YOUTH HOSTEL BUSINESS PLAN THAT DONATES PROFITS TO LOCAL NGOS

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# TABLE OF CONTENTS

ABSTRACT .......................................................................................................................... III

LIST OF FIGURES ............................................................................................................... IV

LITERATURE REVIEW ........................................................................................................ 1
- PURPOSE ......................................................................................................................... 1
- CURRENT METHODS OF NGO FINANCIAL SUSTAINABILITY ........................................ 3
- ADVANTAGES FOR NGOS TO PARTNER WITH PRIVATE CORPORATIONS ................... 6
- ADVANTAGES FOR PRIVATE CORPORATIONS TO PARTNER WITH NGOS .................. 8
- RESEARCH QUESTION ...................................................................................................... 10
- CRITIQUE OF EXISTING LITERATURE .......................................................................... 11
- NEXT STEPS FOR RESEARCH ....................................................................................... 13

STUDY OF FEASIBILITY .................................................................................................... 13
- BUSINESS IDEA ............................................................................................................. 13
- MARKET STUDY ............................................................................................................. 16
- ATTRACTIVENESS OF BUSINESS SEGMENT ................................................................ 18
- ATTRACTIVENESS OF SPECIFIC MARKET .................................................................... 18
- ORGANIZATIONAL FEASIBILITY .................................................................................. 19
- FINANCIAL FEASIBILITY .............................................................................................. 20

PRELIMINARY FINANCIAL ANALYSIS OF YOUTH HOSTEL .................................................. 24
- CAPITAL INVESTMENTS ............................................................................................... 24
- TOTAL MONTHLY COSTS ............................................................................................... 25
- BREAK-EVEN POINT ....................................................................................................... 25
- PROJECTED PROFIT/LOSS ............................................................................................ 26
- UNIT CONTRIBUTION MARGIN ................................................................................... 26
- PROFITABILITY RATIOS .............................................................................................. 26
- LIQUIDITY RATIOS ....................................................................................................... 27
- FINANCIAL STABILITY RATIOS ................................................................................... 27
- TOTAL INITIAL START-UP COSTS .................................................................................. 28

YOUTH HOSTEL BUSINESS PLAN ...................................................................................... 28
- EXECUTIVE SUMMARY .................................................................................................. 28
- THE YOUTH HOSTEL ...................................................................................................... 31
- LEGAL STATUS .............................................................................................................. 32
- INDUSTRY ANALYSIS .................................................................................................... 33
- PORTER’S FIVE FORCES MODEL ................................................................................ 35
- MARKET ANALYSES AND SEGMENTATION ................................................................. 36
- OPERATIONS AND PROCESS ....................................................................................... 38
- PRODUCT/SERVICE DESIGN/DEVELOPMENT PLAN .................................................... 39
- HUMAN RESOURCES NEEDS ......................................................................................... 40

YOUTH HOSTEL CONCLUSIONS AND ASSESSMENT ............................................................ 40
- EVALUATION OF: THOMAS (BASTIAN) THOMSEN ....................................................... 40
- SCHOLASTIC ASSESSMENT: THOMAS (BASTIAN) THOMSEN ....................................... 42
- CONCLUSION .................................................................................................................. 42

WORKS CITED .................................................................................................................... 44
ABSTRACT

The aim of this thesis paper is to develop a unique business model that would establish a youth hostel in a niche market of a developing nation, in order to donate all profits earned to local Non-governmental NGOs. Additionally, the Youth Hostel will promote positive community development by entering into joint ventures in related tourism businesses with local people who may not be able to afford to do so otherwise. This business model is not uniquely new in concept but does intend to grow upon ideas of existing business models and organizations, which will be analyzed in the literature review section. This thesis will also include reflective analysis of the overall project in addition to the research that was conducted to derive this business plan.

The structure of the paper includes the aforementioned literary review to serve as a basis for understanding the potential success of the project, the development of the business model and a discussion of the learning process throughout the project. This thesis starts with the literary review that discusses whether or not for-profit businesses should work with NGOs. Final conclusions of the Youth Hostel project suggest that using the profits from a for-profit business to fund a non-governmental organization can be mutually beneficial for both the for-profit business and the local NGO.
<table>
<thead>
<tr>
<th>Figure</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Stay at the Hostel</td>
<td>16</td>
</tr>
<tr>
<td>2.</td>
<td>Willingness to Pay</td>
<td>17</td>
</tr>
<tr>
<td>3.</td>
<td>Pay for Activities</td>
<td>18</td>
</tr>
<tr>
<td>4.</td>
<td>International Tourism in Panama</td>
<td>21</td>
</tr>
<tr>
<td>5.</td>
<td>Nationality of Travelers</td>
<td>22</td>
</tr>
</tbody>
</table>
LITERATURE REVIEW

Purpose

The aim of this literary review is to analyze the existing methods of financial sustainability of Non-Governmental Organizations (NGOs) within the non-profit sector to formulate a research question in how they may better achieve their financial goals. It is necessary to first analyze the definition of an NGO and how it will pertain to the context of this paper.

Dictionary.com defines Non-governmental Organization as:

-noun; an organization that is not part of the local or state or federal government.

However, businessdictionary.com defines NGO as:

-noun; Private sector, voluntary (and usually non-profit and non-sectarian) organization that contributes to, or participates in, cooperation projects, education, training or other humanitarian, progressive, or watchdog activities. Some of them are accredited by the UN, and some collect donations for distribution among disadvantaged or distressed people.

Businessdictionary.com defines private sector as:

-noun; The part of national economy made up of private enterprises. It includes the personal sector (households) and corporate sector (companies), and is responsible for allocating most of the resources within an economy.

Businessdictionary.com defines public sector as:

-noun; The part of national economy providing basic goods or services that are either not, or cannot be, provided by the private sector. It consists of national and local governments, their agencies, and their chartered bodies. The public sector is one of the largest sectors of any economy; in the US, for example, it accounts for about 20 percent of the entire economy.

Businessdictionary.com also defines Non-profit Corporation as:

-noun; Organization created to serve a purpose other than the generation of profit (for distribution among stockholders) and usually given a tax exempt status. Also called not for profit corporation.
Pathfind.org defines Financial Sustainability as:

-noun; can be gauged by an organization’s net income (the surplus of revenues over expenses); liquidity (the cash available to pay bills); and solvency (the relationship of assets and debt or liabilities).

Financial Sustainability is one of the most critical issues in NGOs. Often times NGOs have innovative new ideas that could impact many people but lack the ability to generate revenue consistently, if at all (Lekorwe, 2007). This can frequently be attributed to the fact that many NGOs do not have individuals in leadership positions within their organization that have a business background (Atkinson, 2002). Other issues that NGOs face is that their employees sometimes believe that all business is bad and only care about making money (Ragodoo, 2011). Overcoming these obstacles could allow NGOs to execute their individual objectives over a long period of time and ultimately be able to generate growth within the industry. On a personal note, I have a direct stake in the ability of NGOs to foster this type of growth; it is my career and personal ambition to establish a sustainable NGO in the arena of community development.

The literature researched discussed how NGOs could obtain financial support through many different approaches. Some NGOs are more successful than others in acquiring funds from outside sources. The research conducted also suggested that there are opportunities for NGOs and Private Corporations to leverage each other to improve their own business ventures. The literature reviewed was beneficial for those interested in the partnership of NGOs and private corporations, but few organizations currently do this so available information was limited in its scope.
Current Methods of NGO Financial Sustainability

It is important to better understand how to sustainably finance NGOs because the number of new NGOs is increasing annually. However, they often face challenges in funding their work consistently over the long-term; existing NGOs typically fail due to a lack of financial resources (Sengupta & Mukherji, 2004).

There are different methods to obtain the necessary monies to perform the organization’s goals including donations from the public and private sector, governmental grants and self-sourcing through the exchange of a good or service. Traditionally, NGOs attempt to fund themselves through grants and donations. Some organizations are able to be self-sustaining, but many lack the infrastructure to do so (Lekorwe, 2007).

Governmental Assistance

A main source of income for NGOs comes from governmental assistance. Time and labor resources can be extensive for NGOs when trying to acquire funds from the government; even with these efforts financial support is not guaranteed.

Government support comes in the form of tax exemptions- in effect, indirect government subsidies- and in the form of direct financing, via budget subsidies, grants for specific purposes, and contracts to perform certain work (Moore, 2005).

When NGOs are successful in obtaining these funds from the government, this support can be a significant source of revenue as it accounts for 35% of income in NGOs (Moore, 2005). The problem with this form of assistance is that it is not always sustainable. Governmental assistance can be short-term and often only fund a single project. Other issues with this type of income include the instability of governmental resources. Politics can drive budgets and allocated
resources may come with restrictions based on the interests of the donor (Types of Funding, 2010).

Individual Private Donations

Individuals donate money to NGOs for a variety of different reasons including philanthropic motivations. Governments around the world will often help NGOs to encourage individual donors to contribute through tax incentives.

The most common mechanism for encouraging individuals and corporations to make cash and in-kind donations to NGOs is through tax incentives for donors—generally in the form of tax deductions (Moore, 2005).

This form of NGO income can be very beneficial but hard to generate. Some common themes of obtaining individual donor support include fundraisers, charity events, advertising, and soliciting of established donor organizations (Bradshaw, 2011). Issues in this area of income generation include competition for funds between NGOs. Many NGOs target the same donor for a similar cause and do not differentiate themselves. Other problems that persist are time and resources spent on locating donors if any exist at all; many NGOs do not know who to ask for financial support (Srinivas, 2011).

In general, this source of funding makes up about 12% of NGO income combined with that of private business donations (Moore, 2005). This can be lucrative for NGOs but can still face similar issues as those of governmental support. These include the longevity of the funding in terms of the donors ability to support the project or NGO as a whole. The biggest issues in this type of funding concerns whether or not the “gift has strings attached.” Donors can and will at times only give funding if the NGO agrees to comply with the wishes of the donor, which do not
always coincide with the NGO's mission or objective (Types of Funding, 2011). Many NGOs can be handicapped if an individual donor specifies the use of the funds given.

Private Corporate Donations

Private corporate donations consist of many similar advantages and disadvantages to that of the individual donor. They can receive tax incentives and can be motivated philanthropically to give funds. One way that a private business may also contribute to a NGO differently from that of an individual is to provide employee resources through volunteer time (Hause, Rutledge, Cahill, 2008). This resource may help NGOs reduce costs in terms of labor and help to promote the NGO. Individuals can contribute through volunteer time but may not make as large an impact due to the volume of manpower.

Stipulations can also persist in donations from businesses, but corporations are beginning to use NGOs as a resource to accomplish their own corporate sustainability goals. By contracting or partnering with an NGO, who is an expert in the field, a corporation can save time, money and resources (Hause, Rutledge, Cahill, 2008). This strategic partnership can benefit both parties as long as transparency exists between the two.

Self-generating Income

The ability of NGOs to independently sustain themselves financially can be the difference in their viability as an organization. NGOs must consider their net income, liquidity and solvency to maintain operations (Abt Associates Inc., 1994). Relying on income from donors or governmental support presents issues in stability. Resources can diminish and inhibit them from giving to a NGO. By leveraging solely or too much on other organizations for revenue, it
may also prevent NGOs from obtaining resources from other donors (Moore, 2005). Financial independence can consist of generating income through various sources.

Self-generated income includes membership dues, fees and charges for services (that is, economic activity), as well as income from investments. Generating this type of revenue consists of 53% of all income in NGOs (Moore, 2005).

Self-generating income is more dependable long-term and helps to attract donors; however, this is the most difficult form of income generation for most Non-governmental organizations. The reward of stability generally outweighs the difficulty of obtaining their own revenue. Therefore, self-sustainability may be the ideal objective for financial sustainability within NGOs.

Advantages for NGOs to Partner with Private Corporations

NGO’s can benefit from private businesses in many different ways. The primary motivation of most NGOs in partnering with corporations is typically financially incentivized. However, NGOs can leverage a business’ resources other ways including brand recognition and promotion, building respect and credibility, volunteers and leveraging one business relationship to generate revenue from another one (Hause, Rutledge, Cahill, 2008).

A major obstacle many NGOs face is marketing their own brand. Partnering with a corporation helps to establish brand awareness for both parties. This can be seen in the National Football League’s partnership with the United Way. The United Way is able to collect revenue through individual donations from the marketing promotions of the NFL. The NFL also contributes financially to the United Way and provides volunteer time from players and coaches (NFL & United Way, 2007). As NGOs partner with different businesses, it provides them the foundation to network with other businesses.
Additional marketing benefits for NGOs when partnering with businesses include capturing a market segment that they may not normally reach on their own. For example, the NGO Ducks Unlimited is the, “world leader in wetland and waterfowl conservation,” (Ducks Unlimited, 2011). Their typical target audience in acquiring funds through individual donations is aimed at male hunters who want to keep their duck hunting sport alive. However, they have partnered with Bank of America’s credit card division to offer a Ducks Unlimited credit card where a portion of every card sold is donated to the NGO (Bank of America, 2011). The “cute” duck on the face of the card can be targeted to capture the attention of college-aged females who may not otherwise donate or support Ducks Unlimited.

NGOs are able to obtain additional partnerships because they have built respect and credibility from the previous business relationship. Businesses are more inclined to work with an organization that has other established relationships; it displays confidence in donors because it demonstrates the NGO’s ability to attract other donors with a realistic goal and even business plan (Hakansson & Snehota, 1995). Having relationships with the private business sector can provide a NGO a constant stream of income. NGOs can encourage their client base to purchase items from the business partner because it will directly benefit them. NGOs such as the Juvenile Diabetes Research Foundation (JDRF) team up with multiple corporations from The Coca-Cola Foundation to Kohl’s Department Store to support their cause. JDRF has multiple “levels” of giving that distinguish each partner company by their annual donation amount (JDRF, 2011).

We welcome the opportunity to develop new partnerships. Our cause marketing team evaluates partnership opportunities with companies that have a solid history and strong brand development. Our goal at JDRF is to give people several ways to become involved (JDRF, 2011).
It is very beneficial for NGOs to partner with companies, but they still must be strategic in selecting their partnerships. Just like any other organization, choosing the wrong business partners could be detrimental to their own cause. If the other corporation is not reputable it could tarnish the NGOs ability to generate revenue from other donors both public and private (Hause, Rutledge, Cahill, 2008).

Non-governmental organizations can benefit greatly from partnering with reputable businesses both corporate and otherwise. Reaching new donors through joint-marketing strategies and building brand recognition are viable sources that would not have been available otherwise. These intangible benefits combined with direct contributions in income from private corporations present a large opportunity for NGOs to better finance themselves and build their own credibility.

Advantages for Private Corporations to Partner with NGOs

Private corporations stand to gain significant business value from partnering with NGOs. To the company’s consumer it illustrates that they are philanthropic and care for others. While this may be true, partnering with NGOs can either save or make the company money, possibly even both.

A business-NGO partnership can result in measureable business and environmental benefits such as reduced costs, reduced risk, new market development and enhanced brand value along with reduced environmental impacts in the company’s product line, operations or supply chain (Hause, Rutledge, Cahill, 2008).

These benefits can be realized by leveraging the NGO’s resources. Many corporations are beginning to introduce corporate social responsibility into their business plan. Companies
recognize that their business operations make an impact on the community and environment that surrounds them. By supporting local causes it may provide positive brand recognition for a corporation, which in turn can help drive revenue. IBM portrayed this message to its employees in an internal IBM Global Business Services Document:

A growing body of evidence asserts that corporations can do well by doing good. Well-known companies have already proven that they can differentiate their brands and reputations, as well as their products and services, if they take responsibility for the well-being of the societies and environments in which they operate. These companies are practicing Corporate Social Responsibility (CSR) in a manner that generates significant returns to their businesses (Pohle & Hittner, 2008).

Reputation and brand promotion drives sales as IBM described. However, a company can achieve its corporate social responsibility goals by outsourcing work to NGOs (Hause, Rutledge, Cahill, 2008). IBM is a global leader in technology, but does have business operations in planting trees. If they wanted to promote a cleaner environment as one of their goals, they could contract an NGO that specializes in forestation to do this work.

The NGO would benefit financially through revenue generation and IBM would be able save costs compared to planting the trees themselves. They could choose to provide labor resources through volunteerism that would encourage their employees to be charitable, increase the awareness of their sustainable efforts and supply the NGO with an in-kind gift of labor. These efforts can also allow a corporation to “validate their claim of environmental and social benefits from a project with NGO participation,” (Hause, Rutledge, Cahill, 2008).

Leveraging NGOs through partnerships can be a strategic marketing tool for businesses. Some for-profit businesses such as Paul Newman’s organization, Newman’s Own, bases their
entire business plan on this corporate-NGO partnership.

Newman’s Own is a food company and for-profit corporation founded by actor Paul Newman and author A. E. Hotchner in 1982. All profits after taxes are donated to Newman’s Own Foundation, which supports a broad spectrum of educational and charitable organizations. Newman’s Own Foundation also donates to charity all net royalties from the sales of products distributed using the Newman’s Own brand (Globalhand, 2011).

This business is unique compared to most for-profit businesses and has been successful for nearly thirty years. They are arguably one of the most successful corporate-NGO partnerships and even advertise on all products that they “donate all profits after tax to charities, with over $300 million US dollars being given to charity since 1982,” which helps them to generate their revenue (Newman’s Own, 2011).

Businesses can accomplish corporate social responsibility goals such as sustainable development by partnering with NGOs. They can save time, money and resources as well as build brand recognition and validate their own good deeds. There is a significant opportunity for businesses to partner with new and existing NGOs to help create business value for themselves and the NGOs that they support.

Research Question

Is it mutually beneficial for Non-governmental organizations and private corporations to formally go into business together as a single entity?
Critique of the Existing Literature

Contributions of this Literature to the Field

The literature researched and discussed in this paper have been very valuable to those interested in the relationship between NGOs and private corporations. Information was gathered relating to perspectives from both parties and how they mutually benefit by working together. Each side has its own agenda, but the research shows that they can work together harmoniously to achieve individual and mutual objectives. The literature suggests that there are ample opportunities for NGOs and private corporations to partner together although very few organizations currently do. The literature researched provide a valid starting point for those interested to discover new and innovative ways for the two aforementioned parties to partner together. Examples given in this paper of successful partnerships such as JDRF and Newman’s Own provide those interested in this field real-world examples that may provide appropriate partnership models to imitate. The literature was limited in its scope though, as this concept is just beginning to gain recognition in the field.

Overall Strengths

The literature obtained in the research has provided solid examples of successful partnerships between private corporations and NGOs. The research also discussed how NGOs obtain their funding and areas in which they lack resources and capabilities. It provided resources that are applicable to many if not all NGOs, not just ones in a specific field. The research also suggested that NGOs could benefit from running their organizations with traditional and commonly accepted business models and practices. The research further
suggested that self-generating income is the most sustainable form of income that could support the research question.

Overall Weaknesses

The research was very limited in its scope and it was extremely challenging to find relevant material. Most of articles that discuss and evaluate NGOs deal with traditional sources of funding or how to obtain government grants. These factors are important, but do not have a forward thinking viewpoint for the NGO field. The research suggests that many potentially successful NGOs fail due to a lack of funding and or resources. It also suggests that many leaders within NGOs do not have a business background to sustain an NGO financially or in every day operations. Information was also hard to generate due to the fact that there is not as much formal research and case studies on NGOs as there are on traditional businesses and organizations.

Missing Information

Existing NGOs typically focus their web pages on their mission and objectives but often leave out how they accomplish their initiatives. Trade secrets do not have to be discussed, but omitting how an NGO succeeds may create challenges for interested parties to replicate similar success. Another critical information missing is that many NGOs do not publish anything about themselves at all. There is little brand promotion and information readily available by smaller and mid-sized NGOs. Budget restrictions are legitimate, but many NGOs miss potential target audiences by failing to self-promote. Other information missing in the literature may include prominent sources for NGOs and private corporations to turn to. Researchers must spend countless hours finding relevant information that is not readily available.
Next Steps for Research

To conduct further research about the research question and the NGO-private corporation partnership in general, it will be necessary to find other existing examples. It will also be beneficial to find information about relationships between NGOs and private corporations in a given industry. Further research on “good-will” marketing and brand promotion would be critical in establishing a basis for the two parties to partner together. Other useful information may include the advantages and disadvantages of celebrity endorsement within the realm of brand promotion. The most important information to research would be to address the sustainability for both NGOs and private corporations to work together formally.

STUDY OF FEASIBILITY

Business Idea

Product

The Youth Hostel will be a hostel that provides quality resort style accommodations at a low cost to the budget youth traveler and low to middle income hotel guests, while promoting its involvement with local joint ventures and NGOs. All profits from the hostel will be donated to these nonprofit organizations, and advertising for the hostel will in return be promoted from the NGOs and joint ventures. The “flagship” location will be in the emerging country and tropical destination of Panama.

Target Market

The “budget-resorts” will operate near the beach in developing countries and preferably within the tropical zones to begin with. Each property will be located on one to two hectares (3-5
acres) of land. They will be located in countries that have low travel costs and advantageous tax incentives for tourism businesses. The group plans to develop three to four locations during the first five years of business.

What Makes This Business Venture Seem Plausible?

The tourism industry in developing countries is growing rapidly. Currently, there are very few mid-market options for the budget traveler. The target customer typically has to choose between a budget youth hostel, or a high priced hotel. The best part? The resorts will offer a fun, relaxing paradise type atmosphere where all guests are treated like family!

Uniqueness- No Other Hostel or Hotel Offers This in Panama

To enjoy the amenities of a resort, the current tourism industry typically targets middle to high-income clientele. The Youth Hostel aims to capture this highly attractive gap in the market. It will offer resort amenities that are on the high end of the youth hostel visitor’s budget, within the low-income traveler’s budget and a savings with little quality tradeoff for the middle-income traveler. Prices will fluctuate by country and season, but will enjoy sustainable profits based on our business plan analysis.

Management Team

The Youth Hostel will be run and managed by the author of this thesis, Bastian Thomsen. Bastian has both financial experience from the banking industry and business skills learned from highly reputable academic institutions Euromed University and the University of North Carolina, Wilmington. He has traveled Panama on multiple excursions and had witnessed the opportunity
first-hand. Bastian has learned a lot about the tourism industry and his experience has helped him identify the market’s gap in the Pedasi, Panama area.
Market Study

Figure 1: Stay at the Hostel

From this information, it can be observed that out of 114 people surveyed, roughly 64% would stay at the hostel, with another 18% leaning either way. This would more than suffice the goal of 50% minimum occupancy. The people surveyed were also mainly from European decent, so the hostel might have even better success with others who have experience in third world countries.
From this data, it can be inferred that the hostel would need to charge anywhere from $20 USD per night to $40 USD per night in order to capture the largest segment of the market (roughly 67%). This also shows that the hostel can charge different prices for different rooms based on different factors such as convenience and privacy.
Here the hostel looked at what it could safely charge for different activities in order to make a profit for the hostel. More than forty percent would be willing to spend over $55 USD on different activities, which means that it could charge slightly higher prices than anticipated, creating a higher profit margin.

Attractiveness of Business Segment

Overall the tourism industry around the world, specifically in Panama is very attractive. The young age and early stage in the life cycle makes the industry very attractive. Panama also provides a growing market, yet is not in jeopardy of reaching a “crowded” status, which also makes it an attractive industry. The industry is also a “must-have” rather than a “like to have” as all travelers need shelter when in a foreign country.

Attractiveness of Specific Market

The city in which the Youth Hostel would like to establish its first location sees a high level of tourists, yet does not have established hostel industry. It would provide a large market,
yet small enough to avoid attracting too many future competitors. It is a highly growing area, but has not, nor will, reach a saturated point in the near future. All of these factors make this target market very attractive for the hostel.

Organizational Feasibility

Capability of Leadership

The Youth Hostel realizes that for this venture to be successful it has to have a highly passionate and motivated individual to lead it. Bastian Thomsen has had a passion for the tourism industry for multiple years and has been researching the necessary tools to make it a reality for the same amount of time. With experience in both economic development and brand management, Bastian Thomsen has gained the necessary knowledge to create a successful hostel. He also has a vast, first hand knowledge of the Panamanian market.

Assets

The most critical, non-financial resources would include:

- Bilingual ability of staff
- Strategic locations
- High volume of tourists
- Conducive climate for tourism year long
- Likelihood of local governmental support
- Proximity to customers

Panama would be conducive to all of these critical resources needed. English is widely spoken across the entire country. The nation has high volume of tourists due to their climate and strategic location; along with possibility for the strategic location of local non-governmental organizations make it very reasonable to begin business here. The Panamanian government offers many incentives to creating a business that brings in tourists, as it is one of their main
economic growth factors. Some of these include low cost fees for business licenses along with a twenty-year tax break on all new businesses.

- Macroeconomic aggregates or indicators that can accurately measure the quantitative importance of tourism (value-added, tourism GDP, tourism employment, etc.)

Financial Feasibility

Initial Capital Required

The Youth Hostel firmly believes that having six months of cash reserves on hand will be necessary to ensure that the hostel remains liquid. Therefore, the first six months of total costs will be required upfront totaling $30,201 U.S. dollars. The Youth Hostel will need a total of $107,726 U.S. dollars to initiate the hostel portion of the business venture. Relatively speaking, this is not too much monies needed to initiate the firm.

Competitor Comparison

The Youth Hostel has done extensive research trying to find financial performance of similar businesses. However, overall information of financial performance such as company 10-K reports or year-end statements are not made public in Panama online. Therefore, the Youth Hostel analyzed the hostel that is being considered for purchase. They had a net income of $182,600 last fiscal year, net expense of 76,200 for a net profit of $106,400. This is extremely encouraging as this is more than enough money after tax (no taxes for first twenty years) to sustainably donate all after-tax profits to the local NGOs.
Why Invest in the Panamanian Tourism Sector?

Panama is intending to improve its tourism industry in order to strengthen its economic development. The total amount of travellers throughout the last 15 years has constantly increased.

Figure 4: International Tourism in Panama

During the last eight years, about 850,000 tourists visit Panama each year. They contribute approximately 900 million U.S. dollars, or almost 7% of the nation’s total annual Gross Domestic Product. This has helped the country grow economically and the trends are projected to continue.
Figure 5: Nationality of Travelers

Nationality of Travelers 2009 - Tocumen Airport

Source: Nationality of Travelers to Panama. Tocumen Report

On average, about 66% of the total travelers are from the United States of America. The remaining one third represents a market size that can be targeted in the future for continued growth. The average stay in Panama is three days, with the average traveler spending a daily consumption of $360 USD. The high season goes from December to April, but the low season still enjoys high volume compared to other similar markets.

Hotel facilities in Panama are not fully developed yet. They are primarily concentrated in the capital city Panama where national, American, Spanish, Colombian hotel facilities are implemented. Outside the capital, the main targeted areas are Bocas Del Toro, Anton and Chiriquí. The annual average occupancy rate is around 60%, which includes a wide range of upper and lower class hotels and hostels, but very few in the low to middle market segment. There are approximately 17,000 hotel rooms in Panama, yet only 1,500 are located in close proximity to the sea. With many of the nation’s top tourist attractions being located on either the
Caribbean or Pacific Ocean, there is a large opportunity to develop a hostel on the coast and outside of Panama City where the local market is saturated.

The Tourism Authority of Panama expects to increase public investment of $1 million USD per year over thirteen years (from 2007 to 2020), which will create over 200,000 jobs. To accomplish this, the government has planned to improve and build upon existing roads and airports. A new international airport will open at Aquadulce, located between the most visited areas of Panama.

One of the main obstacles when doing a financial analysis in Panama is the lack of credible information on tourism sectors. There is a critical need to enhance existing collection instruments and advance comprehensive basic surveys to obtain credible figures for registering and analyzing:

- Resident and non-resident visitor arrivals
- Expenditure estimates associated with different forms of tourism (inbound, domestic and outbound)
- Hotel occupancy rates correlated with occupancy tax records
- Cruise tourism expenditure
- Macroeconomic aggregates or indicators that can accurately measure the quantitative importance of tourism (value-added, tourism GDP, tourism employment, etc.)
PRELIMINARY FINANCIAL ANALYSIS OF YOUTH HOSTEL

The Youth Hostel will require initial upfront costs to launch the new business venture. The hostel requires an initial investment of $107,726 U.S. Dollars for the hostel to begin the business venture.

Capital Investments

The Youth Hostel will need to purchase an existing hotel in Pedasi, Panama at the cost of $250,000 U.S. dollars. The hotel and surrounding property will require 25% down payment on the hotel totaling $62,500 U.S. dollars. The remaining $187,500 will be financed at 4.65% over 15 years equaling a payment of $1,509 per month including insurance. The Youth Hostel believes that $5,000 will be needed to renovate the hotel to its own style and preferences, including repairs and upgrades, which will attract more clientele. Additionally, $10,000 will be budgeted to purchase equipment for the resort including, but not limited to snorkeling gear, volley ball nets, hammocks, etc. The business license in Panama only costs $10 and the website will cost $15 to set up. The total initial capital investment for the hostel will total $77,525 U.S. dollars.

The Youth Hostel wants to ensure that it can cover its financial obligations at all times and therefore requires six months of cash reserves on hand for the hostel from the beginning. For the hostel this totals $30,201. Therefore, when combining six months cash reserve with the other capital investment needed, the total of $107,726 U.S. of initial capital will be needed to begin the new business venture.
Total Monthly Costs (Fixed + Operational Costs)

For the hostel, the business loan will be paid monthly for 15 years costing $1,509 per month. The Youth Hostel will employ 8 part-time staff members at the Panamanian minimum wage of $2.60 per hour for 20 hours a week per associate. This will cost the Youth Hostel $3,328 per month, the most expensive cost to the firm. Fixed costs will total $4,837 per month. The Youth Hostel will allocate $200 per month for miscellaneous supplies, which will cover the cost of new sheets, cleaning products, etc. Phone, Internet and television costs will come to $98 monthly. Utilities are estimated to be $150 on average, which covers water, sewer, garbage and electricity. Operational costs (Variable) will average $448 per month.

In Panama, the Youth Hostel will receive substantial tax incentives as a foreign company operating in the tourism business as well as benefits for donating after-tax profits to the local nonprofit organizations.

For the following ratios, they will be based on the project financial performance of the Youth Hostel.

Break-even Point

Youth Hostel will break even in less than six months of operation with no contributions being allocated towards the local NGOs. The total monthly fixed costs of $4,837 were divided by $1,350 per room - $448 average variable costs. This equaled 5.36 Months. At this point, the firm can begin to donate its profits to the local nonprofits.
Projected Profit/Loss = (Projected Sales - Break Even Sales) x (Price - AVC)

The Youth Hostel has projected profit of $52,448.64 in the first year after calculating the above formula. A total of $36,292 will be “donated” to the local NGOs leaving $16,156.45 of profit to be reinvested in the business.

Unit Contribution Margin = (Sales Price – Variable Costs)

The Youth Hostel has a unit contribution margin of $58.51 per room, when fixed costs are not factored in.

Profitability Ratios

Return on Assets (net income/average total assets)

\[ \frac{\$53,378}{\$315,201} = 16.93\% \]

While little data is available to compare the Youth Hostel to, this is considered to be average in the hostel industry. This is encouraging because Net Income should increase in subsequent years.

Return on Equity: (Net Income/Invested Money)

\[ \frac{\$53,378}{\$107,726} = 49.54\% \]

This is low considering it is under “1.0”; however, this is based on first year calculations. After year two it will be above the 1.0 desired ratio minimum. This is promising as the firm can look to pay off its debts within the first three years.
Profit Margin: (net income/net sales)

\[
\frac{53,378}{162,000} = 32.94\%
\]

This is on par with the hotel industry and high for the hostel industry. This is very positive consider this ratio should continue to increase significantly in the future years to come.

Liquidity Ratios

Current Ratio: (Current Assets/Current Liabilities)

\[
\frac{315,201}{250,000} = 126.08\%
\]

This is on par with the hostel industry. Again, this is very encouraging as the Youth Hostel will be able to pay down its liabilities quickly, thus improving on this ratio and adding to owner’s equity.

Quick Ratio: (Quick Assets/Current Liabilities)

\[
\frac{30,201}{250,000} = 12.08\%
\]

This number would normally be unacceptably low for the industry. However, this is based upon an opening day balance sheet. For opening day, this is very encouraging that it is a positive number. The Youth Hostel fully expects this ratio to improve over the next three years.

Financial Stability Ratios

Debt Ratio: (Total Debt/Total Assets)

\[
\frac{187,500}{315,201} = 59.48\%
\]

This is a very strong ratio for opening day. Again this number will improve with time, but is promising to begin the new business venture. This is high among the hostel industry even for existing firms.
Debt to Equity Ratio: (Total Liabilities/Owner’s Equity)

($250,000/$65,201) = 383.42%

This number would be alarming if not based upon opening day numbers. The fact that owner’s equity is this high is encouraging. This is low for the industry, but start-up numbers were not readily available to compare it to. This ratio is also misleading, because the current liabilities includes the debt owed on the purchase of the hostel and land, which could easily be sold if necessary.

Total Initial Start-Up Costs

The Youth Hostel firmly believes that having six months of cash reserves on hand will be necessary to ensure that the hostel remains liquid. Therefore, the first six months of total costs will be required upfront totaling $30,201 U.S. dollars. The Youth Hostel will need a total of $107,726 U.S. dollars to initiate the hostel business venture. This is a very low up-front cost and arguably low risk for business venture.

YOUTH HOSTEL BUSINESS PLAN

Executive Summary

Introduction

The long-term goal of Youth Hostel is to provide resort style amenities to the middle-income traveler. The firm intends to create a differentiated experience with its fun-loving environment and atmosphere along with a wide assortment of activities to satisfy clients from around the world.

This hostel will be on a multinational scale, however, its primary location will be in
Pedeasi, Panama. This unique location attracts large numbers of tourists from all over the world all year round. The venture will not only cater to the tourists of Panama, but also to those who want to give back to the local community. By using the firm’s own website and host websites such as Hostel World, it will be able to create the desired and necessary level of exposure needed to entice higher than expected quantity of guests. Research has shown that the target market does the majority of their bookings through these websites, and also provides a very inexpensive way to advertise and maintain high profit margins.

The tourism industry in developing countries is growing rapidly. Currently, there are very few mid-market options for the budget traveler. The target customer typically has to choose between a budget youth hostel, or a high priced hotel. The best part? The Youth Hostel resorts will offer a fun, relaxing paradise type atmosphere where all guests are treated like family and the piece of mind that the profits are going to a great cause!

The Firm

Once established, the Youth Hostel will be a Limited Liability Company (LLC) based out of the United States officially. Bastian Thomsen will remain on the property in Panama to ensure that all managerial and administrative tasks are carried out at all times. This will also aid in the legal requirements mandated by the country of Panama.

Product

To enjoy the amenities of a resort, the current tourism industry typically targets middle to high-income clientele. The Youth Hostel aims to capture this highly attractive gap in the market. It will offer resort amenities that are on the high end of the youth hostel visitor’s budget, within the low-income traveler’s budget and a savings with little quality tradeoff for the middle-income
traveler. The hostel will also cater to those who share the belief in giving back to the local community with the profits being donated.

Prices will fluctuate by country and season, but will enjoy sustainable profits based on the business plan analysis. These daily activities will be offered to the guest at an additional cost. However, they will be both profitable and beneficial in community development by creating jobs and bringing money into the local economy. This will be done by employing specialized, local businesses to take the hostel’s guests on a variety of activities; such as snorkeling, fishing and whale watching.

The hostel itself will consist of ten rooms with access to a kitchen, which can be used by the guest twenty-four hours a day. The hostel will also provide a pool and lounge area when the guests may relax after a long day at the beach. The hostel will also have a bar that will bring in extra revenue in the evenings.

Target Location

There is a large market for hostels and high-end hotels, leaving the middle class traveler little choice. This company provides a timely and attractive business idea with its first mover advantage and large target market. The “budget-resorts” will operate near the beach in developing countries and preferably within the tropical zones to begin with. Each property will be situated on one to two hectares (3-5 acres) of land; located in countries that have low travel costs and advantageous tax incentives for tourism businesses. Although the plans to develop three to four locations during the first five years of business, the first will be in Panama due to high tax and financial incentives offered by the government.
The current market in Panama does not provide any lateral competitors to this business model. There are two low-end hostels in the area, charging approximately $10 USD a night, and one high-end resort. The prices for the high-end resort begin at $100 USD a night increasing to $200 US not including other activities throughout the day or night. Neither of which have the good will of being associated with local nonprofits.

Issues Regarding the Financing of the Business

The hostel’s initial location will be acquired through a thirty year, fixed, small business administration (SBA) loan at a local credit union in Panama. The full amount will be $250,000 USD with a 25% down payment of $62,500 USD. Since the hostel is already built, revenues can be expected within the first thirty days.

The average monthly expenses for the entire venture are estimated at $7,405.00 USD including the loan payment. However, within the first two months, expected revenues will generate (assuming only 50% occupancy) enough that will offset all monthly expenses.

The Youth Hostel

Mission Statement

The Youth Hostel pledges to provide high quality accommodations and safe, family friendly activities on a daily basis for a low cost. The firm is committed to economic and community development.

Products and Services

• Sleeping accommodations to travelers.
• Provide a cooking facility open twenty-four hours a day for current guests.
• Hammocks and lounge area.
• Twenty-four hour pool.
• Television in each room.
• Free Internet connection during stay.
• Connections to other services in the area.
• Optional daily activities based on season and availability.

Legal Status

The Youth Hostel will need to register for a distinct legal status. The hostel will protect itself and its investors by legally applying for appropriate legal status and required business licenses in all countries in which it operates. For the purposes of initiating this firm, it will focus on Bastian Thomsen’s home country of the United States and the primary target country of Panama and its business laws.

To best protect the interests of the hostel, it will protect its legal business status by registering the home business operations in the United States of America as a Limited Liability Corporation ("Limited Liability Company (LLC)"). This protects investors and the firm to a certain degree compared to a general partnership or sole-proprietorship. By registering the name and logo in the United States, the firm will best be able to “own” its identity in other nations in which they operate including Panama ("Trademarks Home").

Under Panamanian Law, all businesses must register with the state before beginning operations. As a “foreign” company operating in Panama the hostel will receive certain tax benefits during its first twenty years of operation including no corporate tax or property tax ("Panama Realtor"). To receive these tax benefits, the firm must pay the ten U.S. dollar business registration fee and begin operations within six months of establishing itself in the country.
Industry Analysis

Industry Size, Growth Rate, and Sales Projections

Panama is intending to improve its tourism industry in order to strengthen its economic development. The total amount of travelers throughout the last 15 years has constantly increased. Research shows that 2/3 (22%) of the total travelers are from the United States (See Figure 5). The firm supposes that the remaining one third represents a market size that has to be developed and fulfill. The average stay in Panama is 3 days for a daily consumption of 360 USD. The high season goes from December to April, yet travel exists yearlong.

Industry Structure

Geographically, hotel facilities in Panama are not fully developed yet. The annual average occupancy rate is only 50% but when analyzed in further detail, occupancy depends on professional standards: first class hotel annual occupancy rate is 60% while second class hotel annual occupancy rate is 30%.

This data means that 2nd class hotels, which are considered the bottom of the budget hotels, depend much more on higher volume of travelers who spend less money. This led to the assumption that there is a gap in the market that can be fulfilled.

Nature of Participants

The country of Panama had foreseen the tourism opportunity the country offered. The tourism development industry witnessed a significant increase in travelers since 2009. By year-end 2009 there were a recorded 1.2 million travelers visiting Panama, which increased to 1.7 million travelers in 2010 and toped off at 2 million in 2011. Thus, International hotel groups are currently building facilities in Panama. 25 new facilities are in the emerging status and 75% of
those will be located in the capital city, among others: Hilton, Marriott, Renaissance & Court Yard, Howard Johnson, Radisson, Metropolis, Trump Tower and Grace Hotel. In the last decade, the total of rooms available will increase from 17,000 to 24,000.

Critical Issues to Success

The number one key to success, aside from the target market, will be location. The figures show that out of 17,000 new hotel rooms only 10% will be by the ocean. This will be the primary location for the Youth Hostel, considering that one of Panama’s main attractions is the sea. The other key factor to amount of visitors the local surf break attracts every year. The knowledge that the profits made from the tourists’ stays will directly benefit the local NGOs of Panama will be an added feature.

Future Perspectives of the Industry

As previously mentioned, the Tourism Authority of Panama expects an increasing public investment of 1 million USD over 13 years (from 2007 to 2020) and the creation of 200,000 jobs. To do so, plans to improve roads and airports have been put into place. A new international airport will open at Aquadulce, located between the most visited areas of Panama.

This is one of the factors taken into consideration when the Youth Hostel decided to implement its first Hostel facilities in Panama. The Countries’ highly improved infrastructure will only attract more tourists in the future. A more diverse range of travelers from around the world is also expected due to these improvements. This dictates the long-term project of opening several additional hostel facilities in the same area.
Porter’s Five Forces Model

Rivalry

The Youth Hostel will be one of few hostels that offer the wide variety of amenities and daily activities. However, rivalry from other hostels is moderately-high. However, by using a differentiating strategy, this threat can be minimized.

Suppliers

The firm will not be relying heavily on suppliers, so the threat of the suppliers having high bargaining power is not a concern.

Buyers

Panama hosts large amounts of travelers all year long. Therefore, the threat of the buyers having high bargaining power is diminished. Overall, buyers would have some say, but due to the limited availability of rooms, and the uniqueness of this service, this is not a threat that is deemed high.

Substitutes

Although there are many hotels in Panama, there are not many budget hotels that offer the amenities that this Youth Hostel does. This hostel also adds uniqueness by donating all of the profit to local nonprofits in the area. Threat of substitutes is moderate, but does not pose a significant threat.
New Entrants

The threat of new businesses entering the industry is the highest threat facing the Youth Hostel. With the low entrance barriers and governmental incentives to create such businesses, the concern is high.

Market Analyses and Segmentation

To attract a high-volume of customers, the Youth Hostel will be located in the scenic area of Pedasi, on the waterfront of the Pacific Ocean. This is a highly traveled area, little to no competition for the Youth Hostel. With the added benefits of no corporate, real estate or property taxes for the first twenty years Panama is prime choice to begin operations.

There are large amounts of hostels and high-end hotels in the metropolitan market without enough choice for the travelers in the more rural beach locations. Less than 10% of the Panama’s hotels are located near the sea as previously mentioned. This provides a prime opportunity with little competition for travelers who have a higher budget, yet are unwilling to pay excessive costs for accommodation. The target customers are the middle and low class travelers who are above the budget travel level yet cannot afford higher resort prices.

In general, their ages are from 16 to 35; have a “fun-seeking” yet relaxed attitude; most of the travelers are typically eager to meet new friends on the road, whether traveling alone or in couples. Their ideal price is between $35 USD and $75 USD when factoring in room and additional expenditures. The Youth Hostel is the perfect hostel to meet the needs of this target market. Currently, there is little or no competition in Panama as a whole and Pedasi specifically (only one hostel exists and is very expensive- more than $140 dollars per room per night).

Research indicates that Panama has an ideal climate for this type of business plan. It is warm all year long with only a few months of a rainy season, which still enjoys high travel
volumes. Pedasi, Panama is in need of a low budget Youth Hostel like this one. It is one of the premier surf locations in all of Central America. Many surfers come to the area and do not stay for the day because there are little accommodation options, when they would normally pay to stay for a night in the Youth Hostel price range. With extensive travel experience in this area by Bastian Thomsen, and being a part of the target segment, the Youth Hostel has a strategic advantage over other hostel developers in the Pedasi area.

There are no competitors in Panama, let alone Pedasi that have the same business model as this Youth Hostel currently. This is even more applicable because the Youth Hostel offers a for-profit hostel that donates all profits to fund locally based NGOs.

Buyer Behavior

The target segment of this market typically focuses on a balance between affordability and quality. The average consumer, based upon research, expects to spend around $35-$150 per night with activities included. Additionally, the consumers who typically visit Panama are mainly from the United States of America.

Similar business models such as “Tom’s Shoes” as discussed in the literary review, which donate a pair of shoes to a child in need in Argentina for every shoe purchase, have proven extremely successful but are very rare. From customer survey’s that have been conducted the Youth Hostel is able to affirm that the business model will in fact be popular amongst the tourists in its target segment in Panama.

Competitor Analysis

Although there are many high-end resorts and low budget hostels in Panama, there are not many competitors that would pose a considerable threat to the Youth Hostel. By providing
resort style amenities and daily activities at a low cost it will be filling a gap in the market and meeting an untapped need.

The Youth Hostel uses a differentiating strategy of donating all after-tax profits to local nonprofit organizations, which adds the knowledge that the contributions made during the stay at the hostel will go directly to a good cause. This sets the Youth Hostel aside from any direct competition. The biggest concern will be future competition. This model has low durability in terms of copy ability, so the hostel will need to be ever evolving in its strategies.

Operations and Process

General day-to-day operations of the Hostel:

Opening hours of the front desk:

- From Monday to Friday of 6:30 am in 1130 and from 2 pm till 9 pm.
- Saturday and Sunday from 7:30 am till 11:30 am and from 2 pm till 9 pm.
- Outside these opening hours, an answering machine is activated.

Concierge Services:

- Tourist Information Provided
- Free Parking with video surveillance
- Guest Luggage Storage

Rules and Policies

Rules and policies of Youth Hostel will be coherent with its philosophy in order to create a peaceful and pleasant place to stay during vacations.

Location and Necessary Renovations

The first site will be implanted in Panama In the Pedesi area. The hostel will be on a 3737 m2 piece of beachfront land on the Pacific Ocean. It is estimated that with $5,000 US
dollars the Youth Hostel would be able to do the necessary renovations and modifications in order to open the hostel.

Accessibility and Accounts Receivable

The location was chosen not only because of the proximity of the sea but also because it is situated on an easy walk to the center of the town. Even if clients use communal transportation from the airport to stay with the Youth Hostel, they have the possibility to do many things by feet. If customers have their own car, free Parking is at their disposal. The Youth Hostel will accept cash and Visa/MasterCard payments.

Personnel

As we said in the previous section, the firm will need eight employees to run the hostel; the Youth Hostel will use the workforce of the country where the hotel is located. It was decided that they will be paid at the minimum wage of the country at the beginning but will be provided with free formation and fringe benefits until the firm is successful for at least one year when they will be given a raise.

Product/Service Design/Development Plan

The Youth Hostel is a very unique business idea that supports local NGOs from the profits of a hostel. If operating costs increase, the donations to the local profits will decrease or prices will increase.
Human Resources Needs

To start the first hostel, the Youth Hostel estimated that it would need 8 employees in order to provide quality services to our clientele for a 10-room hotel. They will need maids, grounds keepers, front desk employees, and activities coordinators.

The philosophy of the team is not to exploit them in order to make a lot of money over their hard work. Therefore the hostel will provide them adequate formations to provide a good service to the customers and a decent salary for them. The firm took the new updated minimal salary that is 2.60 US dollars per hour.

YOUTH HOSTEL CONCLUSIONS AND ASSESSMENT

The objective of this project was to not only deliver a successful business plan and model but also learn about what it takes to do so as well as identifying personal skill gaps and striving to improve upon them. Such tasks for this author included learning how to better organize and manage different resources simultaneously. Additionally, it was Bastian’s goal to apply what he learned in each separate class to further solidify the knowledge he gained during the program. For the most part, these tasks were accomplished to the satisfaction of both Bastian and his advisor at Euromed University. Please refer to the following self-appraisal of the project in order to better understand the process Bastian Thomsen participated in.

Evaluation of: Thomas (Bastian) Thomsen

Initial Goals for the Project

Bastian’s overall objectives included the collecting, analyzing and reporting of data gathered through market studies and independent research, creating business plan according to
the hostel’s perspective as well as the business model. Once this was done, he had to report his findings and create a final presentation to the Euromed Pro-Act Department.

Accomplishments

Although Bastian experienced a setback with the idea of not being able to follow through with his desired internship, he felt as though he was successful in his first objective of collecting data.

Once Bastian had collected and analyzed all of his research, he was able to successfully put together a business plan for the hostel. After this, he created the business model necessary to further explain his ideas. Finally, he created a report that describes every aspect in detail along with a visual Power Point presentation to be able to present the ideas to Dr. Schneider.

Unforeseen Issues and Responses

The largest discrepancy that Bastian encountered was the way in which he was forced to gather information. At the beginning of this project, he relied on the opportunity to complete an internship that would facilitate learning as well as the creating of the overall plan. Since the internship did not work out, he was forced to conduct research in other ways. This experience taught him to always think ahead and to have an alternative plan for unexpected events. This would have saved a significant level of stress and revamping of the project.

The second discrepancy that Bastian encountered was the general lack of information about Panama on the Internet. His expectations were that he would be able to easily find the figures, which he needed to create his spreadsheets and other reports. Through this, Bastian
learned to rely on other experts in the business field to come up with accurate estimates for the numbers that he needed.

Scholastic Assessment: Thomas (Bastian) Thomsen

Success of Pedagogical Goals

Bastian would say that he has met and exceeded most of the pedagogical goals which he had set forth for both himself and the project. He felt as though he has successfully contributed to the project as he planned at the beginning. By meeting the deadlines and giving high quality products, Bastian has met his objectives. For the future, he would like to continue to progress in his overall ability to negotiate with others.

Effect of this Project on the Scholar's Future Job Outlook

This Pro-Act has contributed to Bastian’s individual growth on a professional level. He has also grown his professional contacts through his graduate studies. Making these connections and expressing his aspirations has helped him grow this network. Overall this will add value to his Curriculum Vitale as it is a way to showcase his ability to research, analyse and create conclusions and creative solutions. It also depicts his ability to create an innovative idea and follow through with the project until the end, showing commitment.

Conclusion

The purpose of this thesis project was to analyze existing research on whether or not for-profit business entities should team up together with non-profit organizations for mutually
beneficial outcomes. On the side of the business, the research found that both revenues and profits could be increased by being able to advertise that all after-tax profit was to be donated to local NGOs. This also helps buy the firm, in this case Youth Hostel, good-will which is in and of itself priceless. From the perspective of the non-profit organization, they are able to rely on funds from the firm and are not constantly spending time searching for grants or other monies instead of performing the tasks they set out to do. This business model also provides jobs for both the founder and locals, as well as those who enter into joint-ventures with the Youth Hostel. In conclusion, yes the business model of a for-profit firm donating all profit after-tax can be successful
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