

96. PROFILE ON HOTEL

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I. SUMMARY

This profile envisages the establishment of an international standard hotel that have 30 bed rooms and dining hall that can accommodate upto 45 service tables.

An international standard hotel in BGRS have an adequate present and future demand.

The hotel will create employment opportunities for 28 persons.

The total investment requirement is estimated at Birr 3.29 million, out of which Birr 135,000 is required for plant and machinery.

The project is financially viable with an internal rate of return (IRR) of 15% and a net present value (NPV) of Birr 864,070, discounted at 10.5%.

II. PROJECT DESCRIPTION

Hotel is a commercial establishment that provides lodging, food and other services to the public. Hotels can be classified according to location, facilities and services offered, and client served.

a) Hotels for Travelers

The transient hotel is usually located within city boundaries and caters to people traveling for business or pleasure. It provides numerous amenities in addition to sleeping accommodations, including maid services, radio and television, parking space for automobiles, recreational facilities, beverage services and retail shops.

b) Convention Facilities

Conventions are the most important source of income for some hotels and motels. Convention assure a steady income both from sleeping accommodations and from meeting rooms, which are used for conferences and lectures. Dining facilities are the source of additional revenue through the sale of food and beverages.

c) Resorts

Resorts are usually located in seaside lake or mountain area, and they cater to tourists and vacationers. Resorts provide all hotel services plus recreational and athletic activities.

d) Residential Hotels

The residential hotel caters to permanent residents rather than to travelers. These hotels are similar to apartment buildings except that they provide maid and valet services and after dining facilities. Lodgings available on a weekly, monthly or yearly basis.

III. MARKET STUDY AND SERVICE CAPACITY

A. MARKET STUDY

1. Past Supply and Present Demand

Hotels are amongst the most visible and important aspects of a country's infrastructure. Hotel industry is closely linked to the tourism industry. A number of factors like promotion of tourism and rapid industrial progress have given a boost to hotel services.

The resource potential study conducted by the Industrial Projects Service (2003) indicates that the Benshangul-Gumuz Region is endowed with a great deal of natural

and man-made attractions that can be used and exploited for the socio-economic growth of the region through the development of tourism sector. Among the natural tourist attractions the climatic condition of the region, hydrological elements like waterfalls, which have aesthetic and curiosity values, rivers, streams that can be utilized for swimming and sport, caves, mountains, and the land configuration are to be cited. Man-made tourist attractions found in the region also include archaeological sites like the ancient caves found near Assosa, and other historical cites. Besides, there are also cultural attractions like traditional beliefs, ceremonies and the like which could be good potential source of tourist attraction.

The potential for the development of the tourism sector is promising. However, at present the sector is not yet developed owing to a number of constraints, among which the poor infrastructure of the region and the absence of the basic facilities required by the tourism industry like hotels, transport facilities are to be mentioned.

Owing to these factors, the number of tourist arrivals in the region during the period 1993-1997 has been limited at only 517, on the average, although an increasing trend has been observed over the period (Table 3.1 shows the details).

Table 3.1
ESTIMATED NUMBER OF TOURISTS VISITED
BENISHANGUL-GUMUZ REGIONAL STATE

Year	Estimated Number of Tourists
1993	465
1994	490
1995	516
1996	544
1997	573

The study has also indicated that there is no hotel of worth-mentioning, which meets international standards, despite the fact that there are some 17 hotels of low standard with a total of 205 rooms.

Thus the absence of adequate number and quality of hotels in the region on one hand, and the potential for tourism sector development and the urbanization of the region on the other, create ample opportunities for the development of hotels and other related facilities.

At national level, the number of tourist arrivals for various purposes is shown in Table 3.2. As can be observed from this table, some 100,000 to 150,000 tourists visit the country, annually.

Table 3.2
INTERNATIONAL TOURIST ARRIVALS IN ETHIOPIA BY PURPOSE OF VISIT

Year	Purpose of Visit						Total
	Business	Vacation	Transit	Conference	Visiting Relatives	Others	
1995	30,538	19,984	11,610	12,436	9,109	19,659	103,336
1996	28,360	21,446	15,599	12,127	11,866	19,487	108,885
1997	30,494	23,511	14,952	13,526	12,710	43,807	139,000
1998	26,246	31,143	8,916	5,983	13,272	26,440	112,000
1999	22,646	28,803	15,425	6,917	13,031	28,178	115,000
2000	27,917	30,768	18,670	6,689	14,589	37,321	135,954
2001	26,577	41,083	17,216	3,361	14,913	45,288	148,438
2002	32,752	49,339	20,113	1,062	17,779	35,282	156,327

Source: Ethiopian Tourism Commission.

Although not all visitors are expected to visit the tourist attraction areas of the country, quite a significant number of them do travel to the various parts of the country. Thus if the Benshangul-Gumuz region has become successful in interrelating its tourism attraction areas with the three neighbouring regions (i.e. Oromiya, Amhara, and Gambella) in the form of tourist circuits, as recommended in the resource potential study mentioned above, the region can get its share of the benefits from international tourism. If it is assumed that these regions will attract about 5 % of the tourist arrivals, this will justify for the establishment of at least one hotel in each

zone of the region(which has at least 50 rooms) in the short run, which will grow over the years as the level of urbanization and tourism sector grows.

2. Pricing

The pricing of hotel services depends considerably on the quality of service rendered and its location. The relatively high standard hotels in Addis Ababa charge a price, which ranges from USD 20(Ras Hotel) to USD 164(Sheraton Addis) for a single night per single room. Other hotels charge prices that fall in this range. Assuming that the envisaged project is for a moderate standard and with the view to attract domestic tourists of medium and high-income group, a price of Birr 75 per room per single night is proposed.

The hotel service will also earn revenues from the sale of food and drinks and other hotel services. The total revenue earned from this service is estimated at 25 per cent of the revenue obtained from room rents.

B. HOTEL SERVICE CAPACITY AND PROGRAMME

1. Hotel Service Capacity

The envisaged hotel will have 30 bed rooms, a bar and dining hall, and other facility rooms.

The dining hall can accommodate upto 45 service tables with an operation rate of up to 80%.

2. Service Programme

The envisage hotel is planned to function for about 360 days a year and upto 16 hours a day including holidays and Sundays. The rest 5 days a year can be reserved for maintenance and overall cleaning.

The hotel will start its service at 80% of its capacity for its first year of service and attain 100% of its capacity in the second year and thereafter.

IV. MATERIALS AND INPUTS

A. MATERIALS

To give dining services and alcoholic and non alcoholic drinks, hotels need food goods and drinks that are estimated to be Birr 225,500, annually.

B. UTILITIES

Major utilities required to run a hotel are kerosene for stoves, cleaning materials, electric power and water.

The annual estimated consumption of these utilities is shown in Table 4.1.

Table 4.1
ANNUAL CONSUMPTION OF UTILITIES AND COST

Sr. No.	Description	Qty	Cost '000 Birr
1	Electric power (kWh)	24000	48
2	Water (m ³)	1600	5
3	Gas for stoves (lie)	1430	4
4	Cleaning materials	lumpsum	2
	Grand Total		59

V. ENGINEERING

1. Machinery and equipment

The machinery and equipment required along with estimated cost are listed in Table 5.1.

Table 5.1
MACHINERY AND EQUIPMENT REQUIREMENT AND COST

Sr. No.	Description	Qty.	Cost (Birr)	
			Unit Cost	Total
1	Beds	40	600	24,000
2	Chair and Table sets	60	1,000	60,000
3	Tea machine	1	25,000	25,000
4	Laundry machine	1	5,000	5,000
5	Stoves	2	3,000	6,000
6	Utensils	Lumpsum	10,000	10,000
7	Others	Lumpsum	5,000	5,000
	Grand Total		135,000	135,000

2. Land, Building and Civil Works

The overall land required for hotel service project is about 2,000 square meters, of which 600 square meter is built-up area. The bed rooms can be built in G+1 structure which gives an overall building area of 1000 square meters. The total construction cost, at a unit cost of Birr 2000 per square meter, is estimated to be Birr 2 million.

Land lease cost, at the rate of Birr 1.2 per m² and for 70 years land holding, is estimated to be Birr 144,000. Thus, the total land & construction cost, assuming that the total land lease cost will be paid in advance amounts to Birr 2,144,000.

3. Proposed Location

Based on the availability of basic utilities and airport Assosa town is proposed to be the location of the hotel project.

VI. MANPOWER AND TRAINING REQUIREMENT

A. MANPOWER REQUIREMENT

The envisaged service rendering project requires a total manpower of 28 persons. The list of manpower required and corresponding labour costs are shown in Table 6.1 below.

B. TRAINING REQUIREMENT

Due to the new education policy adhered by the government, which favours technical trainings, trained labour in hotel and tourism is available on the market. So special training arrangement is not required.

Table 6.1

MANPOWER REQUIREMENT AND ANNUAL LABOUR COST

Sr. No.	Description	Required Number	Salary, in Birr	
			Monthly	Annually
1	Manager	1	1,500	18,000
2	Supervisors	2	700	16,800
3	Store keepers	1	450	5,400
4	Attendants	10	250	30,000
5	Accountant	1	500	6,000
6	Cashier	2	350	8,400
7	Cookers	6	350	25,200
8	Labourers	5	150	9,000
	Sub-total	28		118,800
	25% benefits			29,700
	Grand Total	28		148,500

VII. FINANCIAL ANALYSIS

The financial analysis of the hotel project is based on the data provided in the previous chapters and the following assumptions:-

Construction period	2 years
Source of finance	30% equity
	70% loan
Bank interest	10.5%
Discounted cash flow	10.5%
Repair and maintenance	5 % of hotel equipment
Accounts receivable	30 days
Raw material (local)	30 days
Cash at hand	5 days
Accounts payable	30 days

A. TOTAL INITIAL INVESTMENT COST

The total initial investment cost of the project including working capital is estimated at Birr 3.29 million. Details are indicated in Table 7.1.

Table 7.1
INITIAL INVESTMENT COST ('000 BIRR)

Sr. No.	Cost Items	Cost
1.	Land	144.00
2.	Building and Civil Work	2000.00
3.	Machinery and Equipment	135.00
4.	Office Furniture and Equipment	75.00
5.	Vehicle	250.00
6.	Pre-production Expenditure*	576.09
	Total Investment Cost	3180.09
7.	Working Capital	111.89
	Total	3291.98

B. SERVICE COST

The annual service cost at full operation capacity of the hotel is estimated at Birr 832,650 (see Table 7.2). The material and utility cost accounts for 34% per cent while repair and maintenance take 1.0 per cent of the service cost.

* *Pre-production expenditure include interest during construction (Birr 426,090) and cost of registration, licensing and formation of the company including legal fees, commissioning expenses, etc.*

Table 7.2
ANNUAL PRODUCTION COST
(‘000 BIRR)

Items	Year			
	3	4	7	10
Raw Material and Inputs	179.99	202.50	225.00	225.00
Labour Direct	57.02	64.15	71.28	71.28
Utilities	47.20	53.10	59.00	59.00
Maintenance and repair	7.40	8.33	9.25	9.25
Labour overheads	23.76	26.73	29.70	29.70
Administration Cost	38.01	42.77	47.52	47.52
Total operating costs	353.38	397.58	441.75	441.75
Depreciation	203.06	203.06	203.06	123.06
Cost of Finance	247.16	232.02	176.37	101.30
Total Production Cost	803.60	832.65	821.18	666.10

C. FINANCIAL EVALUATION

1. Profitability

According to the projected income statement, the project will start generating profit in the first year of operation. Important ratios such as the percentage of net profit to total sales, net profit to equity (return on equity) and net profit plus interest to total investment (return on total investment) will show an increasing trend throughout the production life of the project. The income statement and other profitability indicators show that the project is viable.

2. Break-even Analysis

The break-even point of the project is estimated by using income statement projection.

$$\text{BE} = \frac{\text{Fixed Cost}}{\text{Sales-Variable Cost}} = 33 \%$$

3. Pay-Back Period

The investment cost and income statement projection are used to project the pay-back period, the project will fully recover the initial investment and working capital within 7 years time.

4. Internal Rate of Return and Net Present Value

Based on the cash flow statement, the calculated IRR of the project is 15 % and the net present value at 10.5% discount rate is Birr 864,070.

D. ECONOMIC BENEFITS

The project can create employment opportunities for 28 persons. In addition to supply of the domestic needs, the project will generate Birr 1.70 million in terms of tax revenue. Moreover, the Regional Government can collect employment, income tax and sales tax revenue.