

HOMESTAY ON ANNAPURNA CIRCUIT



Global Enterprise Experience 2013



Team 53

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Executive Summary

The presented proposal deals with the introduction of a homestay concept to the rural families living alongside the Annapurna Circuit in Nepal, a famous destination for hikers from all around the world. Our organisation supplies rural households with goods and knowledge needed to accommodate these tourists and in return receives a small part of the generated proceeds. Issues tackled thereby include gender inequality, as the organisation by and large works with the women of the households, and general poverty.

The business described here is economically sustainable as it creates a net present value of NZ\$ 56,953.55 at an initial investment volume of NZ\$ 500,000. It is not designed to exploit a business opportunity to maximise returns but to make a socially valuable contribution. The business thus addresses several Millennium Goals of the UNDP while it is a self-sustaining and secure investment. Investors with a drive for social justice are asked to support our ambitions.

1. Introduction

1.1. Targeted Region

The Annapurna Circuit extends in Lamjung, Manang, Mustang and Myagdi districts of Gandaki zone in the north western part of Nepal. Lying in the lap of the Himalayas, the circuit offers spectacular sights of flora, fauna, hills and mountains including Annapurna, Nilgiri, Tilicho, Machhapuchhre and has been widely recognized as a natural paradise. It was listed as one of the top ten treks in the world by many entities (greattreks.com, n.d. and huffingtonpost.com, 2012). In 2009, 132,929 tourists arrived with the purpose of trekking and the average growth rate is 16,8% (Central Bureau of Statistics, 2010).

The Annapurna trekking extending from Beshisahar to Pokhara is a three week journey into the nature and the cultural diversity of this region. There are hotels and lodges with moderate facilities in some villages, while in other areas the trekkers stay in tents and camps overnight. Dharapani lies in the Manang district and is usually the destination for an overnight stay for the fourth evening. It lies in a mountainous region, which makes large scale agriculture and trade business almost impossible due to climatic and geographic factors. The

physical beauty of the region and the high number of tourists on the trekking circuit are the plus points, thus have potential to be utilised as an income generating source for women.

1.2. Targeted Social and Economic Issues

The natives in Dharapani consist of people belonging to Sherpa, Gurung and Thakali culture. Some Brahmin and Chhetri households are also there in this village. The majority of people are engaged in a subsistence form of agriculture. The village does not have access to any form of transportation and the nearest town, Beshisahar, is at a two-day walking distance from the village. Among the age group of twenty



and above, literacy rate among males is about 30% while the figure drops to a negligible number for females. Males head their household and are primarily engaged in agriculture. Some of them act as porters to the tourists and trekkers visiting the Annapurna region. Females are bound to the household activities limited to domestic household works and parenting children. Trading locally produced agricultural products and porter charges are the only sources of monetary income to the people in this region and males are the direct recipients of it. Women do not have any economic power, consequently are deprived of social power as well. The majority of people in this region fall below the poverty line.

2. Business Overview

2.1. The Business Model

The idea behind our business is to let local women participate in the wealth which tourists bring along. This is to be accomplished by introducing the concept of homestays. Our employees get in contact with families and we supply the households with beds, bed clothes, dictionaries, and basic medicine to enable them to accommodate tourists without their own investments. As enough households in one town join the network, clusters of around six households are built which work together as a household group.

These clusters, which consist of representatives from all households, are led by a woman (household group team leader) who gets assistance from our office in Kathmandu regarding operational activities. The tourists arriving in Dharapani are divided into groups and each group is handed over to one household group team leader. The team leader assigns the tourists to particular households in her group. Each household accommodates three to four tourists at a time. The team leader is responsible for the well-being of the tourists assigned to her group.

The households will provide accommodation, dinner, and breakfast to tourists, as it is common for lodges in Nepal. The whole package will cost tourists 200 Nepalese Rupees (US\$ 2.28), which is a competitive price on the Annapurna Circuit. Of these NPR 200, we give NPR 130 (US\$ 1.50) to the women of the households. The rest will stay with our business in exchange for the services we provide.

These services are manifold. At first, we establish the network of households and provide them with necessary goods. Then, after these foundations are laid, our company attracts tourists with marketing activities and distributes the tourists to the households as they do not have the capital to promote their services themselves.

To preserve the standards of accommodation and to guarantee valuable experiences to the tourists, our staff will maintain a database of quality assessments made by tourists after their stay with the families. In order to overcome resistance of the men, who might not immediately accept women being given leadership roles and rewards, men are also partly integrated in the project. In addition to that, our staff will be trained to convince them of all the benefits our model brings to them.

2.2. Competitors in the Market

There are two alternatives to homestays: hotels and smaller lodges. For most of the hikers, the Annapurna Trekking Circuit is not a leisure trip, but an adventure during which they can encounter the local people and culture. These insights they can get by living directly with local residents. Hearing their stories is what differentiates our homestays besides the price. Thus hotels are not considered as our competitors. Our main competitors are the individual lodges which are most comparable to our homestay concept. As the majority of these lodges are run by local residents, the quality of services depends on the hospitality of the family members, which leads to uncontrolled variability. Our business, in comparison, provides facilities and training to the household families, a common network/brand name, a shared logo, and quality management systems in order to offer consistent high-quality services and a good image to the lodgers.



2.3. Marketing/Promotion

Our business concept will have to be promoted to the locals in Dharapani first as our business success depends on their willingness to participate in this network. Once we have the locals providing the accommodation on board we can focus on customers where our revenue streams from: tourists. We will use the following channels to reach the tourists:

1. Internet	<ul style="list-style-type: none">- Social Media: Facebook- Article on www.backpacker.com, www.intrepidtravel.com, thegreathimalayatrail.org- Blogs: www.johnhayeswalks.com, www.wanderlust.co.uk, theadventure-blog.blogspot.com
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	- Youtube video with David Attenborough
2. On the spot	- Embassies in Kathmandu draw attention to our business - At the start of the route in Besisahar or in Bhulbhule people will provide information regarding this type of accommodation - In Dharapani inviting posters will pave the walls of the households

In the starting phase we will use free channels, like social media. The aim of this is to gain awareness and increase the chance of capturing the potential customers. But eventually, once we have arrived at a stable size we would like to operate a website, where customers could get a better insight into the impact of our business. A wide range of information would be available on this webpage; ratings of the accommodation, past experience of travellers (testimonials), Nepali women in a role model position will have articles, and Nepali men could state their opinion regarding homestay.

The message will be that while this experience allows the visitors to rent a room from a local family to better understand the lifestyle of Nepali people, they are simultaneously assisting in empowering women in their societies and also reducing poverty. It is a win-win-win business concept.

3. Value Creation

3.1. How Millenium Goals are Addressed

- Eradicate extreme poverty and hunger: The households will generate additional disposable income. This will help to fight poverty.
- Promote gender equality and empower women: Women will be the ones in charge of the guests who will be staying at their homes; they will gain skills in hospitality which will later enable them to branch out into the hospitality industry and start their own businesses. The proceeds of accommodating tourists will also be handed over to the women to give them more power in society and to teach them how to work with money.
- Reduce child mortality: The major reason for child mortality in Nepal is due to malnutrition at the infant stage. A balanced diet is important for any child in its developing stage but that tends to be hard to achieve for families which do not have the financial means. Stable income in mothers' hands surely means that children will be less likely to suffer from malnutrition.

3.2 'The Female-Entrepreneur-Support-Fund'

As a part of our company's employee aid scheme, we encourage female entrepreneurship. The 'Female-Entrepreneur-Support-Fund' is a credit facility service which motivates women to start up their own venture and promotes women asset ownership.

Any female, who has been a part of our network for at least 12 months, is eligible to apply for funding from the scheme. The candidates apply with their entrepreneurial idea and details relating to it, including funds required for establishing the venture. The homestay firm selects reasonable entrepreneurial ideas and provides required services, not limited to assistance and monetary grants. The female entrepreneur with the viable idea is given the required amount of capital (as credit) with a minimal amount of interest. She is given a suitable time to pay back the fund.

Of every US\$ 1.5 a woman earns from accommodating a tourist, 5% are retained to finance the 'Female-Entrepreneur-Support-Fund'. All revenues from interest the fund generates are refunded to the families. This grants additional security to the families as they also obtain money in non-touristic seasons.

Probable entrepreneurial activities for women could include commercial rearing of cows or yaks for milk, shops in local markets, and others. The major benefits from the scheme would be asset ownership of women. Women would be enabled to own assets, which was predominantly restricted to males. With asset ownership comes economic power, resulting in increased social power among the women. It leads to a more equitable society.

4. Organisations to Establish Partnerships With

The social issues our organisation addresses as well as the popularity of the Annapurna Circuit as a touristic destination for hikers give us three types of organisations we can collaborate with:

- Organisations which fight against gender inequality, such as UN Women, UNESCO, ILO, in order to set up a knowledge transfer and have a larger impact.
- Publishers of travel guides like Lonely Planet. Under “Who we are” they write the following: “We believe travel can bring people together and promote awareness and respect. As part of the worldwide community of travellers, we see travel as a powerful means of inspiring not only adventure and fun but also tolerance and understanding”. As our concept is very congruent with their statement, this would be a good choice of channel for spreading the news of our service to potential tourists.
- Furniture manufacturers and retailers are considered to be a possibility as well, because we are in need of such assets (e.g. beds). As companies are seeking to take part in social responsibility, it would be beneficial for both parties. Examples for such firms in Nepal are Istikbal and Bira Furniture.

5. Future Outlook

5.1. Scalability of the Business

The Annapurna trekking circuit includes many villages. This gives us the opportunity to largely extend our business as projected in the financial plan. The business will grow from Dharapani to the other villages of Lamjung, Manang, and Mustang including Thorung Phedi, Ghermu, Chame, Humde, and Kagbeni which are located in the Annapurna conservation area. Our network structure contributes to the scalability as more households in the network have more information, tips, and best practices to share. The value of our network will also increase for tourists as it grows, because we will be able to plan their accommodation for several nights during their trekking.

5.2. Modifications



As soon as our business is established, modifications to our concept can be considered. Such modifications could include additional workshops in crafting arts for the women such that they can also sell self-crafted jewelry to tourists, or the establishment of practice groups in traditional dances for men. Within the cluster groups of households, traditional dance performances like the Ghatu, Jhyaure, Tappa, Sorathi, and Selo could be offered to groups of tourists to generate further income for the households. This would be one possible way to integrate the male heads of the families into our business.

6. Financial Plan

The table below shows the demand forecast for the first 5 years. We assume the occupancy rate will pick up after the first year when the concept becomes more popular.

Year	Y1	Y2	Y3	Y4	Y5
Number of Households	75	200	350	500	650
Days of Touristic Season	270	270	270	270	270
Beds per Household	4	4	4	4	4
Number of Office Staff	5	10	15	18	18
Number of Managers	1	1	2	2	2
Occupancy Rate	35,00%	45,00%	45,00%	45,00%	45,00%

FIXED COSTS	in US\$	in NZ\$	Y1	Y2	Y3	Y4	Y5
Beds	\$75,00	\$90,56	\$27 168,53	\$45 280,88	\$54 337,05	\$54 337,05	\$54 337,05
Bedclothes	\$5,00	\$6,04	\$1 811,24	\$3 018,73	\$3 622,47	\$3 622,47	\$3 622,47
Brochures/Dictionaryes	\$5,00	\$6,04	\$452,81	\$754,68	\$905,62	\$905,62	\$905,62
Basic Medicine	\$10,00	\$12,07	\$905,62	\$1 509,36	\$1 811,24	\$1 811,24	\$1 811,24
Transport (to Villages)	\$550,00	\$664,12	\$664,12	\$664,12	\$664,12	\$664,12	\$664,12
Marketing Cost	\$5 000,00	\$ 6 037,45	\$ 6 037,45	\$ 6 037,45	\$2 414,98	\$2 414,98	\$2 414,98
Set-Up costs Website	\$2 186,17	\$ 2 639,78	\$ 2 639,78	\$0,00	\$0,00	\$0,00	\$0,00
Office Staff	\$182,18	\$219,98	\$13 198,88	\$26 397,76	\$39 596,64	\$47 515,96	\$47 515,96
Manager Salary	\$226,16	\$273,08	\$3 276,96	\$3 276,96	\$6 553,93	\$6 553,93	\$6 553,93
Office Space	\$284,00	\$342,93	\$4 115,13	\$4 115,13	\$4 115,13	\$4 115,13	\$4 115,13
Office Inventory	\$285,00	\$344,13	\$2 064,81	\$1 720,67	\$2 064,81	\$1 032,40	\$0,00
Miscellaneous Expenses	\$500,00	\$603,75	\$603,75	\$603,75	\$603,75	\$603,75	\$603,75

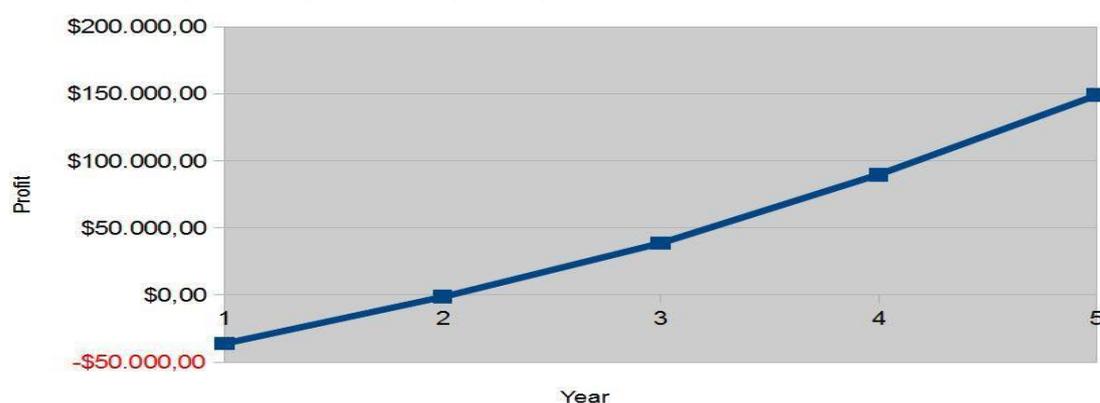
The set-up costs for the website equal one annual wage (+10%) for a skilled worker. The wages for our staff and managers are based on legal minimum wages plus ten percent (Nepal Gazette, 2009). All other expenses and prices were estimated in US\$ terms according to the prevalent market rate in Nepal and transformed into NZ\$ figures.

VARIABLE COSTS	in US\$	in NZ\$	Y1	Y2	Y3	Y4	Y5
Payment to Housewives	\$1,43	\$1,72	\$48 781,09	\$167 249,44	\$292 686,52	\$418 123,60	\$543 560,68
Support Fund	\$0,08	\$0,09	\$ 2 567,43	\$ 8 802,60	\$15 404,55	\$22 006,51	\$28 608,46

We have calculated the price for a one-night stay to be US\$ 2.28. US\$ 1.50 per tourist will be given to the women of the households. 5% of their compensation are deposited into the 'Female-Entrepreneur-Support-Fund'.

	Y1	Y2	Y3	Y4	Y5
Demand	28 350	97 200	170 100	243 000	315 900
Revenue	\$78 200,26	\$268 115,16	\$469 201,53	\$670 287,90	\$871 374,27
Variable Costs	\$51 348,51	\$176 052,04	\$308 091,07	\$440 130,11	\$572 169,14
Fixed Costs	\$62 939,05	\$93 379,48	\$116 689,71	\$123 576,64	\$122 544,23
Operating Income	-\$36 087,31	-\$1 316,36	\$44 420,74	\$106 581,16	\$176 660,90
Tax (15.63%)	\$0,00	\$0,00	\$5 624,38	\$16 653,31	\$27 603,27
PROFIT	-\$36 087,31	-\$1 316,36	\$38 796,36	\$89 927,85	\$149 057,63

We applied a tax rate of 25% and deducted 37.5% of the resulting tax burden because our business benefits from tax rebates for businesses that benefit Nepalese rural economies (Inland Revenue Department of Nepal, 2002). We also reduced our tax burden in year three by our losses in year two, as we can carry our losses forward for one year in Nepal (Embassy of Nepal, n.d).



From our estimates, we would advise an investment of NZ\$ 500,000 to cover costs and provide for a security cushion. With this investment, our project has a net present value of NZ\$ 56,953.55 and hence can sustain itself. For this calculation, a discount rate of 16% was used which resembles the interest rate that would have to be paid for a long term loan (Nepal SBI Bank Ltd., n.d.) plus two percent for the risk of the underdeveloped rural environment we work in. For the residual value, annual profits for the years after year five were conservatively assumed to be equal to profits in year five, i.e. no growth.

7. Risks and Barriers

RISK	MITIGATION
Partnering with 75 households in the first year is an ambitious goal.	A well developed and thought through action plan will reduce the risk of not meeting this goal. As well as the ability to encourage locals to take part.
Male heads of the households might disagree with our concept.	The men have to be involved in the establishment of the homestay and incentives (e.g. the additional income) have to be built in.
The reputation of our organisation could be harmed by low-quality households before we can identify them to take action.	The feedback mechanism will allow us to quickly find out where these weaknesses are.
Households will learn how to properly accommodate tourists and make money from it. They will eventually become competitors.	The shared logo and the brand will encourage participants to stay in the common network.
Tourists could wander from the Annapurna Circuit as it is being developed further and thus made less adventurous for tourists. One example for the development process is the road that has recently been finished (BBC Travel, 2011).	Over time we will expand the business concept to other circuits in Nepal.
Travel agencies organize full trips (including accommodation) for the tourists, thus we might not be able to fulfil the needs by only offering accommodation.	Our offers may have to shift towards targeting travel agencies instead, partnering with them to promote the service to tourists.

8. Conclusion

In this proposal, we described a company which creates value for a rural community while also being self-sustaining. The created values are manifold but the major focus is on empowering women by improving their living conditions both economically and socially. Our concept is simple but efficient. It is tailor made for the issues which people in rural areas of Nepal face but it can also be extended in many ways and modified to be transferable to other regions and countries.

As an investment, it withstands a harsh 16% discount rate and still leaves a positive net present value. We considered most cost factors and assumed an investment which would leave a security cushion. In this way, our project makes an attractive and secure investment for all those, who are more concerned with creating value than with high rates of return.

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