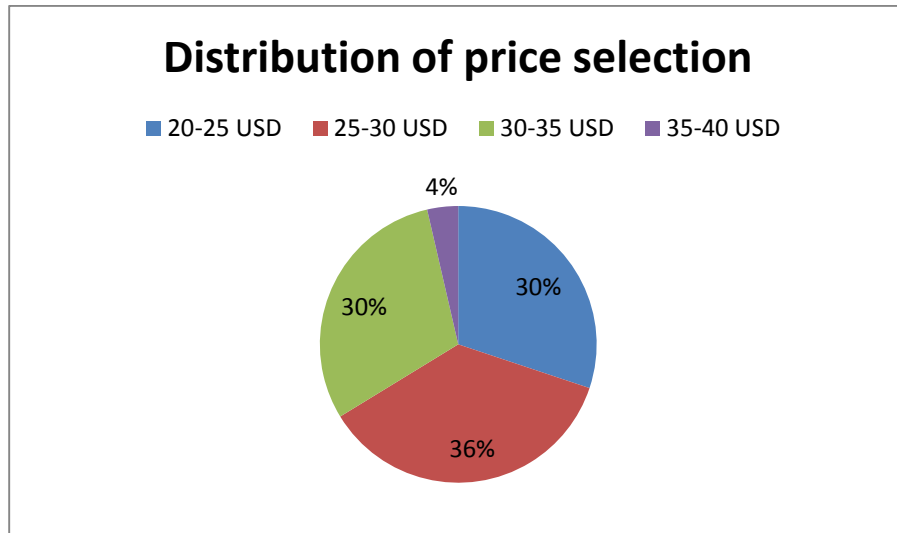


FIGURE 31. Distribution of price option (Basic stay-private room)

5. How much are you paying now for your staying in Vietnam per night?

There were 5 participants giving the answer for private room price and 12 participants revealing their dorm bed price.

TABLE 10. Price option for private room (Basic stay)

Price option for private room	Number of selection
15 USD	1
25 USD	1
30 USD	3

The dorm bed price is the most economical price, so there is not so much difference between the given prices of participants. In contrast, the price difference for private room varies greatly; since there are more types of accommodation offering the private rooms.

TABLE 11. Price option for dorm bed (Basic stay)

Price option for dorm bed	Number of selection
6 USD	5
7 USD	3
8 USD	4

Added Value Stay

6. How important is of the added value from creative architecture and beautiful interior to your stay in a hostel? Grade from 1-10, please

For the evaluation of the importance of architecture and interior to the stay in a hostel, there were 18 people being asked. Two of eighteen refused to give the answer because they were not sure of what the question about. The popular grades in the 10 scale are 5, 7, 8 and 9

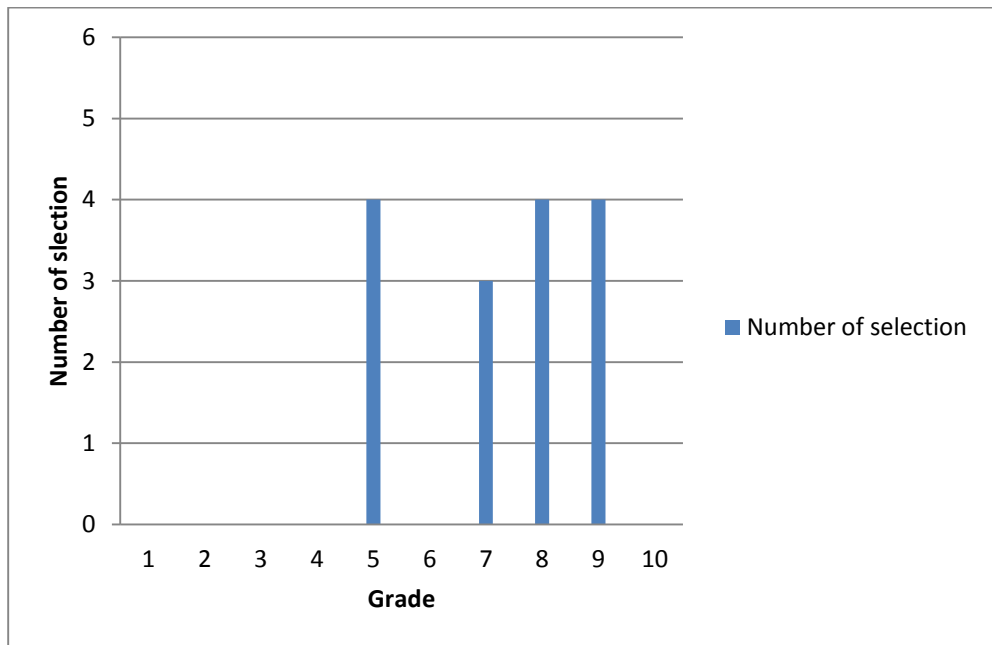


FIGURE 32. Grade for the importance of architecture and interior

The average score for the architecture and interior is 7.2

7. How important is of the added value for social interaction to your stay in a hostel? Grade from 1-10, please

For the evaluation of the importance of social interaction to the stay in a hostel, there were 18 people were asked. Two of eighteen refused to give the answer because they were not sure of what the question about. The popular grades in the 10 scale are 5, 7, 8, 9 and 10.

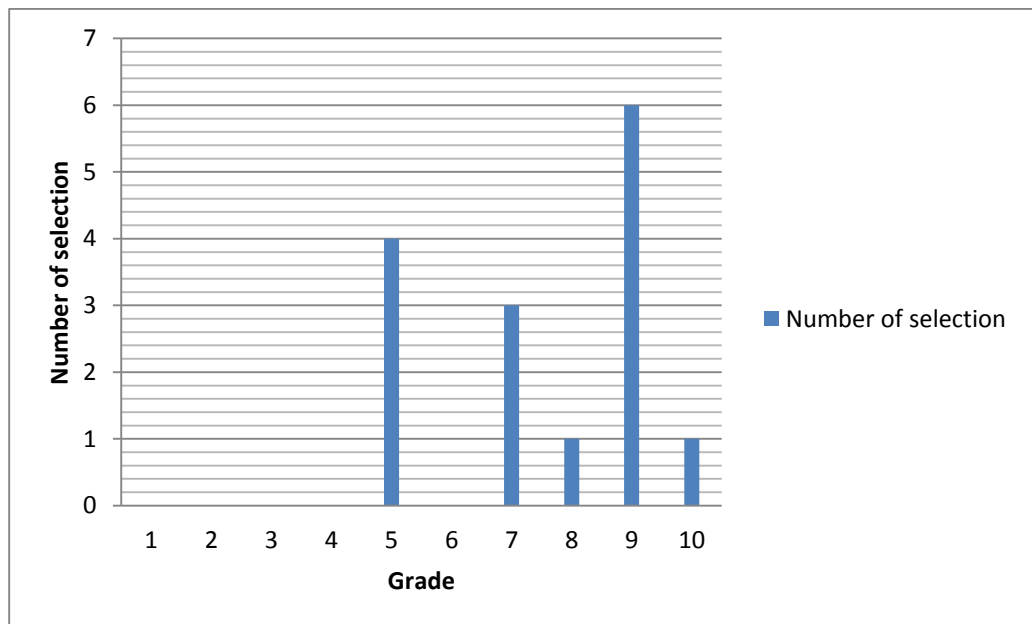


FIGURE 33. Grade for the importance of social interaction

The average score for social interaction is 7.5

8. Which do you prefer, a bed or a private room?

There were 18 people approached and 14 of them giving answers. 9 people voted for a dorm bed and 5 people voted for a private room.

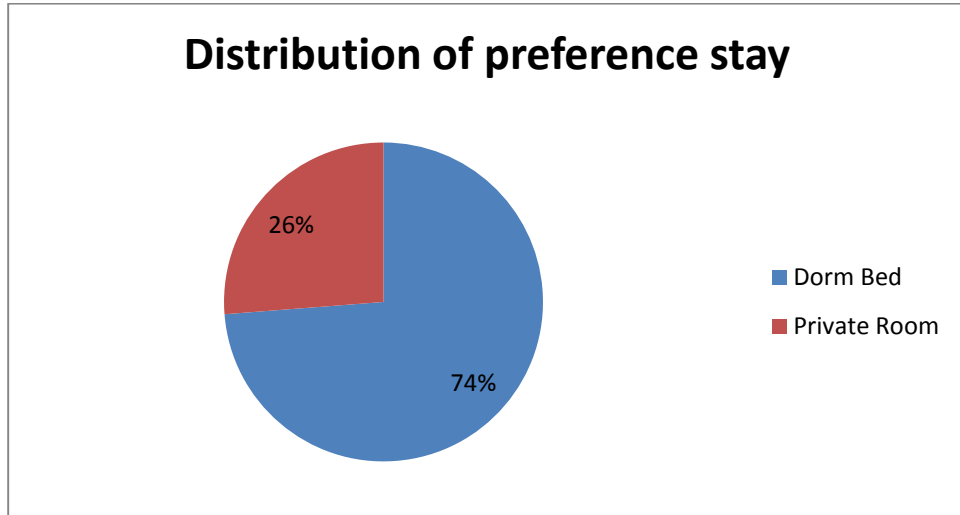


FIGURE 34. Distribution of preference stay (Added value stay)

9. How much are you willing to pay for a dorm bed?

18 people were approached in which 12 of them responded to the question and made their own selection. There are 3 price options which are 4.1-6.9 USD, 6.9-13.7 USD and 13.7-21.6 USD. There were people picking two options out of three.

TABLE 12. Price option for dorm bed (Added value stay)

Price option for dorm bed	Number of selection
4.1-6.9 USD	1
6.9-13.7 USD	10
13.7-21.6 USD	7

The percentage for 6.9-13.7 USD is overwhelming others with 56%. The second preferred price option is 13.7-21.6 USD with 56%. The lowest price, 4.1-6.9 USD, gets the lowest vote with only 5%.

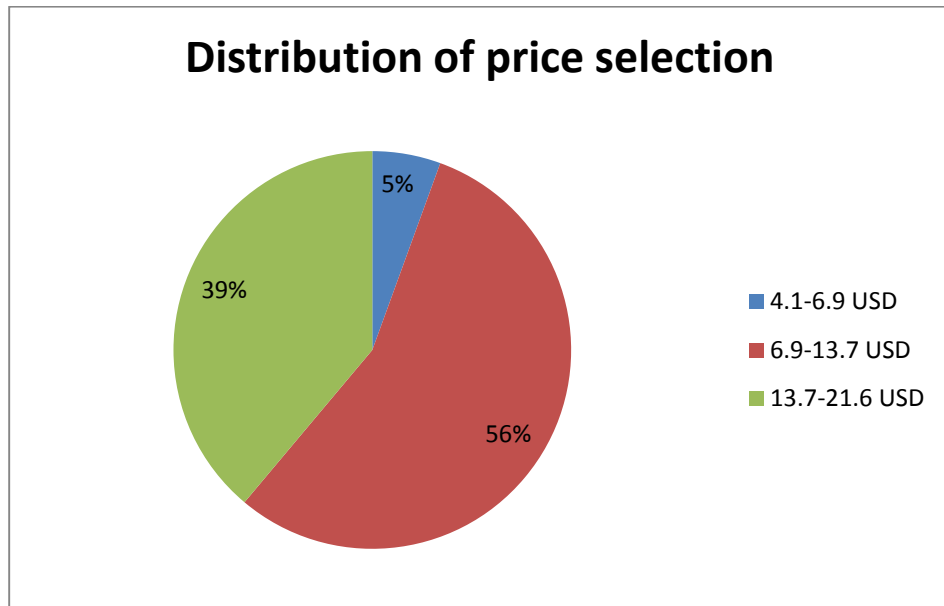


FIGURE 35. Distribution of price selection (Added value stay- dorm bed)

10. How much are you willing to pay for a private room?

There are 6 people responding to this question. Among these, 1 person picked up 2 price options. There are three price options are 27.4-34.2 USD, 34.2-41 USD, and 41-48 USD.

TABLE 13. Price option for dorm bed (Added value stay)

Price option for dorm bed	Number of selection
27.4-34.2 USD	2
34.2-41 USD	3
41-48 USD	2

The most preferred price is 34.2-41 USD with 47%. The second preferred price is 41-48 USD, and the least preferred price is 27.4-34.2 USD.

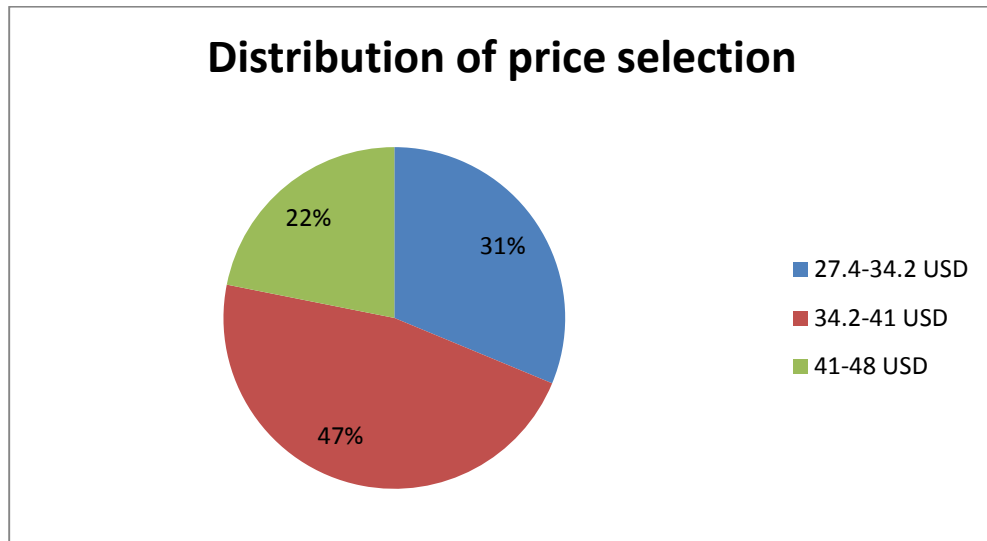


FIGURE 36. Distribution of price selection (Added value stay- private room)

Survey finding

The average score of basic stay is 5.125; while the average score of added value stay is 7.35 which includes the grade of 7.5 for social interaction added value and 7.2 for architecture and interior added value.

For basic stay, the preference for a bed and a private room are 52% and 48% respectively. At the same time, for added value stay, the preference for a bed and a private room are 74% and 26% respectively. To explain the difference of preference between two types of stay, basic and added value stay, it could be the guest for added value stay who favors social interaction are open and more willing to share the room with other guests.

The most favorite's price option for dorm bed in basic stay is 5-10 USD whereas the one in added value stay is 6.9-13.7 USD. The voting percent for 5-10 USD in basic stay is 60%, and the second favorite price option, 3-5 USD, is 33%.

Whereas, the most and the second price option, 6.9-13.7 USD and 13.7-21.6 USD, got 56% and 39%. Looking at these numbers, we can see that the guests are willing to pay much higher price to get an added value stay compared to a basic stay. It can be said that these survey participants are much willing to pay higher price to have a better stay; in this case, the price difference, between 13.7USD and 21.6USD, can reach to 57%.

Moving up further, to compare price of private room, the most favorite price of basic stay for private room is 25-30 USD covering for 36% of total percentage; while the price of private room for added value stay is 34.2-41 USD making up 47%. It is evidently that there are more people who are willing to pay more to get an added value stay.

5. BUSINESS MODEL

Chapter 5 introduces two business models. One business model is from CheapSleep hostel, an existing hostel in Helsinki, Finland where the thesis writer spent 3 months to work. The business model is constructed on the author observation, interviews with hostel owners, Mrs Juni Yao and Mr Oliver Lewis, other staffs like Mr Gleb Pripachkin the sale manager of CheapSleep, Mrs Piia Grönroos the human resource manager. Another business model is Grand Tree business model which is developed by the thesis writer himself. This business model which is expected to help on constructing the starting-up Grand Tree hostel, named by the thesis writer, is obviously a very first business model which need more time to complete. The business model is both similar and different to the business model from CheapSleep. It has been sketched on CheapSleep business model but has been developing by the thesis writer's own in order to capture the idea of an added value hostel.

5.1 CheapSleep Business model

In this subchapter, the business model of CheapSleep will be presented, which include Value Proposition, Customer Segment, Channels, Customer Relationship, Key Partner, Key Activities, Key Resources, Cost Structure, and Revenue. The figure below includes some main point of CheapSleep business model.

				
Key Partner	Key Activities	Value	Channels	Customer

		Propositions		Segment
GuestCentrix Hospitality software	Front office, marketing, accounting, housekeeping and human resource	A cheap place to sleep	Reach customers through direct booking channels and third party booking channels or online travel agencies (OTAs)	Customer who looking for dorm-bed (13€ to 20€) and private room (32€ to 59€)
SOL cleaning		Product and service from CheapSleep:		
Hostelling International	The value proposition in CheapSleep requires: Housekeeping and front office activities	118 bed dorms and 10 private double rooms Safety, clean, comfortable stay	All the channels are connected to property management system (PMS) software. PMS helps in booking and managing and allocating beds and rooms.	Long-term guest (more than 1 month) and short-term guest
Key Resources	Distribution channel requires:			Customer Relationship
Human resource and physical resource	Marketing and sale activities	Amenities to customer: kitchen, lounge area, toaster, linen, separate shower, fridge, wireless internet, lift/elevator access, over	CheapSleep receives booking mostly from OTAs now, especially booking.com	Limited personal assistance for both long-term guest and short-term guest
Physical resources like the building and other hostel	Customer relationship requires: Marketing and front office		Direct booking website	

<p>facilities</p> <p>Human resource like receptionist and marketer, sale person to run the business</p>		<p>Good location with easy public transportation working 24/7</p> <p>Check-in 24/7</p>	<p>(thebookingbutton) is the most cost-efficient now</p> <p>Customer and hostel communicate via OTAs or email. Customer leaves review of the stay at OTAs or email</p>	
<p>Revenue Stream</p> <p>Revenue source: room and upsell</p> <p>Room revenue from: dorm bed, private</p>		<p>Cost Structure</p> <p>Two phases: start-up cost and operation cost</p>		

<p>room, apartment</p> <p>Upsell from: transportation ticket, towel, slippery, late check-out, Helsinki visit ticket</p> <p>Pricing method: fixed and flexible pricing</p> <p>Payment method: Wholesaler (monthly bill payment); retailer (pay on arrival by cash, credit card/ paypal)</p> <p>Distribution of revenue: Room (70-80%) and upsell (20-30%)</p>	<p>Start-up cost: the rent, the construction and interior design cost, the furniture, fixtures, equipments and opening supplies</p> <p>Operation cost: the rent, the labor, the utility and the facility replacement</p>
---	--

Figure 37. CheapSleep business model

Value Propositions

The value CheapSleep delivers to its customer: a place to sleep, a place to make social interaction.

The customer problem which CheapSleep is trying to solve: cheap accommodation. CheapSleep business philosophy gets around: Stay cheap, Stay rich.

The product and service which CheapSleep is trying to offer to the customer segment:

118 bed dorms and 10 private double rooms

Safety, clean, comfortable stay

Amenities to customer: kitchen, lounge area, toaster, linen, separate shower, fridge, wireless internet, lift/elevator access, over

Good location with easy public transportation working 24/7

Check-in 24/7

(CheapSleep 2014.)

Customer Segment

From the opening days, CheapSleep is loyal to its business cornerstone that it tries its best to offer the cheapest stay for its customer. CheapSleep targets the budget customers who looking for a dorm bed with the price ranging from 13€ to 20€ per night in Helsinki. Besides, CheapSleep also offers private rooms with the price from 32-59€. (Lewis & Yao 2015.)

Along with segmenting the customer by different offers, like private rooms and dorm bed, CheapSleep also differentiates its guest by the length of the guest stay. There are currently two different types of stay, long-term stay for guest staying more than one month and short-term stay for guest staying less than one month. The long-term guest will receive a special offer price, 330 euros per month for a bed. (Lewis & Yao 2015.)

Channels

The traveler can be reach through direct booking and third party booking agency in other words online travel agency (OTA). There are hundreds of OTAs using by CheapSleep to get to its customers, for example, Booking.com; Hostelworld.com; Hostelbooker.com; Tripadvisor; Expedia, and so on. (Pripachkin 2015.)

The channel manager is a software system to manage non-direct bookings across multiple channels (OTA). CheapSleep is using GuestCentrix Hospital Software (Pripachkin 2015).

The booking widget could be installed on the hostel home website or other websites to receive direct booking from the travelers. The CheapSleep home website is CheapSleep.fi. Other website receiving direct booking are Siteminder.com and Thebookingbutton.com. (Lewis & Yao 2015, Pripachkin 2015.)

The property management system (PMS) is the hostel’s main back-office software. The PMS helps to manage the operational function of front office, sales and planning. The PMS will receive bookings from the channel manager and the booking widget; and then automatically update the available beds or rooms to the channel manager and the booking widget. CheapSleep is using an integrated software of the PMS and the channel manager which is mentioned above, GuestCentrix Hospital Software.

CheapSleep is trying to maximize its presence as many channels as possible, which include social networks (Facebook, Youtube or Twister). Besides social networks, CheapSleep also takes advantage of Search Engine Optimization (SEO) like blogs on the main website, other travel bloggers’ website; and Google Adwords (Lewis & Yao 2015, Pripachkin 2015.)

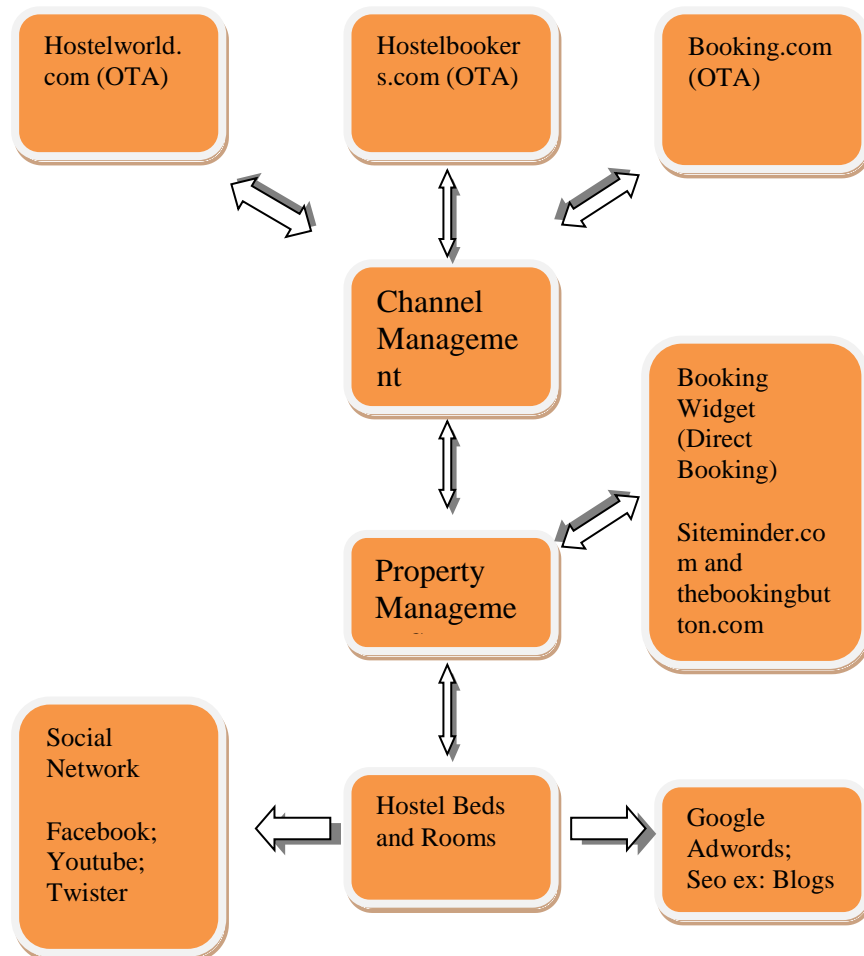


FIGURE 38. CheapSleep Channel Model

The communication between customer and CheapSleep is organized through two main ways, from direct communication between customer and hostel staff and from non-direct communication, customer review, on the OTA websites.

Customer Relationship

What type of relationship does each of Customer Segments expect CheapSleep to establish and maintain with them?

As mentioned above, there are currently two types of customer segment in CheapSleep which are long-term guest and short-term guest. Long-term guest expects a dedicated personal assistance. Because the long-term guest stays in the hostel for a long period, their needs will be much different to the short-term guest. These long-term guest expects a quiet stay with more facilities like more kitchen equipment to cook, need place to wash and dry their clothes. By mention of quiet stay, the author means a place with less noise, easy to sleep, less frequent social interaction. In the meantime, short-term guest expects a personal assistance. (Lewis & Yao 2015, Grönroos 2015.)

Which ones CheapSleep established, and how do they communicate with their guest?

CheapSleep has not given a well dedicated personal assistance. CheapSleep offers them a stay with no difference to other short-term guest except a cheaper price. The hostel offers them no more kitchen equipment, place to wash and dry clothes, quiet beds (Grönroos 2015.)

CheapSleep communicates its guest through its receptionist staff. All the assistance the long-term guest receives from CheapSleep is somewhat limited personal assistance. Compared to long-term guest, short-term guest has fewer requirements for assistance from the hostel. However, CheapSleep only can offer them limited personal assistance. (Grönroos 2015.)

Key Partners

At the moment, CheapSleep has some key partners. They establish the relationship with other suppliers like GuestCentrix Hospitality software, cleaning company, accommodation organizations like Hostelling International (Yao 2015).

Key Activities (KA)

Here are the activities in a hostel

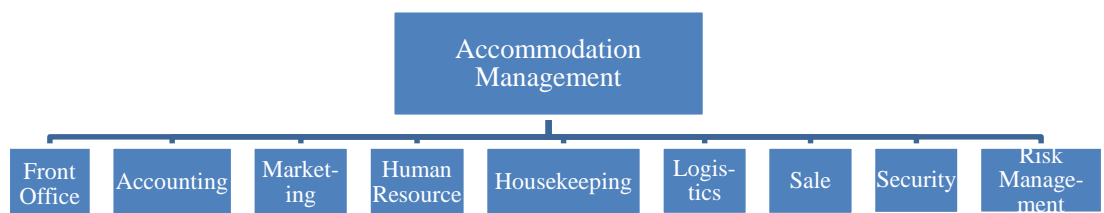


FIGURE 39. Hostel Activities

CheapSleep key activities are front office, marketing, accounting, housekeeping, and human resource. There are some activities in which CheapSleep uses its own manpower like marketing, human resource and front office; and some others are outsourced. (Lewis & Yao 2015, Grönroos 2015.)

What key activities does the Value Proposition require?

In CheapSleep, the hostel mainly provides a basic stay with the full facilities. And any other requirements from the guest will be handled by the receptionist. So the key activity for the Value Proposition is housekeeping and receptionist. (Lewis & Yao 2015, Grönroos 2015.)

What key activities does the Distribution Channel require?

The marketing team who are responsible for communication and sale being the key factor to make sure the hostel accommodation are available to the customers (Lewis & Yao 2015, Grönroos 2015.)

What key activities does the Customer Relationship require?

The marketing team and the front office team will take care of the customer relationship. Meanwhile the marketing team takes part in online communication with the customer; the front office team handles the guest inquiry at the hostel.

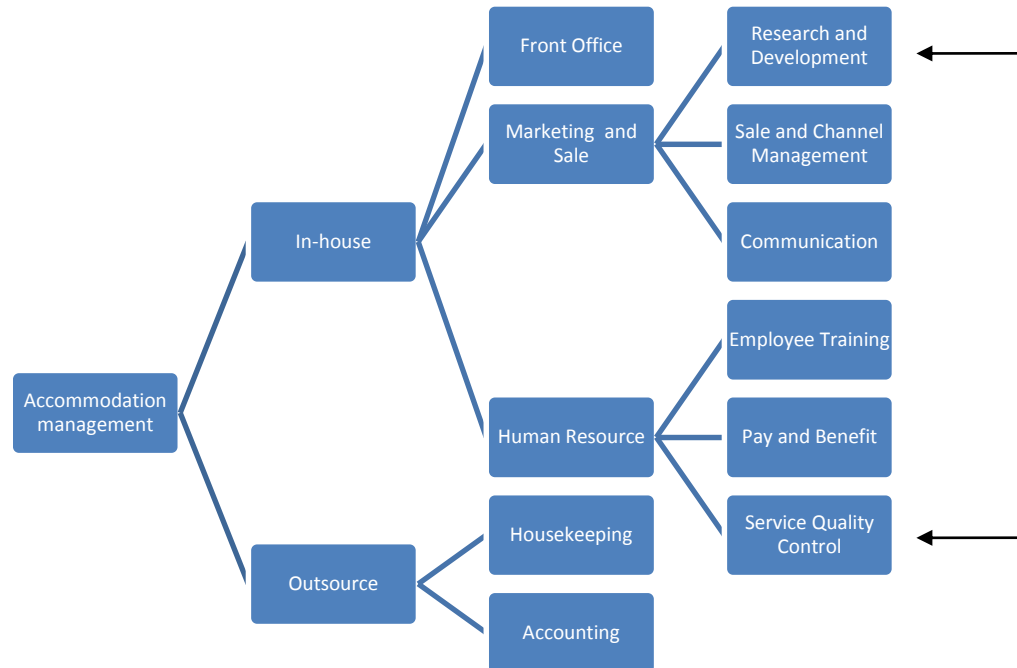


FIGURE 40. CheapSleep Key Activities (Lewis & Yao 2015, Grönroos 2015.)

Key Resources

CheapSleep hostel needs the physical resource like the building and other hostel facilities for its guests to stay. And it also needs humans to run the business process like receptionists or salers. Thus, the key resources of CheapSleep are human resource and physical resource (Yao 2015).

Cost Structure

The cost structure in CheapSleep is divided into two phases are the start-up cost and the operation cost. The most important costs in the first phase are the rent, the construction and interior design cost, the furniture, fixtures, equipments and opening supplies. In the second phase, the costs, from the most important to the least important, are the rent, the labor, the utility and the facility replacement.

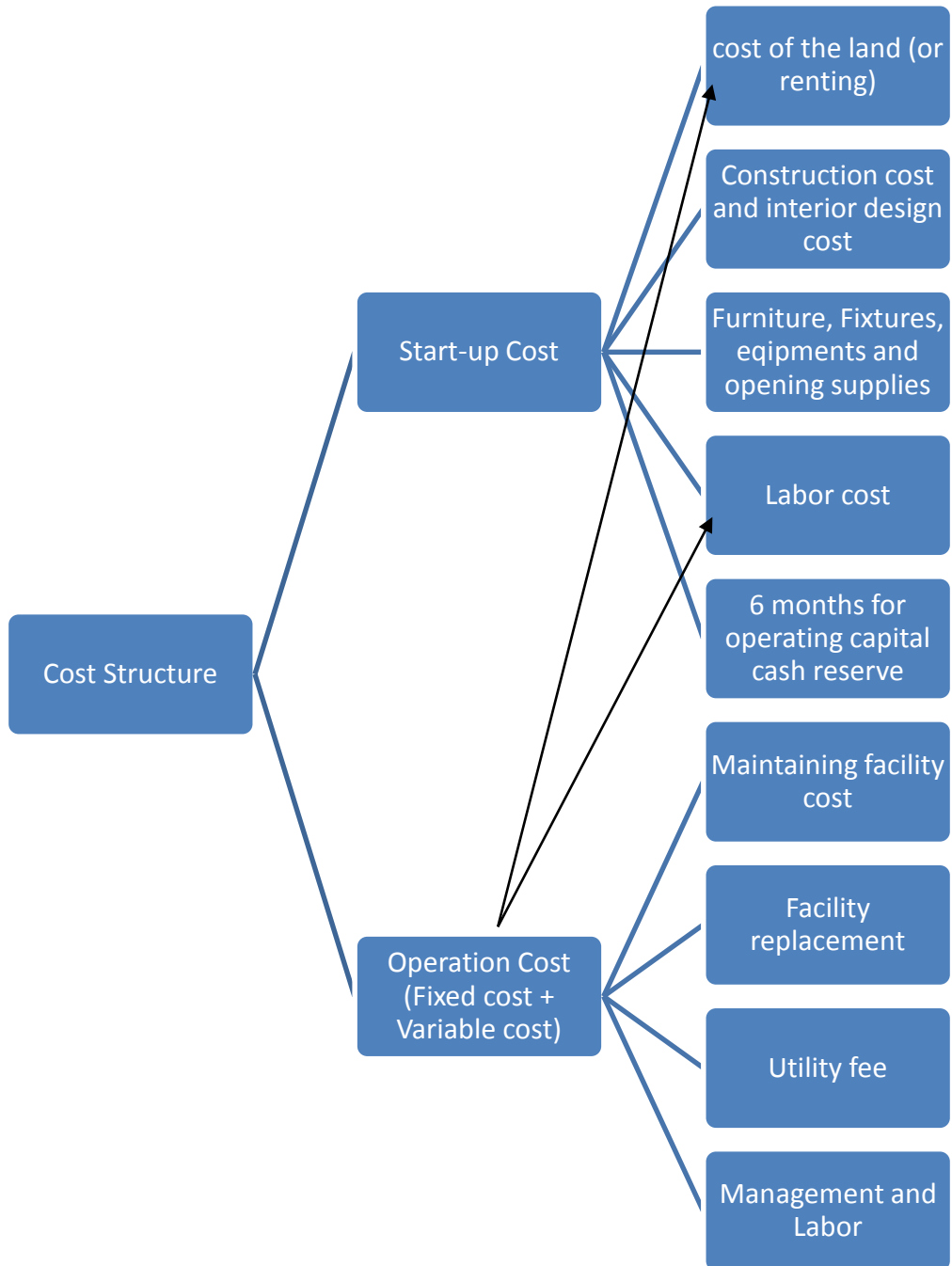


FIGURE 41. CheapSleep Structure Cost (Lewis & Yao 2015, Grönroos 2015.)

Revenue Stream

CheapSleep hostel generates two main revenue streams which are room revenue and upsell revenue. While room revenue is the revenue occurring mainly with booking the room; upsell revenue takes place at the hostel in order not only for increasing profits but also for increasing customer satisfaction. The hostel will

suggest additional products or services that will enhance the guests stay. The added services or products from CheapSleep are transportation ticket (from daily ticket, 3 days, 4days to weekly ticket), renting towel, renting slippery, Helsinki visit ticket to tourist attractions, and late check-out service.

			Pricing method		Payment method		Distributio n of revenue
Room revenu e	Dorm bed	Private Room	Fixed Pricing	Flexible Pricing	Wholesale	Retail Payment	70-80% total revenue
	Private Room						
Apartment							
			GTA, TUI, Jactrav el	Hostelworld, Booking.com , Hostelbooke r, Agoda, Bookingbutt on	Monthly Bill Payment	Pay on Arrival by Cash/ Creditcard/ Paypal	
Reve- nue sourc e	Upsell	Transportati on Ticket	Fixed Pricing		Retail Payment		20-30% total revenue
	Towel						
	Slippery						
	Late Check- out						
	Helsinki Visit ticket						
					Pay on Arrival by Cash/ Creditcard/Paypal		

FIGURE 42. CheapSleep Revenue Stream (Lewis & Yao 2015.)

There are two pricing methods in CheapSleep, which are fixed price and flexible price. For some wholesaler distribution channels, like GTA, TUI, and Jactravel, CheapSleep offers a fixed price for its accommodation with monthly bill payment. Other retailer distributions, such as, Hostelworld, booking.com, the guests, booking from these booking channels, got the flexible price which fluctuates by the time of booking, make the payment on their arrival by cash or credit card. There are rarely guests pay via paypal. The revenue from room activities

constitutes of 70 to 80% of total revenue. Whereas the revenue from upsell activities in CheapSleep only takes account for 20 to 30% of total revenue. (Oliver Lewis & Juni Yao 2015.)

5. 2 Grand Tree hostel business model

The Grand Tree hostel business model is developed based on CheapSleep business model. However, there are huge differences. Basically, CheapSleep is an existing hostel and Grand Tree hostel is an on-going project. Thus, the phases of key activities, key resources are different from the ones of CheapSleep. Moreover, the target customer and the value proposition are totally different. The figure below recaps main points of the Grand Tree Hostel business model

Grand Tree Hostel				
Key Partner	Key Activities	Value Propositions	Channels	Customer Segment
GuestCentrix Hospitality software	-Phase 1 Building the hostel	Basic stay and Added value stay	Direct booking and third party booking website or online travel agencies (OTAs)	Aim at: Travelers who are youth at heart, who are dynamic, love traveling and interested in culture and human, love social interaction
SOL cleaning	Select an architect, a general contractor, engineer and interior designer	Basic stay: a good sleep, a good location for the hostel, a safety hostel, a well-equipped kitchen	Direct booking: hostel own website; thebookingbutton; siteminder; hostelrocket.com	
Other local services like Gym, Spa,	Selecting a		OTAs: hostelworld,	

<p>Transportation, Restaurant, Travel Agency</p>	<p>management team with mixed skills</p> <p>Raising equity investment fund</p> <p>- Phase 2</p> <p>Running the hostel</p> <p>Front office</p> <p>Marketing and sale</p> <p>Human resource</p>	<p>Added value stay:</p> <p>Beautiful and creative hostel which facilitates social interaction and local cultural understanding</p>	<p>booking.com, agoda.com</p> <p>All the channels are connected to property management system (PMS) software. PMS helps in booking and managing and allocating beds and rooms.</p> <p>Using direct booking promotional website or tool to increase direct booking, ex, hostetrocket.com</p> <p>Using social media manager or social marketing tool to increase the efficiency of social media to reach the target guest, ex Hootsuite</p>	<p>Segment by:</p> <p>Vietnamese travelers and non-Vietnamese travelers</p> <p>Or by types of traveler: Family, couple, group of friend, solo traveler, and business traveler</p>
<p>Key Resources</p> <p>Starting up phase: human resource, finance resource, know-how</p> <p>Running phase: Human</p>	<p>Financial control and accounting</p>			<p>Customer Relationship</p> <p>Dedicated personal assistance</p> <p>Community</p> <p>Co-creation</p>

resource			Dashboard	
<p>Revenue Stream</p> <p>Revenue source: room and upsell</p> <p>Room revenue from: dorm bed, private room, apartment</p> <p>Upsell from: transportation ticket, towel, slippery, late check-out, Helsinki visit ticket</p> <p>Pricing method: fixed and flexible pricing</p> <p>Payment method: Wholesaler (monthly bill payment); retailer (pay on arrival by cash, credit card/ paypal)</p> <p>Distribution of revenue: Room (70-80%) and upsell (20-30%)</p>		<p>Cost Structure</p> <p>Two phases: start-up cost and operation cost</p> <p>Start-up cost: Cost of the land (or renting); construction cost and interior design cost; furniture and fixtures, equipments and opening supplies, labor cost, 6 months for operating capital cash reserve</p> <p>Operation cost: Cost of the land (or renting); labor cost, maintaining facility cost, facility management, utility fee, management and labor</p>		

Figure 43. Grand Tree hostel business model

Customer Segment

For whom are we creating value?

Traveler who are youth at heart, who are dynamic, love traveling and interested in culture and human, love social interaction. People who find traveling as

A form of learning

A way of meeting other people

A way of getting in touch with other culture

A source of career development

A means of self development

A part of their identity- you are where you have been

How do we segment the customer?

Basically, the hostel classifies the customers into two broad categories Vietnamese travelers and non-Vietnamese travelers. The category is designed based on the awareness of the traveler of the youth hostel concept. Not similar to the international hostel market, for the domestic market, the youth hostel concept is quite new. There are few hostels qualified for this youth hostel concept (Nguyen & Nguyen, 2014). For this reason, the way the hostel approach its guest for local market and international market will be very different, similar to the way the hostel offers its service to both market.

The customer can also be segmented by types of traveler such as family, couple, group of friend, solo traveler, and business traveler. Each type of traveler will have different needs for their stay.

Value Proposition

Basic Stay and Added Value Stay

Which customers' problem are we helping to solve?

Basic Stay : the hostel tries to produce a basic stay professionally which aims to set high quality standards for the service and to apply OE (operational excellence) to

reduce the production cost. Added Value Stay: the hostel supplies the guest a hostel not simply to sleep but also to have excellently memorable experience

What bundles of products and services are we offering to each Customer Segment?

The hostel offers various room types for different customer segments. For example, a family can order a 4 bed-dorm room or 6 bed-dorm room or a superior private room to stay together, similarly applying to a group of friend reservation. A business guest can make reservation for a private room en-suite.

For both foreigners and domestic guests, the hostel offers added value stay with a free walking tour in English and Vietnamese, events at the hostel in English and Vietnamese.

Channel

The channel system⁵ of Grand Tree hostel is adopted by the one in CheapSleep hostel. However, the hostel adjusts some important things. CheapSleep hostel distribution system relies mostly on online travel agencies (OTAs). It means most of their reservations are indirect bookings. It costs them a large third party fee for each booking.

⁵ List of Channel Managers and Property Manager Software (PMS): **Channel Manager:** Myallocator Siteminder. **PMS:** Bananadesk, Siteminder, Charts PMS, Loventis, Hosteloffice, Hostelsystem, Assd, Guestcentrix, Beds 24, **PMS with integrated Channel Manager:** Beds 24 Siteminder Charts PMS Hosteloffice Hostelsystem Assd

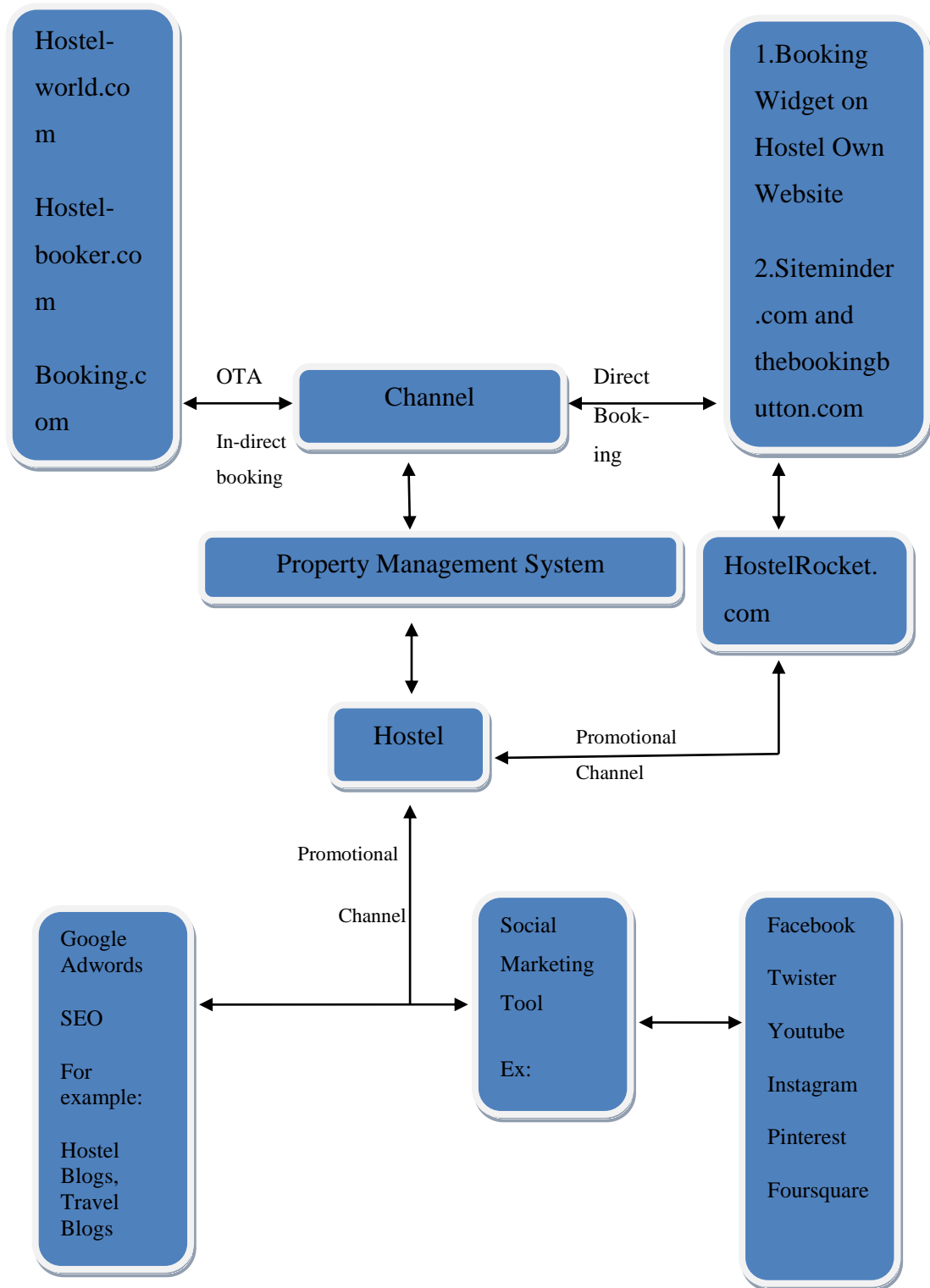


FIGURE 44. Grand Tree Hostel Distribution Channel

In contrast, Grand Tree hostel would have a distribution system with the balance of direct booking and indirect booking. By using promotional websites for direct booking, like HostelRocket.com, and social media manager tool, the hostel can increase the direct booking.

Most of hostels prefer OTAs because OTAs offer the travelers a place to compare price among hostels, and compare the guest reviews among hostels. It is convenient for travelers to check all the necessary info of different hostels, and then to make the reservation at the same place. OTAs will charge the hostel a fee such as 12% like Hostelworld.com for each booking. Promotional websites offer the travelers with the same advantage except the booking. There will be a direct link to the hostel website in which the travelers can make direct reservations. All the expense is a fixed monthly payment like 20€ or 50€.

To increase direct booking and the efficiency of social marketing, Grand Tree hostel applies social media manager tools, such as Hootsuite Dashboard. This tool helps to manage all types of social media in only one platform. It does not waste time and man power for all types of social media. The hostel also make a schedule for the posts for each social media, in other words it can make a strategic post list. Afterward, the app automatically posts them at the set-up time. By doing this, the hostel can boost its online presence and follow closely the strategic marketing plan. Moreover the hostel can collect the statistics from every social media and evaluate which social media is working efficiently or not.

Key Activities

What Key Activities do our Value Propositions require?

Phase 1 Building The Hostel	Selecting an architect, a general contractor, engineers and interior designer
	Selecting a management team with mixed skills
	Raising equity investment fund
	Finance management

Phase 2 Running The Hostel	Front Office	Check-in and Check-out guest
		Handle Reservation
		Handle Email
		Handle Guest Inquiry
		Daily Accounting
		Implement marketing survey
	Marketing and Sale	Marketing research (Guest Behavior Research; Guest Satisfaction and Service Quality Performance, etc)
		Develop and implement strategic and tactical plan to increase the hostel market share (domestic and international)
		Plan and implement added-value stay activities. Ex local art events, set-up partner-network
		Implement cross sale and channel management

		Yield and revenue management
	Human Resource	Recruitment
		Service quality management
		Staff training and development
		Pay and benefit system
	Financial Control and Accounting	Accounting
		Controller
		Investment decision

FIGURE 45. Grand Tree Hostel Key Activities

The key activities in Grand Tree hostel are divided into two phases, phase 1 building the hostel and phase 2 running the hostel. The thesis writer acknowledges that to the key activities of a start-up would be so different to the ones of an already business. Thus the thesis writer has to figure out what resources and key activities to build a business at the first phase which is as important as what resources and key activities to run a business later. To miss any steps or any key activities would also lead to a failure of the start-up.

Key Partner

Grand Tree hostel aims to provide not only a stay to sleep but also a beautiful and complete travel experience for its guests. It is why the hostel needs to build a close and efficient relationship with other partners.

The system works based on a win-win situation for every partner. The idea is to create a better service which is based on better communication and better evaluation system between service providers and its customers. For example, a

guest from the hostel can take recommendation from the hostel for local restaurant. By taking the recommendation, the guest will receive a special discount from the restaurant. A guest will evaluate the service from the restaurant. If the service is good, such as scored

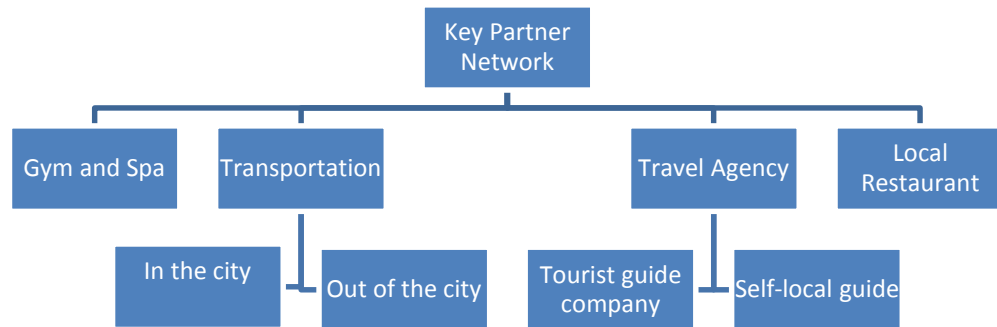


FIGURE 46. Key Partner Network of Grand Tree Hostel

Cost Structure

The cost structure here is developed on the existing one of CheapSleep. The thesis writer believes that the cost items for starting up and running a hostel is somewhat similar; what makes the difference is the distribution of the cost for each category. For a hostel which only offers a basic stay the total cost for both phases, building phase and running phase, is constructed of construction cost, cost of the land, and furniture cost mainly. Whereas, for a hostel which focuses on added value stay, the interior design cost and the management and labor cost will take a greater part of the total cost. The need for a place with more creativity and inspiration requires the hostel to invest more resources on interior design, architecture and human resource.

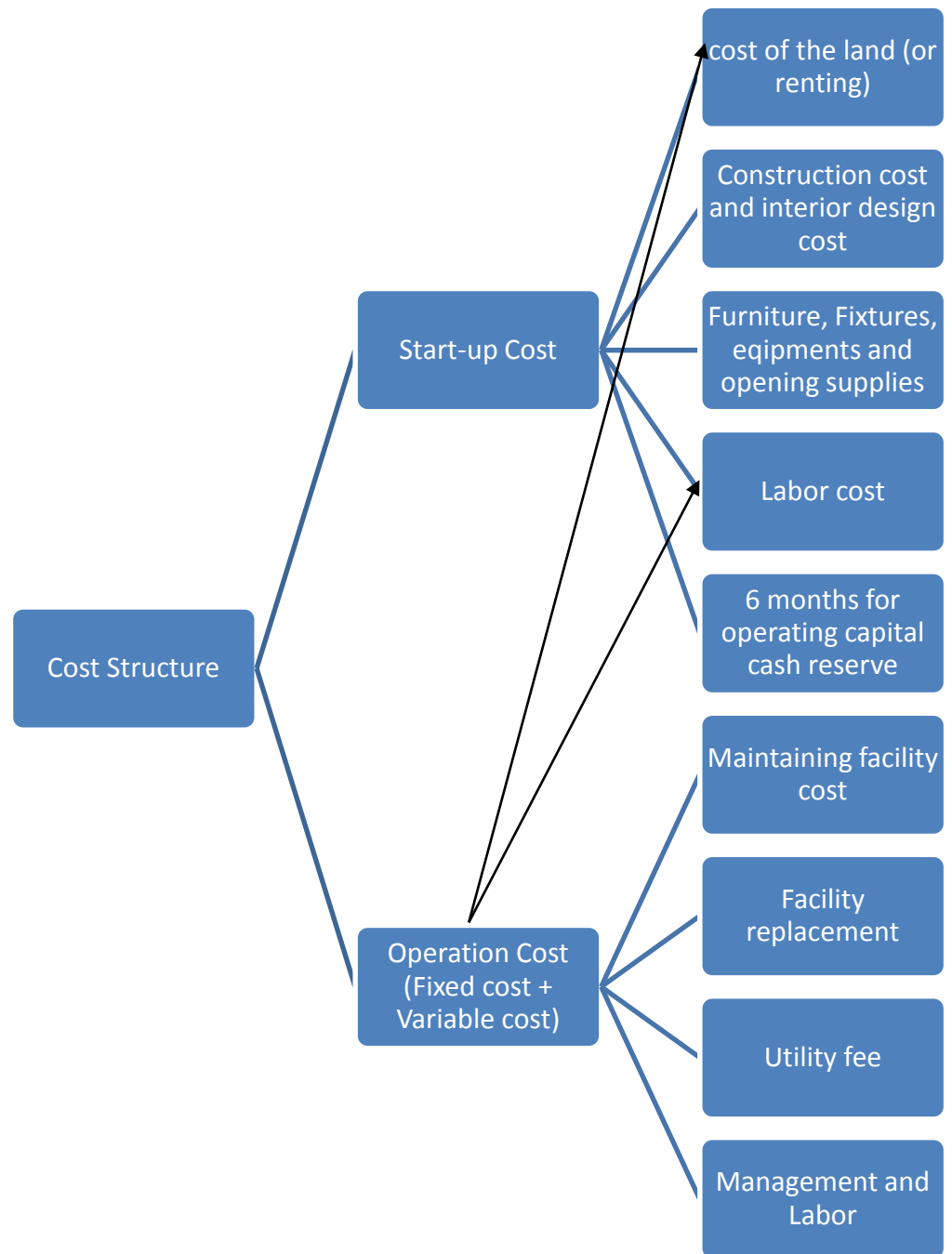


FIGURE 47. Cost Structure in Grand Tree Hostel

Although the most important costs in phase 1 still are the rent of the land, the cost for architecture and interior design, labor cost, furniture and opening supplies; the cost for architecture and interior design, in added value stay, will take a greater part in total cost rather than in basic stay. Similarly in phase 2, the cost for management and labor cost, in added value stay, will cover for a greater part in total cost, comparing to the distribution of cost in basic stay.

Key resources

Similar in key activities, key resources also should be constructed for two phases, the starting-up phase and the running phase.

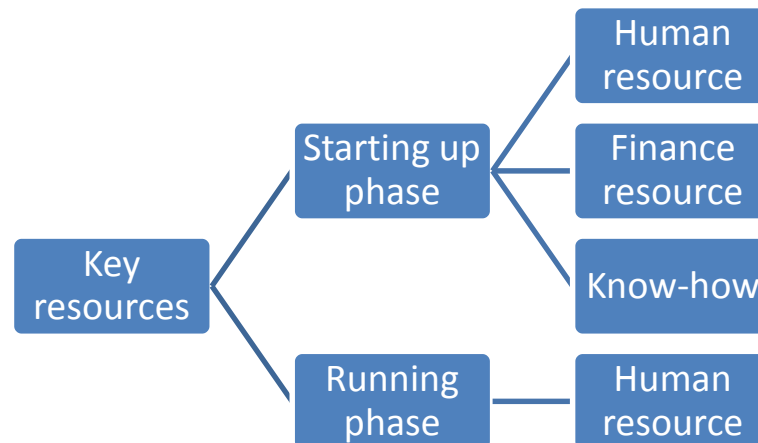


FIGURE 48. Key resources in Grand Tree hostel

Grand Tree hostel takes creativity as its main competitive advantage; it explains why human resource is the only key resource in the running phase. To be a creative and inspiring hostel, Grand Tree hostel needs to focus on developing a strong human resource.

Customer relationship

In Grand Tree hostel, the customer relationship will be constructed on three features:

Dedicated personal assistance. The hostel gives dedicated personal assistance to each guest

Community. The hostel helps the guest to become one part of the hostel community which tries to connect the guests, the hostel staffs, and the local people in order to build a great community

Co-creation. The hostel helps the guest to become a co-creator of the hostel environment, which means they not only stay here but also get involved in

building the living environment in the hostel. By sharing their travel stories and experiences, they help each other and complete others' travel experience.

Moving further, in dedicated personal assistance, the hostel will build the relationship with its guest on three phases which are before stay, during stay and after stay.

Before stay

The hostel communicates to the guest by email or other communication methods to help them plan their stay in the hostel. For example, how to get to the hostel from the airport, what facilities the hostel offers, and so on.

During stay

The guests are welcome and feel like being home.

The staffs are helpful to guest inquiries

After their stay

There is a must for staff to have a pleasant attitude when checking out the hostel guests.

The hostel rewards its loyal guests by using a guest reward point system.

Revenue Stream

In Grand Tree hostel, the revenue streams are constructed by two main revenue streams, room revenue and upsell revenue. There are two pricing methods in Grand Tree hostel, which are fixed price and flexible price. For some wholesaler distribution channels, like GTA, TUI, and Jactravel, Grand Tree offers a fixed price for its accommodation with monthly bill payment. Other retailer distributions, such as, Hostelworld, booking.com, the guests, booking from these booking channels, got the flexible price which fluctuates by the time of booking, make the payment on their arrival by cash or credit card. There are rarely guests pay via paypal.

			Pricing method		Payment method		Distribu- tion of revenue
Reve- nue source	Room revenu e	Dorm bed Private Room Apart- ment	Fixed Pricing GTA, TUI, Jactravel ⁶	Flexible Pricing Hostelworld, Booking.com, Hostelbooker, Agoda, Bookingbutton ⁷	Whole- saler Monthly Bill Payment GTA, TUI, Jactravel	Re- tailer Pay on Arri-val by Cash/ Credit- card/ Paypal Hostelw orld Book- ing.com ,etc.	50-60% total revenue
	Up-sell	Tran- spor- tation Ticket Towel Slipper y Late Check- out	Fixed Pricing		Retail Payment		40-50% total revenue

⁶ Wholesaler distribution channel

⁷ Retailer distribution channel

		Visit ticket		Pay on Arrival by Cash/ Creditcard /Paypal	
		Combo Ticket			
		Walkin g tour			
		Bike rent			
		Hostel event ticket			
		Gym and spa pass			
		Restau- rant vouche r			
		Custo- mized room decor			

FIGURE 49. Revenue stream for Grand Tree Hostel

The distribution of revenue is aimed to be in balance between the room revenue and the upsell revenue. The hostel tries to maximize the revenue from upsell activities by offering its guests more services and products to make their stay as much comfortable as possible. For example, the guest staying in the hostel for a long time (≥ 1 week) may have a need for gym pass, bike or motor bike rent. Moreover, there are guests who want to customize their room decoration we can rent them flowers, fish tanks, speakers for music, and so on.

6. CONCLUSION

This chapter will address three matters which are answer for the research questions, validity and reliability of the thesis, and suggestion on further research.

6.1 Answer for research questions

As presented before, the research question includes:

Is there a youth hostel market in Vietnam, and is the market sizeable, stable, profitable and achievable enough?

What is the proper business model for starting up a European trendy hostel?

In order to answer these above research questions, the author designs some sub research questions:

What is the hospitality market in Vietnam like?

How attractive is the hostel market?

What is a European trendy hostel? How is it different from other budget accommodation?

What is a business model of an existing hostel in general?

What is an initial business model for my hostel?

The first research question is addressed in chapter 3, in which the thesis writer has presented some statistics about the demand and supply of the youth hostel market in Vietnam. The relative number for the demand and the supply are 189,000 and 193,000 respectively. Moving further, there is an average increase of 9.8% for tourist arrivals within the last decade, which guarantees for a steady growth for tourism in general and for hospitality industry specifically. Thus, there is youth hostel market at the moment in Vietnam, and the market size is large, stable,

profitable and sizeable enough for the business to develop. Besides, after getting done the market analysis in chapter 3, we can see that the market attractiveness is high, which is drawn on after analyzing five factors, threat of substitute products, threat of buyer bargaining power, threat of new entrants, threat of supplier bargaining power, and threat of intense segment rivalry.

Moving on to the next research question, what is the proper business model for starting up a hostel? In order to answer to this question, the thesis writer has designed three sub-research questions which will help with finding the answer for the research question. The three sub-research questions are:

What is a European trendy hostel? How is it different from other budget accommodation?

What is a business model for an existing hostel in general?

What is an initial business model for my hostel?

At the introduction, the thesis writer has presented a brief definition of a European trendy hostel which will then be discussed deeper in chapter 4. A European trendy hostel provides not a place for youth travelers to sleep but also a beautifully and creatively decorative place. Moreover, the place is designed to improve the social interaction between the travelers, and to boost the local culture understanding for the travelers (Bourget 2015). Moving on further, the thesis writer set up two features in which a hostel, not only a place to sleep but also a social place with beautiful and creative decoration, are basic stay and added value stay. The thesis writer named his future hostel, Grand Tree hostel, which captures both features of basic stay and added value stay. In Grand Tree hostel, a guest will be guaranteed a good sleep, a good place to cook, a safety place to stay, and a convenient location of the hostel for the guest to travel around the destination. Furthermore, Grand Tree hostel is designed to give the guest a beautiful place which will be set up to touch the guest by every of his senses. At there, the social interaction is encouraged to make the guest trip experience complete.

A business model of CheapSleep, an existing hostel in Helsinki, has been discussed. From this business model, the Grand Tree hostel business model is developed. There are certainly similarities, and huge differences. The differences

are mostly from the nature of these two. CheapSleep is an existing hostel, and Grand Tree hostel is only on-going.

6. 2 Validity and reliability

Regarding the validity, the theory part has been presented after the thesis writer's thoughtful research. The theory of business plan, customer development model, Porter's five forces are all drawn from academic sources which have been published in the last five years. The empirical part has been conducted by the thesis writer himself through observations at work, at hostels around Europe during the thesis writer's trips within 3 years (2012-2015), interviews at work in Helsinki (January to April of 2015) and in Vietnam where he would like to build his own hostel.

Moving on to the reliability, the survey has been conducted by the thesis writer himself during the time he was in Vietnam 2012 and 2014. The interviews were done very carefully. The interviewer made sure the interviewees totally understand the hostel concept and the questions before taking answers from them. However, the size of the survey is limited as there were only 18 people taking the survey. Besides, there are some Vietnamese tourism statistics from chapter 3 which have been collected from the Vietnam Tourism Department. The reliability of these data is limited. The Transparency International (2015) has ranked Vietnam as a highly corruptive country, 119st out of 175 countries, with a grade's score of 31 of total 100. One of the reasons comes from its unclear legal and annual statistics. The statistics can be made up by various reasons, i.e. political reasons. Furthermore, due to the weak capability or old technique, the data conducted by the Vietnamese statistic office is not authentic. To overcome this issue, the author has to compare and confront the data from Vietnamese references to the official data of other references such as ASEAN, World Bank, World Tourism Organization.

6.3 Suggestion on further research

The thesis focuses on searching for a business model to start up a European trendy hostel in the Vietnamese market. However, the business model for a start-up is really different to the one for an existing business. The business model from this thesis is drawn on an existing business, CheapSleep. Moreover, CheapSleep which focuses on offering a cheap place for travelers does not fit criteria of a European trendy hostel. Thus, the thesis writer suggests having more research on the business model of European trendy hostels such as Wombat hostel chain, Generator hostel chain, Meininger hostel chain.

Besides, this thesis also applies customer development model theory which assumes to have market research before searching for any business model. The market research looks for the feasibility of the business as a whole, from business idea to final product. For this aspect, more customer analysis, competitor analysis and value proposition hypothesis are suggested for further research.

Last but not least, the initial business model only plays as a simple map for the entrepreneur. The business model needs to evolve over time, until the business is ready to scale. Thus, more time for the business model is recommended.

7. SUMMARY

The thesis mainly focuses on applying a customer development model on starting up a hostel in Vietnam. By applying a customer development model, the thesis writer, at first, needs to conduct a market analysis to test the feasibility of the business idea and then to search for a proper business model.

In order to do that, the thesis has been divided into two parts, theoretical part and empirical part, which corresponds to chapter 2 and the combination of chapter 3, 4 and 5.

The theory part includes mainly the theory of customer development model. The customer development theory focuses on searching for a proper business model through making hypotheses of the components of the business model. By repeatedly corrections, a business model evolves from the moment of the business being only a start-up to the time that start-up being ready to develop into a real company. There are supplementary theories which help to clarify the main theory, are the theory of business model, the theory of business model canvas and the theory of Porter's five forces. The theory of business plan has been presented in order to explain more the reasons for adopting customer development model theory, in other words, why searching for a proper business model, instead of business plan could be a better map in start-up. The theory of Porter's five forces is applied to analyze the target market in chapter 3.

The empirical part consists of chapter 3, 4 and 5. These chapters present the hostel market analysis in Vietnam, the hostel concept, the business model of an existing hostel, CheapSleep hostel, and the business model for hostel start-up, Grand Tree hostel. In chapter 3, the hostel market analysis which adapts the Porter five forces theory to analyze the market help the entrepreneur to indentify the market attractiveness. Getting a through look at the market, from the threat of competitors, the threat of new entrants, the threat of suppliers, the threat of buyers bargaining power, to the threat of substitute products, the entrepreneur can evaluate exactly the opportunities as well as the threats of the target market.

Moving to chapter 4, the hostel concept is about forming the hypothesis of value proposition of the hostel, and testing the hypothesis by performing a customer survey. This chapter plays a significant part as it helps the entrepreneur to know if the product/service can solve the target customers' problem and how well the target customers welcome the product/service.

Finally, the business model of an existing hostel, CheapSleep hostel, was analyzed in order to help sketch the business model for Grand Tree hostel. The business model for Grand Tree hostel was built based on the CheapSleep business model. However, the latter business model has been developed and improved a lot in order to fit to a hostel start-up.

In conclusion, there is a market for youth European hostel, and the market is sizeable and attractive enough for the entrepreneur to start his own business. The business concept is also formed and tested. The result of the customer survey shows the positive things, which means the target customers welcome a new kind of accommodation, a youth European hostel and they are willing to pay more to experience this kind of stay. However, there are some limitations of the thesis, such as, the size of the customer survey. Further research is suggested before actually implementing the hostel business in Vietnam.

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Interview

Yao, Juni. 2015 Chief Executive of CheapSleep Hostel. Interview 14 March 2015

Lewis, Olier. 2015 Chief Executive of CheapSleep Hostel. Interview 14 March
2015

Pripachkin, Gleb. 2015 Sale Manager of CheapSleep Hostel. Interview 14 March
2015

Grönroos, Piia. 2015 Human Resource Manager of CheapSleep Hostel. Interview
14 March 2015

APPENDICES

APPENDIX 1. Interviewee questions

Interview-ee	Oliver Lewis
Position	Chief Executive of CheapSleep Hostel
Organizarion	CheapSleep Finland Oy
Adress	Sturenkatu 27- 2 nd floor, Helsinki
Contact	
Date of interview	14 March 2015
1. Value Proposition	<p>1. What do you do first when thinking of opening a hostel?</p> <p>Do you have any advice for the first three months (or from planning to construction)?</p> <p>2. Which one do you decide first- the location or the architecture of the location (how many rooms, how large the total area)</p> <p>3. How to decide which location</p> <p>4. If you choose the location first, how to decide how many bed? If you think of the architecture first</p> <p>5. How do you decide the proportion of room type (dorm, suite, deluxe, etc.)</p>

<p>2. Cost Structure</p>	<p>6. For the construction cost and</p> <p>The cost of the land.</p> <p>Design and construction of the building</p> <p>The cost of furnitures, fixtures, equipments and opening supplies</p> <p>Pre-opening marketing and labor costs</p> <p>A six-month operating capital cash reserve</p> <p>For the operation cost:</p> <p>The cost for maintaining the facility</p> <p>The cost for hostel facilities replacement</p> <p>The cost for utility fee</p> <p>The cost for management, labors, etc</p>
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Interviewee 1: Juni Yao

Position: Chief Executive of CheapSleep Hostel

Interviewee 2: Piia Grönroos

Position: Human Resource Manager of CheapSleep Hostel

Organizarion: CheapSleep Finland Oy

Adress Contact: Sturenkatu 27- 2nd floor, Helsinki

Date of interview: 14 March 2015

1. Key Partner	1. Who is your supplier (housekeeping things, etc..) why choosing them?
	2. How and why do you choose other partners like other hostels, tourism company, transportation company
2. Key Activities	3. What are key activities?
	4. How to decide which activity (department) is important?
	5. Do we need a team for each department or cross-functional staff who will be in charge for different tasks? How make it efficient?
	6. Marketing What do you think of marketing for a hostel? What is important for marketing plan? How to distribute the resources for marketing
	7. Human Resource Do you have specialized staff for HR department? Do you divide HR into different activities like Recruiting, Management & Administration, Training Program Under Recruiting, how do you have a general policy to recruit Under Management & Administration, do you have a remuneration plan for your staff, fringe benefits, etc..
	6. Accounting How to deal with accounting. Outsource or hire professional accountant? Do you adopt software or not? How to best use of data base?
	7. R&D Do you have a benchmark for the company activity performance vs other hostels? How do you make continuous development? Do you have intent to become a hostel chain? How do you do it?
	8. Housekeeping How to organize the housekeeping department? Do you have a general process for housekeeping? For example, how much time for each room by a

	housekeeper, how the general standard of housekeeping a room?
	<p>9. Security</p> <p>Do you have a research of the security of area around the hostel?</p> <p>What do you adopt now an electric key system or a normal key system</p> <p>Do you have gate control or only room control for your guest?</p>
	<p>10. Risk Management</p> <p>How do you evaluate the risk of your property? For example, the electrical safety or fire protection</p> <p>Do you have risk management for the hostel facility like property loss (thief), property breakdown</p> <p>The risk from young worker, have you ever considered it. For example, different work permit for worker under 18 years or other incidents caused by the age limit</p> <p>Do you care of the bureaucracy of local government? For example, the dirt police.</p>
	<p>11. Front Office</p> <ul style="list-style-type: none"> - How do you organize the front office? (for example, fulltime or part-time receptionist) - Do you have general principal for the reception? Do you adopt the software? Which one and why, please?
	<p>12. Revenue Model</p> <p>Do you have a room rate policy? Do you have a cost-based pricing or market-based pricing?</p> <p>Do you put all the available room in the booking sites or just part of them?</p> <p>Do you have internal measure like Revenue per day, Occupancy Percentage, Average Daily Rate, Rev PAR, etc? If not, how do you measure the hostel performance?</p> <p>Do you apply overbooking and cancellation policy?</p>

<p>Interviewee 1: Gleb Pripachkin</p> <p>Position: Sale Manager of CheapSleep hostel</p> <p>Organizarion: CheapSleep Finland Oy</p> <p>Adress Contact: Sturenkatu 27- 2nd floor, Helsinki</p> <p>Date of interview: 14 March 2015</p>	
Channel	<p>1. How to make your hostel available to your customers? How to build an efficient distribution channel? (what to do first since establishing a distribution channel?) How many channels are enough?</p>
	<p>2. How much do you spend for these distribution channels? What made your decision?</p>

APPENDIX 2. Customer survey

<p>Basic Stay</p>	<p>1. How is this basic stay scored for your expected stay? Grade it from 1-10 here, please</p> <p>2. Which do you prefer, a bed or a private room?</p> <p>3. How much are you willing to pay for a dorm bed?</p> <p>4. How much are you willing to pay for a private room?</p> <p>5. How much are you paying now for your staying in Vietnam per night?</p>
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<p style="text-align: center;">Added Value Stay</p>	<p>6. How important is of the added value from creative architecture and beautiful interior to your stay in a hostel? Grade from 1-10, please</p> <p>7. How important is of the added value for social interaction to your stay in a hostel? Grade from 1-10, please. Do you want to pay more for the added value? If yes, please follow these questions.</p> <p>8. Which do you prefer, a bed or a private room?</p> <p>9. How much are you willing to pay for a dorm bed?</p> <p>10. How much are you willing to pay for a private room?</p>
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APPENDIX 3. Business concept
introduction for the customer survey

Name **Age**

Country

Basic Stay



Sleep

- Clean & comfortable bed, mattress, pillow and blanket
- No noise, no light
- Good air quality
- Normal temperature: not too cold or too warm

Eating – kitchen

- Clean and fully equipped kitchen
- Fridge to store food
- There is kitchen oven and kitchen sink



Location

- Near public transportation
- Near tourist attraction
- Near convenient store
- Near bar & restaurant
- In a safety neighborhood

Safety

- Locker inside room, and gate building control
- Camera, security guard and fire alarm system

Staff

- Basic English to guide guest to room and minimal help for tourist info

Question: How is this basic stay scored for your expected stay? Grade it from 1-10 here, please

How much are you going to pay for this stay (dorm bed)?

3-5 USD (3.42-5.7€) 5-10 USD (5.7-11.4€)
10-15 USD (11.4-17.1€)

Which do you prefer, a bed or a private room? If private room, how much are you going to pay for a private room?

How much are you paying now for your stay in Vietnam per night? Dorm bed or private room?



Added Value

Based on human scene

We would like to create a beautiful place with the harmony of creative architecture and youthful, beautiful interior. The place will be a blend of natural light, natural scene, and natural music. Being green will be recognized at the ultimate touch from the hostel.

Added value on Social Interaction

A better place for social interaction. We aim to create a community hub where traveler can meet and share their story and travel experience.

A place with exhibition of local art and local culture.

Events every week with topic related to local art, music, movie, culture. Local people and artist will be invited to the hostel.

Questions:

1. How is important of the added value from creative architecture and beautiful interior to your stay in a hostel? Grade from 1-10, please
2. How is important of the added value for social interaction to your stay in a hostel? Grade from 1-10, please
3. Do you want to pay more for the added value? If yes, please follow these questions. If not, please skip this part.

For the one would like to stay in dorm bed

If the basic stay per night will cost you

3-5€ (3.4-5.7USD)

5-10€ (5.7-11.4USD)

10-15€ (11.4-17.1USD)

Mark the new price
(including
basic stay and
added value)

3.6-6€ (4.1-
6.9USD)



1.6USD)

For the one would like to stay in private room.

If the basic stay per night will cost you

20-25€ (22.8-28.5USD)

25-30€ (28.5-34.2USD)

30-35€ (34.2USD-39.9USD)

Mark the new price (including basic stay and added value) you prefer

24-30€ (27.4-34.2USD)

30-36€ (34.2-41USD)

36-42€ (41-48USD)

