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Business Proposal
Hotel Beach Resort & Spa in Panama.

Prepared by: Abraham Santamaria Barraza (MBA)

June 27th, 2004.

Table of Contents

1.0 Executive Summary …… 1

1.1 Mission

2.0 Situation Analysis ……... 6

2.1 Description of business

2.2 Macro Environment

2.3 SWOT Analysis

2.3.1 Strengths

2.3.2 Weakness

2.3.3 Opportunities

2.3.4 Threats

2.4 Competition Analysis

3.0 Target Market Analysis ……. 13

3.1 Market Demographics

3.2 Market Needs

3.3 Market Trends

3.4 Market Growth

4.0 Objectives …… 21

5.0 Marketing Mix Strategy …… 22

5.1 Marketing Mix

5.2 Estimated Tactical Budget

5.3 Proposed Action Plan and Timeline

6.0 Management Team ……. 30

6.1 Organization Structure

6.2 Other Management Considerations

7.0 Financial, Budgets and Forecast ……. 31

7.1 Important Assumptions

7.2 Sales Forecast

7.3 Projected Operating Expenses

7.4 Projected Financial Statements

7.5 Breakeven Analysis

7.6 Proposed Business Ratios

8.0 References ……..... 41

1.0 Executive Summary

The 'Business Hotels of the World' group is the third largest hotel chain in the United States, with over 300 wholly owned and managed properties. The group specializes in occupying strategic, inner city locations and servicing primarily corporate clients. The properties range from three to five star plus categories, and include the following brands: The Palms Inns (3*), The Palms Houses (4*), and The Palms Hotels (5*+). The group has a high instance of repeat business across all its brands, particularly The Palms Hotels properties which account for 68% of total revenue across the group.

The current market is somewhat depressed, due to the economic downturn and restrictions being made on corporate travel within the U.S. This threat to the critical corporate sector could be considered as short to medium term, as indications of a return to business travel are observed. Therefore, the group has decided to expand its operations in the international market and continue to focus on delivering an exemplary business service, at affordable rates, in order to develop the customer relationship beyond the U.S. borders. After reviewing different scenarios, the group management team has decided to target Panama in Central America to develop its first international operations which will be named The Palms Resort & SPA.

The Palms Resort & SPA will be a partnership limited liability business company in which the major owner will have unlimited liability. The company will provide the facilities to run a (15-20 rooms) hotel, conference rooms, restaurant and SPA among other services such as business center, laundry, and others. The hotel will be convenient located to have direct access to the beach nearby the Panama Canal operation facilities in Panama City, Panama. Differentiating the kind of service that will be offered, from that

Figure No. 1 **Country Map for Panama**

Statistics

- Population, total: 2.8 million
- Total surface area (sq km): 75,520
- Capital: Panama City
- Language: Spanish
- Consumer price index (1995 = 100): 103.2
- Goods exports (BoP, current US$): 6,325 millions
- Goods imports (BoP, current US$): 7,696 millions
- Current account balance (BoP, current US$): -1,212 millions
- External debt, total (DOD, current US$): 6,689 millions
- External debt (% of GNP): 77.6
- Life expectancy at birth, total (years): 74
- Illiteracy rate, adult total (% of people 15+): 8.6
- PPG, IBRD (DOD, current US$) 278.7 millions
- PPG, IDA (DOD, current US$) 0

1998 Data

Strategy

The main objectives of the World Bank Group's Country Assistance Strategy for Panama are poverty reduction through higher economic growth, development of human resources and physical infrastructure, and improvement in conservation of natural resources.

In this context, IFC's strategy focuses on helping further improve access to long-term financing for Panamanian private sector through support for private infrastructure, capital markets development, and export-oriented industries and services

Source. Work Bank News Report - Panama

of the competition, is an important factor to success. It will not only build The Palms Resort & SPA as a recognized brand in the market place, but also will be an important fact to attract frequent business travelers, who require a higher level of personal service and recognition.

The Palms Resort & SPA will target revenues about $1.2 million in the first year of operation with a net profit after tax of $350 thousands (American Dollars). The estimated year to year revenue growth is 4% which is aligned not only with the local

economy growth projection but also with the forecast growth for the hotel industry in this particular market place.

The company will require an initial funding of $1.5 million in order to cover the capital investment for land, building and equipment. The company will target profitability since year one; although, net cash will remain a remarkable point of concern until the initial funding is paid back to the investors. Gross margin is expected to hit above 75% in year one which could be considered in line with the local industry benchmark.

Our marketing strategy will allow us to communicate the brand values, develop close working relationships with our customers and suppliers and to identify the needs of our guests in an effective manner. Continued differentiation and growth are two goals we have set for ourselves. Growth will take place by targeting new areas of business within both local and national communities.

1.1 Mission

The Palms Resort & SPA will be dedicated to provide its guests with the highest quality of service in a luxury still modest environment. It will value the place in the community within it will operate and will work to develop those relationships and to respect and protect the environment.

The Palms Resort & SPA will continuously strive to create value for both owners and investors while honoring the brand values and encouraging it staff to develop themselves in an environment of trust, loyalty, caring, and team work.

2.0 Situation Analysis

2.1 Description of business:

Low scale hotel & resort (15-20 rooms), convenient located to have direct access to the beach nearby the Panama Canal operation facilities.

It will offer a luxury but modest relaxing environment for not only international tourist but also for the local people looking for a nice place to spend the weekends or short vacations (e.g. summer school vacations, carnival, etc.)

Also, it is expected that we will offer to our customer excellent facilities to host special events as seminars, weddings, private parties, etc. Also, it will include a SPA Package for those tourists looking for a place to relax and invest some money in theirs body treatment (e.g. facials, massage therapy, and others.)

Differentiating the type of business service offered, from that of the competition, will assist not only in building the Hotel & Resort brand as a whole, but will attract frequent business travelers, who requires a higher level of personal service and recognition.

2.2 Macro environment (industry changes):

Total tourism sector in Panama represented about US$ 626 MM in Year 2001. Revenues generated to the hotel industry represented about 13% which was about US$81MM. (8% increase versus 2000). The external, environmental issues that affect the Hotel are:

•**Political**: a stable environment where little affects the ability of the hotel to generate revenue. From The Wall Street Journal, 2003 Index Of Economic Freedom Report,

“ Most sectors of Panama's economy are open to foreign investment, although there are a few restrictions on "national interest" industries, retail trade, and some services, and some professions require Panamanian technical licenses. The International Monetary Fund reports that residents and non-residents are permitted to hold foreign exchange accounts; there are no restrictions or controls on payments, transactions, transfers, or repatriation of profits; and non-residents may purchase real estate except within 10 kilometers of a national border or an island. Foreign nationals may comprise no more than 10 percent of the blue-collar work force for any business, and specialized and technical workers may comprise no more than 15 percent of the total number of employees in any business.”

Law No.8 (June 14, 1994) “Promotion of Tourism Activities in Panama” was created to establish special fiscal incentives for the construction, refurnishment and development of facilities having a minimum investment of US$ 300,000 within the metropolitan. We are planning to consider the tax exoneration include in this law as part of the business plan.

•Economic: Economic grew 2.6% in 2000 but it was down to 0.4% in 2001. Preliminary results for 2002 indicate that it grew 0.4%. Public sector investment kept the economy from slipping into recession in 2002. Economic is expecting to improve this year to 1.5% as a result of the presidential election process.

From The Wall Street Journal, 2003 Index of Economic Freedom Report, “Panama's top income tax rate is 30 percent; the marginal rate for the average taxpayer is 4 percent. The top corporate tax rate is 30 percent. Preliminary numbers from the Ministry of the Economy indicate that government expenditures equaled 35.38 percent of

GDP in 2000, up from the 26.9 percent reported in the 2002 Index. Based on clarification in the methodology for calculating the income tax score, as well as the higher level of government expenditure, Panama's fiscal burden of government score is 0.5 point worse this year. Regulations in Panama are generally transparent, but businesses can be hampered by red tape. The U.S. Department of State reports that investors in the mining sector, for example, complain that "mining sector growth has been limited…by excessive bureaucracy in authorizing exploration, opposition by indigenous groups, and slow implementation of a mining master plan." In addition, rigid labor laws reduce labor mobility and inhibit hiring. Corruption is a continuing problem; according to the U.S. Department of State, "Panamanian laws regarding corruption are generally weak, and government enforcement bodies such as the Comptroller General and the Attorney General have historically been ineffective in pursuing and prosecuting those accused of corruption." Companies complain that corruption in Panama is a "nuisance" obstacle to doing business.

•**Social**: the trend towards cost effective business travel leads hotel guests to seek more value for money, which is where our added value differentiation strategy comes into play.

•**Technological**: the installation of 'on-line' room reservations system will require the integration of the hotel IT system with hotel web sites (e.g. Expedia.com) to manage a central reservation system. This may require a high level of investment.

2.3 SWOT Analysis

The following analysis highlights the internal strengths and weaknesses of our organization and the opportunities and threats facing the company in our external environment. We must work to improve our areas of weakness.

Organizational strengths must be leveraged in order to capitalize on external opportunities as they arise, and contingency plans formulated in order to deal with threats presented by the environment.

2.3.1 Strengths

The Hotel's strengths can be identified as follows:

- **Strategy:** established differentiation strategy.
- **Structure:** flat, decentralized structure.
- **Skills:** diverse range of service skills within management and staff.
- **Style:** strong, participative culture.
- **Staff:** specialized and experienced staff well motivated and highly skilled. A well trained team who are proud of their hotel and respect and promote the brand values.
- **Shared Values:** clear and well communicated.
- **Brand Strength:** brand values well represented engendering brand loyalty amongst existing and new guests.
- **Reputation:** promote a strong reputation within the local market and corporate and travel trade markets for reliability, exemplary service and quality.

2.3.2 Weaknesses

The Hotel's weaknesses can be identified as:

- **Capital Investment**: require approval of credit lines from local banking to properly fund the initial capital investment to build the facilities.
- **Seasonal revenues**: the flow of tourist cycle that occurs during spring-summer seasons versus winter should be considered and manage.
- **Staff:** seasonal turnover requires ongoing training and orientation of new staff.

2.3.3 Opportunities

The Hotel's opportunities can be seen as:

- **Market:** returning growth after a period of slump (2003 versus 2001)
- **Competitors:** no direct competition exists at present, in terms of the SPA Package and the convenient location nearby to the Panama Canal. (business property' niche)
- **Suppliers & Staff:** Supplies (materials) and Staff (Personnel) required to run the facilities could be obtained from the local market
- **Guest Dependency:** repeat corporate business based on personal service and quality, in a small but luxurious environment.

2.3.4 Threats

Threats to the Hotel have been identified as:

- **Market Entry:** potential for a competitive, global brand to enter the market with a similar product.
- **Substitutes:** fully furnished and serviced business apartments offering lower daily rates.
- **Economy:** recovery from slight recession may take time.

2.4 Competition analysis

Although no direct competition exists, in terms of the five stars plus SPA Package facilities, other five star hotels and serviced apartments do compete for the same corporate business sectors. Key competitors have been identified as:

•**Hilton:** 5 star city hotel, room rates on par with Hotel's rate.

•**Marriott:** 5 star city hotel, room rates approximately 10% higher Hotel's facility and it only four years old.

•**Intercontinental:** 5 star city hotel, daily rates 15% higher than Hotel's double deluxe rates.

•**Country Inn Apartments:** 4 star furnished apartments, daily rates vary between Hotel's double deluxe and suite rates. They are two current facilities: one is located within the city perimeter and the other is closer to the Panama Canal area.

Table 2.4: Growth and Share Analysis

Competition	Price ($/unit)	Growth Rate (%)	Market Share (%)
Hilton	$ 105.00	6.0%	20%
Marriott	$ 115.00	8.0%	33%
Intercontinental	$ 120.00	5.0%	12%
Country Inn	$ 105.00	6.0%	30%
Hotel's (Project)	$ 105.00	8.0%	5%
Other	$ -	0.0%	0%
Average	**$ 91.67**	**5.5%**	**16.7%**
Total	$ 550.00	33.0%	100.0%

3.0 Target Market Analysis

The Hotel is a beach & resort 5*+hotel comprising 15-20 luxury guest rooms and specializing in servicing tourists and corporate clients. It serves the business community, and visiting business travelers, in the city of Panama, Panama.

Our key clients are contracted corporate clients originating from both international and domestic markets from North America (USA & Canada), Latin America and Europe.

Key to our business success is the level of customer loyalty and repeat business we will receive on an annual basis. We will offer our guests the most up-to-date technical business facilities, both inside the rooms and within the hotel's conference facilities. Also, we will offer excellent SPA facilities for relaxation and body treatments. Our

guests feel that they can conduct their business from within a less austere atmosphere than can be experienced in our competitive properties, where there is less personal recognition. They will appreciate being called by name when they arrive, and having the staff remembers their specific requirements, time and again. This is key in developing the relationship beyond an initial stay and evidences our added value in relation to competitive properties in the vicinity.

Table 3.0: Target Market Forecast

Potential Customers	Growth (%)	2002	2003	2004	2005	2006	CAGR
Latin America	3.0%	186,966	192,575	198,352	204,303	210,432	3.0%
North America	5.0%	122,127	128,233	134,645	141,377	148,446	5.0%
Europe	7.0%	11,648	12,463	13,336	14,269	15,268	7.0%
Local	2.0%	10,000	10,200	10,404	10,612	10,824	2.0%
Total	**3.9%**	**330,741**	**343,472**	**356,737**	**370,561**	**384,970**	**3.9%**

3.1 Market Demographics

Market Geographic: Panama City is the capital of the Republic of Panama, with a population of 800,000. Located in the center of the Western Hemisphere, Panama has borders with the Caribbean Sea in the north, the Pacific Ocean in the south, and Colombia in the east and Cost Rica in the west.

The Panama Canal allows vessels and cruises to transit from one ocean to the other. Panama's topography varies from mountains towards the Caribbean coast to small hills and vast savannas towards the Pacific side.

Figure No.2: The Panama Canal (source www.acp.go.pa)

<u>Market Demographics</u>: Total population is estimated around 3.0 millions and it has a density of 31 persons per square kilometer. Nearly 50% of the people live in the urban areas. The country's capital community is made up predominantly of households having two to four children, either at home or away from home, with at least one parent/guardian having attended college.

<u>Market Psychographics</u>: Panama is a free port for tourist goods coming from all over the world. People from Panama are used to treat and do business with people from any

continent. There is a strong 'small business' ethic in the community, and many families run

Enterprises have been prospering for generations. There is also a strong sense of community and a high level of awareness as regards to caring for the environment.

Market Behaviors: Businesses in the area choose to support one another wherever possible, be remaining loyal to long standing relationships with customers and suppliers. Credit cards are accepted in most hotels, restaurants and department stores. Most stores open from 9 a.m. to 6 p.m., Monday through Saturday. Some of them open on Sunday. Special Sales are frequent throughout the year.

3.2 Market Needs

The Hotel will offer value and benefits to our clients, over and above the standard of our facilities and affordable rates. We seek to provide our guests with an exemplary personal service, and level of recognition that they have come to rely upon. We will provide our guest with a luxurious, relaxing environment within which to conduct their business or vacations and that our hotel customers would not be able to find at other more impersonal competitor hotels.

Figure No. 3: View of Panama City (source www.epasa.com/turismo)

Our guests need to know that they can develop a relationship with the hotel that will ensure efficiency, value for their money and reliability in supplying them with the support they need, when they need it. We will operate with a very strong sense of community, and we want to stay an integral part of that community.

Figure No. 3: View of Panama Beach (source www.epasa.com/turismo)

3.3 Market Trends

Market trends can be categorized as follows: Corporate Travel Policies, Local Business Trends, and Economic Cut Backs.

- Corporate Travel Policies: As a result of various security issues, as regards traveling in both domestic and international markets, there has been a significant drop in corporate guests visiting the city. Although the level of corporate room business appears to be increasing again, it has had a significant affect on last year's result and consequent projections for the future.
- Local Business Trends: There has been a period of low activity in the area of conferencing and business catering with local companies electing to conduct meetings and seminars on their own premises in order to cost cut. This is changing however as group bookings, incoming visitors and day use of conference facilities is on the increase.
- Economic Cut Backs: The city has not cancelled any major trade events over the last two years. Exhibitions held at the halls had attendance figures much lower than expected. All booked events for the upcoming 12 month period however; including the Miss Universe Pageant Show and other Fashion Exhibitions have pre-booked attendance figures inline with expectations and in some cases in excess of projections.

3.4 Market Growth

The growth rate of the target markets has been increasing the past five years with the only exception of year 2002 in which some contraction in the market was experienced mainly due to the global economy and the secondary effects of 9/11. Current trends indicate a return to projected growth figures within the next 10 to 15 months. Once reestablished, growth is anticipated to continue at a steady pace inline with the expansions in the country's tourism activities, the annual program of travel trade events taking place and the launch of a new complex facility built in the Panama Canal Area this year.

The number of tourist and visitors (potential customers) has grown at an average of 6.0% during 1998-2000. In 2001, the number of visitors increased about 22%.

4.0 Objectives

Our marketing strategy's objective is to communicate the unique set of products and services that we will offer to our hotel's guests. We attempt to direct the focus of our customers to the issues of quality and value for the money as opposed to simply the bottom line costs associated with their staying time in the hotel.

Our marketing strategy will allow us to communicate our brand values, develop close working relationships with our creditors, customers and suppliers and to manage the needs of our guests in an effective manner. Continued differentiation and growth are two goals we have set for ourselves. Growth will take place by targeting new areas of business within both local and international communities.

4.1 Marketing Objectives

• To share our strategic objectives with potential creditors in order to properly fund the initial capital investment to build the facilities.

• To communicate how loyalty amongst our guests will be developed by providing a positive hotel experience to them.

• To establish the hotel starts up revenues, profit and growth target goals within the given time and budget action plan.

5.0 Marketing Mix Strategy

The Hotel will be positioned as a five star plus, tourist and business traveler's hotel, strategically located and offering a high level of personal service. Our focus is on offering our guests added value and differentiating ourselves in our levels of personal service. We provide a quality hotel experience where guests are valued, respected and their business is truly appreciated. In this section, we will review some important elements of our marketing mix strategy to accomplish our goals.

5.1 Marketing Mix

5.1.1 Product: The Hotel will provide the customer- guests with an alternative to the impersonal, large five star properties in the city. Strategically located, our property will enable our guests to be at the heart of the business community and yet in an environment

of calm and professionalism nearby the Panama Canal facilities. We seek to differentiate our product and services in the following areas:

- Personal recognition of our frequent travelers.
- Luxurious rooms that offer a sense of doing business from 'home.'
- Staff that have a strong customer-service ethic.
- Business and relaxing facilities to pamper customer's loyalty.

5.1.2 Place: product and service information will be sold to the guest via personal selling, direct marketing, advertising and the Internet. Delivery channels include travel agents and international reservations systems.

5.1.3 Price: pricing strategy will be consistent with the differentiation objective, to provide added value for a reasonable rate as opposed to discounting and devaluing our products and services. Room rates quoted are net of tax and service, are per night, per room with continental breakfast included:

- Corporate single - $ 95.00;
- Corporate double - $ 125.00;
- Corporate double deluxe - $ 175.00;
- Corporate suite - $ 225.00.

Conference room rates are net of tax and service, quoted per day use with tea and coffee breaks (2) included:

- The Main Boardroom - $260.00;
- The Conference Hall - $350.00;
- The Ballroom - $950.00.

SPA and others facilities (e.g. restaurant & bar) will be managed by out-sourcing the service. The hotel will provide the facilities and establish the service policy and strategy to ensure that the out-sourcing contractors will provide be aligned with the hotel marketing plan. Revenues generated from the SPA and other facilities have been considered as part of the hotel total estimated revenues.

5.1.4 Promotion: primary focus will remain on mass communication via print ads in trade publications and on the Internet. Direct mail campaigns to existing and prospective clients will increase as a cost effective means of targeted campaigning.

Personal selling in the local market will remain an important element of the mix in order to build long-term relationships within the local community and generate the initial high levels of corporate activity requires to fund the target growth.

Public relations activities will play an important role in the marketing mix, presenting the hotel as a supportive member of the community and participating in significant local events (e.g. National Tourism Association Campaigns, American and National Chamber of Commerce Activities, Environmental Protection Agency Sponsorship Programs, Panama Canal Commission – Land Development Authority Council Meetings, etc.).

5.2 Estimated Tactical Budget

Our annual marketing budget is US$100,000. Sales are estimated to achieve gross revenues of $1, 200,000 for the 1st year of operation. Our marketing expenses will be approximately 8.3% of the gross revenue.

5.2.1 Sales Forecast

This is based on the number of pre-contracted corporate rooms, and an anticipated return to business levels projected (conference room activities, SPA package, restaurant and other room services). Revenues for subsequent years will be based on an average growth rate of 4%.

Table 5.2.1 Sales Forecast

Sales Forecast	FY #1	FY #2	FY #3
Corporate Single	$ 94,050	$ 97,812	$ 101,724
Corporate Double	$ 217,500	$ 226,200	$ 235,248
Corporate Deluxe	$ 181,500	$ 188,760	$ 196,310
Corporate Suite	$ 30,810	$ 32,042	$ 33,324
• The Main Boardroom	$ 42,900	$ 44,616	$ 46,401
• The Conference Hall	$ 45,500	$ 47,320	$ 49,213
• The Ballroom	$ 118,750	$ 123,500	$ 128,440
SPA Facilities	$ 172,874	$ 179,789	$ 186,980
Restaurant & bar	$ 310,725	$ 323,154	$ 336,080
Total Sales	**$ 1,214,609**	**$ 1,263,193**	**$ 1,313,721**

Total Monthly Sales Forecast
$140,000
$120,000
$100,000
$80,000
$60,000
$40,000
$20,000
$-
Jan
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec

Monthly Sales Forecast (Rooms)
$60,000
$50,000
$40,000
$30,000
$20,000
$10,000
$-
Jan
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
Corporate Single
Corporate Double
Corporate Deluxe
Corporate Suite

Monthly Sales Forecast (Facilities)
$90,000
$80,000
$70,000
$60,000
$50,000
$40,000
$30,000
$20,000
$10,000
$-
Jan
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
• The Main Boardroom
• The Conference Hall
• The Ballroom
SPA Facilities
Restaurant & bar

Estimated Annual Sales Share (%)
40%
43%
17%
Corporate Rooms
Conference Rooms
Other Facilities

5.2.2 Marketing Expense Forecast

Marketing expenses are projected to be approximately 5.3% (average) of overall annual revenue. The breakdown of expenditures is as follows:

Table 5.2.2 Marketing Expense Budget

Monthly Expenses	FY #1	FY #2	FY #3
Print Advertising	$ 10,800	$ 11,448	$ 12,364
Internet Advertising	$ 24,000	$ 25,440	$ 27,475
Public Relations	$ 9,600	$ 10,176	$ 10,990
Direct Advertising	$ 20,400	$ 21,624	$ 23,354
Total Expenses	**$ 64,800**	**$ 68,688**	**$ 74,183**

Total Sales	**$ 1,214,609**	**$1,263,193**	**$1,313,721**
(%) of Sales	**5.34%**	**5.44%**	**5.65%**

Our marketing expense is structured to reflect the hotel strategy differentiation. Quarterly travel trade publications and interim monthly press ads will communicate our message to key corporate clients in one of our most significant target markets. Monthly Internet advertising expenses include banner ads, and strategic links with car rental, airline and destination management companies' websites to drive business to the hotel. Direct mail activity will support to build our targeted customer database, not only in terms of improving the quality of the data but also on increasing the size of the database with prospective customer information. Public relations expenses cover PR events, participation at local functions and sponsorship funds. Overall, the percentage of total revenue required to support the marketing expense could be considered a moderate amount. We are expecting to adjust the percentage of marketing expense to sales to reflect an increase to the level of 8-10% for subsequent years.

5.3 Proposed Action Plan and Timeline

All figures will be monitored on an ongoing basis in relation to projections versus actual figures, and the ongoing plan will be altered or manipulated as necessary in order to react to and, wherever possible, anticipated external changes to the environment.

Annual Marketing Plan results will be evaluated as part of the agenda of the Sales Meeting programmed at the end of the year where the structure of the plan for the upcoming year will also be established.

Actions	YEAR #1											
	J	F	M	A	M	J	J	A	S	O	N	D
Contract media space												
Ad agency liaison on print ad material												
Evaluate business results ongoing quarterly												
Direct mail lists to purchase/prepare												
Ad agency liaison on direct mail material												
Despatch/monitor campaign results												
Public relations functions to schedule												
Establish list of sponsorship events/companies												
Evaluate sponsorship requests												
Annual Sales Meeting – Evaluation												

The marketing director will lead the hotel Public Relations and Marketing team of all advertising, promotional and public relations related activities. He/She will work closely with the members of the team, specially the Sales and Finance Directors to implement and monitor the effectiveness of the marketing plan and evaluate the quarter results.

Actions	Budget ($)	Responsible Department
Contract media space	$ 15,000.00	Marketing
Ad agency liaison on print ad material	$ 10,000.00	Marketing
Evaluate business results ongoing quarterly	$ -	Marketing
Direct mail lists to purchase/prepare	$ 6,000.00	Marketing
Ad agency liaison on direct mail material	$ 7,000.00	Marketing
Monitor campaign results	$ 3,000.00	Marketing
Public relations functions to schedule	$ -	Public Relations
Establish list of sponsorship events/companies	$ -	Public Relations
Evaluate sponsorship requests	$ 6,000.00	Public Relations
Annual Sales Meeting – Evaluation	$ 7,000.00	Sales-Marketing
Totals	$ 54,000.00	Finance

6.0 Management Team

6.1 Organization Structure: The founder of the company will manage the hotel's growth and organization jointly with the management team. All staff, sales and marketing personnel will report to the management team as per the organization chart in the following chart.

THE PALMS RESORT & SPA

Proposed Organization Chart

6.2 Other Management Considerations

The Palms Resort & SPA will adopt a cross –functional team work approach to manage not only the day to day hotel activities but also current and new product-service package developments. Having representatives from various departments clearly has its advantages; but most important, effective teams must have the nurture and support of the management team.

7.0 Financial, Budgets and Forecast

The financial plan for driving and funding the growth of The Palms Resort & SPA is presented in detail in the following sections. Initial capitalization (after founder's seed) is about $1.5 million. This capitalization is intended to be provided by the local bank sector and the private investors.

7.1 Important Assumptions

The financial assumptions upon which this plan is based are outlined as follows:

Table 7.1 : General Assumptions

	2004	2005	2006
Short-term Interest Rate (%) ……	3.0%	3.0%	3.0%
Long-term Interest Rate (%) ……	5.0%	5.0%	5.0%
Tax Rate (%) - See note (*) ……..	0.0%	0.0%	0.0%
Revenues Growth ……	0%	4%	4%
Sales on credit (%)……	75%	75%	75%
Marketing Expenses (as % of Revenues)……..	5.3%	5.4%	5.7%

Notes:

(*)Law No.8 (June 14, 1994) "Promotion of Tourism Activities in Panama" was created to establish special fiscal incentives for the construction, refurnishment and development of facilities having a minimum investment of US$ 300,000 within the metropolitan area. The incentives and benefits are:

(a) Exoneration for 25 year period of import duties, contributions, levies, and impositions of any kind on imports of materials, equipment, furniture, accessories, vessels, and motor vehicles able to accommodate at least 8 passengers.

(b) Exoneration of real estate taxes of a 25-year period.

© Exoneration of any kind of tax or levies on the capital of the enterprise.

(d) Exoneration of income taxes on interest earned on loans made to investors involved in public lodging accommodations.

(e) Special 10% depreciation rate for all real state assets excluding land.

7.2 Sales Forecast

Sales Forecast	Estimated 2004	Estimated 2005	Estimated 2006	Average Share (%)	Average ($)
Corporate Single	$ 94,050	$ 97,812	$ 101,724	**7.7%**	$ 97,862
Corporate Double	$ 217,500	$ 226,200	$ 235,248	**17.9%**	$ 226,316
Corporate Deluxe	$ 181,500	$ 188,760	$ 196,310	**14.9%**	$ 188,857
Corporate Suite	$ 30,810	$ 32,042	$ 33,324	**2.5%**	$ 32,059
• The Main Boardroom	$ 42,900	$ 44,616	$ 46,401	**3.5%**	$ 44,639
• The Conference Hall	$ 45,500	$ 47,320	$ 49,213	**3.7%**	$ 47,344
• The Ballroom	$ 118,750	$ 123,500	$ 128,440	**9.8%**	$ 123,563
SPA Facilities	$ 172,874	$ 179,789	$ 186,980	**14.2%**	$ 179,881
Restaurant & bar	$ 310,725	$ 323,154	$ 336,080	**25.6%**	$ 323,320
Total Sales	$ 1,214,609	$ 1,263,193	$ 1,313,721	100.0%	$ 1,263,841
Sales Growth (%)	**0.0%**	**4.0%**	**4.0%**		

Total Monthly Sales Forecast
$140,000
$120,000
$100,000
$80,000
$60,000
$40,000
$20,000
$-
Jan
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec

7.3 Projected Operating Expenses

THE PALMS RESORT & SPA
ANNUAL EXPENSE DETAIL

	2004	2005	2006
Operating expenses :			
Sales and Marketing :			
Salaries	$ 75,000	$ 80,250	$ 84,263
Benefits	97,500	104,325	109,541
Telephone	1,200	1,236	1,298
Supplies	2,400	2,472	2,596
Travel	6,000	6,180	6,489
Print Advertising	10,800	11,448	12,364
Internet Advertising	24,000	25,440	27,475
Public Relations	9,600	10,176	10,990
Direct Advertising	20,400	21,624	23,354
Professional services	1,800	1,854	1,947
Miscellaneous expenses	3,000	3,090	3,245
Public Relationships	25,000	27,500	30,250
Total Sales and Marketing	**$ 276,700**	**$ 295,595**	**$ 313,810**
General and Administrative:			
Salaries	$ 100,000	$ 107,000	$ 112,350
Benefits	130,000	139,100	146,055
Rent	3,000	3,300	3,630
Insurance	6,000	6,000	6,000
Utilities	12,000	13,200	14,520
Telephone	1,200	1,320	1,452
Supplies	900	990	1,089
Travel	2,400	2,640	2,904
Professional services	2,400	2,472	2,596
Depreciation	12,000	13,200	14,520
Miscellaneous expenses	2,400	2,472	2,596
Total General & Administrative	**$ 272,300**	**$ 291,694**	**$ 307,711**
Total Operating Expenses :	**$ 549,000**	**$ 587,289**	**$ 621,522**

Operating expenses :	**2004**	**2005**	**2006**
Total Sales and Marketing	**$ 276,700**	**$ 295,595**	**$ 313,810**
Inc/ Dec (%) vs previous year	**0.0%**	**6.8%**	**6.2%**
Total General & Administrative	**$ 272,300**	**$ 291,694**	**$ 307,711**
Inc/ Dec (%) vs previous year	**0.0%**	**7.1%**	**5.5%**
Total Operating Expenses :	**$ 549,000**	**$ 587,289**	**$ 621,522**
Inc/ Dec (%) vs previous year	**0.0%**	**7.0%**	**5.8%**
(%) versus total revenues :	**45.2%**	**46.5%**	**47.3%**

7.4 Projected Financial Statements

THE PALMS RESORT & SPA
Statement of Projected Result of Operations
For each of the three years ending December 31, 2006.

		2004		2005		2006
Gross Sales :						
Corporate Rooms	$	523,860	$	544,814	$	566,607
Conference Rooms		207,150		215,436		224,053
Other Facilities		483,599		502,943		523,060
Total Sales		**1,214,609**		**1,263,193**		**1,313,721**
Cost of Sales		**309,419**		**306,325**		**300,198**
Gross margin		905,190		956,868		1,013,523
As (%) of Gross sales		75%		76%		77%
Operating expenses :						
Sales & Marketing	$	276,700	$	295,595	$	313,810
General and Administrative		272,300		291,694		307,711
Total Operating expenses	**$**	**549,000**	**$**	**587,289**	**$**	**621,522**
Income from operations	$	356,190	$	369,579	$	392,001
Earnings before interest and taxes (EBIT)	**$**	**356,190**	**$**	**369,579**	**$**	**392,001**
Interest expense (income) :						
Interest expense (Short-term @ 3%)	$	3,600	$	4,500	$	3,000
Interest expense (Long-term @ 10%)		5,000		7,500		10,000
Interest income (exoneration @ 0%)		0		0		0
Net Interest expense (income)	**$**	**8,600**	**$**	**12,000**	**$**	**13,000**
Net income before taxes	$	347,590	$	357,579	$	379,001
Taxes (exoneration)						
Federal Taxes (@ 0 %)	$	0	$	0	$	0
State Taxes (@ 0%)		0		0		0
Total Taxes	**$**	**0**	**$**	**0**	**$**	**0**
Net Income after interest and taxes	**$**	**347,590**	**$**	**357,579**	**$**	**379,001**
As (%) of Gross sales		**29%**		**28%**		**29%**

THE PALMS RESORT & SPA
Projected Balance Sheet
For each of the three years ending December 31, 2006.

	2004	2005	2006
ASSETS			
Current assets:			
Cash and cash equivalents	$ 24,292	$ 25,264	$ 26,274
Inventories	12,146	12,632	13,137
Marketable securities	0	0	0
Accounts receivable	25,304	26,317	27,369
Other current assets	6,073	6,316	6,569
Total Current Assets	**$ 67,816**	**$ 70,528**	**$ 73,349**
Property, plant and equipment:			
Land and building	$ 1,000,000	$ 1,000,000	$ 1,000,000
Purchase software	10,000	10,000	10,000
Computer equipment	25,000	30,000	35,000
Room furniture and appliances	200,000	200,000	200,000
Office Furniture and equipment	100,000	100,000	100,000
Conference Room Furniture and equipment	100,000	100,000	100,000
SPA Furniture and equipment	75,000	75,000	75,000
Restaurant Furniture and equipment	250,000	250,000	250,000
Other	50,000	75,000	100,000
Total Property, plant, and equipment	**$ 1,810,000**	**$ 1,840,000**	**$ 1,870,000**
Less Accumulated depreciation	181,000	276,000	374,000
Net Property, plant and equipment	$ 1,629,000	$ 1,564,000	$ 1,496,000
Total assets	**$1,696,816**	**$1,634,528**	**$1,569,349**
LIABILITIES			
Current liabilities:			
Notes and loans payable	$ 100,000	$ 150,000	$ 200,000
Account payable	120,000	150,000	100,000
Accrued income taxes	-	-	-
Other accruals	54,226	4,359	10,179
Total current liabilities	**$ 274,226**	**$ 304,359**	**$ 310,179**

Cont……

EQUITY			
Owner's equity:			
Contributed capital:			
Additional paid-in capital - preferred	$ 1,500,000	$ 1,500,000	$ 1,500,000
Preferred Stock	0	0	0
Common Stock	0	0	0
Total Contributed capital	$ 1,500,000	$ 1,500,000	$ 1,500,000
Retained earnings	(77,410)	(169,831)	(240,830)
Net Owner's equity	**$ 1,422,590**	**$ 1,330,169**	**$ 1,259,170**
Total liabilities and equity	**$1,696,816**	**$1,634,528**	**$1,569,349**

THE PALMS RESORT & SPA
Statement of Projected Cash Flow
For each year ending December 31, 2006.

	2004	2005	2006
Cash flows from operating activities:			
Net Income	$ 347,590	$ 357,579	$ 379,001
Reconciliation of net income to cash from operations:			
Depreciation and amortization	12,000	13,200	14,520
Gain and losses on sales of assets	-	-	-
Changes in operating assets and liabilities :			
Accounts receivable	(25,304)	(1,012)	(26,357)
Accounts payable	120,000	30,000	70,000
Total changes in operating assets and liabilities :	94,696	28,988	43,643
Net Cash provided (used) by operations	$ 454,285	$ 399,767	$ 437,164

Cont….

Cash flows from operating activities:			
(Purchases) Sales of investments	$ -	$ -	$ -
Purchases of property, plant, and equipment	(1,810,000)	(30,000)	(1,900,000)
Total Cash from investing activities	$ (1,810,000)	$ (30,000)	$ (1,900,000)
Cash flows from financing activities:			
Issuance (retirement) of stock:			
Change in additional paid-in capital preferred	$ 1,500,000	$ -	$ -
Change in preferred stock	-	-	-
Change in common stock	-	-	-
Total issuance (retirement) of stock:	$ 1,500,000	$ -	$ -
Total cash from financing activities	$ 1,500,000	$ -	$ -
Net Increase (decrease) in cash and Equivalents	**$ 144,285**	**$ 369,767**	**$(1,462,836)**
Cash and equivalents, beginning	$ -	$ 144,285	$ 514,053
Cash and equivalents, ending	$ 144,285	$ 514,053	$ (948,783)

7.5 Breakeven Analysis

Break even, based upon fixed initial market overheads, will be obtained prior to the end of the 1st year of operation. Cost control and continuous improvement in the operation and implementation of the market strategy will increase profitability which will increase the availability of cash.

Assumptions :	
Average monthly Revenue:	**$ 101,217**
Average monthly Variable Cost:	**$ 25,785**
Estimated Monthly Fixed Cost:	**$ 45,750**
Total Cost (Fixed + Variable) =	**$ 71,535**
Monthly sales Break Even =	**$ 71,535**

7.6 Proposed Business Ratios

7.6.1 Profitability Ratios:

Gross Margin and Net Profit Margin indicate that the hotel will generate profit from year #1. Percentages of gross and net margin (related to gross revenue) are in line with the local industry. Return on assets (ROI) and Return on Equity (ROE) indicate that significant earnings will be generated from the investments in assets and a result an efficient usage of the owners' equity is expected.

7.6.2 Activity Ratios:

AR and AP Turnover suggest a good management of the balance sheet plus the Inventory Turnover that also indicates an excellent rotation of the inventory. Collection days (only 8) represent a business risk in the balance sheet since most of the credit card service providers will require more than 30 days to pay back. Potential increase in the AR could generate some pressure in the cash flow.

7.6.3 Debt and Liquidity Ratios:

Debt and Liquidity Ratios are very low. It is an indication of the required initial capital funding required from the owners' equity.

A negative working capital represents an area of concern. The large amounts in the total current liabilities versus the total current assets suggest that the hotel will be under pressure to cover its debts during the first years of operation. This situation should become under control by significantly reducing the amount of the debt after the 5th year of operation.

Profitability Ratios:	**2004**	**2005**	**2006**
Gross Margin	75%	76%	77%
Net Profit Margin	29%	28%	29%
Return on Assets	20%	21%	24%
Return on Equity	24%	26%	29%
Activity Ratios			
AR Turnover	48.0	48.9	48.9
Collection Days	8	8	8
Inventory Turnover	25.5	24.7	23.3
Accts. Payable Turnover	10.1	9.4	10.5
Total Asset Turnover	0.67	0.69	0.71
Debt Ratios			
Debt Ratio	0.16	0.19	0.20
Debt / Equity Ratio	0.19	0.23	0.25
Liquidity Ratios			
Current Ratio	0.25	0.23	0.24
Net Working Capital	$ (206,410)	$ (233,831)	$ (236,830)
Acid Test	0.18	0.17	0.17
Additional Ratios			
Assets to Sales	1.40	1.32	1.22
Current Debt / Total Assets	0.16	0.18	0.19
Asset Turnover	0.72	0.76	0.82

References

(1) Word Bank News Report. Panama.

(2) The Panama Canal (source www.acp.go.pa)

(3) *Instituto Panameno de Tourismo. Information and Data 2002.*

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