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COURSE ENTREPRENEURSHIP FOR ENGINEERS
BUSINESS PLAN AND BUSINESS MODEL
BUSINESS PLAN FOR HOTEL AND RESTAURANT

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1. Executive Summary

The project visualizes the establishment of modern hotel and restaurant with 35 self-contained bed rooms around Hawassa Lake.

Since the number of local as well as international tourists is rapidly increasing in the city of Hawassa and those tourists require hotel and restaurant services, the demand for the service is very attractive.

The total initial investment requirement is estimated at birr 1.1 million, of which 77% is for Services of foreign building construction. The project will create employment opportunities for 160 persons. The project is financially viable with an internal rate of return (IRR) of 25.6% and a net present value (NPV) is Birr 304 thousand discounted at 18%.

Modern hotels and restaurants are composed of many facilities where food, drinks, bed rooms and other services are provided in an efficient, cordial and pleasant manner and style. Operating hotel and restaurant businesses, especially at tourist sites, require cleanliness and neatness of services to be provided and efficiency, cordiality and hospitality on the part side of hotel and restaurant workers are required.

2. Industry Description and Application

2.1. History

In the previous past years in Hawassa, there were some similar business centers but now there are more business which are beginners to the region. So, the business we imagine to design is the main business in the city of Hawassa. The reason it wasn't present in Hawassa is in the past couple of years there were not enough number of educated employees who think about needs and wants of customers and they mostly think about their daily life but not about their future life so due to this reason we tried to conclude about designing such business around Lake Hawassa.

2.2. Trends and projected Growth

Tourism industry is one of the potential sectors of the country to generate foreign currency. Its contribution towards export and GDP growth is increasing. For example, in 1996 tourism has contributed 19% and 1.2% to the country's

export and GDP growth, respectively years in this document are in Ethiopian calendar.

As indicated in table 1 bellow, the number of tourists arriving in Ethiopia and receipts from International inbound tourism is increasing from year to year.

Tourists arrived in Ethiopia and corresponding Receipts. Let see the numbers of tourists, (1999-2005)

Year

Year	Arrivals Receipts
1999	114,000 - 252,000
2000	135,954 - 577,800
2001	148,438 - 542,000
2002	156,327 - 676,000
2003	179,910 - 778,000
2004	184,878 - 991,200
2005	227,298 - 1,177,816

Source: Ministry of Culture and Tourism, tourism Statistics, 1999-2005, No 8

The numbers of domestic and foreign tourists who visit Lake Hawassa vary depending on the season of the year. During the rainy season, when the volume of water at its peak, there are more tourists visiting the Lake (Hawassa).

In the dry season the water volume declines and so does the number of tourists but the number of tourists who had visited the Lake during the last three to four years indicates that there is sufficient demand for the services of a hotel and restaurant. Like many other tourist sites, the market for this hotel and restaurant could be seasonal, but it can be profitable by working during the “tourist season”. The hotel and the restaurant do not have to be very sophisticated and expensively built. All they need is to be extremely clean and comfortable with reasonable prices and efficient services. The food must be simple but carefully and cleanly prepared and cooked.

Besides serving tourists, the hotel and restaurant could be a good recreational center for wedding and also for occasional ceremonies like Labor Day, graduation

day, short conferences and trainings at Hawassa even from Addis Ababa surroundings. On the other hand, as GDP and per capital income of the population increase local people will try to spend their leisure time with their families in such a resort, just like foreigners do. In this respect it is of paramount importance to establish neat, clean and medium modern and traditional hotel and restaurant at Lake Hawassa that could accommodate foreign and local tourists so as to enjoy the beauty of Lake during the night.

2.3. Key Success Factors

Based on the foregoing presentation and analysis, we can learn that the proposed project possesses wide range of benefits that complement the financial feasibility obtained earlier. In general, the visualized project promotes the socio-economic goals and objectives stated in the strategic plan of Hawassa as well as promote tourisms of the country. These benefits are listed as follows

A. Profit Generation

The project is found to be financially viable and earns on average a profit of birr 0.23 million per year and birr 2.3 million within the project life. Such result induces the project promoters to reinvest the profit which, therefore, increases the investment magnitude in the region.

B. Tax Revenue

In the project life under consideration, the region will collect about birr 864 thousand from corporate tax payment alone (i.e. excluding income tax, sales tax and VAT). Such result creates additional fund for the regional government that will be used in expanding social and other basic services in the region.

C. Employment and Income Generation

The proposed project is expected to create employment opportunity to 14 citizens of the country. This would be one of the commendable accomplishments of the project.

D. Pro-Environment Project

The proposed production process is environment friendly

2.4. Market Niche

1 Present Demand and Supply

The Sidama Region encompasses the major tourist attraction centers of the country around Lake Hawassa and with more than 4 Languages in use and contains many cultural events. These tourist attraction sites are among many visited by tourists every year and still gaining popularity. A number of domestic and foreign tourists visit these sites every day.

Foreigners visit almost every day throughout the year. Of course, there are more tourists during the rainy season when the volume of the Lake reaches its highest point. At any rate, thousands of tourists visit the fall every year. But there are no facilities at the site where tourists gather to watch/see the Lake.

There are not more preparations to provide these services. If there were enough hotels and restaurants, many tourists could have made overnight stay near the Lake. They would have preferred to watch Lake at sunset or sunrise. They could have wanted to hear the sound birds and other animals sound during the night. They could have experienced what it feels during the night. In rural Ethiopian places where there are no noises of urban life, it is preferable to spend your free time as it is peaceful and with no much disturbance. In short, they could have preferred to stay near the Lake watching its huge water for some time say a night, a day or more. But there is nothing there to make them stay.

There are not many hotels, restaurants, or even many food stands, not even a kind of park, while in other countries, all sorts of tricks are made to make tourists stay longer and spend more. But not in Lake Hawassa one of the most spectacular sceneries in the Ethiopia.

3. Product, Service, Process

3.1. Product Description

To describe the products of hotel and restaurant with their cost and their percentage are given bellow.

The cost of annual requirement of raw materials of the project is estimated as percentage of the respective service revenue as indicated.

3.2 Service Description

In this case there are two types of services these are

1. Visible services and
2. Detachable services or visible services.

Then in this phase we focus on the visible services like in the table below. But the detachable services are services which are given for our customers for refreshment purpose like old music's, soft music's, and games.

Working days are assumed to be 365/year for food and beverage and 300/ year. The attainable capacity and revenue of the proposed hotel and restaurant for each category of service is estimated as follows.

Types Of service	Quantity/day	Revenue In Birr
Food	30person	20,950 – 432,625
Beverage	80bottles	38,000-320,000
Bed night	100bed	56,000 -800,000
Total		~1,000,000

3.3. Process Description

Here the process of the business is like ladder way training because it depends on the nature of Hawassa region. It is because if the region is in good condition then the business will grow up since money is collected from citizens by giving essential products to them. So, the development of the current region in Hawassa and our process distribution goes parallelly. In addition to this we also share information with other business personnel to get a successful knowledge about how to gain customers and what types of items are customers needed.

4. Marketing Plan

4.1. Market Size and Trends

In our point of view, our market size will not be too high and also not too low because if the market to be build is too high, it is not advantageous so the reason is that you may lose money at the beginning of the project and there might be low productivity meaning your services may not be sufficient enough to collect that many favors.

4.2. Competitor analysis

As we already discussed this business plan there are a lot of peoples who are competent but we stand up by assuming that as we can be the winner of these competitors because we planned that as we prepare more conscious products than the others by designing a solid business plan.

4.3. Marketing strategy

Pricing and Distribution Strategy

Pricing of a hotel and restaurant services could be classified into three main categories i.e. food, beverage and bed rent. In this regard the daily average price listed by category of service is

Average price of service by category

Type of Service Unit Price in Birr

Food =from 30-120birr

Beverage =15-22birr

Bed Rent =200-850birr.

5. Business Organization

5.1. Organizational form:

We imagine that the organizational form of our hotel is to be more attractive for customers like it would have amusement park, entertainment area, and so on those makes the organization more known and when customers are coming to our hotel they are going to get feeling of happiness.

5.2. Ownership Strategy

The ownership of this business is we the group members. As we do this, it belongs to us. This is the result of our contribution and commitment for this project as a result, it is ours.

We have divided the organizations equally by shares as indicating in the table below.

Members	Individual Shares
Efrem Yohanis	60%
Linda Ashebri	40%

6. Operating Plan

6.1 Location

The location of the proposed project is at a location around Hawassa Lake in Sidaama region of Ethiopia.

6.2 Production Process (schedule)

The main processes of establishing modern hotels and restaurants at Lake Hawassa include Studying the market, securing land, constructing buildings, equipping and furnishing the buildings and starting the operations of the businesses.

6.3 Materials Procurement

Machinery and equipment required for a modern hotel and restaurant could broadly be classified into four categories. These are;

- Bed room furniture, (includes beds, mattress, blankets, bed sheets, tables, chairs, cap boards, etc.)

- Hotel furniture and equipment's (tables, chairs, glasses etc.)
- Restaurant furniture and equipment's (tables, chairs, refrigerator, glasses, etc.)
- Kitchen utensils (forks, spoons, trays, dish, deep freezer, etc.)

Estimated cost of such furniture and fixture for a traditional hotel and restaurant is estimated in table below.

Cost center	Quantity	Cost in birr
Bed room	35 beds	200,000
Hotel	For 30 tables	10,000
Restaurant	For 30table	10,000
Hotel	40 chairs	8000
Restaurant	40 chairs	8000
Kitchen sets	50 chairs	50,000
Total		276,000

6.4 Labor force and labor Cost

A Hotel and Restaurant at Hawassa around the lake will require about 2000 m² of land, of which 200 m² is for the construction of 35 self contend bed rooms and 200 m² for hotel and restaurant. Assuming that the hotel and restaurant will be made from traditional materials, the investment cost for 10 bed rooms is about 400,000 Ethiopian Birr (Birr 2,000/m²) and for hotel and restaurant is Birr 400,000, (Birr 2,000/m²), Land lease will be Birr 25 /m sq. The plant will require additional Birr 50,000.00 for land preparation and park decoration, which leads to totals of about Birr 850, 000.00

6.5. Long-Range Plans:

For the future of the project we have a long-term plan with human resource and training requirements as given bellow.

Human Resource: - The project will require about 22 employees as indicated in table 6 below with annual salary of Birr 722300

Position	No of employees	Monthly Salary / person	Annual Salary
Manger	1	3000	36000
Book keeper	1	1500	18000
Cashier	1	800	9600
Receptionist	1	700	8400
Waiter	10	600	72000
Cook	2	1500	360,000
Assistant cook	2	800	192,000
Cleaner	2	400	96000
Guard	2	400	96000
Total	22	9700	715,200
Benefits (10%)			7100
Total			722300

Training Requirement: - For Hotel and Restaurant services trained manpower is available in the market

7. Financial Plan

The financial projections made reveal that the project is economically viable and socially desirable. According to the income statement of our Hotel and restaurant the project will generate profit beginning from first year operation.

Important ratios such as the percentage of net profit to equity (return on equity) and net profit and interest on total investment (return on total investment) are 347% and 30% in the first year and are gradually increasing.

7.1. Capital Requirements

The financial analysis of our Hotel and restaurant is based on the following assumptions.

A. Construction and finance

Construction period	2 year
Source of finance	40% equity and 60% loan
Tax holidays	2 years
Bank interest rate	12%
Discount for cash flow	18%
Value of land	Based on lease rate of SNRS

B. Depreciation

Building	5%
Machinery and equipment	10%
All Furniture	10%
Vehicles	20%
Pre-production	20%

C. Working Capital (Minimum Days of Coverage)

Raw Material-Local	30 days
Raw Material-Foreign	120 days
Hotel Supplies in Stock	30 days

Work in Progress	10 days
Finished Products	15 days
Accounts Receivable	30 days
Cash in Hand	30 days
Accounts Payable	30 days

7.2. Investment Criteria

The total investment cost of the project including working capital is estimated at Birr 1.1 million loan.

As shown in table 7 below. The Owner shall contribute 40% of the finance in the form of equity while the remaining 60% is to be financed by bank

Total-7: Initial Investment

	LC	Total
Land	2,500	2,500
Building	850,000	850,000
Office equipment	5,000	5,000
Vehicles	0	0
machinery & equipment	106,000	106,000

Total Fixed Investment	963,500	963,500
Pre-production	48,175	48,175
Total Initial Investment	1,011,675	1,011,675
Working capital	89,796	89,796
Total	1,101,471	1,101,471

Pre-production capital expenditure includes - all expenses for pre-investment studies, consultancy fee during construction and expenses for company's establishment, project administration expenses, commission expenses, preproduction marketing and interest expenses

7.3. Cash Flows

The summary of the production costs at full capacity is show in Table 8. The total production cost including depreciation will amount to about Birr 1.4 million.

Of the total production cost, raw materials will account for 48.7%.

Table-8: Production Cost at full Capacity

Items	Cost
1. Raw materials	155,000
2. Utilities	5000
3. Wages and Salaries	722,300

4. Spares and Maintenance	28,905
5. Depreciation	63,235
6. Financial costs	66,088
Total Production Cost	1,040,528

7.4 Beginning Balance sheet

Here as it already discussed in the table above this businesses' beginning balance is assumed to be 1.1 million loan i.e. the total investment cost of the project including working capital is estimated at Birr 1.1 million loan.

8. Risk and Weaknesses

Generally, the risks of one entrepreneur will be fulfilled by all the risk takers of our business that means we the group members will be responsible with whatever happens in our project processes. Here we take all the risks of an entrepreneur not only the good risks but also the failure risks.

Because not every business plan is perfect there are some risks we must endure as an organization. Some of the risks and weaknesses of our business plan are listed below.

- Low number of tourists due to the country's current state.
- Low number of tourists due to no or small clean up in and around the lake.
- Not gaining popularity among tourists.

9. Appendix:

NPV: Net Present Value.

SNRS: Southern National Regional State.

IRR: Internal Rate of Return