

Business Plan Analysis Simulation:

PEGASUS TRAVEL

(Pegasus Travel is not technically a business plan but rather a Business Plan Analysis Simulation. The plan is based on an undergraduate project idea and a significant amount of additional research and written input from the authors. While the case contains enough depth to warrant a robust discussion on the *Pegasus'* strategy and future direction as a bona fide business, the real objective is to aid the students in more effectively completing their own business plans.)

*Pegasus Travel.com: Fasten Your Seatbelts!**

A Business Plan Analysis and Simulation

* *Boston College Professors Michael Peters and Gregory Stoller adapted this business plan and prepared this case as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.*

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I. Introduction

Pegasus Travel.com
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Co-owners:

Kimberly Peters
J. H. Welch
Christa Bentley
Yoriko Nomo

This Company will cater to the need of people age 55 and over who want the flexibility in traveling by groups or individually. Services will include a web site where customers can create their own customized vacation package or choose from the pre-set travel packages of the week and chat with people who are also interested in traveling with them. Customers will also be able to locate travel buddies if they have an idea of a destination, but do not have a large enough group for traveling.

Financing:

Initial financing required is \$2,105,185, and will be received from venture capitalists and bank loans that will be paid off over 12 years. The invested money from venture capitalists and bank loans will allow Pegasus Travel, Inc. ("Pegasus") to cover office space, office equipment and supplies, advertising, technology development, salaries and wages and utilities.

This report is confidential and is the property of the co-owners listed above. It is intended only for use by the person to whom it is transmitted and any reproduction or divulgence of any of its contents without the prior written consent of the Company is prohibited.

II. Executive Summary

Pegasus Travel.com (“Pegasus” or “the Company”) is a niche online operator specializing in customized and package tours for the age group of 55 and over (referred to as seniors). It is based on the belief that, as an increasing number of seniors become users of the Internet, combined with an interest in traveling, they will provide a lucrative market for Pegasus. The Company provides the option for flexibility in its tours, allowing the consumer to decide on length of stay, budget, destination and so forth. Apart from the customized tours, tour packages will also be sold. Through its web site, seniors are able to gain insight into tours they might be interested in as well as chat with other similarly oriented people. The comprehensive web site provides links to relevant sites, free e-mail addresses and a sense of community. Pegasus will align itself with a well-known travel agency, Carlson Wagonlit Travel. Its reputable name will give Pegasus’ customers assurance and trust. The Company can also take advantage of Carlson’s expertise and operations in many parts of the world.

Pegasus believes that now is the right time to be entering the travel industry. Currently, travel is the largest sector of e-commerce, accounting for 32% of total sales. Half of these revenues are generated from online travel agencies such as the proposed Company. The online travel industry is expected to explode, from \$8 billion this year to about \$20 billion in 2002, and predictions of about \$29 billion in 2004.

Apart from the industry itself, the target market of seniors is growing significantly. The addition of baby boomers in five years means that seniors will continue to be the fastest growing demographic group. In 2004, about 27% of all seniors will have access to the Internet. Currently, research indicates that seniors spend 8.3 hours a week online, more time than the average college student. Furthermore, seniors have more disposable income, and time on their hands, due to the lack of financial or employment commitments. Seniors spend most of their recreational budget on traveling and want to explore new opportunities that have escaped them in the past.

Pegasus plans to attract and retain customers through its advertising and services. Banner ads will be placed on the top-ten senior and baby boomers web sites in order to generate traffic and create brand awareness. Print ads in leisure and senior magazines will supplement online advertising. A direct mail campaign including promotions, discounts and upcoming tours is also planned, for seniors who have become members of the web site community.

In order to start-up the business, the Company foresees that it will require \$2.1 million in venture capital. The high start-up costs are attributable to the aggressive marketing the Company will undertake. The main shareholders of the group will not be drawing any salary, but salary expense will come from the customer service representatives hired. Since the Company will act as an outsource agent to Carlson and

receive a commission in return, the Company expects to break even in four years. As more expertise is gained from Carlson and the Company's operations expand, the need for outsourcing will be minimized.

Future prospects for the Company are very attractive. With the growth of the market and industry, Pegasus plans to gradually expand into the next largest market with the most potential – Europe, and will continue to offer the same quality service to these new customers. Pegasus will also continue to please its customers by offering special event packages, such as birthdays and golden anniversaries. Furthermore, the Company will begin providing tours for the disabled, believing that there are very few players in the market which target this particular segment.

The diverse service that Pegasus offers will attract a niche market. The growth of the online travel industry, coupled with the potential of the target market, highly increases the Company's chances of success. By focusing on quality, service and value, the Company will be able to attract and retain its customer base. The Company believes that it will succeed in this market segment, and grow substantially as more experience and expertise is gained.

III. Industry Outlook, Forecast & Trends

The travel and tourism industry is a leader in E-commerce. According to Forrester Research, travel and tourism will account for 32 percent of all business-to-consumer on-line sales in 2003. On-line sales of travel surged over 200 percent in the last year alone, increasing from \$3.1 billion to \$8 billion in 2001. The travel and tourism industry is expected to generate almost three times as much revenue as originally predicted, surging to \$20 billion in 2002.

By 2004, Forrester Research predicts this segment will become the largest business-to-consumer product, in terms of dollar volume, accounting for 12 percent of the overall travel market. In addition, total travel spending is forecast to grow 4.2 percent annually, increasing from \$502 billion in 1998 to \$630 billion in 2003. Domestic travel spending is forecast to grow 5 percent to reach \$518 billion in 2003. Spending by international visitors is expected to reach \$119 billion in 2004, growing 5.5 percent annually between 1999 and 2004.

The primary transportation sectors in the travel and tourism industry are airlines, rental cars, railways, and cruise lines. The Federal Aviation Administration forecasts that in response to customer demand, U.S. Airlines will continue to increase capacity 4.5 percent per year through 2011. Amtrak's business plan projects that revenues will grow to \$2.5 billion in 2003. Chief among the railway revenue generators will be the Acela high-speed service between Boston, New York, and Washington D.C, which is projected to add \$180 million in revenues when it is fully operational in 2001 or 2002.

According to the Cruise Lines International Association (CLIA), cruise lines have committed over \$10 billion to building and launching more than 35 new ships, including the world's largest

passenger vessel ever, by the end of 2003. CLIA expects that nearly 7 million travelers will take a cruise vacation in the year 2002.

Moreover, with healthy growth projected for international travel and consistent growth expectations for domestic travel, total spending for travel and tourism in the United States will grow at least 5 percent annually, reaching a record \$630 billion in 2003.

Growth will start slowly, but expected recoveries in Europe and Asia will spur the United States into also record-breaking international visitation levels in 2004, when arrivals will reach nearly 55 million visitors. Receipts are projected to surpass \$119 billion. Over the next 4 years, arrivals from each world region are projected to increase proportionately. By 2004, Mexico and Canada alone will account for just over 47 percent of total in-bound visitors.

A significant trend that Pegasus seeks to exploit is the anticipated growth of the European market on the Internet. In general, Europeans spend more on travel than other world regions, generating \$10.4 billion in sales revenue this year, and predicted to increase to \$23.4 billion in 2004. Furthermore, online travel is becoming increasingly popular with European travelers as the demand for online travel related services increased by 300% in 2000, with 6.4% of all trips initiated through the Internet. The Company plans to take advantage of this trend by expanding into European markets in the foreseeable future.

Forecast for Pegasus

According to recent analysis reports published by the NUA, future revenues in the e-commerce travel industry are expected to increase substantially. Pegasus can expect to take advantage of the opportunities provided by this growing segment. Phocus Wright, a company which incorporates airfare, accommodation, packaged tours and related travel and tourism services, reported that this year agencies generated 54% of E-commerce dollars spent for the travel services industry. The size of the overall market assures that the Company can expect to make a good return on its investment. A report by Jupiter Communications states that the online travel industry in 2000 yielded \$3.2 billion in sales. Expectations are for sales to reach \$29 billion in 2004 and surge to \$63 billion by 2007. If Pegasus can successfully reach even .01% of this market, the Company could expect to have \$2.9 million worth of sales in 2004.

Market Segmentation

The Travel and Leisure Industry can be broken down into three major segments: price, age and purpose for travel. Pegasus believes that an in-depth knowledge of these market sectors will help the Company to focus its marketing efforts.

Price is one of the more important factors in determining market segmentation, as it influences a consumer's travel choices. Customers have come to demand what they pay for. If a customer opts for an expensive tour, he/she will expect better hotels, superior customer service etc. However, a budget traveler

will choose the lowest possible price and forgo the extra frills. It is important to note that the majority of customers look for value, which is a key component of Pegasus' mission.

A second factor which influences market segmentation is the age of the customer. The age range of the travel industry is large, ranging from college students to retirees, and different marketing strategies will attract a variety of patrons. For example, a tour agency targeting college students might advertise low priced tours at locations such as Cancun and Jamaica for spring break. On the other hand, business oriented agencies might reach their customers by the quality of accommodation and services provided.

Lastly, the market can be segmented by the purpose for travel. The two main sub-categories are leisure and business. Travel Agencies which target the leisure segment would incorporate tourist attractions and sightseeing activities in their tours. Furthermore, their aim is to allow the customer to enjoy their holiday and transportation with the business traveler in mind.

The Target Market

Pegasus targets the senior population (55 years old and over). The Company believes that this is an important segment, as seniors tend to have more money and time, and travel more for leisure purposes. Furthermore, the number of seniors using the Internet is expected to increase substantially in the near future. According to a report from eMarketer, 27% of seniors are expected to be on the Internet by 2004. The actual number of seniors however will be exploding, as the baby boomers move into this range (US Census bureau reports that the over 55 population will increase by 6 million by 2006).

Forrester reports that the UK seniors (one of the first international markets the Company will target) will number in the range of 3.2 million. According to Media Metrix, older users are the fastest growing demographic group in the US Internet market. Other reports indicate seniors spend 8.3 hours per week online, even more than the average college student. The combination of the explosive dollar amount spent on online travel, the number of seniors expected to take to the Net, and the fact (from Media Metrix) that older Internet users have and use the most credit cards, presents Pegasus with major opportunities for growth and high returns.

Competitive Sectors

Travel is one of the most profitable industries worldwide, playing a major part in the American lifestyle, as well as the national economy. In 1998, global tourist receipts reached \$447.7 billion, making it an attractive industry, with ample room for many players to fight for "a piece of the pie."

The Company's competitors in the travel and leisure industry can be broken down into the three main sectors: traditional travel agencies, online travel agencies, and airlines (Examples are listed in Exhibit 1). Traditional travel agencies provide full service, and are typically known as "brick and mortar" organizations. Online travel agencies are companies which provide their services on the Internet, offering

pricing and tour booking options. Lastly, airline companies sell their tickets directly to the consumer, with both online and traditional booking services available. Each of these sectors has various strengths and weaknesses (illustrated in Exhibit 2) and are at different stages of their respective growth cycle.

Traditional Travel Agencies

Traditional travel agencies are companies which provide travel information and tour bookings to their customers mostly through the phone, and face-to-face meetings. While traditional travel agencies do not offer “24 x 7 access,” they are making up for this disadvantage by providing the “personal touch” that the Internet does not provide. Moreover, while a consumer has to research online for the best possible deal, the traditional travel agent will do everything for the patron. The forecast for traditional travel agencies is bleak, as most analysts are predicting that the growth in online travel services will cause a decline in the need for traditional agencies. However, partnering with online businesses will allow brick and mortar travel agencies to remain viable. The Financial Times reported that 62% of every dollar spent by the U.S. web shoppers is going to brick and mortar retailers that have online operations. Furthermore, another study conducted by NPD Online Research revealed that 56% of on-line travelers reported having completed reservations with a traditional agent after visiting a travel-related site. This could be due to the fact that consumers tend to seek out the advice of a “live” person who will be able to offer them the reassurance and expertise that they seek. Although many industry analysts predict sales growth to decrease due to the advent of Internet travel resources, the traditional travel agency has had a compound average growth rate of 6% over the past few years.

Online Travel Agencies

Online Travel is a rapidly growing segment of the travel and leisure industry. These agencies provide travel planning on the Internet, enabling the consumer to compare costs and services at an easier, quicker pace. Furthermore, most people use the Internet as the essential tool for acquiring travel information. Lastly, online agencies offer the consumer the convenience of 24-hour access and flexibility. They provide fast, interactive, and global services. Online travel can be broken down further into three categories: full-service, name-your-price, and umbrella agents. Full service agents provide the service of a traditional travel agent on the Internet. Name-your-price agents allow customers to quote a price they are willing to pay, and will try to locate a seller who matches that price. Lastly, umbrella agents play the part of the middleman, allowing a user to customize his/her preferences, and then matching those preferences to a suitable travel agent. Analysts predict that online travel services will grow from \$6 billion in revenue to \$29 billion by 2004 and \$63 billion by 2007. Some factors that contribute to the significant rise in the online travel industry include: the growing number of people buying online, the rise in individual

spending on the Internet, and the growing number of American travelers (as a result of the strong US economy).

Airlines

More and more airline companies are adopting a combination of traditional, and online travel agent services. Airlines sell their tickets directly to the consumer, bypassing service fees that the agencies charge. While the customer might not have as much flexibility in choosing among different fares, airlines reward customers for their loyalty through perks such as frequent flyer programs.

However, passengers still have little or no loyalty to a particular airline, citing price as the primary factor affecting their purchase decision. Airlines are concerned with organizations such as *Priceline* and *Travelocity*, who are luring away many customers, and have retaliated by forming an alliance named *Hotwire.com*. *Hotwire* sells discounted airfares for “distressed seats,” seats that are still empty at the last minute. By doing this, airlines hope that they can recoup their losses and concurrently break into the online travel industry.

Competitive Advantage

Pegasus differentiates itself from its competition through convenience, service, target market selection, and personalization. The Company plans to incorporate a “click and mortar” approach, combining the convenience and flexibility of the Internet with the “human touch” of a 24-hour customer service agent. The Company believes that solid customer responsiveness is crucial, as its target market demands a high level of service, quality and value for money spent. Another factor that makes the Company unique is the specific market segment that Pegasus is focusing on. Most travel agencies focus on a broad range of segments. A third competitive advantage that the Company offers is the ability to choose and personalize a tour according to the customer’s preferences. Through the combination of these factors, the Company believes it can successfully carve out a niche market, and operate profitably.

IV. Description of Value

Pegasus is an online travel agency that caters to the needs of people aged 55 and above who are looking for flexibility and personalized travel experiences. Pegasus will provide an online web site in which customers can search and browse. There will also be a chat room that will list the pre-set travel-of-the-week package from Pegasus. However, the package will also be adaptable to a customer’s needs, in terms of time, destination and entertainment. Once a customer logs in with his or her username and password, a customer will be able to chat with others to collect information prior to booking.

The web site will also offer a discussion board where customers can post a request to find travel buddies, for travel ideas which are different from the pre-set package. Other customers who are interested

in a travel plan may only contact other parties through the permission of the patron who initiated the original itinerary.

Because Pegasus' target customers are baby boomers and seniors, the office will be located on 1675 Beacon Street. Pegasus decided to lease the space to incur a reasonable rent expense. The place has adequate space for computers, printers and also contains a guest room where customers can share their opinions personally with a travel agent. The location of this office is perfect for the business because it is in the heart of Washington Square in Brookline, where most of the successful baby boomers and seniors live.

The business will require employees with at least a bachelor's degree or equivalent. Personnel would also be required to have some experience with the travel and tourist industry, in order to understand what customers might want, and how to satisfy their needs. In addition, Pegasus may need web developers and web designers for maintaining the Internet site. The equipment that will be needed for this business are computers, printers, database servers and application servers, and they will be purchased, in order to avoid overpriced equipment leases.

The entrepreneurs of the business are well educated people with different backgrounds and experiences. Kim Peters has worked in a variety of organizations, ranging from small entrepreneurial firms (Mann & Co.) to large corporations (The American Red Cross). She has experience in customer service and promotions.

Christa Bentley is currently earning her Bachelor's degree in Finance and Marketing at Boston College. Through her coursework and academic experience, she has acquired knowledge on the various aspects of finance. Furthermore, her employment in the largest bank in Singapore helped her develop her analytical skills.

Jack H. Welch is highly qualified as a public relations and information technology manager, having worked in the John Hancock Agency in Boston as a Management Information System Intern.

Yoriko Nomo's resume includes working for nine months in Carlson Wagonlit as a travel agent. Her experience of serving customers, arranging trips, making reservations, and issuing tickets over the computer will allow the Company to begin its operations efficiently. She has also worked for three months as a registration representative at SkyPerfect TV in Japan, where she assisted customers with registration over the phone, and supported them with the appliances' technical problems.

Sandrene Bouchet is currently "on exchange" at Boston College from a business school in France. Her work experience included a stint at Cora Supermarket where she was in charge of sales analysis in the food department. She was also responsible for submitting a new map of this department to increase sales figures.

V. Operational Plan

When the customer has logged on to the Company's web site (see Exhibit 3), he/she will be able to browse through the special promotions, as well as have the option to research and create their own tour package. Options include choosing their price, location, special dietary requirements, and locations they would specifically like to visit. Once all these factors are in place, the user will be asked to fill out a form which requires general information. At this time, they are entitled to receive the Company's newsletter, as well as promotions-of-the-month. They will also receive their own e-mail account when they have chosen a username and password. The price estimate will be mailed to their account, or a representative will call them (depending on their preferences), at which point they can decide whether or not to accept the tour package.

After accepting the package, Pegasus will make the necessary arrangements. The firm will use reservation systems such as Sabre and Apollo for making air and hotel reservations. These companies offer various fares which are regularly updated and published on the computer. Reservation agencies are not affiliated with hotels and airlines, and merely provide options, allowing travel agents to choose the best fit for the passenger. Once a selection has been made, a confirmed ticket will be printed out and issued. Pegasus will pay the reservation agencies weekly for the tickets sold. Pegasus receives a commission from the reservation agency for every ticket booked and paid for. The commission will then be distributed among the sales representatives.

After the tour package is finalized, the customer will be notified by a response of his/her choice. An e-mail message will appear with an itinerary of the trip. If the customer is unfamiliar or uncomfortable with email, a customer service representative will call and explain the travel details. A letter will also be sent confirming their order. Changes can be made to the tour during this period. When the customer is happy with their travel plans, the money will be transferred and the tour will be finalized. At this time, the terms and conditions of each tour will be agreed upon via the web site. The agreement will be legally binding and commit the customer to the price of the trip.

A small welcome packet will be sent to reinforce the customer's choice of the Company, and the great value they will be receiving. Emergency contact numbers will be provided for cities visited. Through agreements with tour providers in Europe, Asia, Australia, Africa, and South America, customers will have access to any additional assistance needed. They will also be given detailed maps to cities and country destinations booked for travel, recommendations on sites to visit, and transportation options. Vouchers will be given for discount restaurant visits and popular locales. A small history of the countries will be included, as well as information on local customs and laws. A small foreign language card containing useful phrases will even be provided for customers to carry during this trip.

Feedback will be a very important issue for improving service. For a limited time, customers will have the opportunity to receive a discount on future travel by providing post-trip analysis on the web site using a simple questionnaire. A feedback chat room will allow customers to hear from others during the decision process both on where to go, and where to stay.

VI. Marketing Plan

Goals and Objectives

Based on Company research, online travel and tourism will become the largest business-to-consumer product, and account for 12 percent of the overall travel market by 2004, with sales surging to about \$29 billion.

Based on this predicted online market the short-term goal of the Company will be to reach \$1 million in gross sales in the eighth month, and approximately \$1.8 million by the end of the first year. The effectiveness of word of mouth promotion will be key to the early success of Pegasus. Care packages and customer service should enhance the customer's attitude and motivate them to talk positively about the Company to others.

Of the \$29 billion that consumers are expected to spend in online travel and tourism, Pegasus's goal will be to achieve about .01% of that number for its market share. This translates to a goal of \$2.9 million domestic gross sales revenue in 2004. Pegasus predicts to have losses in the first three years of its operation, but with later entry into the European market, will achieve profits of approximately \$700,000 in year five. The Company will also plan to exploit the anticipated growth of the European market by capturing another .01% of market share, thus reaching \$10 million in total gross sales revenue by year five.

Pegasus will focus on the most lucrative segment of the population, which are the baby boomers (55 years old and over) and the senior population. The Company believes this particular segment has more money and time on their hands due to their retirement, and tends to travel more often for leisure purposes than other segments. Seniors and baby boomers amount to 55 million people. Pegasus expects to have market penetration of .02% or 11,000 customers after three years of operation, and will increase steadily at a growth rate of 5% each year.

As mentioned earlier in the marketing strategy and promotion program section, Pegasus will partner with info-mediary services such as *e-How* and *Yahoo* in its first year of operation. With the help of these partnerships, the Company plans to have a distribution network covering approximately 45% of the market. The Company also seeks to create an awareness level index of 65% by the third year of its operation.

One of the biggest features of the web site will be the chat room, which will allow customers to interact with other travelers. On scheduled nights, Pegasus will invite anyone interested in a selected city

to come together to share experiences, and answer any questions about traveling to the area. Customers wanting to travel together can also organize tours. The Company will also have a posting board for customers who are looking for others with whom to travel. This will help older citizens and handicapped persons find compatible travel companions.

Pegasus' site will be launched in a predicted time frame of one and half years, after it has received the sufficient amount of funds needed. The Company will outsource its web site development, and operation, to a more experienced and professional web company. The customers will be able to set the maximum amount of money that they wish to spend on any trip, and Pegasus will try to accommodate that specified budget.

Pegasus will also receive a sales commission of 8.5% on every transaction that is made by each of its agents. The sales promotion budget may be higher than other existing services, but Pegasus believes this amount is necessary to motivate agents to satisfy the customer's needs. The Company will advertise its site heavily in the first three years of its operation, which contributes to the losses during this time. Plans include click-on banners, television advertising, local and national newspaper buys, and travel magazines. The anticipated media campaign will cost Pegasus about \$1 million in the first year. The Company will be promoting itself aggressively in the initial stages of operation, as brand awareness is important in establishing a solid reputation, especially in the target market. It will be easier in the long run to promote the Company's name without having to extensively utilize mass media, and expend significant dollars on an advertising program.

Strengths and Weaknesses

The firm's offering of both online and "face-to-face" customer service is an important strength, as it enables the Company to attract more customers, and to increase market share among baby boomers and retirees. Pegasus' 24-hour service is also important in achieving a competitive advantage. Targeting a specific market is another strength for the Company, enabling it to offer those services that would attract more baby boomers and retirees. In addition, an alliance with travel agencies in Europe will be beneficial to its operations. Furthermore, having employees who are knowledgeable about the travel business, as well as information technology, will be advantageous to the Company. Its web site can be easily arranged and improved by the knowledge of IT in accordance with customers' needs. Since employees are capable of speaking more than one language, Pegasus may service foreigners who desire to speak Japanese, Cantonese, Indonesian, and French.

One of the main weaknesses of the Company is its lack of a partnership with an airline. It can only offer the best fares that are published on line. Those published fares might change as the departure time approaches. Therefore, it is likely for the firm to demand immediate payments to customers before the airfare increases. Secondly, since the firm anticipates operating only one retail location initially,

customers who prefer “face-to-face” service might have to visit the office directly. This can be inconvenient for customers who live far away from the Brookline, MA area.

Opportunities and Threats

As the market that Pegasus competes in grows significantly, the Company can take advantage of the large market potential. After establishing a customer base, opportunities for further expansion will be considered. Currently, the Company is focusing on the domestic market, having a strategic alliance with other travel agencies around the world. However, with the growth of international markets, especially Europe, Pegasus will gradually expand into those locations as well. As the Company grows, the need for alliances will diminish. Lastly, Pegasus will broaden its services to include event packages such as anniversaries, wedding vow renewal opportunities, and birthday packages to meet the demands of the market.

Pegasus also faces threats that might hinder the Company’s growth. The travel industry relies heavily on the health of the economy. If the economy is performing poorly, people are less inclined to travel. The travel industry is also susceptible to the political and economic status of other countries. The amount of tourists will significantly decline if a country is undergoing political strife, or has bad relations with the United States.

The growth and profits in the industry makes it lucrative for other players to enter the market. While the Company does target a niche market, competitors might find the same market big enough to enter themselves. However, Pegasus will have established a significant market share by that time which would create barriers to entry for a new player.

Service Development Strategy

The service that Pegasus provides is highly customized. The customer has the flexibility to tailor his/her travel arrangements through a convenient web site. Because the service targets seniors and baby boomers, the firm will try to meet all of their specific needs, such as providing a 24-hour customer service support as well as a package containing emergency contacts and guidebooks. An emergency sheet that can fold into a wallet or purse will provide contact numbers for everything from the loss of a passport to a dispute with a hotel. The distribution of guidebooks will help the consumer get the most out of their vacation. The goal of Pegasus is to provide value-added services, which cater to a specific target market with a definite set of needs. The Company’s web site will provide the chance to customize the traveler’s vacation and allow as much flexibility as the customer desires.

Customer Service

Pegasus will provide a unique Emergency Customer Service hotline number. This service will allow customers to contact a Pegasus agent, should there be any questions which arise or problems encountered during their trip. This emergency hotline number will require Pegasus to hire employees who are specifically trained to cater to customer needs in an emergency situation.

The hotline will also allow Pegasus to hear about the concerns of its customer base, whether it be for their upcoming trips or from their past excursions. These concerns will be documented and discussed during a regular meeting so that management can evaluate and improve its overall service quality.

Pricing

The Company will price the tour package competitively without compromising quality. However, due to seasonal fluctuations in prices, certain times of the year will be more expensive than others. The price of the package will take these price fluctuations into account, as is standard industry practice. Pegasus will therefore find the best possible pricing combinations and include a 25% markup on the entire package. This is an acceptable and reasonable markup for this industry, and once again in line with industry standards. For example, a trip to Rome might cost \$10,000 and Pegasus will then charge \$12,500 to the customer. With the combination of discounts that lower the \$12,500 price point, and the Company's follow-up services (care package and tour book), a high price-value relationship will be attained.

Distribution

The channel of distribution for the Company begins when it receives the airline tickets, car rental, and hotel bookings from a fare listing service such as ARC and TATA. The confirmation is immediate, and the ticket can be printed out from the computer terminal. After the relevant documents have been obtained, Pegasus will compile the package for the customer. The package, which includes a guidebook, contact numbers in the foreign country, as well as the ticket, hotel booking confirmation etc. will be mailed to the customer, who is at the end of the distribution channel.

Pegasus will have many alliances with foreign tour operators: In Europe, the main partner will be Horizon Travel in Athens Greece. Others include Voyages Lorraine in France, Gatehouse Travel in the U.K., Imagine Tours in Belgium, and European Travel Inc. Over time, other alliances will be sought out and established.

Promotion

Pegasus will market to customers online through advertisements on specific sites. In the first phase, the web sites most used by seniors will be targeted. This includes *senior.com* and *aarp.com*. The

Company will need to build trust amongst seniors since security and the safety of information are two of their primary concerns. Associating with trustworthy web sites will also enhance the Company's credibility.

Television will also be utilized. The Travel Channel will provide a great outlet to reach the target market. Shows of interest to seniors such as "Great Rail Adventures" and "Hidden Treasures" will further increase the Company's brand awareness. This will be the most expensive advertising mediums, so the number of Pegasus "spots" will be limited, and further advertising will be based on past effectiveness.

The Company will spend \$40,000 in the first month advertising on the Travel Channel. \$10,000 will go into the travel section of the New York Times and USA Today, and \$2,000 towards banner ads on *senior.com*. Every winter Pegasus will focus its advertising strategy on television, and concentrate on print ads in the summer. At least 20% of the budget (see financial pages) will go into newspaper advertising with publications such as the Detroit Free Press and the Philadelphia Inquirer.

The Company will also use "give away" promotions to increase awareness. Other possible strategies would be a free vacation to the parents of a college graduate. This will allow the Company to reach a large number of target customers (at a large university) and possibly receive free publicity. The Company will also offer discounts for credit toward a future trip.

VII. Organizational Plan

Pegasus will be established as an S-Corporation. The principal shareholders will each assume an equal stake in the business.

After considering the pros and cons of each form of ownership, the Company agreed that the S-Corp would be the most beneficial structure. A significant advantage of the S-Corporation is the ability to avoid double taxation.

The second benefit from being an S-Corporation is that the shareholders retain the limited liability protection of a C-Corporation. Shareholders are only liable for the amount of their investment.

Management Team Background

Kimberly Peters – President

Kim Peters was born in Amherst, Massachusetts and graduated near the top of her class at Amherst High School. She is currently earning a general management degree in marketing and human resources. Kim represented his high school at the Massachusetts Free Enterprise Week, winning the "Best Return on New Assets" award. She went on to represent her country at the Bosphrus International Student Congress on entrepreneurship, and walked away as the CEO of the winning Company. She has worked in many different organizations ranging from small entrepreneurial firms (Mann & Co.) to large corporations (The American Red Cross). She has experience in customer service and promotions.

As president of the Company, Kim will be responsible for strategic development, hiring, firing, major asset acquisition, and capital expenditure decisions. Her day-to-day activities will involve establishing corporate partnerships, training and supervising employees, and dealing with major customer service problems. Kim will run monthly meetings with the Board and the vice presidents. She will also be in charge of handling any disagreements among the workforce.

Christa Bentley – Finance and Accounting Manager

Christa was born in Sydney, Australia and is currently earning her Bachelor's degree in Finance and Marketing at Boston College. Through her coursework and academic experience, she has acquired knowledge on the various aspects of finance. Furthermore, her employment in the largest bank in Singapore assisted in the development of her analytical skills.

Duties

Christa will be responsible for finance, accounting, payroll, billing, taxes, check signing, and any other matters related to sales and revenue budgets. She will also be in charge of the financial statements and be responsible in choosing an appropriate accounting firm.

Jack H. Welch – Public Relations/Information Technology Manager

J.H. Welch is highly qualified as a public relations and information technology manager, having worked in the John Hancock Agency in Boston as a Management Information System intern. Currently he works in the Student Help and Support Center at Boston College as a User Assistant. Through his work experience, he has acquired the necessary interpersonal skills needed in the public relations field.

Duties

Jack's responsibility as a public relations manager include overseeing the customer service aspect of the Company. He will be in charge of handling customer complaints and the hiring of customer service representatives in the future. Furthermore, he will develop the customer service toll-free hotline that will be introduced. His role as IT manager requires him to develop, maintain ,and update the web site of Pegasus, and to ensure the smooth running of web operations.

Yoriko Nomo – Marketing and Sales Manager

Yoriko Nomo will assume the role of Marketing and Sales Manager. Her resume includes working for nine months in Carlson Wagonlit as a travel agent. Her experience of serving customers, arranging trips, making reservations, and issuing tickets over the computer will enable the firm to efficiently start its operations. Furthermore, she has three months of experience as a registration representative at SkyPerfect TV in Japan, where she assisted customers with registration over the phone and supported them with the appliances' technical problems.

Duties

Yoriko will be responsible for creating promotional activities, monitoring sales, and performing the necessary market research to determine how best to improve the Company's awareness. She will also be responsible for the design and distribution of all promotional and advertising materials.

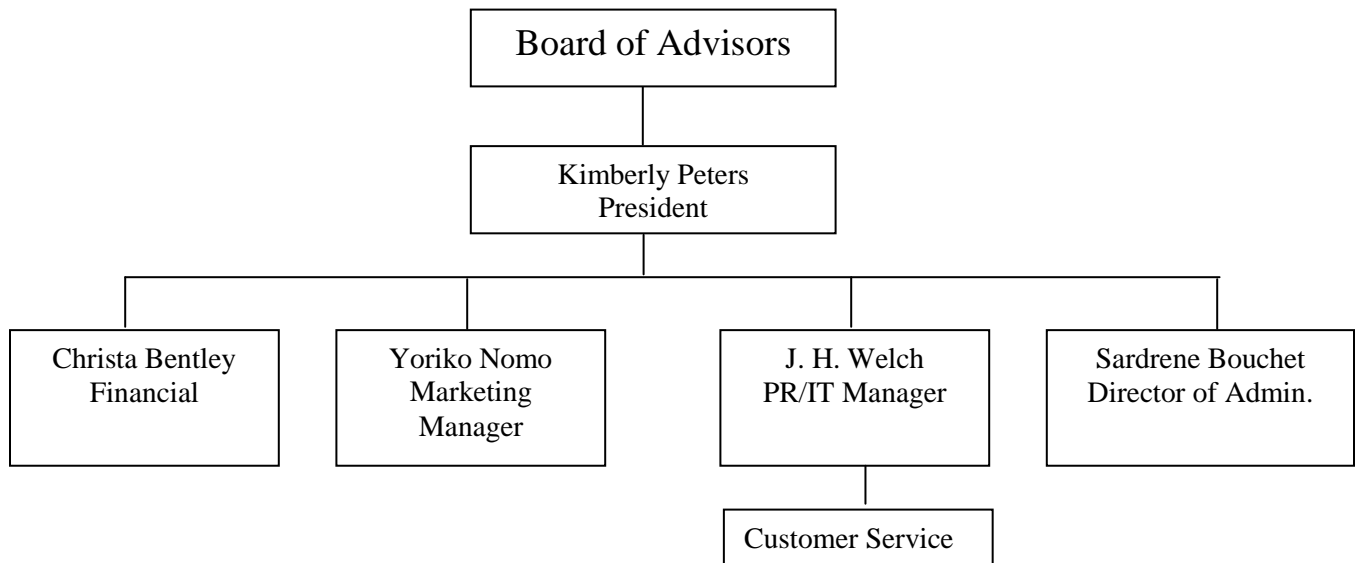
Sandrene Bouchet – Administrative Manager

Sandrene Bouchet is currently on exchange at Boston College from a business school in France. Her courses include Introduction to Marketing, Statistics, International Marketing and Entrepreneurship. Her work experience includes a stint at Cora Supermarket where she was in charge of sales analysis in the food department. She also submitted a new map of the department to increase sales figures.

Duties

Sandrene will oversee the daily operations of the business. Her responsibilities include the hiring and firing of employees as well as training and supervision. She will also handle all purchases needed for the office, and be responsible for the opening and closing the office daily.

Organizational Chart



Board of Advisors

Apart from the management team, Pegasus will have a Board of Advisors consisting of qualified individuals who will provide their expertise to the Company in return for compensation of \$300 per meeting, and an equity stake when the Company goes public. The Board of Advisors' function is to serve in an advisory capacity for the various functions and activities of the Company. The Board of Advisors includes:

- Mr. Henry Chuang – Manager of Carlson Wagonlit Travel Agency in Boston. His experience of managing a tour agency as well as Pegasus' alliance with Carlson will be beneficial.
- Professor Maria Sannella – Professor in the marketing department of Boston College. Her expertise in the field of knowledge is much needed by the Company.
- Professor Mary Cronin – E-commerce professor at Boston College. Pegasus can use her advice to create and update its web site.
- Courtney Wark – a professional E-commerce consultant who has been working with IBM in South Carolina for three years. Her experience from working with other E-commerce companies will benefit Pegasus tremendously in the development of its web site.

VIII. Assessment of Risks

The potential success of Pegasus could be affected by any unexpected changes in the economy. Efforts will be made to monitor changes in the industry and economy, and adjust offerings accordingly.

The government could decide to regulate Internet companies or on-line travel, due to concerns over security. If fraud gets out of control, or if airline security gets compromised (terrorists using Internet sites to book fake passengers to hijack planes), new regulations could increase costs, or force serious changes in Company operations.

Trouble in popular vacation spots, such as the conflict in Israel, will affect travel choices and possible revenues. The Company must make sure to offer better deals to different areas not in conflict.

The devaluation of the dollar could also be a significant problem. If customers cannot get much in return for their money, they will not be able to travel abroad. This can be overcome by offering more domestic travel, and to countries where the dollar is still strong. It is important to continue to diversify the product line and client base (get many branches throughout the world) to keep risk minimized.

IX. Financial Plan:

PEGASUS TRAVEL.COM PRO FORMA INCOME STATEMENT THREE-YEAR SUMMARY

		Year 1	Year 2	Year 3
Sales	100%	\$1,765,650	2,295,345	2,983,949
Less: COGS	50%	\$882,825	1,147,673	1,1491,974.50
Gross Profit	50%	\$882,825	1,147,673	1,1491,974.50
Operating Expenses				
Selling Expenses	40%	\$706,260	734,510	771,236
Technology Development	28%	\$494,382	533,933	555,290
Advertising Expenses	20%	\$353,130	459,069	596,789
Salaries, Wages	29%	\$512,039	584,039	680,039
Office Supplies	1%	\$10,000	13,083	16,415
Rent	1%	\$16,652	17,651	18,710
Utilities	1%	\$594	689	776
Insurance	1%	\$8,828	8,828	8,828
Depreciation	.19%	\$3,300	4,361	
Total Operating Expenses	119%	\$2,105,185	2,356,163	2,653,752
Profit (loss) before taxes	-70%	(\$1,222,360)	-1,208,491	-1,161,777.50
Taxes	-1%	\$16,244	21,117	27,452
Net Profit (loss)	-70%	(\$1,238,604)	-1,229,608	-1,189,229.50

The initial investment of \$2,105,185 will be acquired through venture capitalists and bank loans, which will be paid off over 12 years. Given the low capital intensive nature of the business, the Company's start-up costs and working capital are less than other e-commerce ventures. The Company is willing to offer a reasonable portion of equity to attract investors.

PEGASUS TRAVEL.COM
PRO FORMA INCOME STATEMENT FIRST YEAR BY MONTH (\$000s)

	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
Sales	130	103	133	140	147	159	162	179	137	156	154	166
Less:COGS	35	22	41	61	65	85	102	114	82	92	86	98
Gross Profit	95	81	92	79	82	74	60	65	55	64	68	68
Operating Expenses												
Selling Expenses	85	60	32	40	60	47	323	40	62	81	82	84
Advertising Expenses	62	19	18	41	43	28	24	23	25	10	29	31
Salaries, wages	40	38	38	38	41	41	41	52	40	53	45	45
Office Supplies	1.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	1.4	0.7	0.7
Rent	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.8	1.8
Utilities	0.04	0.04	0.04	0.04	0.04	0.09	0.09	0.04	0.04	0.04	0.04	0.04
Insurance	0.6	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.8	0.8
Taxes	1.2	1.2	1.3	1.3	1.3	1.3	1.4	1.4	1.4	1.4	1.5	1.5
Depreciation	0.27	0.27	0.27	0.27	0.27	0.27	0.27	0.27	0.27	0.27	0.27	
Ttl Operating Expenses	204	124	95	124	126	164	118	125	131	149	161	165
Profit (Loss) before tax	(109)	(43)	(3)	(45)	(44)	(90)	(58)	(60)	(76)	(85)	(93)	(97)
Taxes	0	0	0	0	0	0	0	0	0	0	0	0
Net Profit(loss)	(109)	(43)	(3)	(45)	(44)	(90)	(58)	(60)	(76)	(85)	(93)	(97)

PEGASUS TRAVEL.COM

PRO FORMA CASHFLOW FIRST YEAR BY MONTH (\$000s)

	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
Receipts												
Sales	91	111	124	138	145	155	161	174	150	150	157	162
Disbursements												
COGS	28	25	37	57	64	81	99	112	88	90	87	96
Selling Expenses	42	73	46	36	50	54	40	37	51	72	82	83
Salaries	40	38	38	38	41	41	41	52	40	53	45	45
Advertising	62	19	18	23	43	41	24	28	25	10	29	31
Office Supplies	0.96	1.1	0.7	0.7	0.7	0.7	0.7	0.7	0.7	1.1	0.9	0.7
Rent	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.8	1.8
Utilities	0.04	0.04	0.04	0.04	0.04	0.04	0.09	0.04	0.04	0.04	0.04	0.04
Insurance	0.48	0.6	0.68	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.8	0.8
Taxes	0.84	1.2	1.3	1.3	1.3	1.3	1.4	1.4	1.4	1.4	1.5	1.5
Ttl Disbursement	175.6	159	143	158	202	140	208	233	208	229.5	248	259.8
Cash Flow	-84.6	-48.2	-19	-20	-57	15	-47	-59.2	-58.1	-79.5	-91.04	-97.8
Beg. Balance	0	-19	-32.3	-10.3	12.8	47.8	16.9	80	140	198.3	277.8	368.9

Pegasus forecasts its first year sales to be 5% of *Travelocity's* revenue in 2000, with projected increases of 30% per year. The Company budgets 20% of sales for advertising, in order to attract travelers and increase market share. Advertising and technology development expenses will decrease in years #2 and #3, in line with a goal to become profitable by the end of year #5.

The Company assumes that most sales will occur in September and December, as seniors are most flexible with their travel plans and the best fares are offered by the airlines during these months. Because December is a high travel period, the Company has increased its anticipated salary and commission expense proportionately. Remaining operating expenses such as office, rent, utilities and insurance are assumed to remain flat throughout the year. Reservation computers and ticket printer expenses are included in office supplies.

EXHIBIT 1

Major Players in Competitive sectors

Traditional Travel Agencies

*Note: most of these travel agencies have already incorporated the “click and mortar” approach.

- Carlson Wagonlit Travel
- American Express
- World Travel

Online Travel Agencies

Full Service

- Travelocity.com
- Expedia.com
- Amadeus.com
- ByeByeNOW.com

Name-your-price

- Priceline.com
- Cheaptickets.com

Umbrella Agents

- EGulliver.com
- iwant.com
- respond.com

Airline Companies

- US Airways
- United Airways
- American Airlines

EXHIBIT 2

Competitive Sectors' Strengths and Weaknesses


Competitive Sectors	Strengths	Weaknesses
Traditional Travel Agencies	<ul style="list-style-type: none"> ● Provide more personalized service ● Seeing increase in number of referrals from online travel agencies ● Provide a sense of security that the Internet cannot ● Provide research and booking services for customers. Consumers prefer to book tours through traditional travel agencies, and use the Internet for research only 	<ul style="list-style-type: none"> ● Revenue declining, as more and more travelers migrate toward online services ● Commission cuts by airline companies ● Charge high booking fees to pay overhead expenses ● Do not offer 24 x 7 customer access
Online Travel Agencies	<ul style="list-style-type: none"> ● Ability for traveler to choose different air fares at reduced prices ● Low start-up costs ● Most frequently used e-commerce service on the Internet ● Offers other services such as personalized weather reports, stock quotes and airline-specific "fare alerts" ● Number of online travel agents users expected to grow from 54 million to 72 million in 2002 ● 1999 online travel revenues accounted for more than 30% of all B-to-C revenues ● Provide flexibility and convenience of the Internet ● Low overhead costs ● Projected sales of \$29 billion in 2003 ● Large untapped market potential in Europe, Asia and Latin America 	<ul style="list-style-type: none"> ● Difficult to automate personalization and "human touch" with the efficiency of the Internet ● Takes considerable time and energy to effectively research all the best online fare options ● Requires consumers to be Net savvy. Only experienced users can make the Internet more cost effective than a traditional travel agent by being able to locate favorable fares ● Although 45% of all vacation travel is now researched on the Net, only 4 percent of sales are actually booked online ● Online credit fraud is a major concern of Internet users
Airlines	<ul style="list-style-type: none"> ● Offer both traditional and online services ● Established brand name 	<ul style="list-style-type: none"> ● Customers have little or no loyalty to a particular airline ● 60% of carriers identified

	<ul style="list-style-type: none"> ● Ability to offer unsold seats at a very low and competitive price ● Do not charge extensive service or booking fees associated with traditional Travel agents ● Increasing use of e-ticketing 	<p>their own web site as the most important element of their online presence, but only 50% of these airlines actually <i>sold</i> tickets electronically</p> <ul style="list-style-type: none"> ● High overhead (i.e. selling and marketing expenses) ● Heavily relies on travel trade to sell about 85 % of its tickets
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EXHIBIT 3

Pegasus Web Site

WELCOME TO PEGASUS TRAVEL.COM



Registered Customer:

User Name:

Password:

New Customer?

Travel of the week in Pegasus Travel


Week 12/03/00 - 12/09/00:

Paris
Venice

Fetch a trip!

Want a travel buddy?
Post Your Request in the Discussion Room!

Want to create you own get away package?
Ask Us!



Search our site!

Related links:

- [e-How](#)
- [MapQuest](#)
- [Google!](#)
- [How to contact Us](#)
- [FAQs](#)
- [Security Info](#)

Sometimes, seniors want to plan vacations that take their own needs into consideration. Whether it's a desire for quieter traveling companions or consideration of special mobility issues, the Internet has resources to help you plan the vacation that suits you.

Let Pegasus Travel.com provide you with the information to plan every step, from travel to lodging!

PEGASUS TRAVEL.COM

PREAMBLE TO THE TEACHING NOTE

Instructors:

As the Pegasus Travel.com case is somewhat non-traditional and only being printed in the Instructor's Guide as an addendum to the textbook, we wanted to offer some commentary on its origins, and thoughts on its possible positioning and use in your course(s):

1. **History:** This case was originally taught toward the end of the semester in an MBA class at Boston College, entitled "Business Planning and Entrepreneurship." For the past eight years, we have regularly divided our incoming class into approximately twenty teams of five students each, and teach a required class whose sole deliverable is a full-length business plan. While the official text for the course has always been the *Entrepreneurship* book, early student feedback indicated that other, practical teaching materials would also be helpful in rounding out the experience. In subsequent revisions of the book, we responded by including actual case studies. "Good, but not ideal," came the second wave of student comments. We ultimately countered by writing the Pegasus case, and ever since then, are pleased to report that the evaluations have soared. In fact, the students have indicated that they're as equally pleased with the discussion, as they are with the case itself! So much so, that they have specifically requested its inclusion towards the beginning of the semester, to help set-the-stage for the entire business plan writing process.
2. **Objectives:** The utility of the Pegasus case is ironically rooted in its many foibles; by design, it's anything but a perfect business plan. However, therein lies the point. Teaching experimentation over the years has taught us that both MBA and undergraduate students learn more by studying flawed business plans, than they do by reviewing perfectly written documents. For some reason, giving them the 'answers' never seems to translate into higher quality work, or a larger probability of actual business success. Through our own trial and error, we've arrived at a strategy that employs a 'modified' Socratic teaching method. While we still engage in the classic answer-with-a-question mentality, the discussion is focused *around* an imperfect business plan, rather than on an award-winning one. Students are instructed in the preparation to convert the ideas and strategies of the Pegasus Travel.com into an acceptable business plan that the entrepreneurs could confidently submit to potential investors.
3. **Clarification:** It's also important to note that *Pegasus* is not technically even a case study, but rather a Business Plan Analysis Simulation. The plan is based on an undergraduate project idea and a significant amount of additional research and written input from the authors. While the case contains enough depth to warrant a robust discussion on the Pegasus' strategy and future direction as a bona fide business, the real objective is to aid the students in more effectively completing their own business plans. In short, carefully following the Teaching Note below will hopefully open your own students' eyes regarding the difference between their intent as writers, and the probable conclusions of the audience reading it. Seemingly innocuous statements in any business plan, when not properly fleshed out or fully analyzed by the management team, can quickly turn into 'fatal flaws' by those reading the document for the first time. As we all know, it's always easier to spot those mistakes in the work of others, than it is in your own.

4. **Disclaimers:** Finally, two important to disclaimers we wanted to offer:
 - a. This case was written well before the September 11th tragedy and does not attempt to reflect the current nature of the U.S. and worldwide travel industry. The terrorism reference in the Risk Assessment section was merely an eerie coincidence, and is not meant to offend any instructors or students by its inclusion.
 - b. Given the somewhat contrived nature of this case study, we openly acknowledge the shortcomings of the industry data. It is neither exhaustive nor timely. In some cases, it might even be perceived as incomplete. Please remember that the teaching goals are aimed at improving the students' future work, and not in dissecting the operations of a functioning start-up.
5. **Contact:** Should you have any questions on any aspects of the Pegasus case itself, or its accompanying Teaching Note, please feel free to contact us at any time. Michael Peters (peters@bc.edu) and Gregory Stoller (gregory.stoller.1@bc.edu). We look forward to hearing from you!

PEGASUS TRAVEL.COM

FASTEN YOUR SEATBELTS!**

TEACHING NOTES

Case Abstract:

Pegasus Travel.com (“Pegasus” or “the Company”) is a niche online operator specializing in customized and package tours for the age group of 55 and over (referred to as seniors). It is based on the belief that, as an increasing number of seniors become users of the Internet, combined with an interest in traveling, they will provide a lucrative market for Pegasus. The Company provides the option for flexibility in its tours, allowing the consumer to decide on length of stay, budget, destination and so forth. Apart from the customized tours, tour packages will also be sold. Through its web site, seniors are able to gain insight into tours they might be interested in as well as chat with other similarly oriented people. The comprehensive web site provides links to relevant sites, free e-mail addresses and a sense of community. Pegasus will align itself with a well-known travel agency, Carlson Wagonlit Travel. Its reputable name will give Pegasus’ customers assurance and trust. The Company can also take advantage of Carlson’s expertise and operations in many parts of the world.

Objectives:

This sample business plan has been purposely written to contain major flaws and gaps in the presentation of all sections of a legitimate business plan. It can be used as an exercise during the preparation of the business plan module of the entrepreneurship course. The general objective is to have students read the case and then ask the question “What can we specifically do to make this business plan presentable to investors?” The discussion should not focus initially on the benefits of this plan as a potentially successful enterprise but more so on how to make it acceptable for external investors. In doing this some of the issues that can be addressed are discussed below. The instructor may find that there are many issues beyond those presented below that can be used in class discussion. It is conceivable that this assessment can be easily expanded to another class period if desired.

1. Process: Study the process entrepreneurs use to effectively present their ideas to potential investors and sources of capital.
2. Analysis: Provide students with a sample, full-length business plan, and lead them through the process of rigorous analysis, highlighting the plan’s positive and negative attributes.
3. Strategy: Assessment of strategic options available to Pegasus Travel.com as it attempts to raise \$2,105,185, with an emphasis on its marketing and financial strategy and projections.

Teaching Approach:

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This teaching note assumes a 90-minute class to teach this case. The instructor should take the class through each section of the business plan (see suggested timing), highlighting many of the concerns listed below.

A. Introduction (5 minutes)

1. Nothing is written under co-owners
2. Unclear why this type of venture requires bank loans. What collateral would be available to lend against? Also, interest expense is not included in financial statements.
3. Legalese under confidential disclaimer has obviously not been written by an attorney, and already makes the business plan appear suspect.

B. Executive Summary (10 minutes)

1. The case is based in 2000. Growth from \$8 billion to \$21 billion over a two year period represents a CAGR (compound annual growth rate) of 62% per year. For an unproven sales medium, these projections seemly overly optimistic.
2. The Executive Summary violates a basic principle of business plan writing: On the very first page, describe in-depth what competitive advantages the Company brings to the marketplace and how the venture makes money.
3. The third paragraph is far too general. For example, what is meant by customer retention through “advertising and services?” How many banner ads will be placed and what advertising frequency is planned?
4. It’s obvious the Executive Summary was written first, instead of last, as the industry forecasts later on in the business plan (see pages 646, 650, and 654) are inconsistent with those in the Executive Summary.

C. Industry Outlook, Forecast & Trends (15 minutes)

1. It would have been helpful to have presented the travel industry statistics with a graph. This is a good example of solid research losing its edge, and effectively becoming useless to the reader, due to poor presentation.
2. It’s unclear what value the statistics on rental cars, railways and cruise lines provide. This space could have been used more effectively by continuing the discussion from the previous paragraph on the growth and development of the online travel and tourism industry.
3. The European market should have received top billing in this section of the plan since it’s the Company’s main target market. By placing it at the end of this section, its importance is reduced.
4. There are two main problems with the Forecast section: (1) Different data is provided on the same industry segment by Jupiter Communications, without any reference to the previously described Forrester Corporation research. (2) There’s no revenue forecast included! The business plan simply provides a hypothetical in terms of market share possibilities.

5. It's unclear how the Market Segmentation section adds any value to the business plan. While it correctly highlights price, age and travel purpose as important factors, it doesn't address how the Company will *effectively* capitalize on those areas.
6. The Target Market section is confusing. In earlier paragraphs, the Company indicated it would be targeting European markets. Now, it's suggesting that seniors would be an ideal market. In addition, while the plan provides good demographic information on seniors, it fails to demonstrate the crucial evidence of online travel spending by seniors. If both target markets are that attractive, why can't they be pursued concurrently?
7. While the Competitive Sectors portion of the plan is well written, the writers stop short of providing detailed evidence or implications for the Company on:
 - a. How much of a decline in the need for traditional travel agencies is projected?
 - b. Is a CAGR of 6% per year high or low for this industry?
 - c. How much of a threat is *hotwire.com*? Can any revenue, market share or earnings statistics be provided?
 - d. Bottom line: How do each of these competitors affect the Company, and what will the Company's competitive response be to each player?
 - e. The Competitive Advantage section should have provided quantifiable evidence detailing Pegasus' edge, with information on projected margins compared to industry competition. It's also unclear how the Company will be able to remain competitive, if the majority of tours are customized...

D. Description of Value (5 minutes)

1. This section of the plan never really comments on the "value add" of Pegasus. It is more of a continuation from the Competitive Advantage paragraph preceding it.
2. Beacon Street is a major thoroughfare in the Brookline, Massachusetts area, and as a result is a coveted "address" for offices and retailers alike. Rent expense in the hot areas of Brookline is anything but reasonable.
3. It's unclear how the backgrounds of the entrepreneurs directly contribute to the venture. They have no relevant experience in the travel industry.

E. Operational Plan (5 minutes)

1. While this section of the plan is well written, it fails to provide any data on Information Technology (IT) capital expenditure requirements.
2. This writers of this section used "open ended phrases" to make the plan appear more professional. For example, what are "necessary arrangements?"
3. How do the extras described on page 653 affect Pegasus' projected gross margin?

F. Marketing Plan (20 minutes)

1. The market share statistics (.01%) of pages 648 and 654 of the case were calculated by taking the 2004 projections of \$2.9 million and dividing by the total industry size of \$23.4 billion.
2. It's unclear why specific financial projections are included in the marketing plan.

3. Instead of providing market share projections for the general travel and tourism industry, the management team should have focused on the online segment instead.
4. This would have been an ideal section to describe:
 - a. Typical revenue and cost model
 - b. Projected unit projection and mix for different services/tours
 - c. Detailed advertising strategy
 - d. Estimated cost of achieving market penetration targets
 - e. Return-on-investment forecasts for strategic alliances
 - f. Results of initial focus group and/or direct mail campaigns
 - g. Competitive intelligence on items a. – f.
5. While the SWOT analysis (Strength - Weaknesses - Opportunities - Threats) is on the right track, the following enhancements could have been included:
 - a. Quantification of each SWOT attribute
 - b. Consistency with other section of the business plan: if Pegasus is targeting European seniors, why are Japanese, Cantonese and Indonesian important languages?
 - c. Consideration of exogenous factors, such as foreign exchange, transaction costs and travel visas.
6. Although the Service Development Strategy section is innovative, it's unclear whether Pegasus has a core competence in all of the suggested areas.
7. The financial projections do not include the direct and indirect costs of staffing a 24-hour Emergency Customer Service hotline for the Company (Customer Service section)
8. It would have been helpful to provide a pricing example, as suggested in above (Pricing).
9. ARC and TATA are mentioned for the first time in the Distribution section of the business plan, further indicating that the business plan was written by a group of different writers who didn't compare notes prior to printing the final version.
10. The business plan's promotion section should have been included in the Goals and Objectives of the Marketing Plan section above. In addition, frequency and individual ad cost should have been highlighted.

G. Organizational Plan (5 minutes)

1. Non-US citizens cannot be members of an S-corporation
2. Instead of providing a *description* of an S-corp, it would have been more helpful to provide *justification* for this incorporation choice. For example, has an S-corp been chosen due to the personal tax situation of the management team members?
3. The duties of the main members of the management team are usually self-explanatory and should not be included. Instead, this space should be dedicated to a discussion of how the management team members' backgrounds can increase the probability of success for this venture.

4. The Board of Advisors should include a combination of key investors (“who you raise money from is more important than the money itself”[†]) and individuals selected for their strategic contributions. There are too many professors represented on this panel. In addition, until the Company prepares a prospectus for an IPO, compensation and equity stake data should be excluded.

H. Assessment of Risks (5 minutes)

1. This section could have been improved far more by providing a contingency plan for each of the highlighted risks.
2. Sensitivity analysis for the financial projections should have been included here.
3. A description of the key strategic “levers” affecting Pegasus should also have been listed.

I. Financial Projections (20 minutes)

1. Income Statement:

- a. None of the expense categories varies over the 3-year projection. Although revenue will increase by over 150%, these projections imply the Company will be unable to achieve any economies of scale.
- b. It appears a 50% gross margin has been chosen arbitrarily. What is included in COGS?
- c. Do selling expenses include commissions, or have these been budgeted elsewhere?
- d. Without a detailed breakdown of capital expenditures, it’s almost impossible to evaluate whether the budgeted technology development expenses are reasonable. In addition, why are these expensed, rather than capitalized?
- e. Advertising expenses do not detail the breakdown between the different types of media described in the text.
- f. If the founders aren’t receiving any direct compensation, how many staff members are included in these amounts? In addition, have benefits of 30% been included?
- g. Office supplies is the one item with a reasonable estimate.
- h. Based on a 1,000 square-foot retail space, the cost / square foot is only \$17—this is far too low for a Beacon Street address.
- i. Real estate taxes have not been included in the Utilities section.
- j. Does insurance also cover general liability and E&O (Errors & Omissions) insurance?
- k. What does Depreciation cover? Where is the capital expenditure worksheet?
- l. If bank loans will be used, where is the Interest expense?
- m. What is meant by “reasonable portion of equities?”

[†] This is a key quote from Professors Bill Sahlman and Howard Stevenson in their Entrepreneurial Finance course at Harvard Business School.

2. Statement of Cash Flows

- a. This section should have been named “Sources and Uses” of cash.
- b. Sales has to be broken down by either unit or transaction mix.
- c. Capital expenditures are notoriously absent from the Uses of Cash section.
- d. A proper Statement of Cash Flows detailing Cash Flow from Operations, Investing Activities and Financing Activities should have also been included.

3. Balance Sheet

- a. A basic balance sheet should be provided (Assets, Liabilities and Owner’s Equity), or at the very least, a simple statement detailing the mix between equity and bank loans. However, most banks will not lend to this type of start-up, due to lack of collateral.

4. Revenue Rationale

- a. Although the text attempts to provide a rationale for its financial projections, this should have been included at the beginning of the section.
- b. It’s unclear why *Travelocity* has been chosen, since it was only mentioned once on page 651.
- c. A 30% increase per year is less than 50% below the 62% CAGR provided in the Executive Summary. This implies Pegasus will grow more *slowly* than the market each year...
- d. It would have been helpful to include a Seasonality Index to account for annual travel changes, and the associated expenses.
- e. It’s unreasonable to assume that the “rest of the operating expenses” do not vary throughout the year (i.e. real estate taxes are paid quarterly, utilities will be higher in the summer and winter due to weather changes, rent will increase at some point during the year, etc.)

5. Financial Statement Presentation

- a. Chapter 10 of *Entrepreneurship* (Hisrich/Peters, [Irwin McGraw-Hill]) provides a basic overview of the required financial components and transaction breakdown.
- b. Search the EDGAR database (<http://www.sec.gov/edgar/searchedgar/webusers.htm>) to view how your specific industry presents its income statement, balance sheet and statement of cash flow statements. Different accounts will be included and/or emphasized. Form 10-K (annual report) will provide the best overview. Make sure to select the HTML version for best viewing. Entrepreneurs with poorly presented financial statements lose credibility almost instantly.
- c. “Ratio Comparisons” in the Quotes section of Yahoo’s Finance Section will provide a good basic overview of the *financial levers* affecting company performance. This will be an effective departure point for entrepreneurs to begin considering the other qualitative and quantitative levers affecting their start-up’s operations.

d. After “crunching the numbers” for bullets a. through c., at the very least entrepreneurs should present different scenarios of their data under the following assumptions to determine their impact on the cash balance:

- Revenue +/- 10%
- Unit Mix change
- COGS +/- 10%
- Capital Expenditures +/- 20%

The objective is to calculate a start-up’s “financial staying power.” This is entirely different than a best case/worst case scenario, and instead shows how changes in *individual assumptions* affect an entrepreneur’s most precious resource: cash. Ideally, instead of presenting the data based on a +/- change, a range of values should be used (i.e. how low can revenue go and still enable the company to “stay alive” the following year? What growth rate will be necessary to match the industry’s CAGR?)

After completing these computations for financial levers, the process should be repeated for each of the strategic levers affecting the business. Once again, whenever possible, quantification of each lever should be attempted.

e. One of an investor’s first “jobs” after receiving a plan should be to re-engineer the financial statements presented, in order to determine the venture’s bottom-line-- the probability of the investment becoming a total loss, and what the extent of the financial exposure would entail.

The second task is to then realistically compare the business plan’s financial projections with those of its direct competitors. 15 companies in the same market cannot each “conservatively project” a 10% market share! What justification does the business plan contain that *this company* will be able to beat the odds?

Lastly, investors are “kept up at night” by the answers to 2 key questions, as noted above, which should be quickly answered by a well-written Executive Summary:

- (1) What competitive advantages the company brings to the marketplace and how does the venture make money?
- (2) Why do I believe this team will enable this venture to be successful?

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