



# **FEASIBILITY STUDY FOR A START-UP ENTERPRISE**

Enkh-Undral Ganbat

Bachelor's thesis  
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Degree Programme in Tourism

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## **ABSTRACT**

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The aim of this bachelor's thesis was to study and provide analyses in certain business fields regarding the feasibility study for a start-up enterprise that will be established in a remote lake holiday destination in Mongolia, by the writer acting as an entrepreneur.

The proposed start-up enterprise aims to provide a snorkeling gear rental service for leisure travelers visiting Khatgal village in Lake Khuvsgul. Lake Khuvsgul is considered as one of the most attractive tourism destinations of the country. However, the tourism service providers are mostly limited to hospitality businesses and only a handful of recreational activities are available for the ever increasing number of tourists visiting the area. This situation is considered to be an opportunity by the writer, and greatly influences in developing the business idea, with a goal of establishing a start-up enterprise to provide services which meet the customers' needs.

Primary data were collected through a customer satisfaction field survey by the author and covered total number of 420 interviewees. It served as the main data source for the study as availability of secondary data had been lacking in general. Data analysis was approached with coding in three phases: open coding, axial coding and selective coding.

In order to generate a realistic feasibility study, the author investigated the viability of the business concept, and analysed the business industry, market, customers and competitors, as well as external and internal business environment factors and financials, to determine whether the writer's business idea has a possibility to emerge into a start-up enterprise, or not.

The conclusion drawn up from the feasibility study enables the reader to consider the possibility of success or failure of the proposed start-up enterprise realisation. The feasibility study is also for facilitating the business plan of the start-up enterprise in future.

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Key words: feasibility study, business plan, start-up enterprise, tourism

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## 1 INTRODUCTION

The aim of this bachelor's thesis was to study and provide analyses in certain business fields regarding the feasibility study for of a start-up enterprise, proposed to be established in a remote lake holiday destination in Mongolia, by the writer acting as an entrepreneur.

Lake Khuvsgul is one of the most attractive domestic travel destinations as it is the biggest fresh water lake in Mongolia, known for its high water clarity at 18 meters and beauty of the surrounding nature. The start-up company will provide rental service of snorkelling gears for visiting tourists that are seeking soft adventure tourism activities. Tourism in Mongolia is currently underdeveloped due to country's poor infrastructure, but regardless to this fact the domestic tourism is on the rise and the supplier side is currently not meeting the increasing demand for tourism products. This situation is considered to be an opportunity by the writer, for whom it is aspiring to create a small enterprise that provides a service likely to be attractive for customers.

The main objective of the thesis was to generate a feasibility study by investigating the viability of the business concept, and analysing the business industry, market, customers and competitors, as well as the business environment and financials, in order to determine whether the writer's business idea has a possibility to emerge into a start-up enterprise, or not. The research question was formulated as:

*What is the probability of a successful realisation of the intended start-up enterprise in Lake Khuvsgul area in accordance with the current condition of business factors?*

The research was focused on the business subjects that are only directly linked to the target start-up case, particularly in the domestic tourism in the Khatgal village by lake Khuvsgul. Primary data, collected through a customer satisfaction field survey with total number of 420 interviewees, served as the main data source for the study, as availability of secondary data had been lacking in general. The survey was conducted among, and is limited to tourists/travelers in Khatgal village and surrounding tourist accommodation service providers in about 20 kilometers range.

The secondary data were collected from journals, websites, and reports of different organizations such as National Statistics Office of Mongolia, World Travel and Tourism Council, and The World Conservation Union – IUCN. Writer's summer practical training experience in the destination also played an important role to get a better insight of consumer behavior and tourism operations in the lake area.

The main purpose was to draw up a conclusion from the feasibility study that enables the reader to consider the possibility of success or failure of the proposed start-up enterprise realisation. The feasibility study is also for facilitating the business plan of the start-up enterprise.

## 2 CONCEPTUAL FRAMEWORK

This part of the paper describes important interrelated concepts that one needs to understand prior to going through the case feasibility study. The meanings of the term ‘entrepreneurship’ and a ‘start-up’ are described, followed by the definitions and nature of a ‘business plan because the writer aspires to develop a business plan facilitated by the feasibility study and take entrepreneurial actions towards establishing a start-up enterprise in real life. At last, the different segments of analyses which would build up the case feasibility study are introduced. The business concept and industry analysis, market analysis, customer and competitor analyses, and business environment and financial analyses are all considered to be important parts that should be covered in the case feasibility study.

### 2.1 Entrepreneurship and start-up

Various authors define the term entrepreneurship using their own words that are read differently but understood correspondingly.

David Butler (2006, 8) defines that the term *entrepreneur* typifies an individual attitude of opportunity-spotting, and the creation and exploitation of business opportunities to create wealth – often with the implicit use of innovation, imagination, and risk-taking. In this way, an entrepreneur creates and operates the enterprise, and in doing so displays the characteristic of *entrepreneurship*. Authors Lee-Ross and Lashley (2009, 127) express there are certain entrepreneurial characteristics including stamina, commitment and dedication, which are important in optimizing chances of new business success.

Authors Lominé and Edmunds (2007, 65) state that the term ‘entrepreneurship’ refers to the process of formulating and setting up a business, which involves identifying the business opportunity, developing the initial idea into a **business plan**, and starting up the venture. The classical view of entrepreneurs assumes that personal reward, through profits and capital growth is what drives these individuals and ultimately successful economic activity (Lee-Ross & Lashley 2009, 51).

Start-up in words would just simply indicate starting up of something new. As for a start-up business, it is defined as "...a business in the form of a company, a partnership or temporary organization designed to search for a repeatable and scalable business model. These companies, generally newly created, are in a phase of development and research for markets", according to a commonly cited world-wide-web page Wikipedia. Also the companies are generally viewed to promise a high growth potential in a short period of time.

## **2.2 Definition of business plan**

Business plan is an essential business document both for start-up businesses and for existing ones. It provides a detailed description with regard to all key business functions and shows how the venture will be successful, both operationally and strategically. (Lominé & Edmunds 2007, 17.) A key factor in the success of many small businesses has been the existence of a formal, well-thought-out business plan (Duoba & Gada 2003, 130).

Reuvid (2007) and Stutely (2002) describe that the purpose of the business plan is to set out the strategy and action plan for the next specific future period. Authors Lee-Ross & Lashley (2009, 212) discuss that it is above all else a working document designed to assist the team to plan with sense and realism, and through which to monitor performance against desired objectives. Also regular use of the document and comparing performance against predicted performance is an essential feature of how the document should be used. It is essentially a tactical account of the business and the issues that need to be managed for it to meet the business commitment to customer satisfaction, sales and profitability growth and continued success in the community where it is located. (Lee-Ross & Lashley 2009, 211.)

Aside from the fact that it is a valuable management tool from an internal viewpoint of the company, it is also the main financing tool for the company from an external point of view as Schwetje & Vaseghi (2007, 4) put it. It is definitely one of the key functions of a business plan. For any kinds of loans or investments to establish, manage, expand or grow one's business, it is unquestionably preferable to start out with a proper business plan. "...the business plan is essentially a sales document that will be used to convince the potential lenders or investors to engage with the business" (Butler 2006, 18).

It is successful if one succeeds in conveying to the reader the most significant opportunities and growth capacities of the company realistically, according to Schwetje & Vaseghi (2007, 1).

On the contents of the business plan, Butler (2006, 218) suggests it should clearly state the nature of the business, its **feasibility** within the market place, the necessary resources required for start-up, its revenue, cash flow and profit forecasts, as well as identification of the key personnel and the respective roles, and show the way in which it will be managed and organized.

The process of producing a business plan acts as a very efficient method of focusing the ideas of potential entrepreneurs, in terms of defining their objectives and assessing their own abilities to organize and run the business. It also acts as a means of testing the viability of the business proposal before actually committing its proposers to any substantial expenditure or investment. (Butler 2006, 17.) Authors Schwetje & Vaseghi (2007) suggest that another approach to create a business plan is to draw up a “business plan project”, which usually is structured into five phases:

- Data collection
- Data analysis
- Design of the business plan
- Drawing up of the business plan
- Presentation of the business plan

How many details should the business plan contain? The answer to this question will very much depend on the type of business for which the plan is being prepared. (Butler 2006, 24.) A short business plan is usually about 10 to 15 pages long. It is most suitable for young companies at an early stage of their development, when there still does not exist complex interrelations. (Schwetje & Vaseghi 2007, 4.)

### **2.3 Feasibility analysis**

A feasibility study is an in-depth preliminary study meant to help to decide whether a proposed project should go forward or not (Lominé & Edmunds 2007, 75). In a business or entrepreneurial sense, a feasibility study or analysis may be understood as an investigation into something which is capable (or not) of being successful, such as the initia-

tion and continuation of a new business venture based on a creative or novel idea (Lee-Ross & Lashley 2009, 121).

Authors Lee-Ross and Lashley (2009) have a view that this can be framed in a number of ways but answers key questions such as:

- Is there a market for the considered service or business idea?
- Are there adequate sources of start-up and continuing funds?
- Does the entrepreneur have the skills or the means to deliver this service?

Thus, the feasibility analyses should be comprehensive but appropriate to the new venture focusing on areas of:

- personal characteristics of the entrepreneur
- nature of the competition
- availability of start-up and continuing finances including rate of return and breaking even
- demographic information

Feasibility analyses information can be obtained from a variety of sources including what has already been published, and also by process of primary data collection (Lee-Ross & Lashley 2009, 142).

### **2.3.1 Business concept and industry analysis**

Every company emerges from a business idea; but a promising idea must be more than just a wish to sell products or services (Schwetje & Vaseghi 2007, 29). According to LaPan & Franks (2005, 101), values are the essence of a company's philosophy for achieving success. Values are defined as "a principle standard or quality inherently worthwhile or desirable". Organizations' values are often conveyed in their vision and mission statements.

Chambers (2008, 10) defines that mission statement is a brief but motivational prose description of the organization's purpose for being. It should be short enough to memorize and long enough to inspire and inform any person who wishes to know why the organization exists and whom it serves. According to Schwetje & Vaseghi (2007, 34) the vision delivers the "subject" of an enterprise. A vision describes the future picture of

an enterprise, and when formulated clearly and simply, it encourages the creativity of people involved.

Business concept defines whether the company is delivering service or a product, to which target demographic, and what unique selling proposition it creates that would put the company in advantageous position over other players in the market. Setting a clear business concept is important to further analyse the viability of the idea. It also defines which industry it will be operating in.

Industry analysis involves reviewing the economic, political and market factors that influence the way the industry develops. Major factors can include the power wielded by suppliers and buyers, the condition of competitors, and the likelihood of new market entrants. (Business Dictionary)

Michael Porter's Five Forces Analysis is a popular method available for analysis approaches, according to Lee-Ross & Lashley (2009, 131). The primary purpose of the Five Forces Analysis is to determine the attractiveness of an industry. However, the analysis also provides a starting point for formulating strategy and understanding the competitive landscape in which a company operates. The framework for the Five Forces Analysis consists of the following competitive forces (MaRS Library 2014):

- Industry rivalry (degree of competition among existing firms) - intense competition leads to reduced profit potential for companies in the same industry
- Threat of substitutes (products or services) - availability of substitute products will limit one's ability to raise prices
- Bargaining power of buyers - powerful buyers have a significant impact on prices
- Bargaining power of suppliers - powerful suppliers can demand premium prices and limit the profit
- Barriers to entry (threat of new entrants) - act as a deterrent against new competitors

Another method to identify industry attractiveness is Barringer & Ireland's (2006, 61) 'must' list. It must be following to be considered as attractive (Lee-Ross & Lashley 2009, 131):

- Must be large and growing and important to customers, that is ‘must’ have rather than ‘would like’
- Must not be ‘mature’ where product is tired and price competition is intense
- Must have high operating margins
- Must not be crowded as crowding gives rise to fierce price competition and low margins

### 2.3.2 Market analysis

The market is not a virtual term, but a real force field of individual customers who want to purchase products and primarily fulfill their needs and wishes. The so-called relevant market consists of the target groups which are addressed by one’s products and services. (Schwetje & Vaseghi 2007, 65.)

Market analysis builds on customer and competitor analyses to make some strategic judgments about a market and its dynamics. One of the primary objectives of a market analysis is to determine the attractiveness of a market to current potential participants.

The nature and content of an analysis of a market will depend on context, but will often include following dimensions (Aaker & McLoughlin 2009, 61):

- actual and potential market size
- market growth
- market profitability
- cost structure
- distribution systems
- trends and developments
- key success factors

The market size is defined through the market volume and the market potential. The market volume exhibits the totality of all realized sales volume of a special market. A simple means of forecasting the market growth rate is to extrapolate historical data into the future. A better method is to study market trends and sales growth in complementary products. While different organizations in a market will have different levels of profitability, they are all similar to different market conditions. Michael Porter’s Five Forces Analysis framework identifies the five factors that influence market profitability.

Porter’s value chain model is useful for determining where value is added and for isolating the costs.

Examining the following aspects of the distribution system may help with a market analysis:

- Existing distribution channels - can be described by how direct they are to the customer.
- Trends and emerging channels - new channels can offer the opportunity to develop a competitive advantage.
- Channel power structure - for example, in the case of a product having little brand equity, retailers have negotiating power over manufacturers and can capture more margin.

The key success factors are those elements that are necessary in order for the firm to achieve its marketing objectives. A few examples of such factors include:

- Access to essential unique resources
- Ability to achieve economies of scale
- Access to distribution channels
- Technological progress

It is important to consider that key success factors may change over time, especially as the product progresses through its life cycle. Market trends are the upward or downward movement of a market, during a period of time. (Aaker & McLoughlin 2009.)

According to Schwetje & Vaseghi (2007, 69), market growth is considerably influenced by trends and fashion, which can be social demographical, economical, technological, as well as environmental. These trends can seriously affect the sales development of products as well as the customer's consumer habits. In tourism management, trends are about the future of tourism; they result from the combination of pressures on the industry as well as changes in the population (Lominé & Edmunds 2007, 197).

### **2.3.3 Customer analysis**

The focus of understanding markets is the understanding of customers and buyer behaviour (Graham and Zehle 2004, 100). An important element of market feasibility is successfully identifying a niche for the entrepreneur's product (Lee-Ross & Lashley 2009, 136). No longer do we see the markets as monolithic, homogeneous mass markets. Instead we divide the potential market into segments, or groups, who share similar characteristics. (Swarbrooke et al. 2007, 160.) Segmentation can be based on a number of differing factors including customer needs, location, potential contribution or profit, age,

sex, or social status, buying habits, or simple points of common interest (Butler 2006, 80). Small [hospitality] business often begins by selling to niche markets before broadening their horizons. The key is to identify a segment that is large enough to enable entrepreneurial success without invoking direct competition. (Lee-Ross & Lashley 2009, 136.)

### **2.3.4 Competitor analysis**

Competition refers to the act of competing, with the aim of being better than the opposition; in business and economics, competition usually aims to secure maximum revenue through maximum sales (Lominé & Edmunds 2007, 28). Analysing competitor information will help the new entrant avoid jumping into unfavourable business environment without a thoroughly laid strategic plan.

According to Graham and Zehle (2004, 60), the elements of a competitor analysis are:

- current strategy or positioning
- strengths; weaknesses; opportunities; threats
- possible changes in strategy
- reaction to changes in one's business strategy
- financial strength
- operational strength

And an important output of the competitor analysis should be a SWOT analysis of the main competitors. Authors Schwetje & Vaseghi (2007, 70) suggest that entrepreneurs should realize how large the market share of their competitors is and understand the strategic advantages by which they have obtained their market shares. In particular, one should identify who has priority in determining the key market rules (product leader, price leader, market size etc.). Furthermore, entrepreneurs must assess in the same way whether new competitors could penetrate the markets and thus influence market behaviour.

### **2.3.5 Business environment analysis**

Butler (2006) discuss that it is relatively easy to identify the factors which will impact on the viability of a business from within the business itself (staff, management skills, available finance, etc.) and from the market (demand for goods and services, competi-

tion, etc.), but broader influences regarding economics, politics, and current affairs are harder to have a focus on for owner-managers. PESTLE analysis is one of the most widely used methods of analysing these factors, which categorizes it under six main headings: political, economic, social, technological, legislative, and environmental. Business internal influence factors can be scaled in a SWOT analysis. SWOT analysis is a simple framework that helps systematically map the strengths, weaknesses, opportunities and threats of an organization. It is a balanced tool because (Lominé & Edmunds 2007, 180):

- It covers the present (SW) but is also oriented towards the future (OT).
- It includes both positive aspects (SO) and negative ones (WT).
- It takes not only the internal factors into account (SW) but also external ones (OT).

### **2.3.6 Financial analysis**

An important stage of the feasibility analysis concerns finances. A detailed analysis is not usually required here as one simply wants to gain an impression of whether the idea is likely to be a success or not. Therefore, it is wholly appropriate not to get bogged down in minutiae and financial forecasting but rather, focus on the main areas of (Lee-Ross & Lashley 2009, 137):

- capital requirements
- rate of return
- breaking even and other positive aspects associated with the business

...a capital requirement simply means how much money (capital) will the business need to start up and from where it will come? An exact amount is not necessary for a feasibility analysis but the estimate should be realistic and account for all likely financial requirements. A full discussion on raising capital is not appropriate here but some sources include: personal savings/assets; loans from family, friends, banks or similar institutions; business ‘angels’ and venture capitalists. (Lee-Ross & Lashley 2009, 137.)

A break-even analysis is a commonly used method that focuses on the volume of sales at which total revenues will equal total costs. At the point where enough units have been

sold to cover all fixed and variable costs, break-even is achieved. (Duoba & Gada 2003, 122.) Oxford British online dictionary defines rate of return as: “The annual income from an investment expressed as a proportion (usually a percentage) of the original investment.”

Barringer & Ireland draw attention to other issues related to financial feasibility (Lee-Ross & Lashley 2009, 139):

- steady and rapid sales growth during the initial five years in a defined market segment or niche
- high percentage of repeat business
- ability to forecast income and expenditure
- internally generated funds to finance and sustain growth
- availability of an exit opportunity for investors to convert equity into cash (an acquisition or initial public offering)

### 3 FEASIBILITY STUDY FOR A START-UP ENTERPRISE

The feasibility study was mainly based on the data collected from the customer satisfaction survey. The respondents were selected randomly, and viewed as potential customers for the proposed start-up enterprise. The collected primary data consists of quantitative part of customers' backgrounds and facts of travel, and qualitative part of their individual opinions and suggestions on certain issues of their travels.

To ensure the analysis reliability and draw up assumptions as accurate as possible on the qualitative parts, data analysis was approached with coding in three phases, presented by Strauss and Corbin, in Neergaard & Ulhoi (2006, 137):

- *Open coding* comprises finding and naming categories and discovering their properties and dimensions. As many categories as possible are generated as this phase of the analysis is open to whatever is going on in the data.
- *Axial coding*, categories are related to their subcategories by coding around the axis of a single category at a time, linking categories at the level of dimensions and properties.
- *Selective coding* comprises coding systematically for those core categories that best hold categories together as a coherent framework.

The feasibility study objectives were to answer the following questions in a realistic manner:

- What is the business proposing to deliver to customers?
- What is the current situation of the industry? Is it attractive to a new entrant?
- Is there a market for the considered service?
- What is the current market competition situation? What are the possible influences on the new entrant?
- What are the external factors that would influence the business success?
- What are the financial requirements for the proposed start-up establishment and operations? How is finance going to be acquired, from what source?
- How is the identification of business break-even point and rate of return done?

Thus, the study is structured in six chapters according to the questions it was aiming to answer. At first, the business concept and start-up company's targeted mission state-

ment and vision are introduced, with an overview and analysis of the industry which it will be operating in. Second chapter analyses the market in terms of size, growth, profitability, cost structure, distribution systems, trends and developments, and key success factors. In third chapter, the customers' buyer behaviour is analysed, target customers are defined, and market segmentation is applied. In fourth chapter, direct and indirect competitors are identified and analysed, along with SWOT analysis on main competitors. The external factors that influence the business is analysed by PESTLE approach in chapter five, also including internal factors in SWOT analysis. Sixth chapter identifies the estimate of financial requirements for establishing and running a proposed start-up enterprise through its first two years, and it identifies the possible break-even point, and rate of return on investment.

The complete feasibility analysis paper will further facilitate the detailed business plan which consists of the following plans:

- Management plan
- Operations plan
- Marketing plan
- Financial plan

### **3.1 Business concept and industry analysis**

The start-up company aims to provide a snorkeling gear rental service for leisure travelers visiting Khatgal village in Lake Khuvsgul, located in Khuvsgul province in Mongolia.

Snorkeling is not yet introduced to Mongolian travellers as a recreational activity. Currently there are only a handful of people who practice snorkeling and scuba diving consisting of swimming instructors and coaches who belong to Mongolian Professional Water Sports Federation. Their purpose of diving and snorkeling are limited to research and study (Mongolian Professional Water Sports Federation). Upon successful realization, the start-up enterprise will become the first in the industry to provide snorkeling gear rental service and make snorkeling available for public as a recreational activity. The service blueprint is formulated and presented to give the readers an idea of what the company will be providing (see figure 1).

The mission of the proposed start-up enterprise is: The company aims to deliver quality services to fulfill the needs of travellers who wish to explore more of the beauty of the lake Khuvsgul. The vision of the company is fulfilling the needs of passionate travelers who enjoy exploring the beauty of Mongolia by developing and delivering quality tourism experiences.

### Service blueprint:

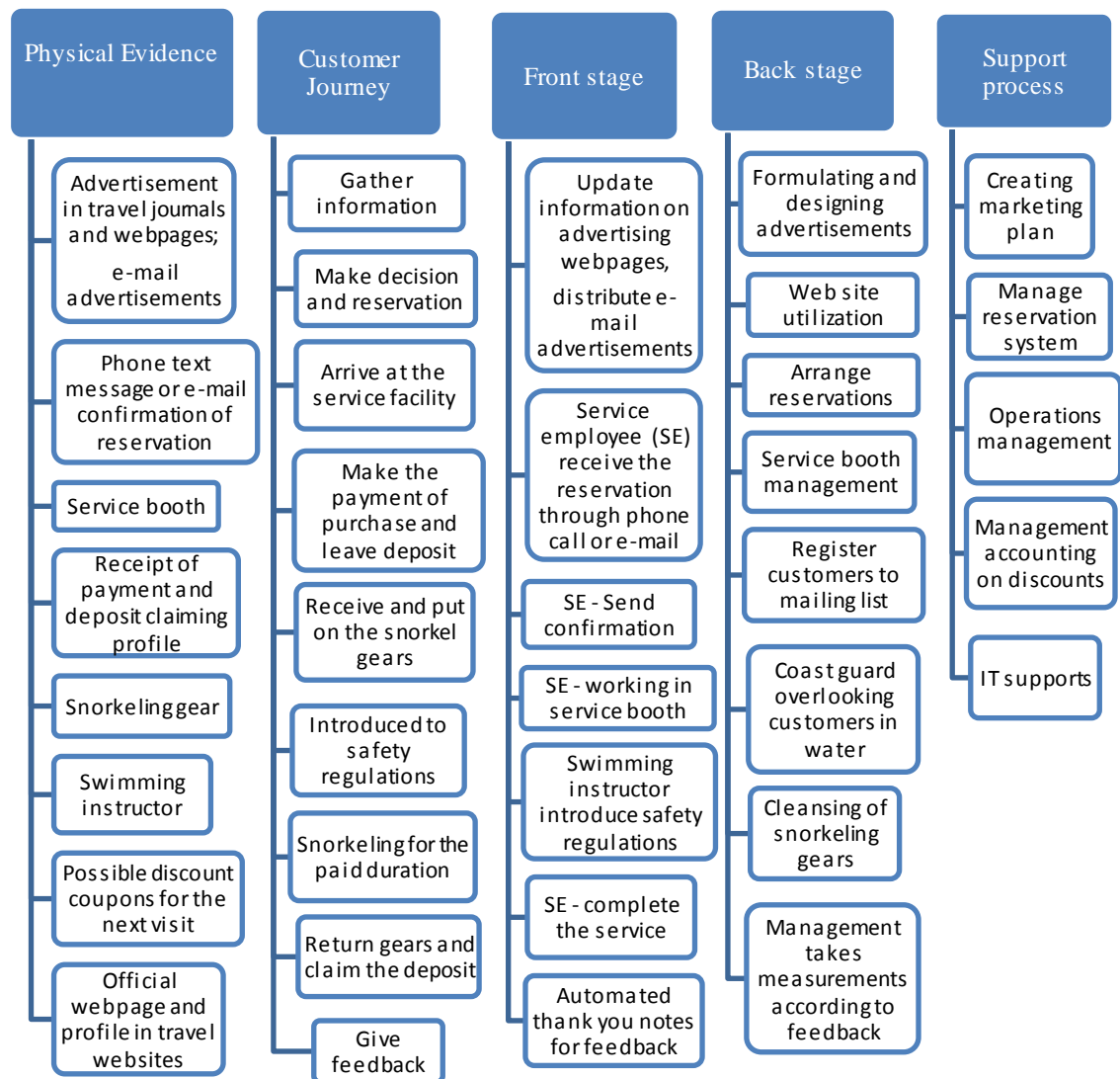


FIGURE 1. Service blueprint

According to Lominé & Edmunds (2007, 113), it is questionable to identify the operating industry of the case company easily, as they suggest the conceptual relationship of leisure and tourism is a complex one: in some cases, tourism is regarded as part of leisure (travelling being one leisure activity amongst others), in other cases leisure is regarded as part of tourism (recreational activities at a holiday destination). But according

to Swarbrooke, Beard, Leckie and Pomfret (2007), snorkeling is considered as a soft adventure tourism product.

In almost all varieties of adventure tourism the destination is the core of the experience, giving a unique flavor to the experience. These destinations provide the key attraction that motivates the tourist to take a trip in the first place. (Swarbrooke et al. 2007, 122)

Lake Khuvsgul is a highly seasonal lake destination as in winter it is covered by ice, which melts completely around June every year. Tourism and recreation are commonly secondary activities at lakes and reservoirs where the primary use is water supply, flood mitigation or power supply (Pitts & Anderson 1985). They are therefore subject to both stringent management controls and activity restrictions to ensure that tourism and recreation is compatible with the primary use of the water body (Cooper 2006, 32).

There are no specific data on tourism activities of Lake Khuvsgul area particularly, but an overview of Mongolian tourism industry is researched and published by few organizations. One of them is World Travel and Tourism Council (WTTC). According to its report of year 2014, there are some key facts worth mentioning:

- The **direct contribution** of Travel & Tourism to **GDP** was ₮ 423.8bn (2.5% of total GDP) in 2013, and is forecast to rise by 5.2% in 2014, and to **rise by 6.3%** pa, from 2014-2024, to ₮ 820.0bn in 2024.
- In 2013 Travel & Tourism directly **supported 26,500 jobs** (2.1% of total employment). This is expected to fall by 3.4% in 2014 and **rise by 2.1%** pa to 31,000 jobs in 2024.
- Travel & Tourism **investment** in 2013 was ₮ 1,058.8bn, or 11.0% of total investments. It should rise by 7.8% in 2014, and **rise by 7.3%** pa over the next ten years to ₮ 2,302.5bn in 2024.
- **Leisure** travel spending (inbound and **domestic**) generated **83.0%** of direct Travel & Tourism GDP in 2013 (₮ 763.7bn) compared with 17.0% for business travel spending (₮ 156.4bn).
- **Leisure** travel spending is **expected to grow by 3.0%** in 2014 to ₮ 786.7bn, and **rise by 5.7%** pa to ₮ 1,375.2bn in 2024.
- Domestic travel spending generated 37.6% of direct Travel & Tourism GDP in 2013 compared with 62.4% for visitor exports (i.e. foreign visitor spending or international tourism receipts).

Based on these facts the industry cannot yet be considered as attractive according to Barringer & Ireland's must list as it requires that the industry must be large and has high operating margins to begin with. But reading the facts in general, one can read and conclude that:

- the industry is growing and will steadily continue so in the coming years
- the positive forecast of investments indicate potential favorable conditions to new businesses, or development of existing ones
- the industry is not mature, the product is not tired so the price competition is not intense
- not crowded, means no rise of price competition that cause low margins

### **3.2 Market analysis**

Butler (2006, 77) points out that there is usually plenty of research data and findings about specific markets, available at international level and national level, through trade journals and associations, economic reports and analyses, national and regional statistics, etc. However, in local level and in smaller, more specialized markets it is much harder to find the necessary direct information, and even at regional level the information may be aggregated with that of other markets within economic development reports, rendering it too general to be of much use to a new small firm. This point was applicable in the case study.

The actual and potential size of the Khuvsgul lake tourism market is hard to be identified without an official data to base, or any publishing of previous studies conducted in the field. A rough estimate can be drawn from the writer's knowledge of the area. Basic calculation can be done based on the facts of the customer satisfaction survey conducting process: the writer covered most of the food and accommodation providers that operate in the Khatgal village, and surrounding in range of about 20 kilometres, in three days of duration interviewing total of 420 people, meaning  $420/3=140$  persons a day. The interview was done in the beginning of August which is considered as a normal season by the local business owners. The tourism season in Lake Khuvsgul starts from June and lasts until the middle of September, meaning approximately 140700 persons have visited Lake Khuvsgul in Khatgal village side throughout summer of 2014. The month of June is considered as a low season and middle of July is the peak season, which are not taken into consideration when calculating.

By reviewing the most chosen accommodation type of the participants, nature of the travelling group, and planned activities on site, a regular customer profile can be developed and an estimate of average spending amount (per person) can be derived based on the profile.

The customer is middle aged, traveling with the *family* and staying at a *ger* (traditional tent housing) *accommodation* for 2 days, planning to ride ferry and motor boat in the destination. Mongolian families have average of 3 children in cases of middle aged couple. This travel group usually stay in 3 bed gers, with availability ranging from ₮ 25'000 to 45'000 and higher. Ferry ride is ₮ 25'000 for adult and ₮ 15'000 for children, and motor boat ride to commonly visited attractions is ₮ 100'000 for the group. Based on these estimations, the average amount of spending per person, per day can be calculated as:  $(₮35'000 + (₮25'000*2+₮15'000*3) + ₮100'000)/5 = ₮46'000$  (€21,7) Multiplying this figure to total amount of visitors make the estimation of overall tourism spending in the market, that is  $₮46'000*140700$  persons= **₮6'472'200'000** (€3'059'418,55) If the assumed food costs of ₮ 5'000 per person, a day is added to the regular customer profile, the total figure turns out to be **₮7'175'700'000** (€3'391'964,07), which makes 1,67% of Travel and Tourism total contributions to GDP. As the reader is aware, this calculation is roughly an estimate of a big picture of the market and is lacking in many terms.

Judging by the increase in numbers of food and accommodation providers (perceived by the writer), the market is growing as lake Khuvsgul becomes more popular among domestic tourists. Some of the influencing factors can be the development of infrastructure, decrease in unemployment rate, and current trends in travel.

Current trends influencing the industry are sustainable (eco) tourism activities, green development of operations, and encouragement of domestic tourism. In case of the proposed start-up and other similar entrants to the market, there are no key success factors necessary in order to achieve the marketing objectives.

The International Ecotourism Society defines ecotourism as 'responsible travel to natural areas that conserves the environment and improves the well-being of local people' (Lominé & Edmunds 2007, 60). Mongolian government policies regarding the tourism industry development had been generally aimed to ecotourism practices, since the coun-

try's tourism industry opened up to foreigners at a time when the world population had already realized the negative impacts of mass tourism and was acknowledging the importance of sustainable development.

In this way, the green solutions which minimize the tourism activity prints on nature are awarded and publicized. According to this and industry seasonality, a typical tourism enterprise is a food and ger accommodation in popular and accessible natural reserves or parks, which is narrowing the public view of tourism industry and markets.

Domestic tourism refers to tourists travelling within their own country. Contrary to a common misconception, domestic tourism is by far the main part of tourism. It is very difficult to access precisely the exact size of domestic tourism because there is no reliable system to keep track of flows of tourists domestically. (Lominé & Edmunds 2007, 56.) The domestic tourism is currently a trend in Mongolia influenced by economic factors such as local currency depression, economic recession, and increase of foreign investments and number of expatriates invoking the nationalism among the population etc., and other factors such as infrastructure development, increasing the internet usage that is making information sharing and travel planning easier.

It is possible to plan the proposed start-up enterprise management and operations in compliance with the current trends of the market.

The market is analysed to be following, according to Porter's Five Forces analysis model:

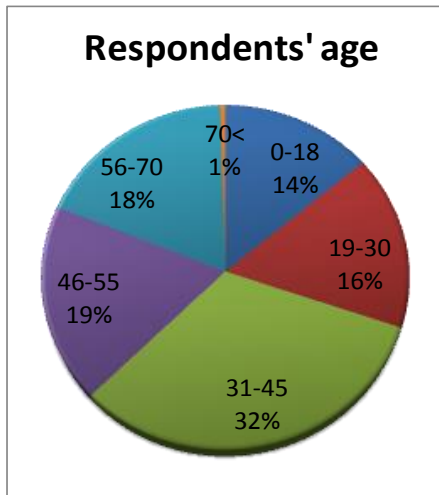
- Market rivalry - is not high in terms of service providers, as there are only two paid attractions utilizing the lake, therefore the profit potential is high.
- Threat of substitutes – existent in motor boat riding service, as individuals mainly operate, and non-existent in terms of the ferry ride; Also non-existent for the proposed start-up enterprise service.
- Bargaining power of buyers – is quite low and only practiced in motor boat riding service on low seasons; it might be applicable for tourism operators reserving service for big groups in case of the proposed start-up enterprise service, but hard to identify at this phase of the plan.
- Bargaining power of suppliers – it is quite composed in the terms of local government regulations on electrical power tariff, water usage fees, waste manage-

ment fees, and taxation, but is high in gasoline suppliers throughout the country. Sudden rise of gasoline price can directly influence the profit of small enterprises.

- Barriers to entry – is not high in this market in terms of small and medium-sized enterprises. General capital requirement is considerably low compared with other industries. Therefore, a possibility of business duplication is high.

### 3.3 Customer analysis

Data collected through the customer satisfaction survey had identified the general background information of tourists who visited the Khatgal village area on lake Khusvgul.

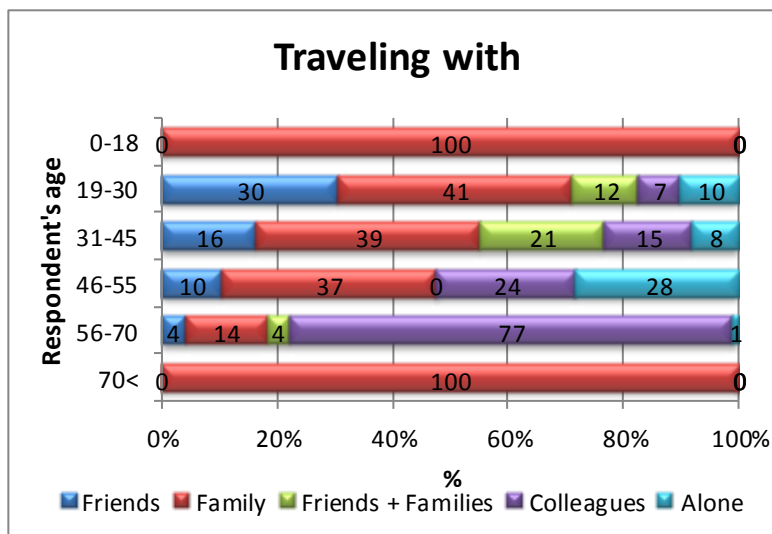


Respondents' gender proportion was nearly equal, as 57% were female and 43% male, of total 420 respondents. Overall 81 people (20%) were international tourists, and 339 people (80%) were from Mongolia. More than half of the visitors (53%) were particularly from the capital city Ulaanbaatar (UB).

Figure 2 - presents the age proportion of the respondents, and the average age of the respondents visiting the lake area was 31-45 years old.

FIGURE 2. Respondents' age

The travel groups were categorized into: family, friends, combination of friends who were traveling with their families (friends + families), colleagues, and alone travellers.



People were traveling with their families dominantly (43%), followed by colleagues (25%), friends (13%), mix of friends and family groups, and 42 respondents (10%) were travelling alone.

FIGURE 3. Age categories cross tabulated with traveling groups

On travel arrangements, 64% have planned on their own travel, 16% have received help from second party and was participating organized tours, and 20% of the respondent's organization had prearranged the travel on their behalf. On transportation method, 50% of the respondents used their private car to get to the lake, and 29% used private vans, 18% took a flight to Murun (capital of Khuvsgul province, 1 hour drive from Khatgal), and only 2% had used scheduled line bus/van services.

Average duration of travellers' overall journey lasts from 8-14 days (32%), and average duration of overall stay in the lake area is 2-5 days (1-3 days 52%, 4-7 days 45%).

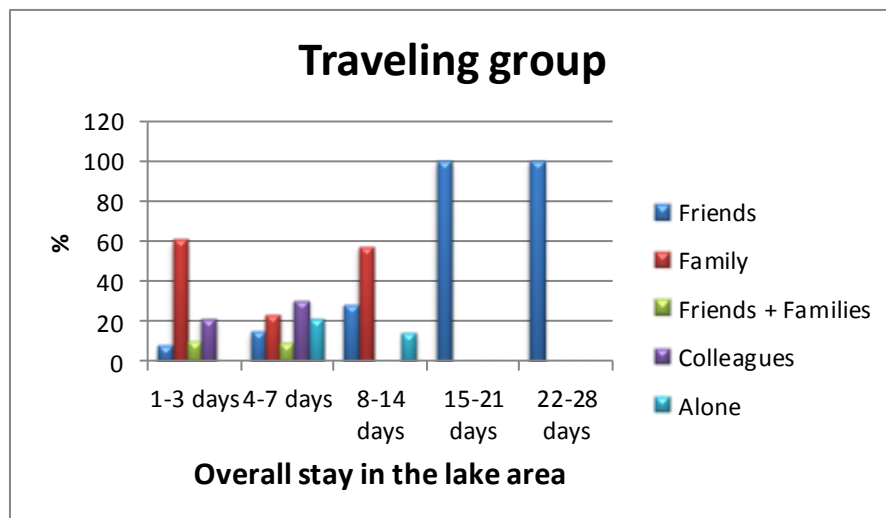


FIGURE 4. Overall stay in the lake area in travel groups

People who stayed in the lake area for 1-3 days were mostly family groups, and people who were traveling alone seemed to stay for longer durations. Friends' groups appeared to be the longest staying travellers in the lake area.

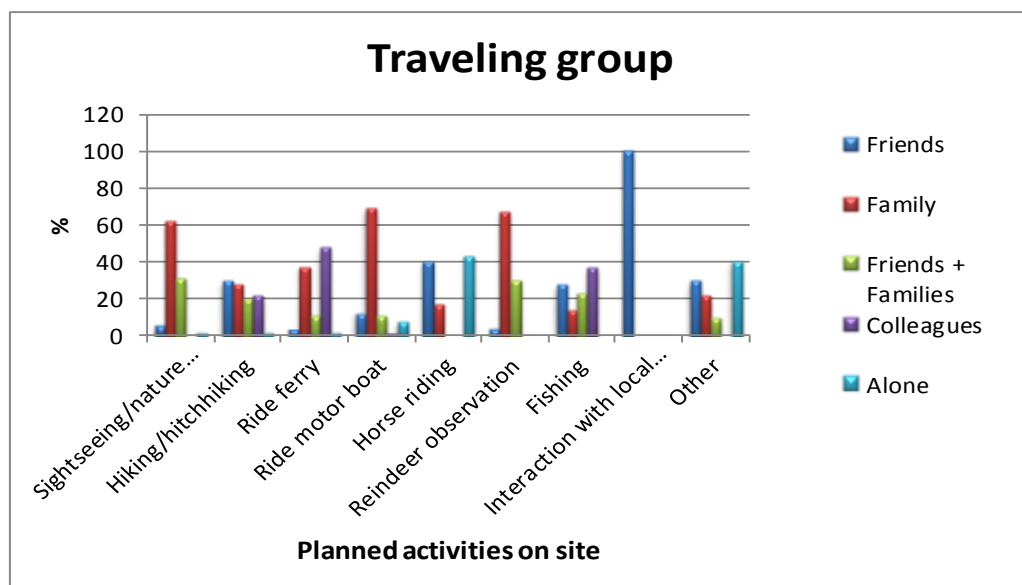


FIGURE 5. Traveling group interests on different activities

As shown on figure 5, sightseeing and nature observation activities were practiced mostly by people who were traveling with their families, followed by people who were traveling with friends + families group.

Hiking appeared to be attractive to all of the groups.

The colleague traveling groups were the ones who most purchased the ferry experience, then families, and bigger friends + families groups.

Horse riding seemed mostly appealing to people who were either traveling alone or with friends, and lastly the families.

Reindeer observation seemed to be an attractive activity to people who were traveling with their families, and friends + families.

Fishing was practiced by all the travel groups, except people who were travelling alone.

By analysing the facts, possible potential customers who are interested in soft adventure tourism activities such as horse riding, ferry riding, and motor boat riding, seems to travel in groups of families, colleagues, and friends, or alone, except for ferry experience in big group of friends + families.

### 3.4 Competitor analysis

Specific question in the customer satisfaction survey has made it possible to identify what are the target activities that tourists plan to undertake in the destination, and which ones are most attractive.

TABLE 1. Planned activities of tourists

Planned activities on site	<i>Freq.</i>	<i>%</i>
Sightseeing/nature observation	55	13
Hiking/hitchhiking	51	12
Ride ferry	219	52
Ride motor boat	217	52
Horse riding	35	8
Reindeer observation	27	6
Fishing	22	5
Interaction with local culture/people	3	1
Other	98	23
Total	727	173
N:	420	

Other activities not listed in table 1 were handicraft shopping, swimming, cycling, kayaking, walking, and teaching English language (etc.,) in small numbers, and sixty (60) people answered that participating in a marathon running competition was their main purpose of visiting the destination.

Mongolia Sunrise to Sunset is an ultra-marathon annually held from 1999. The marathon takes place in July or August (<http://www.ms2s.org/>), and it aims to support ecologic preservation of the lake Khuvsgul national park by donating part of the raised fund from the marathon, which attracts about 60-80 international travellers around the world. Participants must make reservation through the event provider prior the time of event. As its characteristic does not present threat to the proposed business profitability, this event can be seen as a positive influence. The event organizers also provide customized arrangements such as horse riding, visit to local herder families, reindeer observations, kayaking and so on. The proposed start-up has a possibility to offer its service to the event organizers and participants, and build partnership furthermore.

Among the tourism activities on table 1, three following particular activities are paid and they offer soft adventure tourism experience, and these are horse riding, Sukhbaatar ferry ride, and motor boat rides. Having no information on sales revenue of these activities collected, and not provided any official data or figure regarding the market itself, it is impossible to calculate their market share neither in terms of unit, nor in revenue. Only regarding data available are the customer satisfaction survey answers, collected by the author in summer of 2014, and these answers to a particular question are presented in table 1. It describes that the competition between the ferry and motor boats are at high level, as the service characteristics are substitutable by each of them, and horse riding is not appealing to large number of visitors. More details of these activities are presented below.

Horse riding can range in length of 0,5 – 20 kilometres, continuing from 5-360 minutes, with negotiable price depending on group size and distance of travel, from ₮ 2'000 – 15'000. Its strengths are cheap pricing and an alternative transportation option to a car ride, and weakness is its limited availability. Local people who mainly provide this service do not have proper education and training in sales or other subjects of business. In addition, it is mostly appealing to foreign tourists, not quite much to the domestic tour-

ists, as rural Mongolians still generally use horse for transportation purpose; therefore it lacks the image of a recreational activity.

Ferry “Sukhbaatar” is managed by the subsidiary company of one of the leading corporations in Mongolia, since 2007. It is the symbol of the destination, and one and only ship that sail in Mongolian waters. The ferry has a capacity of up to 150 people, and it travels total of 18 kilometres into the lake, providing on-board information guidance for free, and snack available for purchase. Seats and standing positions are available. The duration of the travel is 105+-5 minutes, with a set fare of adult ₮ 25’000, child ₮ 15’000 as of 2014 summer.

TABLE 2. SWOT analysis of competitor “Sukhbaatar” ferry

<b>Strengths</b>	<b>Weaknesses</b>
<ul style="list-style-type: none"> <li>• Rich history of operation</li> <li>• One of its kind</li> <li>• Guide on-board</li> <li>• Good marketing that reaches broad customer base</li> <li>• Traveller is free to explore the ship when on board</li> <li>• Operates regardless the weather condition</li> </ul>	<ul style="list-style-type: none"> <li>• Visual appearance deteriorated over the decades of usage</li> <li>• Safety is not up to modern standards</li> <li>• High risk of technical problems occurrence</li> <li>• Environmentally not friendly</li> <li>• No life insurance available for customers</li> </ul>
<b>Opportunities</b>	<b>Threats</b>
<ul style="list-style-type: none"> <li>• Possibility of longer course travels into the lake (new destination)</li> <li>• Steady increase of profit through successful marketing and smooth operations</li> </ul>	<ul style="list-style-type: none"> <li>• Breakdown of engines or other parts cause to halt the operations</li> <li>• Possibility of complete overtake upon new cruise ship arrival</li> </ul>

Small and medium motor boats are operated by local residents, consisting of men mostly. Carrying capacity of the motor boats ranges from 6 to 18 people including the pilot. Commonly they make ranged length courses into the lake, covering specific two to three attractions. Duration of travel is mainly 120-150 minutes; prices are negotiable

depending on group size and distance of travel, but commonly range from ₹ 18'000 – 25'000 per person, as of 2014 summer.

TABLE 3. SWOT analysis of competitor motor boats

<b>Strengths</b>	<b>Weaknesses</b>
<ul style="list-style-type: none"> <li>• Fast travel that boosts adrenaline</li> <li>• Driver's tricks for entertainment</li> <li>• Possible guidance by the driver</li> <li>• Ability to negotiate with the next supplier, i.e. reindeer observation</li> <li>• Life vest for every traveller</li> </ul>	<ul style="list-style-type: none"> <li>• Travellers must remain seated and be alert during travel</li> <li>• No WC facility on target attractions (island or natural scape)</li> <li>• High price on lengthy travels</li> <li>• Limited availability of docks</li> <li>• Open deck not preferred in rainy days</li> </ul>
<b>Opportunities</b>	<b>Threats</b>
<ul style="list-style-type: none"> <li>• Possible decrease of gasoline (oil) price directly increases the profit margin</li> </ul>	<ul style="list-style-type: none"> <li>• Possible increase of gasoline (oil) price directly decreases the profit margin</li> <li>• New entrant barrier is low</li> </ul>

From the review of direct competitors and their SWOT analysis, one can see that these services are not readily substitutable to the proposed start-up company services, as the service characteristics differ widely. For example, the proposed service asks for active involvement of customers, and has limited ability to people of young and old ages. Although, it increases the selection of the services in the destination, and people still can choose two out of three available services, therefore competition still exists to a moderate level.

Overall, the market competition is not fierce, possibly favourable to a new entrant proposing to provide a different service. To compete successfully, the proposed start-up must strategically take the competitors' pricing into consideration, for instance.

### 3.5 Business environment analysis

External broad factors that influence the business success are approached by PESTLE analysis.

**Political:** Mongolian political system is Parliamentary republic. President is elected for four years. Prime Minister is appointed by State Great Khural for four years. Legislatures are also issued by State Great Khural (Parliament), unicameral with 76 members elected for four years, thus parties holding majority seats may influence the trade legislatures. But all parties root for tourism industry development. VAT and other taxes are fixed. Government encourages the SMEs with low interest loans but do not free them from taxes.

**Economic:** Mongolia has world's one of the fastest growing economy due to its recent mining minerals exploitation international projects, and is experiencing two digit inflation rates (12%) as of 2014. Mongolian national currency "Tugrug" is further losing its power against \$USD, and now it is revoking the public rage and current government is blamed. This fact is favorably influencing the domestic tourism, as outbound tourism prices increase, people choose domestic travel destinations over foreign ones. Also the market is getting more accessible for international tourists and investors as well. Due to lack of investment on infrastructure and its poor development, there are only a few tourism destinations that have easy access.

**Social:** Currently, there is a social trend of supporting the national suppliers by choosing their services and products over imported ones. Due to current economic recession, government and key national giants are putting their voice together and inviting people to do so. This is positively affecting domestic travel, but in turn negatively affecting firms which have foreign ownership, management or in some cases an investment.

**Technological:** The number of cell phone users and internet subscribers is increasing steadily over the years. Currently the number of the cell phones (numbers) in use is exceeding the total population of the country by more than 500,000. Its reason is the use of multiple different numbers for private and work lines provided by different operators offering better deals. This is making the business and customer contact more easy and reliable day by day. In addition, the number of people who use internet in every hundred people was 25 in Mongolia by 2013, according to State Statistics Office news, and this figure is steadily increasing. The increasing use of internet simplifies many services especially in tourism industry, in terms of the operations of travel agencies and ticket sales, as well as overall customer service and reservation of products and services of

small and medium-sized enterprises. On the other hand, it is also making the marketing of small and medium-sized enterprises much easier and affordable.

**Legal:** Labor laws and legislations are quite stable, with no dominating labor unions in private sector. There are no set safety standards, rules and regulations for specific tourism activities regarding water sports, which can be both an advantage and an disadvantage.

**Environmental:** Mongolia is known by its pristine nature and admired culture of nomadic ways of living that practices perfect harmony with the environment. Based on the country's natural landscapes, culture and history, even considering the weather condition, its tourism industry is said to promise a huge growth potential.

### 3.6 Financial analysis

Prices and fees were investigated and described in ₮, and converted into euro to give the readers a better understanding. Conversion rate (€1 = ₮2115,83) is by Mongol Bank as of 01.05.2015. The figures presented are not final fixed amounts and subject to change over the business planning period. Expenditures regarding the management and employees, business operations including assets and monthly fees, facts regarding marketing, and break-even point calculation are presented in separate sub-chapters to get the total estimate of capital required for the first year of the business.

Variable costs are presented monthly and for duration of four months, which translates into first year's operation as the proposed business operations are limited to summer months only, in addition to September.

#### 3.6.1 Management and employees

To accurately estimate the expenditures on management and employees, one needs to understand the nature of these subjects first, and apply it to the case company.

The author is to work as an owner-manager of the start-up enterprise. Owner-managers can dedicate all their hours to work and be compensated for low amount of money, but it does not guarantee the success of an enterprise. Thus, owner-managers need a fair

compensation, possible benefits, and an evenly loaded work schedule that allows them to take care of their personal lives without neglecting. Family and friendship relationships can get into an unpleasant condition when neglected for long, and this requires more time and energy of the individual later on. In worst cases, unpleasant personal life issues can cause stress or depression to individuals that negatively influences their work efficiency.

The start-up enterprise aims to work with the smallest possible number of employees that allows it to operate smoothly. It is by no means to indicate that the management is unaware of that a scarcity of personnel affects the business as negatively as a surplus of personnel, according to Schwetje and Vaseghi (2007, 50).

Employees needed and tasks they are covering are mentioned on the Service Blueprint (see page 18). Overall job positions required are:

- The manager
- Service employee
- Swimming and safety instructor
- and a possible part time help during the peak season

Authors Schwetje & Vaseghi (2007, 44) suggest it could be advantageous for small and medium-sized enterprises to outsource services like financial and payroll accounting to tax accountants or common service providers. Founders should seriously consider outsourcing these types of services from the very beginning in order to concentrate on their core business activities.

Due to lack of operational history, the start-up enterprise aims to compensate the manager and potential employees with salary and benefits that is exemplary in the labor market of the country. Table 4 shows the exemplary salary amounts of the labor market as of 2014.

TABLE 4. Job positions and salary

<b>Job title</b>	<b>Exemplary monthly salary amount* in labor market</b>	<b>Working hours a day Working days a week</b>	<b>Total working hours Hourly wage</b>
Manager	800'000 ₮	8 hours a day 5 days a week	160 hours/month 5000 ₮/hour
Service employee	500'000 ₮	9 hours a day 5 days a week	180 hours/month 2315 ₮/hour
Swimming and safety instructor	800'000 ₮	9 hours a day 5 days a week	180 hours/month 5000 ₮/hour
Part time help		n/a	1300 ₮/hour

\*monetary amount before taxes and social insurance deduction

In case of the start-up enterprise, employee working hours must be very flexible. The proposed business depends on weather conditions, and is limited to operate only in clear days, as the main purpose of snorkeling is to see what is under the water, and shadows of dark clouds limit this opportunity. Therefore, employees get days off according to weather conditions, as the business will not operate on rainy days for example, but must work on all days when the weather is clear.

Since the working days are not fixed, calculating salary according to employees' performance hours is recommended to retain commitment, as the jobs would require their attendance even in weekends. Hourly wage allows employees to get the salary for the total hours they have worked, and benefits employers to measure the work amount allocated to its outcome.

The start-up enterprise is to be located in the remote holiday destination town by the lake Khuvsgul, so a cost efficient operating way is employing local people. The manager requires provision of accommodation and meals during the company operations throughout the operating summer months, so does the employees who are not residents of the local community.

Accommodation and meal plan was negotiated with the local service provider "Altargana" where the author had done her practical training for summer months of 2014. The price of accommodation including two meals a day is possible from ₮ 340'000/month.

Other costs regarding employees can be related to what they need. According to Morris (2008, 101), people need:

- training
- supervision
- the right tools and equipment, in the right place and in working order
- safety equipment and understanding of its use and importance
- understanding of their work and how it fits into the whole
- rest and refreshment
- secure storage for belongings
- understanding of the rules, why they exist and the penalties for infraction
- decent treatment

An estimate of monetary amount required for the first four months of operation regarding employees and management is shown in table 5.

TABLE 5. Overall amount required for employees and management

<b>Expenditure</b>	<b>Number of recipient</b>	<b>1 month</b>	<b>4 months</b>
Employee salary	4	₹ 2'165'000 <sup>1</sup>	₹ 8'660'000
Accommodation and meal plan	2 <sup>2</sup>	₹ 680'000	₹ 2'720'000
Leased accountant	1 (1 meeting a month)	₹ 300'000	₹ 1'200'000
<b>Total</b>		<b>₹ 3'145'000</b> € 1486,41	<b>₹ 12'580'000</b> € 5945,65

<sup>1</sup> when part time help is needed for 50 hours a month

<sup>2</sup> preferred number of accommodation and meal plan recipients

### 3.6.2 Operations

The operational structure covers the organization of the entire operational processes in a company. It can be defined as sequences of logically related activities or operational steps which are performed within a certain period of time. (Schwetje & Vaseghi 2007, 42.)

For smooth operation, the proposed business requires a service stall equipped with proper techniques and follow up the service standard in the destination. Most costs of

facilities and equipment are identifiable through world-wide-web search (see table 6), but monthly fees and expenditures are incalculable, caused by lack of business models for comparison (see table 7).

Influenced by religion practices, Mongolian people do not get into water body that much, thus lack knowledge of swimming in general. Snorkelling with wetsuit and gears are recommended for experienced swimmers, but not for those who cannot. This issue had been solved by an inflatable snorkelling raft which enables the rider to see the underwater through its glass panel when relaxing afloat. One of the solutions is “Sea window” brand snorkel raft for adults and children, and it is used in the case study. It is preferable for non-swimmers and family travellers which make up large proportion of the total travellers visiting the area. Table 8 presents features of the snorkelling gear package and its costs.

TABLE 6. Business set up and operations expenditure

Facility and equipment name	Purpose	Monetary amount required	Monthly fee
Service booth -1	Used as storage place for snorkelling gears, lockers, and rental/sales service point	₹ 3'500'000 + ₹ 300'000 for transportation and setting = <u>₹ 3'800'000</u>	n/a
Chairs – 6, desks - 2	For customer waiting area, and use for service employ- ee and the manager	₹ 46'500 x 6 = <u>₹ 279'000</u> ₹ 200,000 x 2 = <u>₹ 400'000</u>	n/a
Cooler and heater	Fan and heater for tempera- ture control	₹ 50'000 x 2 = <u>₹ 100'000</u> ₹ 76'700 x 2 = <u>₹ 153'400</u>	n/a
Lockers	Secure storage for custom- ers' and employees' belong- ings	₹ 280'000 x 4 = <u>₹ 1'120'000</u>	n/a
Fridge	Storage of soft drinks and bottled waters for sale	<u>₹ 300'000</u>	n/a
Cash register system	Employee register, customer data statistical collection, sales register, receipt print- er, cash drawer, and report- ing services	Deposit of <u>₹ 1'000'000</u>	₹ 58'000 x 4 = <u>₹ 232'000</u>
Toilet	WC for customers and em- ployees	<u>₹ 2'500'000</u>	₹ 19'500 x 4 = <u>₹ 78'000</u>
Sink basin	WC for customers and em- ployees	<u>₹ 200'000</u>	₹ 19'500 x 4 = <u>₹ 78'000</u>
<b>Total</b>	<b>Grand total <u>₹ 10'240'400</u></b> € 4839,90	<u>₹ 9'852'400</u> € 4656,52	<u>₹ 388'000</u> € 183,38

TABLE 7. Operating monthly fees not included

<b>Other operating fees not included</b>		
Electricity	Vary from low to high depending on business	~ <u>₹ 50'000</u>
Water usage	For purposes of tourism service, surface water usage	5% of income
Land usage	To be determined upon the request of land use	n/a
Transportation	Employees and management, as well as transportation of goods and equipment	Vary depending on duration and frequency of travel; Maximum possible amount ₹ <u>2'000'000/month;</u>
Communication	Customer service hotline use phone number plan is not offered	Adjustable depending on amount of call minutes and text numbers; Maximum possible amount ₹ <u>100,000/month;</u>

TABLE 8. Snorkelling gear

<b>Equipment name</b>	<b>Features</b>	<b>Monetary amount required</b>	<b>Monthly maintenance fee</b>
Sea window snorkel raft (30 pieces)	Inflatable snorkel raft, easy to use and clean	₹ 115'000 x 30 = <u>₹ 3'450'000</u>	<u>₹ 300'000</u>
Fins	Fins to support swimming in water	₹ 30'000 x 30 = <u>₹ 900'000</u>	<u>₹ 100'000</u>
Life vest	Buoyant for safety	₹ 45'300 x 30 = <u>₹ 1'359'000</u>	<u>₹ 30'000</u>
<b>Total</b>	<b>Grand total <u>₹ 7'429'000</u></b> € 3511,15	<u>₹ 5'709'000</u> € 2698,23	₹ 430'000 x 4 = <u>₹ 1'720'000</u> € 812,92

### 3.6.3 Marketing

The business plan should include at least a three-year marketing plan, which sums up the sales targets for each product and product line, explains the core marketing measures and their risks and which also contains a timeline of planned product launches as well as a reasonable allocation of marketing costs. The marketing plan thus represents a roadmap of the marketing activities which are necessary in order to achieve the strategic marketing goals. (Schwetje & Vaseghi 2007, 76.)

For a successful marketing plan, key jobs to do according to Morris are (2008, 46):

- Research and understand your market.
- Select your marketing strategy – exactly what will you sell, to whom, by what means and in what quantities? How will you differ from competitors? Why should people buy from you?
- Develop your promotional strategy – how will customers hear about you?
- Select your sales strategy – how will you get orders?
- Select your distribution strategy – how will orders be executed?
- Develop your pricing policy – what do you charge, what discounts are available and why?
- Build up forecasts of sales volumes that can be used later to calculate the value of sales and the cost of goods sold.
- Develop numerical benchmarks against which you will measure performance.

In the feasibility study phase, general figures and activities are mentioned. For the proposed case company, the marketing budget is limited, thus exploring the low cost opportunities is of high priority.

The internet probably plays a greater role in adventure tourism marketing than it does in other sectors for several reasons. First, it is a form of promotion and distribution that suits small and medium-sized enterprises that do not have the budget to produce glossy brochures and do not sell enough holidays to be attractive to travel agents. (Swarbrooke et al. 2007, 160.) Given that small operators are unable to staff reservation offices 24 hours a day, seven days a week, the Internet provides them with a low-cost way of taking bookings at all hours of the day and night (Swarbrooke et al. 2007, 162).

Websites can be a cost-effective way of bringing in business without hiring a lot of people and incurring the costs that go along with them (office space, computer equipment, travel expenses, and so on). They have their own cost structure, a lot of which is probably billed on a “fixed” basis. (Chambers 2008, 172.) They provide an opportunity for entrepreneurs to regularly update their promotional message and prices in response to changes in market conditions (Swarbrooke et al. 2007, 162).

In a single page, website gives company a credibility (Reuvid 2007, 197-8):

- One can give an idea of the product or service in a context that is appropriate.
- The contact details are now available worldwide.
- The site will be indexed by search engines.
- Feedback from market can be developed using e-mail and online forms.

When social media marketing costs nothing, websites must be designed and utilized monthly. Currently market price for simple webpage is ₦ 2’000’000 and utilization fee is ₦ 50’000 a month. For twelve months, total amount would be ₦ 2’600’000.

Another low cost feature in marketing mix is management of public relations. Some PR factors important to consider according to Chambers (2008, 66) are:

- Self-promotions and campaigns
- Press releases
- Media kits
- Endorsements from customers or experts
- Testimonials
- Involvement in networking groups
- Local/national news articles

When setting the price of a product or service, one must consider that if prices are too high, the company will not be able to attract customers and expect orders within a competitive environment. If prices are too low, one will risk steering the company into the loss area. (Schwetje & Vaseghi 2007, 76.) Factors to consider regarding pricing are (Chambers 2008, 65):

- Market penetration objectives
- Strength of competitors
- Measurable value of your offering
- Prospect's sensitivity to price vs. product value

Considering the competitors (ferry and motor boat ride services) who offer their services from ₱ 18'000 per person to ₱ 25'000, and the medium duration of services of 90 minutes, the proposed service duration should not be less than 60 minutes and start from price of ₱ 21,500 to be competitive in the market.

When one snorkeling gear package is rented for an hour, and customer handling time is assumed to be 15 minutes, it can be circulated for up to 7 times a day in working days with 9 hours. The revenue of a day in one snorkel package in this case when offered at price of ₱ 22'000 is ₱ 154'000.

$$(9:1,25) \times ₱ 22'000 = ₱ 154'000$$

#### **3.6.4 Break-even point**

Assumption of working day in calculation can be set as 20 days a month allowing weather condition changes, which makes the monthly revenue of snorkel sets calculation: (₱ 154'000 x 30 pieces) x 20 days = ₱ 92'400'000/month, when single sales unit revenue is ₱ 22'000.

Average per unit cost is cost of equipment maintenance divided to (7 times use a day x 20 days) = 140 times, is ₱ 3'071.

The revenue estimation assumes the working days in a month is 20 days with 9 hours each, making the total working hours of a month into 180 hours. Total amount of assumed monthly wage and human resources expenditures and other fixed cost assumptions are presented in table 9.

TABLE 9. Monthly fixed costs

Expenditure	1 month
Employee salary	₹ 2'281'700
Accommodation and meal plan	₹ 680'000
Leased accountant	₹ 300'000
Operating expenses	₹ 147'000 + ₹ 2'600'000 = <u>₹ 2'747'000</u>
Marketing expenses	₹ 50'000
Equipment maintenance	₹430'000
<b>Total</b>	<b>₹ 6'488'700</b> € 3067

Operating expenses are of identified (cash register system fee, toilet and sink basin utilization) and unidentified possible assumed amount of electricity, transportation, and communication expenses.

Given the figures, break even calculates to:

- Break-even point (units) = 319

The business has to cover at least 319 service orders in a given month to break-even.

- Break-even point (₹'s) = ₹7'018'406

The start-up should acquire at least ₹7'018'406 to cover all the monthly expenses.

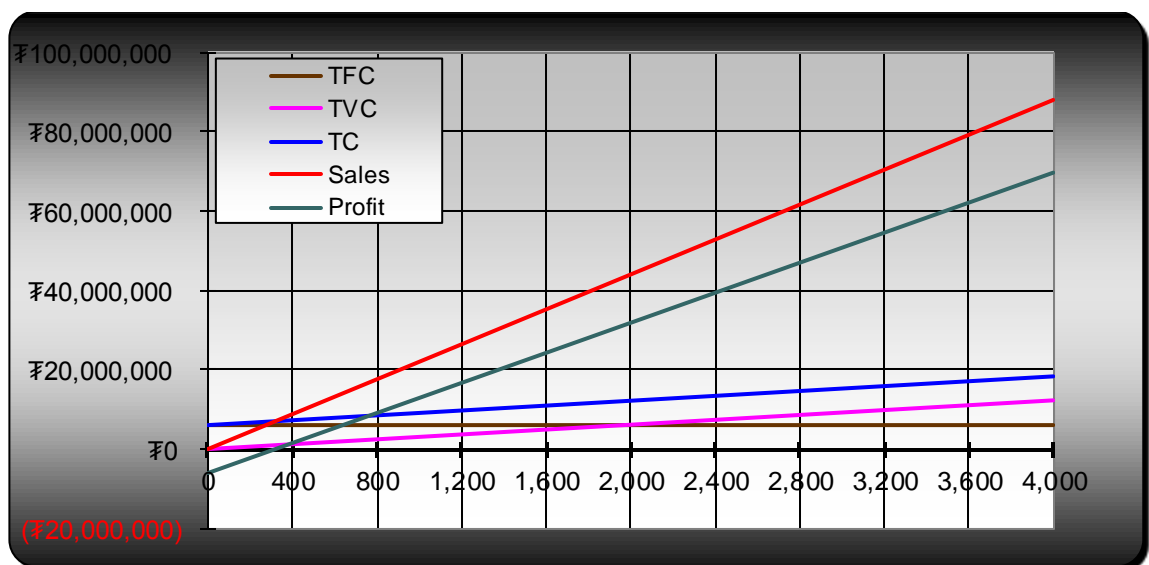


FIGURE 6. Break-even point

TFC - Total Fixed Costs; TVC – Total Variable Costs; TC – Total Cost;

### 3.6.5 Estimate of the total required capital and its acquisition

To estimate the total capital required to set up the business and run for one calendar year (4 months), all the costs must be summed. The assumed expenditures for the case start-up in above sub-chapters are presented and summarized in table 10.

TABLE 10. Total capital required

<b>Section</b>	<b>First month</b>	<b>Fiscal year</b>
Management and employees	₺ 3'145'000	₺ 12'580'000
Operations	₺ 9'852'400	₺ 11'404'400
Marketing	₺ 2'050'000	₺ 2'600'000
<b>Total</b>	<b>₺ 15'047'400</b> € 7.111,98	<b>₺ 26'584'400</b> € 12.564,53

The required capital for setting up the business and operating for one month can possibly be acquired from private funders, who are closely related or acquainted with the author, in a form of loan or an investment with low interest that is offered by other banks and financial institutions. But other options should not be ruled out and must always remain open. Official channels of investments for a start-up enterprise are likely to be upon the presentation of a full, properly developed business plan.

## 4 CONCLUSION

The proposed start-up company aims to introduce snorkelling gear rental service, yet to be promoted as a public recreational activity among domestic tourists. The service promotes an adjusted alternate version of snorkelling for target customers, who are non-swimmers. It is to be located in a remote lake destination which has high potential of tourism service development, with already established destination image and increasing number of visitors each year.

The tourism industry of the country is expected to grow steadily, and an increase in the amount of investments is forecasted in WTTC report of year 2014. The industry is not matured therefore price competition is not intense. But it is complicated as the tourism industry of the country is stereotyped as food and accommodation service providers rather than other leisure service providers.

The actual potential size of Khuvsgul lake tourism market is hardly assumable because of the lack of statistical data (official or unofficial) and possible publications of studies or researches on the subject. According to the author's assumption based on the primary data of the customer satisfaction field survey results and personal knowledge of the area, the market makes up still a very small amount of the total industry contribution to the country's GDP. But when approached with Porter's Five Forces analysis model, it is identified that:

- the market has a high profit generating potential
- threat of substitutes is low
- bargaining power of buyers is low
- bargaining power of suppliers is moderate
- and barriers to entry are low, with general capital requirement being low compared with other industries

Target customers are tourists and travellers who are interested in soft adventure tourism activities, mostly travelling in a group of families and friends, who are willing to try new ways of entertainment.

Market competition is high for the existing two paid services in the destination, which are ferry ride and motor boat riding service. Main factor behind it is possibly that the

two businesses are substitutable by each other. Even though, there were no observed price competition but rather an increase in pricing, as the number of tourists is still rising and demand for services is high.

Business success factors that influence from the broader environment were analysed by PESTLE analysis model and this indicated that:

- Political environment is currently favourable for new SME establishment and developments.
- Domestic tourism activities are in trend, due to economic recession of the country.
- Social trend is in the direction to support the local wealth-generators.
- Technological developments such as the increase of the Internet coverage and usage, as well as smart phones are making it easier for small businesses to carry out certain activities in marketing and operations.
- Labour laws and legislations are moderate and labour unions do not dominate the private business sector. But the lack of applications of standards, rules and regulations for tourism activities is not favourable, or favourable depending on the case.
- Environmentally, no threat poses upon the proposed business establishment and operations.

Financially, the total capital required for a start-up establishment is not high. The amount is acquirable from private funders with a low interest, or from official experienced investors with the help of a properly developed business plan. A few unidentified costs remain which are assumed with the maximum possible figure, and there may be other costs to occur in the later phases of the start-up planning. Even though, break-even analysis indicated that:

- the business has to cover (at least) 319 service orders in a given month to break-even; or
- the start-up should acquire (at least) ₦7'018'406 to cover all the monthly expenses.

These figures are considerably low and appear to be easily reachable. Thus in cases of identification of costs result to the increase in the total costs, there is still a high chance of business to break even within its first three years of operations.

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**APPENDIX: Customer satisfaction survey questionnaire**

1. Form of the travel group (sole, friends, family)
2. Gender of the traveler
3. Age of the traveler
4. From where are you travelling from (hometown or home country)?
5. How did you arrange your travel?
  - a. by themselves
  - b. with help of second party / organized tour
  - c. other\_\_\_\_\_
6. Have you visited another tourist site (in Mongolia) prior coming here?
7. What kind of transportation did you use to travel here?
  - a. airplane
  - b. private car
  - c. arranged van
  - d. line bus
  - e. other\_\_\_\_\_
8. How would you rate the trip?
  - 5 – very good
  - 4 – good
  - 3 – satisfactory
  - 2 - bad
  - 1 – terrible
9. Is there something you want to improve for better travel experience?
10. How long is your total travel duration and how many days do you intend to stay here (in the lake area)?
11. Where are you accommodated in?

- a. ger accommodation
- b. summer cottage
- c. tent
- d. other\_\_\_\_\_

12. How would you rate your accommodation experience?

5 – very good

4 – good

3 – satisfactory

2 - bad

1 – terrible

13. Is there anything you want to improve for better experience?

14. What activities have you planned to undertake here?

15. Is there any activity/attraction/service you are missing?

16. Any improvement suggestions on the tourism environment?

17. What is your next destination before heading home?