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Business plan of a hostel in Saint Petersburg

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Abstract

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Business plan of a hostel in Saint Petersburg, 56 pages

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The objective of the thesis was to study how to write a business plan and then implement it into Russian business environment on an example of a hostel in the city of Saint Petersburg. The main purpose was to research which components a proper business plan is comprised of. A business plan is an important management tool, assisting its readers to assess whether a business venture has an opportunity to enter the market, work through its milestones and prevent and mitigate crisis events.

The thesis report consists of a theoretical research on how to found a small- or medium-scope enterprise in Russia and the empirical part represents an actual business plan of a hostel in Saint Petersburg. First, the author carefully studied on all aspects of business planning. The gathered knowledge was later implied to an exemplary business plan for a new business venture in the hospitality market of Saint Petersburg.

Due to the fact that this thesis report is a project-based study, the main source of information we various business literatures, internet sources and author's study and work background in the industry. The author hopes that the study will be beneficial for readers, but it has to be taken into consideration, that the study shows an example implemented in a specific business environment.

Keywords: Business plan, hostel, Saint Petersburg, research.

Table of contents

1	Introduction	5
1.1	Justification for the topic choice	5
1.2	Aims of Thesis	6
1.3	Thesis limitations	7
1.4	Research Methods.....	7
2	Theoretical framework	8
2.1	Company establishment	Ошибка! Закладка не определена.
2.1.1	Business Idea.....	8
2.1.2	Business planning	9
2.1.3	Business models	11
2.1.4	Funding	13
2.1.5	Sources of funding in Russia.....	15
3	Business planning.....	16
3.1	Executive summary	16
3.2	Company description	17
3.2.1	Company name.....	18
3.2.2	Company's location.....	18
3.2.3	Mission, vision and goals	19
3.2.4	Legal issues	20
3.2.5	Description of products and services.....	22
3.3	Marketing.....	23
3.3.1	Basic concepts of marketing	24
3.3.2	Customer segmentation	25
3.3.3	Competitor analysis.....	26
3.3.4	Market analysis	26
3.4	Operational plan	27
3.5	Strategic planning	28
3.5.1	SWOT Analysis	28
3.5.2	Porter's five forces.....	29
3.6	Human resource management	30
3.7	Financial information.....	31
3.8	Appendices	32
4	Business plan of a hostel in Saint Petersburg.....	33
4.1	Executive summary	33
4.2	Project background.....	33
4.3	Products and services.....	34
4.4	Mission statement.....	35
4.5	Marketing.....	36
4.5.1	Target market.....	36

4.5.2	Competitor analysis.....	37
4.5.3	Marketing tools.....	39
4.6	Operations.....	41
4.6.1	Location.....	41
4.6.2	Project organisation and coordination.....	43
4.6.3	Staff requirements.....	43
4.7	Financial planning.....	44
4.7.1	Start-up capital.....	44
4.7.2	Projected financial statement.....	46
4.8	SWOT-analysis.....	48
4.8.1	Strengths.....	49
4.8.2	Weaknesses.....	50
4.8.3	Opportunities.....	51
4.8.4	Threats.....	51
5	Conclusions.....	52
6	References.....	54

1 Introduction

This section of the thesis report identifies the reasons, why author has chosen this specific topic. At the same time, its aim is to acquaint readers with the aims and purposes of the project, the scope of work and the general outline of enterprise.

“By failing to prepare, you are preparing to fail.” (Franklin, B.)

Business plan is a powerful decision making tool, which not only entrepreneurs, but also investors and partners, will use to evaluate how good and reliable the business proposal is. Unfortunately, many people underestimate the business plan potential. For some it is just a fund-raising tool, while others getting money from their friends and relatives suppose it is unnecessary at all. In this thesis report, it will be explained what competitive advantages careful business planning gives to an organization.

The thesis report is comprised of two parts. The theoretical part describes how to write a proper business plan and establish a small tourism-related enterprise in Russia. A careful theoretical research is made on an every aspect of business planning. Moreover, the procedures, which are crucial to found a company in this market segment and successfully operate it afterwards are analyzed. The report also contains a detailed analysis of Russian business environment, explaining how the government helps small- and medium- sized enterprises, and the tourism market of Saint Petersburg.

The empirical part of the thesis focuses on developing an actual business plan of a hostel. The information gathered allows to estimate the resource allocation more accurately. With a real business example in mind, it will be easier for the author to plan carefully on all stages of the project.

1.1 Justification for the topic choice

The main reason for choosing this certain topic is the author’s interest in entrepreneurship and performing distinct business related activities

implemented to the hospitality industry. As the author intends to found their own business, this project will mark the beginning of the first steps to help in achieving and executing this goal efficiently.

The bachelor degree in hospitality management, which the author had taken at the Saimaa University of Applied Sciences, was also one of the strongest driving factors. During the studies, there was a wide range of courses taught in numerous disciplines such as accounting and budgeting, planning and strategic marketing, different management- and HR- related subjects. As a result, all of the mentioned above broaden one's knowledge in the field forming explicit views towards the preferred topic choice. From the author's point of view, a business plan is quite a complex notion and consists of various concepts, which demand vast knowledge in different disciplines. Therefore, this project can be also viewed as a final assessment of one's level of expertise with the topic.

At the same time, the idea of running an own business, where the decision-making process and authority are given to an entrepreneur inspires the author, as he has strong interest in obtaining entrepreneur experience in certain business environment.

The reason why a hostel was chosen as the business project was that it is a relatively small enterprise, which has no need in forming and employing a big team, and the expenses can be retained at a comparably low level.

Finally, for the aforementioned reasons, the ability to write a proper business plan gives one a competitive advantage, as any other knowledge broadens one's experience. After finishing such a convoluted project, the person will have a clear view on how any business operates, and what has to be taken into consideration to maximize the profits and succeed.

1.2 Aims of thesis

As it was already mentioned above, the project is comprised of two parts, concerning different aspects of business planning. The first main aim of this thesis is to create a legitimate business plan of a small enterprise (hostel) and to study carefully the process of establishment of a company in Russian business environment to provide fresh travel-related decisions, products and

services, tailored to the needs of both domestic and international visitors. The study also stands for bringing latest trends in hospitality industry from all over the world to Russian market in order to strengthen the image of the country and the city of Saint Petersburg as a tourist destination.

Secondly, as the concept of business planning is not that widely developed in Russia as in many European countries and the US, this thesis and especially its theoretical part could assist people interested in opening their own small- or mid- sized business in this industry. The study stands to examine the importance of every stage of a business plan and what has to be scrutinized during that laborious process.

As a result, this thesis should systematically form a clear view on a business-planning course for the readers, giving them various useful tips and examples. Still for some of the readers, this study will be limited due to a specific location and Russian market special features.

1.3 Thesis limitations

A bachelor's thesis is an operose project, which is on average comprise of about 40 to 70 pages. Presumably, the author conducting the research and repsonsible for the project development disposes insufficient experience. With this in mind, it is crucial to specify the framework of the research in order to accomplish high-quality results.

1.4 Research Methods

The thesis was carried out as a project-based study; the main part of the work is concentrated on desk research, divided into two parts: making a theoretical framework and working on the actual business plan.

A project-based thesis is usually comprised of about 40% of practice and 60% written work piece that implements usage of practice-as-research methodology. A project might be implied in various forms, such as historical performance, play writing, organisation of workshops, design and development, etc. All of the practical procedures must be built on the basis of a conducted research, which matches the field of investigation and has an appropriate framework. Hence, a

project-based thesis is basically built up by appliance of theoretical knowledge and concepts. (University of Warwick, 2012.)

2 Theoretical framework

2.1 Business Idea

A successful venture always starts with a business idea. It is the first milestone when creating a growth company. It is from where any business starts. First, it is only a vague concept and basically has no commercial value, but after a credibility check, an entrepreneur will have a more clear view on the idea's perspectives and success chances in the market. One should think long-term, try to analyze the market for areas of growth with future potential, while working on their business idea.

A business idea might as well be based on entrepreneur's personal skills and interests, while at the same time it can be an innovative invention or an improvement of an already existing product or service. In their article for Guardian Chris Garden and Catherine Blackburn (2015) suggest newcomer entrepreneurs pore over their professional and personal background: "Look at all your historical experiences. You will have developed specific skills in your career, which maybe provide the basis for a business. In addition, you should think about the different companies and market sectors that you have worked in. Think about the skills you have developed outside of work too. In particular, what do you most enjoy doing when you are not working and what would you ideally love to spend more time doing?"

However, one of the main points is that the business idea should be addressed to investors. Because, as it was already mentioned above, there is no monetary value in it, unless the market welcomes it. A successful business idea must show investors and future stakeholders how and how much money they will earn. Henceforth, a good business idea should also answer three essential questions:

1. What? (What the company will produce or sell?)

2. For whom? (What is the target market?)
3. How? (How customers can be reached, funding, personnel, raw materials, etc.)

The vision of a business idea is to present and explain entrepreneurial process from the moment an idea is conceived until the new business or a business unit is introduced to the market. (Hougaard 2006, p.9.)

2.2 Business planning

Finally, when the creative process is finished and the idea is formulated and defined clearly, it is time to start developing an actual business plan.

First, a business plan is exactly what its name implies. It is a blueprint, detailing what business or business concept is, what is expected from the business, how management intends to get the firm to that point, and, of greatest importance, the specific reasons why it is expected to succeed. The last point is crucial whether the business plan is used to attract the interest of a prospective financier or is used internally as the master plan for operating the business. (DeThomas 2008, p.7)

Business plans are used for many significant reasons. Firstly, it will assist a novice entrepreneur to assess if the business idea itself is worth it. Because after a careful research, when all the details and numbers are put together it may all collapse. Hence, business planning requires accurate analysis, as it is not only the auxiliary tool to get business loans and funding, as most people assume, but also a model according to which a business will operate in the future. It will help executives to stay flexible in the long run and be able to make required changes in company's operations in accordance with the market. A business plan assists a business to look ahead, organize effective allocation of resources, and focus on key points. Business and strategic planning is needed to enhance growth and development accordingly to organizational goals and needs.

Business planning allows entrepreneurs to avoid big mistakes, says Ronick (2011) in his article for Inc.: "The last thing you want to do is work on your start-up for a year, only to realize you were doomed to fail from the start. Many

founders learn the hard way that they did not set aside enough capital to reach their goals, took on partners with the wrong skills and resources, or do not have a viable way to make money. Developing and sharing a business plan can help ensure that you are sprinting down the right path.”

Developing a business plan for the company’s early-stage operations is the first step to master strategic planning skills. Due to it, an entrepreneur should set the direction for a company over the next few years. Otherwise, a business faces huge risks, operating in the fast changing market.

With that in mind, one can definitely say that a business plan is quite a complex notion and consists of various concepts, which demand vast knowledge in different disciplines, such as accounting, human resources, strategic and planning marketing, etc. A future executive may use one out of many frameworks, while constructing and preparing his or her business plan. A template, we will use (Bessant, Tidd 2011, p.300.) states, that a typical formal business plan will include the following sections: details of the product or service, assessment of the market opportunity, identification of target customers, barriers to entry and competitor analysis, experience, expertise, and commitment of the management team, strategy for pricing, distribution and sales, identification and planning for key risks, cash-flow calculation, including break-even points and sensitivity, financial and other resource requirements of the business.

Typically, a business plan should be relatively concise, no more than 10 to 20 pages, begin with an executive summary, and include sections on the product, markets, technology, development, production, marketing, human resources, financial estimates with contingency plans, and the timetable and funding requirements. (Bessant, Tidd 2011, p.433.)

Business planning is the process of thinking and working out the details of one’s business in order to prevent problems, improve the business and gain more profit. Planning helps to analyze the potential of the business. It enables entrepreneurs to identify what is needed along the way towards having a successful business. (The Government of St. Vincent and the Grenadines 2014.)

2.3 Business models

Developing a business plan helps entrepreneurs to make crucial decisions, concerning key business activities and maximizing profits, to understand and assess financial aspects of the enterprise, including cash-flow and break-even requirements. At the same time, entrepreneurs are gaining and analyzing important industry and market information and trends. Entrepreneurs learn to recognize and prevent risks the business might face. This information will only benefit the founders, as on the assumption of it, the management team will be able to set specific goals and objectives for the business. (Abrams 2003, p.10.)

In this section of the thesis report, a closer look is taken at the business model concept, trying to explain the purpose of having a clear business model for a business. Once this notion is studied carefully, the reasons for enterprises to work through a business model will be explained, as well as the benefits of implementing one to a business.

A good business model has to answer Peter Drucker's questions: Who is the customer and what does the customer value? Therefore, it also must be able to tell managers how the company is going to make money in the market. More precisely, business model should demonstrate the way organization will deliver its products and services to target markets at a relevant price in certain economic environment. (Magretta 2002, p.4-5.)

In their book, John Bessant and Joe Tidd (2011) suggest future executives a model for innovation and entrepreneurship, which is divided into four key steps: recognizing the opportunity, funding the resources, developing the venture, creating value.

The first step reckons that there are plenty of innovation drivers in the economy, which could take the form of new technological opportunities, changing requirements in market demands, excessive legislative pressure in the industry or competitors' actions. It means that entrepreneurs must be capable of looking into the future, identify, and make use of future, both positive and negative trends that the market and economy is facing.

The next stage is about making strategic choices and bringing up innovation into the company's daily operations. At this stage, it is examined if the idea fits into a business strategy, does the company possess enough expertise and knowledge in the field or it it needs to conduct external analysis in search for appropriate information on the case. (Bessant, Tidd 2011, p.411.)

After the first to steps of developing and improving the business model, the time has come to make those strategic decisions, allocate resources and improve on weak points revealed during this development process. Meanwhile, a company has to gradually pull together all the gathered knowledge on all aspects of business operations. Throughout this stage, entrepreneurs have to balance creativity by finding innovative ideas, which might help when problems emerge.

Finally, despite all the entrepreneurs' efforts in recognizing opportunities, finding resources and developing the venture, still no one guarantees that both partner companies and customers will deservedly value all this hard work. That is why founders have to think about and manage how to protect intellectual property and financial returns. Not to forget that business model development is a valuable learning process. (Bessant, Tidd 2011, p.25-26.)

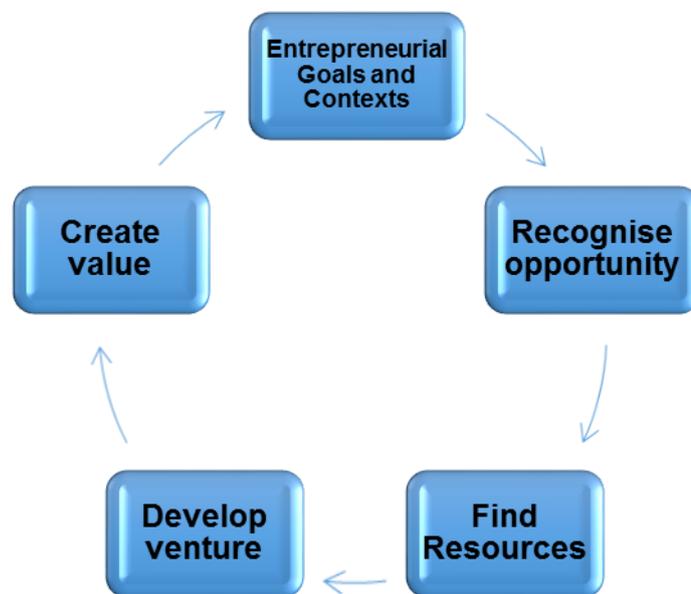


Figure 3. Model for innovation and entrepreneurship (Bessant, Tidd 2011, p.26.)

To sum up, one of the main strengths of developing a business model, as a strategic tool is that it represents how all the components of the business will fit into the market. The perception of business modeling is equal to scientific

methods imposed to business: entrepreneurs start with their interpretation of the company's operations, which is later tested in real-life business environment and revised, if required.

2.4 Funding

When having reached the point when the estimated image of the business concept is ready, the first thing that has to be taken into consideration, is the start-up capital. According to Bessant, J. Tidd (2011, p.434.), there are four stages of development, each having different financial requirements: initial financing for launch, second-round financing for initial development and growth, third-round financing for consolidation and growth, maturity and exit.

In most cases, an entrepreneur will ask typical lenders i.e. banks for a business loan. A loan application must be supported by a worthy business plan, proving that the project will be able to pay interest costs. However, it is not the only way to raise funding for a business. This section attempts to find out from where new players can get funding. It can be the owner's personal savings, loans from friends and family, as at that stage not many venture capitalists or angel investors will be interested. Entrepreneurs may as well seek for government support for the private sector, small- and medium- sized companies. The figure below demonstrates a few examples of fundraising sources, which change with the company growth and development:



Figure 1. Financial development stages/Recourses for funding (Bessant, Tidd 2011, p.435.)

According to the diagram below, which represents the results of a research “Financing UK small- and medium-sized enterprises” (2008) conducted by Cambridge Centre for Business Research most common sources of finance for starting new ventures are. The sources are placed by their prevalence amidst entrepreneurs.

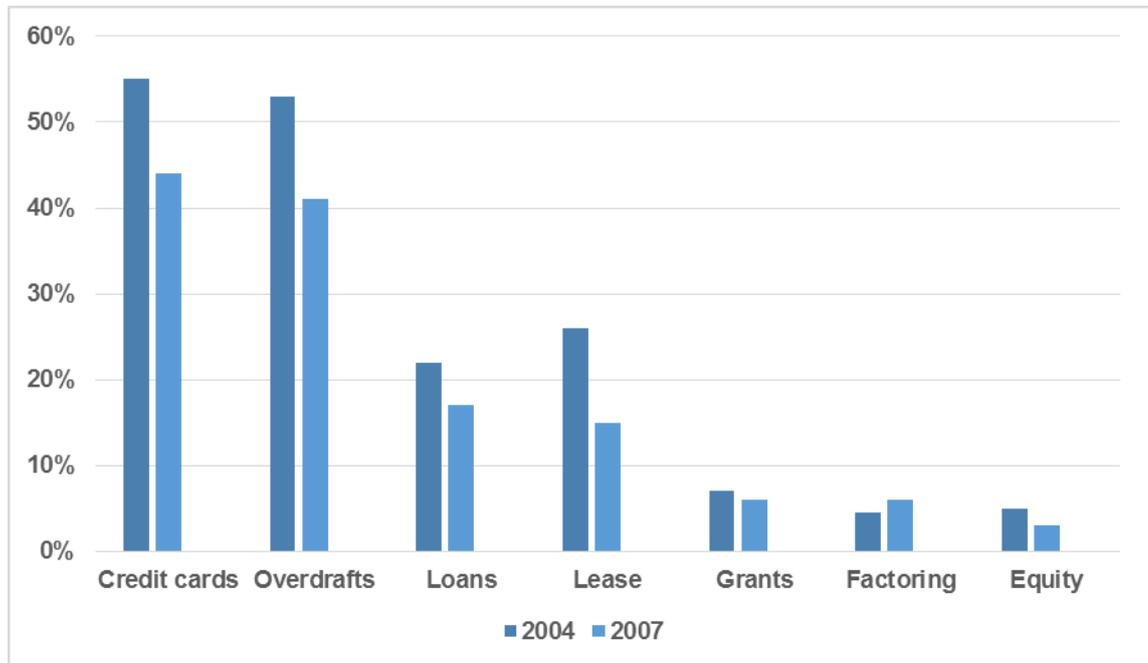


Figure 2. Diagram of sources of funding (wbs.ac.uk)

In addition, when talking about funding, if one’s company is lucky to find an angel investor or venture capitals are interested in lending money, one should learn more about those two notions and how their differ. A business angel investor is usually an individual investor, who may be willing to invest in early-stage or start-up business, as well as established companies. The amount of investment varies from \$10k to \$100k, but it can also sums up to \$1-2 m. Those people already have entrepreneurship experience, established networks and contribution to the field. Newcomer entrepreneurs may learn useful professional skills, when working in such a team. (thebusinessangel.org.)

While venture capital is more likely to be a company or a business, rather than an individual, they are seldom interested in early-stage investing, unless

compelling reasons (e.g. high tech with already successful founders). The investment amounts usually start from \$1 million. Generally, those organizations manage other people's money and different institutional funds. Working with such partners will most likely be paired with them having an ability to influence the business and decision-making process a lot. (thebusinessangel.org.)

2.5 Sources of funding in Russia

Russian government constantly launches new programs towards the support and development of small- and medium-sized companies. In this section, the process of getting government assistance is described. For example, one of the aforementioned programs provides young enterprises with subsidies, which an organization can spend on arranging production, raw materials, distribution, sales, equipment and machinery. Later, a business has to return 50% of the total loan in 5 years. However, the maximum loan a company is able to get is only about \$6-7k, depending on the exchange rates, as the subsidies are given in rubles. All of the programs are similar and mostly offer partial compensation from the total amount spent on company establishment, preferential leasing and discounts for utility costs. Nowadays, most common governmental programs are represented as grants, business incubator, free legal and accounting support, limited returns on renting costs and different educational and innovative entrepreneurship programs. (gd.ru)

The next source of funding is a classical bank loan. According to the U.S Small Business Administration (sba.gov), Westpac Group (westpac.com.au) and Euro Area Statistics (euro-area-statistics.org) interest rates for business loans (usually 1-7 years) in developed European countries, such as Germany, Finland, Sweden, France and the US, may vary from 3.5 to about 10%, while Credit.ru, a project for Russian citizens and companies, providing loan offers and interest rates, shows that the figures can range from 12 to approximately 28-30%. A notable difference in the rates can be seen. In his article for Forbes Milov (2013) states that the gap between European and Russian interest rates for commercial loans is about 10%. Almost 70% of the bank segment is managed by big national banks. Oligopoly in the bank system causes artificial interest rates growth.

3 Business planning

3.1 Executive summary

Knowingly, executive summary is considered to be one of the most crucial components of a successful business plan. This part of the business plan report shortly tells readers (mostly investors, bankers or public institutions) outline of the company's purpose and goals. If the business is in need for finance, then presenting a trustworthy executive summary is the first possibility to catch investors' attention. The executive summary should be able to emphasize the strengths of the long-term plan and, thus it should also be the last section an entrepreneur has to work on. Yet it commonly appears first in a business plan report.

In his article for Inc. Magazine Haden (2015) states, that a good executive summary fits in one or two pages in the beginning of the actual business plan and is usually comprised of following components: a brief description of products and services, a summary of objectives, a solid description of the market, a high-level justification for viability (including a quick look at your competition and your competitive advantage), a snapshot of growth potential, an overview of funding requirements.

Also, according to the article mentioned above when writing an executive summary for a project, entrepreneurs are recommended to keep in mind three simple things about the contents of an executive summary.

The first concepts suggests future CEOs to refine and tighten their business concept, as the summary describes the highlights of a business plan, includes only the most critical points, and leaves out less important issues and factors. It is normal to focus on the most demanding potential success drivers.

As the executive summary is developed, it is natural to focus on the issues that contribute most to potential success. If the concept is too broad, or too

complicated, there are still adjustments to be made. Most great businesses can be described in several sentences, not several pages.

In addition, a well worked-through summary allows business owners to reconstruct their operations. Executive summary appears to be a review of a more complex plan and assists a businessman in working on weak points and set the right priorities for a company. One should ask themselves: “What ranks high in terms of importance? Product development? Research? Acquiring the right location? Creating strategic partnerships?”, advises the US Small Business Administration. (sba.gov.)

When an entrepreneur is just launching a company, there only will be presumed assumptions and common facts about the industry and the market, rather than an operating business model. Consequently, it will be useful to spotlight previous experiences and professional background of the management team. Moreover, it is useful to indicate the reasons why one have come up to establish a company in this specific field.

3.2 Company description

Before going into details and discussing more complex aspects of a business and weighty sections of a business plan report, such as financial planning, marketing strategy or distribution channels, the business plan should include essential details of the organization. This section is meant to acquaint future investors with the company name, its products and services, mission statement, legal status and previously occurred achievements. (Abrams 2002, p.59.)

Company description or company’s background section of the business plan follows the executive summary and provides readers with crucial information about the enterprise. Even if the company has just entered the market and recently started operating, some of the information needed for this part might be uncertain so far. Hence, an entrepreneur is suggested to detail their goals and intentions.

3.2.1 Company name

Company's name is one of the most important components, when an entrepreneur is working on creating a successful marketing appeal. It will be the first thing ones partners, suppliers and customers will pay attention to when doing business with them. At the same time, creating a suitable name for a company is a tough and time-consuming process, because in the best-case scenario it should represent clearly the scope of operations of an enterprise, its values, expertise, special features of products and services provided to the market.

Still, many experts stick to another perception on this one. From their perspective, abstract names make the best brands, forming an image under a vacant state, while others believe that a company's name should help its customers to promptly understand what the business is about. But nowadays, if supported by an appropriate marketing strategy, any name has a chance to bring your business sales and increased visibility among competitors.

When entrepreneurs think of a name for their newborn venture, answering these three simple questions may ease the creative process: how will your name look? On the web, as part of a logo, on social media; what connotations does it evoke? Is your name too corporate or not corporate enough? Does it reflect your business philosophy and culture? Does it appeal to your market?; is it unique? Pick a name that has not been claimed by others, online or offline. A quick web search and domain name search (more on this below) will alert you to any existing use. (sba.gov.)

3.2.2 Company's location

Firstly, a company's location in most cases influences customers' buying decisions. However, its importance might differ from industry to industry. For example, it is crucial for almost all hospitality related businesses. Usually tourists choose a hotel not only by its reviews on service and other amenities, but by its location too. At the same time, office location of many companies does not affect their business operations. For instance, if an organization is not

into retail distribution and all of their products are delivered from a warehouse straight to final buyers.

In her article for Entrepreneur magazine Spaeder (2013) states, that it is crucial to select proper location, if an entrepreneur is about to launch food-related or a retail business with a storefront. In addition, before settling down, future executives should check the demographics of the area, research what attracts potential buyers to a particular district (schools, museums, hospitals, colleges). If an owner is sure in competitiveness of one's products and goods, it might be a good idea to arrange a business venue nearby its competitors, as they probably already invested money in marketing, and their company will only be an additional traffic generator for the new enterprise.

3.2.3 Mission, vision and goals

A mission statement should briefly describe company's operations and the values standing behind them. It shows what a company is and why it exists. A mission statement should represent overall organizational goals and objectives. While at the same time, it should coincide with values and expectations of major investors and stakeholders. A mission statement should tell what the business is, and the vision statement tends to express what a company wants become in future. (Adebisi 2015, p.17.)

According to Evans article for Psychology Today (2010), mission statement should define the present state and purpose of an organization, answering three simple, but thoughtful questions: What a company does? Whom a company does it for? How a company does it?

When a company has developed a clearly defined mission statement, it helps employees and investors to have a more precise understanding of certain business related decisions, organizational changes, resources allocation.

A vision statement describes desired future state of an organization, goals the company has set to reach in 5, 10 or even 20 years. A vision statement should be written tersely and in an inspirational way, which will make it easy for workers to keep in mind and follow company's goals. Directors may change, but

a transparent vision statement should always help a company to focus on key points of future development.



Figure 4. Pyramid of mission, vision and goals (prospect-us.co.uk.)

3.2.4 Legal issues

Plenty of legal issues will emerge when a novice entrepreneur is about to start one's business. Mostly everything, starting from the business name to its operations there are legal implications. For instance, an entrepreneur should check if the chosen name is not taken yet. At the same time, it is crucial to think of the business structure a company will be using. In addition, an executive must find out if any business licenses are necessary to operate in a certain field or area. (alllaw.com)

First, different business structures and types of legal formats are described. Since the author's project takes place in Russia, below he will describe possible forms of incorporation for companies in the country of operations are described:

3.2.5 Commercial and Non-Profit Organizations

Mainly classification of legal entities in Russia is based on whether they are commercial or non-profit. If a company is dedicated to making profit of its main business operations, then it is labeled as a commercial organization.

Commercial organizations may appear in form of business partnerships or companies, production cooperatives, state or municipal unitary enterprises. While companies, which do not make profit within their main business activities are recognized as non-commercial organizations. Non-commercial organizations may be established in the form of consumer cooperatives, social or religious organizations, institutions, charitable or other foundations, or in other forms as provided by the law. (nsplaw.com)

3.2.6 Partnerships

In this type of legal format the participants are referred as general partners, who conduct business on behalf of their partnership, and are held jointly liable for the obligations of the latter taking into account that their property may be used to cover their liabilities within the framework of their joint liability.

Limited Partnership is a partnership where, along with the general partners, one or a few investing participants (limited partners) are involved and they bear their risks of loss connected with the business of a partnership to the extent of the amount of money invested whilst they do not participate in business activities carried on by a partnership.

This form of incorporation is not very common nowadays, as general partners are facing high economic risks, while the limited liability companies are more convenient in this regard. (nsplaw.com)

3.2.7 Limited Liability Companies

A limited liability company ("LLC") is a company established by one or a few persons, the charter capital of which is divided into participatory interests (units); the participants of a company are not liable for a company's obligations and are bearing their risks of loss connected with a company's business in the amount equal to the cost of their participatory interests (units) in the charter capital. An LLC is not entitled to issue shares. Appears to be the most used business format in Russia. (nsplaw.com)

3.2.8 Additional liability companies

As contrasted with those of an LLC, the participants of an Additional Liability Company ("ALC") are jointly liable for a company's obligations to the extent of their personal property, taking into account an amount equal for all of the participants representing the even multiple to the cost of their participatory interests (units) as provided for by the company Charter. In other respects, the regulation of an ALC business is similar to the one of a LLC. This type of legal entity is very rarely seen in Russia. (nsplaw.com)

3.2.9 Joint Stock Companies

A commercial organization, the charter capital of which is divided into a certain number of shares certifying the participants' (shareholders') personal rights relating to a company, is recognized as a Joint Stock Company ("JCS"). In JCS, shareholders are not liable for a company's obligations and are bearing their risks of losses in connection with the company's business activity to the extent of the value of their shares. (nsplaw.com)

3.3 Description of products and services

In his article for Inc. magazine, Haden (2015) states that this section of your business plan should be short, though contain a clear description of produced goods or provided services. One of the most important things to mention for an entrepreneur in this section is how the company's products and services will differ from competitors' offers. Of course, a broad definition needed for innovative products and services, because there might be yet no existing market for them and an entrepreneur must explain the nature of the product. Do not forget to mention competitive pricing policy and cost-efficiency, if your company is entering a developed market. In this case, a business plan probably does not need detailed explanation.

While working on the product description section in your business plan, Haden (2015) suggests answering these key questions: are products or services in development or existing (and on the market?); what is the timeline for bringing new products and services to market? what makes your products or services

different? Are there competitive advantages compared with offerings from other competitors? Are there competitive disadvantages you will need to overcome? (And if so, how?); is price an issue? Will your operating costs be low enough to allow a reasonable profit margin?; how will you acquire your products? Are you the manufacturer? Do you assemble products using components provided by others? Do you purchase products from suppliers or wholesalers? If your business takes off, is a steady supply of products available?

3.4 Marketing

Organizations of all kinds worldwide are constantly engaged in developing marketing strategies for their operations. That is why, an entrepreneur should prove to future investors the capability to adequately assess the market, understand and reach targeted segments and follow key principles of marketing. (Robinson 1999, p.15.)

First, a businessperson should remember the P's, which probably every undergraduate student knows. However, one should not underestimate this notion, as it might be useful, while developing your marketing strategy. The 4 P's model is comprised of such components as, product, price, place and promotion. In this section of the thesis report, the author will explain briefly each of the constituents.

Obviously, this product part must contain a description of a product or service a company is providing to the market. It should include well-stated product characteristics, and, most important, the benefits customers will get, while using your product. Tell your potential buyers why the product is unique. All of the aforementioned will help to create a loud and clear marketing message.

Pricing is one of the most essential things when developing a product outline. In order to select the right pricing policies an entrepreneur should carefully analyze and study the market. To this prospective in time, founders should also clearly understand and have estimated assumptions on the account of production and other start-up expenses.

Place matters, as it was already mentioned above. An entrepreneur should think of the ways the products and services will be delivered to potential

customers. For online stores it is crucial to have a brick and mortar store, as the buying encounter process may affect customers' buying decisions. If the company is involved in manufacturing and distributing of goods, then it should think of the delivery terms and costs, while reliable suppliers and partners at the same time.

Finally, after the product cycle is almost finished, it is time to think of how the business is going to reach its potential customers. Which marketing channels an organization is going to use? Not to forget, that an efficient marketing campaign might be very costly. When developing a marketing strategy for your business, it is always crucial to project and analyze the desired results.

However, many experts offer a revision of the 4 P's model, reckoning there are still important touch points, when developing a worthy marketing strategy. For instance, the 5th P can be described as People. This component touches on an important side of the business, describing the level of service and those who are responsible for it.

3.4.1 Basic concepts of marketing

Companies need growth in the long run to be able to attract new customers, retain old ones, satisfy their stakeholders and compete in the market more effectively. Marketing is the tool organizations use to achieve this growth. One of the main functions of marketing is "to make selling superfluous", as Peter Drucker (1999) has stated. Marketing helps entrepreneurs to determine and assess market opportunities, develop strategies to achieve prominence and take leading positions in the market.

Nevertheless, marketing is a very complex notion and has different objectives, images and effectiveness to particular fields. Still, marketing is not equal to selling, because the development process starts long before the product or service enters the market. Efficient marketing campaigns allow companies to focus on catching customers' preference. Jack Welch, General Electric's CEO told to his employees: "Companies can't give job security. Only customers can!" It is the reason why customer satisfaction and retention appears to be crucial when it comes to marketing. Marketing specialists worldwide study customers'

needs and wants to provide them with a product, tailored to the research results. They develop winning offers for each of the marketing segments on a continuous basis. All of the aforementioned allows companies to predict future market trends and produce the desired product on time. (Kotler 1999, p.18-22.)



Figure 5. Core marketing concepts (Kotler 1999, p.19.)

3.4.2 Customer segmentation

Research says that there are more than 600 000 companies are established yearly only in the US. Hence, newcomer entrepreneurs should understand that most of these businesses somehow found their niche and the next thing future executives should do is to define their target customers. It is essential for a business to understand its customers. Depending on the ability to distinguish different customer groups and their wants and needs, an organization either succeeds in the market or incurs losses due to inefficient usage of marketing tools.

Customer segmentation appears to be a process, which divides market into specific groups in order to develop distinguished marketing strategies according to each of those groups' preferences. There are plenty of segmentation techniques based on distinct criteria or attributes used for customer segmentation. (Tsipsis 2009, p.4.)

Customer segmentation is a very powerful managerial tool, which might help a business to define its most and least profitable clients. With its help companies are able to build relationship with customers and tailor produced products to their needs. If used correctly a company would be able to categorize their customers by various factors, such as geographical location, size and type of organization, their lifestyle and interests, attitudes and behavior.

3.4.3 Competitor analysis

In his book "The art of Intelligence" (2014), Lahneman claims that a well-designed market position is crucial for any enterprise in today's market and competitor analysis will allow players to understand and estimate probability, timing, nature, intensity and the ability of its initiatives.

Every business has competition. Experienced entrepreneurs are always aware of the competition and ready to face it. However, people, who are new to the business and are just about to launch their business to the market might underestimate the importance of competitor analysis and therefore fail to assess the impact of competition to their business. (R., Abrams, 2003, p.108.)

3.4.4 Market analysis

Running a successfully operating business demands vast knowledge in many disciplines, a lot of time and effort. However, if the entrepreneur is often only starting one's venture and does not possess all the needed information about the market, competitors and potential customers. In that case, a carefully conducted marketing research implied to the business model will provide a founder with all the needed information, granting one with an ability to tailor the business offers accordingly to the market and increasing company's chances for success.

First, the author will give a definition of marketing research provided by Beri in his book “Marketing Research” (2013, p.4): “Marketing research is a systematic and objective study of problems pertaining to the marketing of goods and services. It may be emphasized that it is not restricted to any particular area of marketing, but it’s applicable to all its phases and aspects.”

In addition, the author of the thesis report will describe different types of marketing research, as many people see marketing research as consumer surveys, while it is an integral part of the whole marketing research process.

There are distinguished 5 types of marketing research and their descriptions will be stated below: product research (design, development and testing of new and existing products), sales research (concerned with all of the sales and distribution activities of a company), customer research (buying behavior), pricing research, advertising research (media research and copy testing).

Finally, it would be useful to mention the scope of marketing research in order to clarify and increase one’s awareness on what a marketing research can do. A marketing research is scattered in its methods and procedures, which makes it difficult to view the studied problem as a whole. Good coordination between manager and the marketing team is crucial, as without proper testing of the results a marketing research might prove to be wrong. (Beri 2013, p.8-9.)

3.5 Operational plan

An owner of the business must have enough expertise in one’s business day-to-day operations. Otherwise, it would be hard to coordinate the management process. An entrepreneur should focus on key processes within the organization. This section in a business plan report should provide readers on business daily operations, facility requirements, management information system, showing control of stock, raw materials, quality assurance and finally IT-requirements of the venture. (canadabusiness.ca)

3.6 Strategic planning

Strategic planning is considered one of the most important components of a business plan. It allows entrepreneurs to assess perspectives of their companies, evaluating weaknesses and strengths. Strategic planning is a powerful management tool, which grants executives an ability to stay flexible in a constantly changing market environment and to adjust the operations. In addition, a company is now capable of identifying and preventing risks in the long prospective. In this section of the thesis report, the author will describe two most common strategic planning models. Those are SWOT analysis and Porter's five forces.

3.6.1 SWOT Analysis

SWOT analysis is a powerful tool, which allows entrepreneurs to understand their strengths and weaknesses, identify future business opportunity and to prevent and mitigate the risks a company will face.

SWOT-matrix is comprised of four elements: strengths are the characteristics of the business or project that give it an advantage over others; weaknesses appear to be the characteristics that place the business or project at a disadvantage relative to others; opportunities are the elements that the project could exploit to its advantage; threats are elements in the environment that could cause trouble for the business or project. (en.wikipedia.org).

Summarily, SWOT Analysis is a compelling business tool used for analyzing present state of the business and its future prospective. It helps to focus on strengths, improve weak points, identify and make use of opportunities and forecast possible threats. In addition, it appears to be a universal tool, which can be implemented, for instance, to a launch of a new product to the market. (mindtools.com)

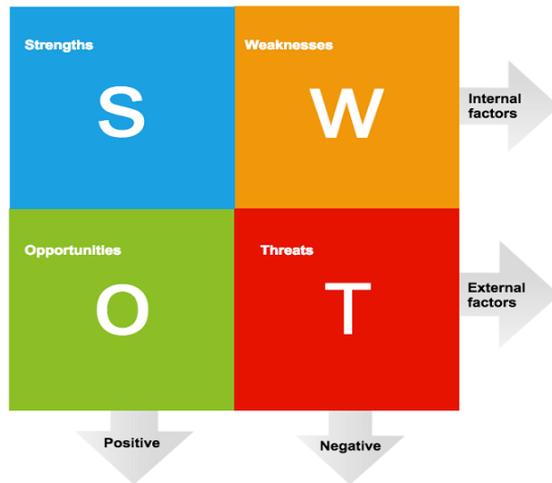


Figure 6. Example of a SWOT Analysis matrix (mindtools.com).

3.6.2 Porter's five forces

Harvard Business School's Michael E. Porter developed this model in 1979. It allows an existing business model to acquire a clear understanding of its future prospects in the market, by analyzing other companies in the industry context, which itself is being influenced by five forces. (businessnewsdaily.com)

This strategic planning model states that there are five factors, which determine the competition's levels inside the industry. Those five factors are represented as: rivalry, which is measured depending on the industry and the amount of operating companies within it, fighting for the market share; threat of substitutes shows how products are affected when there are more and more alternatives in the market and demand becomes pliable; buyer power represents an impact customers have on an industry; supplier power tends to explain that powerful suppliers endeavor an influence on the producing industry; threat of new entrants explains that new firms on the market can still affect the competition levels. (quickmba.com).

The figure below will display a more detailed view on Mr. Porter's model.

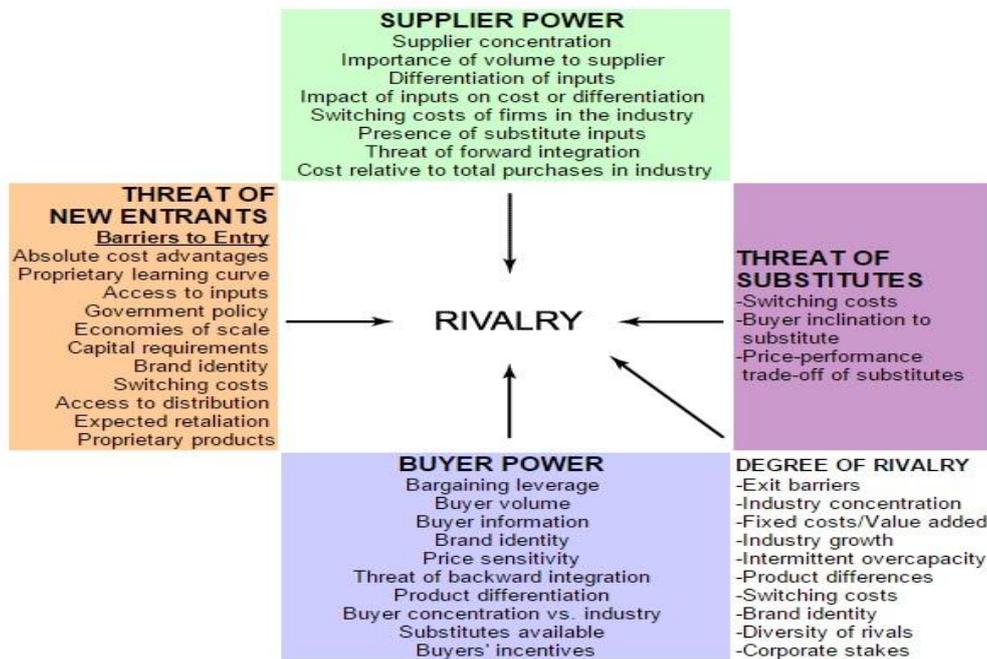


Figure 7. Diagram of Porter's 5 forces. (quickmba.com)

3.7 Human resource management

Despite the industry a company is operating in, the success of the enterprise is directly linked with people who work for it. Their contribution and effort, professionalism, experience and expertise in the field affect company's operations strongly. Hence, a well-organized and coordinated human resource management practices might help the business to grow and prosper in the long run.

This section of a future business plan report should contain information about how an entrepreneur intends to manage their employees and human resource processes. It is advisable to describe a company's short- and long-term recruitment policy, management and training. A detailed explanation of what qualities and qualifications an entrepreneur is seeking from future employees is needed. In addition, the estimated number of required staff members accordingly to customer flow projections and forecasts. At the same time,

salaries for each position and bonus-rewarding systems should be described in this section. (canadabusiness.ca)

In their book “Fundamentals of Human Resource Management” (2014, p.15) Wright, Gerhart, Noe and Hollenbeck claim that: “Effective management of human resources can form the foundation of a high-performance work system – an organization, in which technology, organizational structure, people, and processes work together seamlessly to give an organization an advantage in the competitive environment.”

3.8 Financial information

Financial details are a critical aspect of an every business. Probably, it is the part, which every investor studies most carefully. Henceforth, it must be detailed, providing estimated costs of launching the business to the market, and what most important – to display investors their future earnings, including timing, amount, etc. It is a very powerful business tool, which allows entrepreneurs to have control over all of the company’s operations. Of course, it might be hard for novice entrepreneurs to handle over this section by themselves, thus, they might ask accounting experts to take part in financial planning process. Still, a businessperson should have a clear insight on the subject.

In his article for Entrepreneur Berry (2011) advises to tailor every business plan to its business needs and goals, but despite this fact, entrepreneurs almost always have to work with specific financial projections. Finance and accounting deal with the three fundamental financial statements, which are the income statement (profit/loss statement), the balance sheet and the cash flow. The main difference, while using these tools for your business plan is that usually they tend to describe past transactions, but in our case we have to use estimated guesses on how these statements will look in future. That is why, a high level of expertise in the certain field is required from an entrepreneur, or otherwise it would be hard to forecast market and business directions and trends.

Commonly, businesses split financial planning into two categories: long-term planning and short-term planning (less than a year).

One of the main goals of short-term planning is to keep a company's liquidity on a needed level. It assists entrepreneurs to manage the amount of cash in hand and to make sure the liquid assets of the company allow to sufficiently running day-to-day operations and payments. If novice entrepreneurs struggle from cash losses, Yritysuomi suggests a few ways to cover the shortage by: increasing storage rotation, a short-term bank loan, increasing capital financing, accelerating sales receivables (cash discounts, shortening of payment terms), delaying the disbursements of accounts payable, acquiring an account with an overdraft facility. (yrityssuomi.fi).

Also, there are plenty of various financial models, which could be built in a business plan and used for different purposes. These are cash-flow projections, income statement, breakeven analysis, start-up costs and funding, balance sheet, etc. Named forms appear to be the most important ones, as they allow entrepreneurs to see what the revenue should be to reach breakeven point, to calculate net- and gross-profit, how many units should be sold to how many customers for a business venture to pay off, to prepare and analyze the budget for upcoming year of operations. A careful analysis of these financial forms allows entrepreneurs to assess one's business opportunities and to develop a business strategy based on the numbers and facts. (Abrams 2010, p.267-273.)

3.9 Appendices

When the business plan document is almost ready, an entrepreneur has to think of documents, which might support one's business proposal. It is advisable not to insert those documents into the main body of the business plan report to avoid making it complicated for investors to read. It is also crucial to have appendix within easy reach.

This section of the business plan report might consist of both entrepreneur's and company's credit history, CVs of key managers, detailed description of the product, including its images, contracts, patents, licenses, etc. (sba.gov)

4 Business plan of a hostel in Saint Petersburg

4.1 Executive summary

The most distinguished hospitality businesses, whether it is a hotel or a restaurant, are famous because of a unique location, design or product, but there is one aspect, which unites them all. It is providing outstanding and high-quality service to their guests. Service is a very complex notion, which includes every contact point with a guest. That is why working on an every single aspect of it is so crucial.

Obtaining almost two diplomas in tourism, after a careful research of Saint Petersburg accommodation services sector, the author noticed of a significant difference in the quality of service between European and Russian hostels, while the hostel market share of the whole accommodation segment is ridiculously small. Due to this reason, bringing fresh ideas and new approaches to this market will find its customers.

The project this business plan is all about is a concept of a modern hostel in the city center of Saint Petersburg. While main aims of the project are to provide fresh travel-related decisions, products and services, tailored to the needs of both domestic and international visitors and bring latest trends in hospitality industry from all over the world to the Russian market in order to strengthen the image of the country and the city of Saint Petersburg as a tourist destination.

The competition inside this market segment is constantly growing. Combined with the vast investments into tourism development of Saint Petersburg including legal aspects, law regulations and governmental support, this market will serve as a great start-up ground for an ambitious project, which intends to grow from year to year and expand both inside and outside the country.

4.2 Project background

The urge for this project came after a careful research and analysis of tourism market in Russia and Saint Petersburg in particular. Tourism is one of the biggest and most important economy sectors of the city and its contribution to well-being of the city is tremendous. Only during the year 2013 Saint Petersburg

became a tourist destination for about 6.3 million tourists, including about 3.5 million of domestic travelers, while the rest are international visitors. In addition, this number seems to grow in a few years. In addition, relying on customers' reviews TripAdvisor rated Saint Petersburg as 9th most attractive tourist destination in Europe and 16th worldwide. (tripadvisor.com).

As well, tourism sector should work for the benefit of the brand of the destination. Nowadays, there are about 640 hotels and mini-hotels operating in Saint Petersburg with a total of 27000 rooms. However, the hostel segment is still in development and according to 2014 statistics reckons only about 150 premises with an overall capacity of approximately 1200 rooms. In terms of the accommodation segment, hostels comprise only about 3% of the whole market, compared to 15-20% share in most of European countries.

When it comes to services aspects, tourism sector in Russia faces serious trust issues concerning low qualifications of personnel, poor language skills and safety. That is why government plans vast investments in the industry to improve on the weak points, including infrastructure, employee training programs and support of the private sector, where many of the hostels belong. All of these measures will result in quite fast return on investment of about 4 to 8 years, increase of the employment level and currency flow to the country.

Finally, Russia is considered one of the fastest growing emerging markets in the world nowadays. Due to that fact many innovative and modern decisions in different industries still did not find its used. That is why an attempt to bring up fresh ideas and business approaches might have high approval rate among both workers and customers.

4.3 Products and services

The purpose of the business is to provide accommodation and travel-related products and services for both domestic and international tourists visiting the city of Saint Petersburg. The business will seek to bring up fresh ideas and business approaches concerning hospitality industry. The implementation of the latest trends in the industry will be one of the key success drivers standing in

line with highly motivated professionals employed and delivering high-quality service to the guests. The enterprise will stand in compliance with affordable prices and abide excellent hospitality standards. These factors will help the business to gain a strong market share at the early beginning stage of operations, gaining word-of-mouth and attracting more customers. The hostel will provide concierge services, allowing guests to book tickets to various cultural events and excursions. The needed tourist information on different aspects of travelling through the city will be also provided. The venue will offer on-site food and beverages, snacks and will be equipped with a couple of vending machines.

4.4 Mission statement

As it was already mentioned above, the mission statement should be clear for: customers to allow them to understand which of their problems the company is giving solution to; founders and employees so they would all understand their tasks clearly and be able to adjust their business operations according to the chosen mission; and finally a mission statement should inform investors what goals an entrepreneur is pursuing and how one is going to make money.

The mission statement of the hostel will be comprised of a few objectives, which the company will try to reach to become profitable and attract customers.

Our mission is to develop a working and profitable business model of a small enterprise in the HoReCa market in the city of Saint Petersburg and be able to further not only to successfully compete with market incumbents, but also to become the leader in the segment. Our goal is to make sure they say this hostel is the best place for low-budget travelers to stay around the whole city. In the next few paragraphs the actions to reach it will be described.

The hostel and its employees are going to provide guests with high-quality services and products. The venue itself will be equipped with all the needed amenities to create a cozy, warm and pleasant atmosphere during our guests' stay.

Guests will have an opportunity to get a clear vision on our company, understand its products and services, check the room rates, upcoming events beforehand. At the same time, we will try to maximally ease all these processes including booking through the usage of an easy-to-use website.

We would do it what most of our guests would consider more than a fair price (yet maintain approximately 40% margins.) In the upcoming three years of operations, we expect our occupancy rates to grow by about 45%. (Therefore we need 300 new guests a month.)

At the same time our hostel is going to try to be a good citizen of our community. Hence, we are going to use recyclable materials while constructing the venue and use environmentally friendly packaging for our products.

We are going to take good care of our employees, both medical and dental, because the more they are satisfied with their working conditions the better they do their jobs. It will create brand advocates and give a company good perspective on expansion in the nearest future.

Finally, by combining coziness of the stay, professionalism of our employees, high-quality standards for our products and services, we will contribute to creating a good image of Saint Petersburg as a world-class, safe and entertaining tourist destination.

4.5 Marketing

4.5.1 Target market

Hostels are mostly oriented for young tourists and backpackers, whose budget is limited, but they still are willing to travel and explore the world. There will be no distinction made upon the customers' age, gender or nationality. Hostel's guests will be mainly seeking accommodation for a short-term stay of average about 4.5 days as statistics indicate. Therefore, the enterprise should be equipped with all the needed amenities to make its guests' stay as comfortable and pleasant as possible.

Distribution of Age Segments in Hostels (2010)

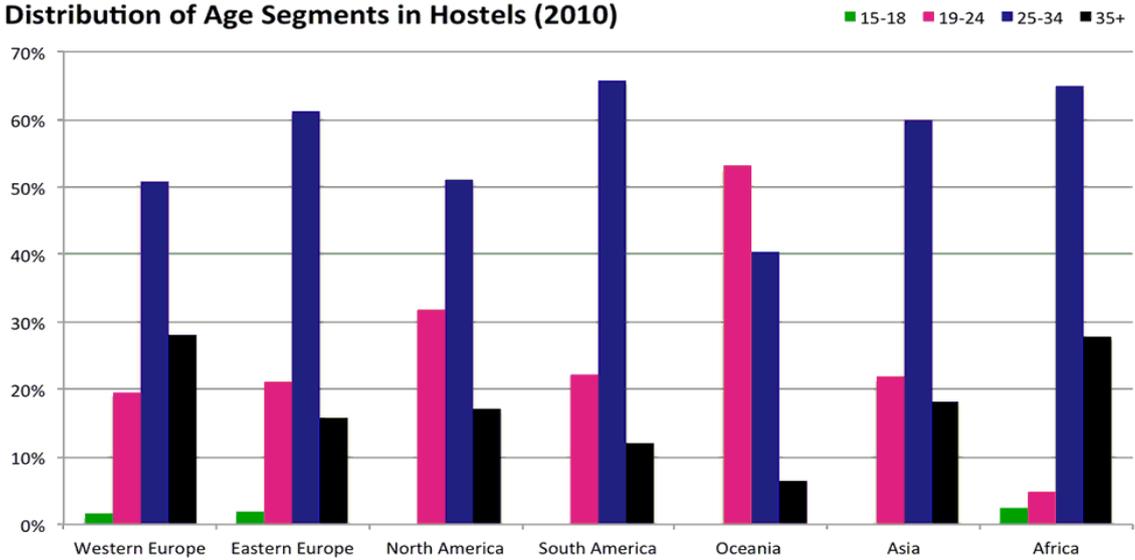


Figure 8. Distribution of age segments in hostels (Bourget 2012)

Tourist Types in Hostels in Europe (2010)

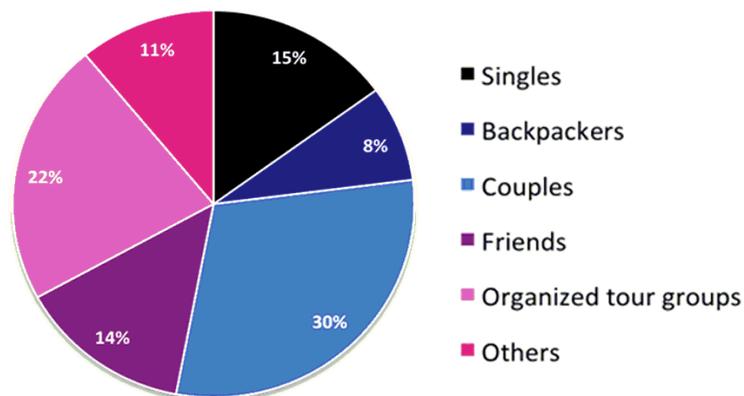


Figure 9. Tourists' types in hostels in Europe (Bourget 2012)

4.5.2 Competitor analysis

The city of Saint Petersburg offers its guests a broad range of accommodating options, depending on the price segments. As low budget travelling is getting more and wider spread, there are new players appearing on the market every day. Hence, a careful analysis of one of the most successful hostels will be conducted.

Hostel chain “Friends” (friendsplace.ru)

Nowadays, “Friends” is one of the most powerful players on the market. They are represented as a hostel chain with 12 hostels located within the central district of Saint Petersburg and many hostels by their brand in other cities in Russia. The company opened its first hostel in 2009. They gain competitive advantage through offering a wide range of different services to their guests, for example, they provide free phone calls worldwide for their guests and many of the services, which you will usually find only in hotels. At the same time, they conduct free master-classes, excursions, lectures and other entertaining events. All of the mentioned above combined with quite democratic pricing policy (from about €15 per sleeping place and approximately €30-40 per room) and high standards of service makes them one of the best hostels in the city.

Hostel “Soul Kitchen” (soulkitchenhostel.com)

This hostel opened its doors in 2009, located in the historic center of Saint Petersburg. Since then the hostel got plenty of awards both domestic and international. For example, it is included in 10 best hostels in Europe. In addition, in 2014 it was considered the best hostel in Europe, the best hostel in Russia and the best small hostel in the world by Hostelworld.com. Recently they opened their second hostel in Saint Petersburg. These hostels provide a wide range of facilities for their guests and are famous for their interiors and location (the building the hostel is located in is 150 years old). Now their management team provides consultations on developing hostel sites worldwide. The prices may vary from about €17-25 per a place in a dorm-style room to approximately €40-100 per a single room.

“Mir” Hostel (mirhostel.com)

They now have four hostels in the city center of Saint Petersburg. As many of the hotels, they provide their guests with free breakfasts, Wi-Fi connection, guest computers and many other facilities. Now the company is planning to expand and enter the mini-hotel market becoming a three-star hotel actually. The prices are rather affordable and start from €15 in dorm-style rooms to about €50 for a double room.

Summarily, the hostel segment in the city of Saint Petersburg is still in development with many new players entering the market. Yet, there are a couple of big players, who determine the trends and bring renovations to this segment. These hostels are out of competition for new enterprises, as building up such a facility requires vast funding, for instance, to create the first “Mir” hostel its founders had invested approximately €75000. We can see a trend, according to which big hostels eventually decide to go to mini-hotel segment, setting higher prices, while providing same services.

4.5.3 Marketing tools

This part of the business plan aims to acquaint readers about the marketing part of the project. As the company is now only entering the market, it has to inform and increase awareness among its potential customers, create a clear image for the brand. Also at the moment, we cannot be sure if the hostel will be successful and will show sufficiently good figures, so our company is not going to invest large sums of money in marketing. Making the most use of all available marketing tools is for now the primary goal.

Moving on to marketing methods used, I want to start with printed advertising. We will print flyers and brochures with a short description of our product, showing basic facts, services and facilities provided and our competitive advantages. The outputs are to be spread through stores, events and trade shows, referring to travel, tourism, hospitality, etc. This will allow us to draw the attention of people, interested in similar or related products and services.

Furthermore, a part of printed ads will be small review articles, which will take place in sports, lifestyle magazines and tourism and hospitality related magazines. In the second place, to return to the point of our relatively small budget, hence, on the early beginning stage there will be no TV-commercials. But a low budget advertising video will take place to be located on different theme-related web-pages and resources. The message of the video is not only about to tell people how safe and convenient our hostel is, but to outline the

high standards of service, exceptional design decisions and effective pricing policy.

Finally, one of the main platforms for advertising will be internet. Mostly it will consist of display ads, linked straight to our web page. The ads are to be located on theme-related resources such as magazines, shops, blogs, etc. web sites. Also behavioral targeted and contextual will take place, they can be positioned on any web page and depend only on specific customers search requests and needs. Internet advertising will include information distribution through social networks (Facebook, Twitter, VK, etc.), basically this method is targeted for teens and young adults.

We cannot ignore the fact that nowadays trade shows, different kinds of events and exhibitions gather numerous amounts of people. Moreover, our potential customers can be among them, which is important. At the same time, such events can help our company to spotlight the product in the media. Thanks to these events, customers can know in detail about the hostel. They can get a wider and clearer image, which is critical. Getting tangible experience is very important in the evaluation- and decision-making process. They can evaluate the product themselves.

Above all, we can organize different kinds of events in the hostel, such as lectures, master-classes, game evening inviting professionals both from abroad and Russia. It will help to draw media attention and spread the word-of-mouth. To increase sales, especially during early period, we can use a wide variety of sales promotions with a different frequency (even seasonal).

First, as I already mentioned above, our company will be exposed on different exhibitions, so we can sell examples on a lower rate, than it is supposed to. As a part of the online marketing campaign, it could be a good idea to launch some interactive service to attract people. The web page itself should be informative enough, providing all the needed information on not only pricing and accommodation, but travel related information on roaming through the city of Saint Petersburg. All this activities could be located on our web page and are

easily reached via smartphones, let us say, through QR (quick-response) codes, located on printed materials. These codes will link our potential customers straight to the activities, so we can simplify access to promotions, without the usage of any secondary sources.

4.6 Operations

4.6.1 Location

As the hostel the author intends to open is a low-budget venture, an ideal location for it would be a 4-5 room flat in the center of Saint Petersburg. The flat should be located nearby some of the most famous sights of the city and at the same time not far away from the possible means of transportation, such as buses, subway, etc.

The author chose to rent a flat of 137m² in the heart of Saint Petersburg and to renovate it to his needs in order to accommodate guests. The venue is located near Admiralteyskaya subway station. This location provides guests easy access to all the needed means of transportation, most popular sights, such as Russian Museum, State Hermitage Museum, Savior on the Spilled Blood Cathedral, etc. Also there are a wide range of cafes, restaurants, bars and night clubs located nearby.

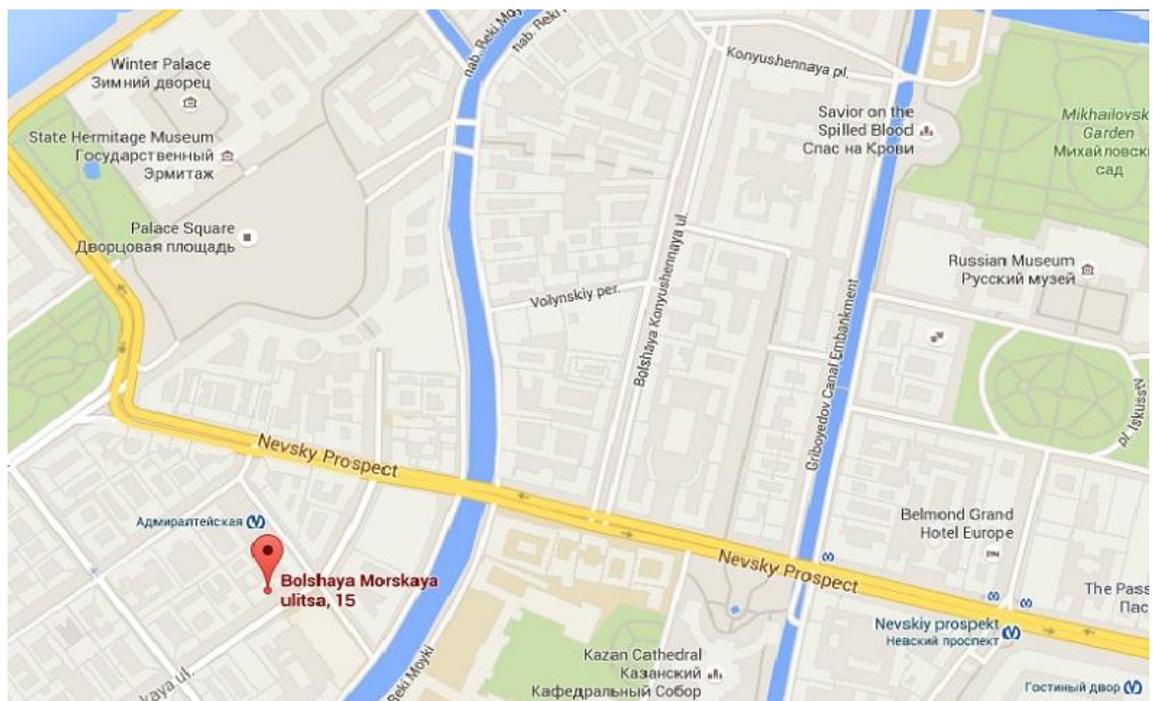


Figure 10. Location of the hostel (google.maps.com)

Each room will be comprised of about three or four bunk beds, closets, all the needed bathing equipment, such as towels, shampoos, etc. for each guest, TVs, high-speed Wi-Fi connection. One of the rooms will be used as a lobby or a guest room where visitors can read, use guest computers; the vending machines are to be located in this room. To make the stay more entertaining a small library, various table games will be available for the guests. One of the most important aspects is to organize spacious bathing zone, with hair-dryers, towels, shower cabins, all the needed bathing facilities. If the budget allows us to build up a small sauna for the guests, it will be a good competitive advantage also.

Here is an exemplary plan of the flat, after the renovation:



Figure 11. Plan of the hostel

One of the rooms will be used as a kitchen zone, equipped with all the needed machinery (a stove, coffee machine, cutlery, etc.) Free tea, coffee and snacks will be available for the guests during their stay.

4.6.2 Project organisation and coordination

The first important aspect of establishing the business is finding an appropriate location and premises. Afterwards we have to officially register the company to be able to conduct further operations. At this point, an enterprise should order an acquiring terminal and a cash machine to conduct further operation and be able to reckon with its suppliers. Next, it is important to calculate estimated financial assumptions, which will be spent on the refurbishment of the chosen premises. The rental agreement should be assigned with the management company of the venue for its future usage as a hostel. The long-term rental agreement must be registered through the Federal Registration System of Russia. Henceforth, we should find proper materials for the renovation of the hostel and agree with subcontractors on dates and payment terms. To keep the guests entertained the hostel should have high-speed internet connection and television. Subsequently one should start the process of employment and create a team of professionals, who will provide visitors with exceptional service. At this point, all the equipment should be ordered and delivered to the premises. Finally, the business can operate at full capacity.

4.6.3 Staff requirements

As the author tends to open a small-sized enterprise, there is no need to employ a big number of workers. One of the critical points for a hostel is to have a good receptionist who will welcome guests, provide them with needed information and look after the overall state of the premises. The reception should be available for the guests 24/7. Henceforth, one person should be able to handle all the duties. The shifts can vary from a 12-hour shift to a 24-hour shift. The first option implies employees to work for 2 days followed by 2 days off. The second choice intends a receptionist to stay in the hostel for a 24-hour shift followed by 3 days off. All of the receptionists should have at least finished a vocational school related to hospitality and must be able to provide sufficient English language knowledge.

When it comes to cleaning, depending on the occupancy rates, we are most likely to use outsourcing companies, which will provide the hostel with house cleaners.

There is no need in creating a PR or marketing departments, as the owner will manage these business activities, as well as revenue and risk management. It would be nice to employ people you have already worked with or familiar with. It would ease the management process and the communication process.

4.7 Financial planning

When it comes to funding, any organization needs a certain amount of cash to start operation and keep the business financially stabilized. Thus, capital requirement planning is essential before there is an opportunity to carry out the business. After thorough financial planning based on the assumptions, the search for the source of funding will start. It is crucial to examine all the possible challenges and threats the business might face. The hostel project itself is not very costly, as it does not require big numbers of employees and usually is operated on the rented premises. In addition, after a detailed business plan is ready, the project will probably recourse to different crowd funding platforms like Kickstarter. Furthermore, there are different competitions and grants for novel enterprises held by various business sources. If the project stands out and obscures all competitors with its unique selling proposition, there is a source on the web called AngelList (<https://angel.co>), where investors from all over the world seek for interesting projects to increase their profits. Finally, an organization is always able to take a business loan and try to get subsidies from different governmental and private organizations.

4.7.1 Start-up capital

Need for capital		Euro	
Investments			
Facilities			
first two months	Rent		1000
	Reparation & Renovation		5000
<hr/>			
Interior decorating, furnishing			
	Bunk bed	x6	336
	Double bed	x1	70

Box-spring	x13	442
Pillows	x14	112
Blankets	x14	189
Bed linen	x14	138
Towels	x28	84
Plaids	x20	70
Tables	x5	300
Chairs	x16	384
Stools	x10	80
Cupboards	x3	865
Hangers	x3	39
Modular sofas	x5	810
Chandeliers, floor lamps	x8	385
Mirrors	x5	35
Kitchen set		1035
Cutlery		80
Bath amenities		150
Reception desk		430

Equipment and machinery

Washing machine	x2	320
Fridge		485
Stove		190
Kitchenware		100
Microwave		55
Kettle	x2	28
Water cooler		110
Coffee maker		75
Hoover		100
Wi-Fi connection		100
Monitoring system		750
Web development		1000

Marketing

1000

Staff salary & outsourcing

2 months

Receptionists	x2	2020
Cleaning		500

Licensing

Company registration		50
Sanitary license		800
Cash register license		0
Fire supervision license		0

Total need for capital **19717**

Sources of funding

Loan capital	Loan from investor	10000
	Loan from friends	5000
<hr/>		
Owner's capital	Owner's own equipment	1000
	Owner's own investment	4000
<hr/>		
		20000

As the estimated calculations show, the author needs 20000 Euros to launch the venue. It is expected to get ten thousand Euros from a private investor reached through a developed business networking in the city of business operations. It is explained by high interest rates when getting a business loan from banks. Due to the type of the business venture the author also does not expect to get any subsidies from the government. Hence, the private investor option seems to be the best option for such business, as there is no need for vast amounts of funding. The author expects to agree on a 15-20% of the profit going to the investor.

4.7.2 Projected financial statement

	Year 1		Year 2		Year 3	
	Euro	%	Euro	%	Euro	%
Revenue	39200		51000		60600	
Accommodation	25000		33500		39500	
Services	8500		10500		12350	
Food & Beverage	5700		7000		8750	
Variable expenses	9111		10542		11806	
Food & Beverage	2750		3300		3950	
Maintenance	850		1035		1125	
Booking systems commission	837		726		435	
Outsourcing cleaning	3000		3300		3500	
Tax (6%)	1674		2181		2796	
Fixed costs	20278		21491		22291	
Rent	6000		6000		6000	
Utilities	1960		2550		3030	

	Salaries for receptionists	8640	9120	9360
	Employee pension (31% to Gov.)	2678	2821	2901
	Advertising	1000	1000	1000
	Loan payment (15%)	5880	7650	9090
Gross margin		25.1	37.19	43.7
Gross profit		9811	18967	26503

The numbers presented may differ from the real results, but the author conducted a careful and thoughtful research, while seeking for best suppliers in the city of Saint Petersburg, providing affordable prices for small business ventures. The costs growth rate tends to keep up with the market, so the salaries will increase; the same will work with the overnight stays rate. For the first year the author presumes the average occupancy rate will stay at about 40-50%, because the hostel is new to the market, and one of the main goals for a newcomer entrepreneur will be to accumulate permanent customer flow. One of the main traffic creators in the early beginning stage will be different booking systems, but from year to year the company intends to spend more on web-development and create an own web-page with a booking engine to minimize the commission rates to the third parties. Hopefully, after a year of successful operations, receiving good customer feedback, the occupancy rate will increase, but the author will try to keep the figures realistic. The projected average occupancy rate for the second year is about 60%, probably reaching its peak of about 80-85% in high season. And finally, after getting known the customers and the word-of-mouth spread around the world, the author expects the occupancy rate for the third year of operations to be at the average level of approximately 70-80%.

The table below will explain some of the projected assumptions:

	Year 1	Year 2	Year 2
Overnight stays	€ 25 000	€ 33 500	€ 39 500
Avg. occupancy rate (%)	40	60	75
Avg. rate/night	€ 11	€ 11	€ 10
Guests daily	~5-6	~8	~10-12
Services	€ 8 500	€ 10 500	€ 12 350
Concierge services	€ 2 000	€ 2 100	€ 1 830
Laundry	€ 3 800	€ 5 100	€ 6 570
Safes, luggage room	€ 2 700	€ 3 300	€ 3 950

Food & Beverage	€ 5 700	€ 7 000	€ 8 750
Breakfasts	€ 3 200	€ 4 400	€ 5 500
Vending machine	€ 2 500	€ 2 600	€ 3 250

The approximate prices for the services would be about three Euros for using a Laundromat with a projected percent of guests using this service of about fifty to seventy. When it comes to concierge services the hostel will take a small commission on the tickets, excursions and taxis booked by the workers. The company will try to establish partnership with booking services for various events, expecting to get the tickets at a lower price. In addition, providing safes for the guests to keep their belongings will cost also about two to three Euros for the period of stay. The author supposes that an average of about sixty to eighty percent of guests will be interested in using this service. Equally important it will be to provide guests with a nutritious breakfast, so they can go and explore the city. The estimated price for a breakfast in the hostel will be about three to four euros, compared to the prices in cafes and restaurants, especially in the city center, it is more than affordable. That is why the author expects, that around fifty or even more percentage of guests will be interested in such an offer. At the same time, the hostel will be equipped with a vending machine serving customers with various snacks and soft drinks. The expectations are about at least one or two guests using the machine daily with an average order of three to four euros. Later on, when the real demand is known, there might be assorted snacks added to the menu, such as sandwiches, salads, etc.

4.8 SWOT-analysis

Strengths:	Weaknesses:
<ul style="list-style-type: none"> • Owner's education and experience in the field • Friendly English-speaking staff • High service standards • Democratic prices 	<ul style="list-style-type: none"> • Lack of entrepreneurial experience • Tight competition • Economic crisis • Political factors • Russian business environment

Opportunities:	Threats:
<ul style="list-style-type: none"> • Adding more services • Expansion around the city, then nationally • Opportunity for creating a franchise model • Organizing events • Build international partnership for further expansion 	<ul style="list-style-type: none"> • Hard to get experienced staff with sufficient language skills • Decrease in tourist flow due to economic and political factors • Changes in laws and legislations, which may affect business operations • Inefficient usage of marketing and distribution channels

4.8.1 Strengths

First of all, author's education in the hospitality industry will be useful, while opening such a project. During the studies one has gathered knowledge in different subjects, such as revenue management, marketing, accounting, etc. It eases the process and does not require long and tedious research procedure on every aspect of business planning and operating the venture. In addition, the author has slight work experience in hotel industry, as he has worked in the front office of a hostel and later in a luxurious boutique hotel in Saint Petersburg. It gives one an advantage in understanding on how a business works from the inside.

More than affordable prices will also be an advantage as the author will try to minimize costs in order to keep prices lower than competitors'. Of course, this will negatively influence on the income at first, but the author believes that building large base of content customers is far more important than making big money, especially during the first year of work.

Last but not least, the hostel will employ professionals, with good language skills and education and work background in the HoReCa industry. It will allow the company to set high standards of service, making our guests leave oddly satisfied and spreading word-of-mouth on the internet and among their friends.

4.8.2 Weaknesses

The first problem the business project will probably run into is insufficient funding. It is the issue most new to the business projects are struggling from, even if the project itself is worked through at all its stages.

Finding a business angel might be sometimes an impossible task. Of course there are different programs helping entrepreneurs on the early stages and also wide networking in the sphere of operations can help in finding starting capital.

The next big thing the author currently missing is entrepreneurship experience. As he already mentioned above, he has previous working experience in hospitality industry, including hotel business. But luckily there are a lot of different sources of information, especially in the internet, about how to run a business with real life examples. At the same time the author hopes to have an experienced professional who will be his mentor, guiding him through this uneasy way.

In the meantime, the hostel segment in accommodating market is still in deep development, but there are already some big players who set the trends for this niche. The solution for this problem should be efficient marketing and keeping high standards of service, because not all of the enterprises in this sphere pay careful attention to the service quality, especially in Russia. That is why developing a feedback system and working on a detailed service blueprint will help the business to differ from its competitors.

And the last, but not the least problem that can stand in the way of a successful business is Russian business environment. It is very hard to open and run a lucrative business in this country, as many researchers say that more than 50% of all new businesses are being shut down after one or two years of operations. The solution might be found upstairs, where the government is now actually working on different programs to support small- and medium-scope enterprises.

Finally, the political and economic situation is quite complicated not only in Russia, but in many European countries. It can result in decreased tourist flow, inflation, raise in prices for supplies, while profits will probably decrease also or stay at least at the same level.

4.8.3 Opportunities

If you want to create a lucrative business with a repeatable sales-model, you should always stay in touch and explore your customers' needs and wants. At the same time an entrepreneur has to follow all the related news and trends in the industry worldwide to bring innovation into one's project. Another great opportunity would be possible investments from third parties (sponsors, banks, etc.).

If the hostel is warmly welcomed and managed to create a constant customer flow, it means the business model has proven itself and someone might be interested in buying a ready-made profitable business model. It is a chance to expand both around the city and later on around the whole country. Furthermore, it increases the brand awareness, which will help to boost the number of incoming guests. Certainly, to attract more customers and increase brand awareness it would be a good decision to hold different events at the hostel, such as various master classes, lectures, movie nights, etc.

4.8.4 Threats

As we all know, the political and economic situation in the world affects a lot on the amount of incoming tourists. It can hardly influence foreign tourists, because the tourist flow has slightly decreased a lot in the last few months. Probably the author will have to tailor his business more for the domestic customers to stay afloat.

The author wants his guests to be oddly satisfied, due to this aspect he has chosen to set very high service standards, which of course require a team of professionals and strict staff policies. So it can be problematic to find suitable workers. But in any case the author is going to provide training for new employees so they would give guests with the best possible experience.

And finally, one has to work on the marketing strategy carefully and choose the right marketing channels. One of the mistakes many new businesses and startups do is that they spend huge sums on marketing and advertising, trying to create a buzz around their product or service, trying to speed up the first customer wave, not thinking of how to create a repeatable sales model.

5 Conclusions

The main purpose of this thesis report was to investigate how to right a proper business plan of a small- and medium-sized enterprise and then how to implement the gained knowledge on an example of a small hostel in the city of Saint Petersburg.

The author found this topic quite challenging as a business plan is a very complex notion, which requires specific knowledge and is comprised of various disciplines. Partly, it was a rehearsal of what the author had learned during his studies at Saimaa UAS. Despite, there were still aspects, which needed a more careful and thoughtful research concerning the business plan concept and its constituents. At the same time accurate analysis of the Russian tourism market and the hotel and hostel segment of Saint Petersburg in particular took place. The author expects it will only increase the feasibility of the business venture, if tested in real life business environment. One of the most challenging aspects of founding an enterprise for the author was to study the laws and regulations which the business must be complied with to start and subsequently run the operations successfully.

The idea of choosing a specific topic generally came after a desire to obtain entrepreneurial experience. And, as mentioned above, based on previous education and work experience, the author choose the theme for his thesis to be a business plan of a hostel in Saint Petersburg. The hostel project was chosen because of a relatively small scope of the enterprise. It is much easier for a novice businessman to run such a venture, compared to a full-size hotel or even a restaurant.

Now, the author would like to tell about the course of both research and implementation process. First, a lot of literature and different business-related internet sources were used to investigate, what a business plan is and of what a proper business plan is comprised of. After a thoughtful research was conducted, the most important notes were written down and a study about how to write a business plan was compelled. The gained knowledge gave the author an opportunity to imply it in his project. Also, before the writing process had started, the author researched the hotel (also mini-hotel) and hostel segment of

the accommodation market of Saint Petersburg, went to check the competitors' venues on provided services and products. Based on the facts, which are described in the Project Background paragraph, for example, and on the basis of the knowledge of the city and its market, the author supposes such a project might successfully operate attracting both domestic and international visitors. The touristic market of Saint Petersburg is constantly growing and the government plans to invest vast amounts of money to make it similar to European countries, increase the services standards by applying strict company and staff policies and improve the infrastructure to make it easier for tourists to travel around the city and visit desired sights.

From the author's point of view a business plan is a crucial decision making tool, but first of all, it allows a novice entrepreneur to assess the chances of success for future business venture. Hence, only if the credibility check is done, and there are possibilities for a new player to enter the market, a business plan is used as one if not the most important fund-raising tool, shown both to investors, bankers or friends and relatives, who want to know how the money will be spent. Also business planning allows an entrepreneur to compile all the ideas and thoughts concerning his endeavors on creating a business in one written and well-structured document, in such form it is not only easier to develop on your business model's milestones, but in addition to detect and mitigate the probability of crisis events for a future business. For this reason, the author believes that the developed business plan will result in a profitable business model, which will find its niche in the hostel segment and has a potential for future growth and expansion, both around the city and nationally.

To sum up, the author would like to say that writing a worthy business plan is truly a difficult task, which requires vast knowledge in different disciplines, but it does not end or rely only on one's education, knowledge or experience. To make all the gears work an entrepreneur has to put a lot of effort to the project, and the quality and enthusiasm of how one does it may be a determining factor. Altogether the author hopes that this academic project will help those who are planning to open a small- or medium-sized enterprise in Russia or are just curious about what a business plan is comprised of.

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