DEVELOPING A EUROPEAN YOUTH HOSTEL CONCEPT IN VIETNAM

Case: May Hostel, Ho Chi Minh City

LAHTI UNIVERSITY OF APPLIED SCIENCES
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ABSTRACT

This study aims to propose a novel business idea for the Vietnamese market: a European hostel model for international travelers in Ho Chi Minh City. In order for this idea to be further developed, the first and foremost thing is to explore whether this European hostel concept is promising for this target market.

The structure of this research includes three main parts. First, the original business concept is thoroughly examined. Second, an insightful market research into Ho Chi Minh City is conducted, based on which the original concept is modified. Finally, a preliminary business plan of May Hostel is provided as an abstract presentation of the modified business concept. It is important to note that, the main focus of this study is the market research which helps assess the potential of the business and lay a solid foundation for the implementation plan. This study, however, does not focus on the actual process of establishing a hostel business in order to raise finance or make profit.

To serve the ultimate goal of this research, deductive research approach was employed with a combination of both qualitative and quantitative research method. Data was collected from various sources such as consumer surveys, interviews, personal observations, published texts, articles, journals, reports, and previous studies. In addition, a field trip to Ho Chi Minh City was conducted for more insightful and creditworthy knowledge regarding this target market.

The main findings of this research reveal that, despite the high threat of substitutes and new entrants, European youth hostel is a promising business concept for international travelers in Ho Chi Minh City with very positive market demand. Though the required investment is considerably high, the estimated profit margin in the first year denotes a good potential of the business.

Key words: business idea, business concept, market research, preliminary business plan, budget accommodation, European youth hostel, Vietnam, Ho Chi Minh City

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GLOSSARY

Apr. : Approximately

CEO: Chief Executive Officer

CIT: Corporate income tax

CPV: Communist Party of Vietnam

F&B: Food and Beverages

GDP: Gross domestic products

HCMC : Ho Chi Minh City

HI: Hostelling International

ICT: Information and Communications Technology

USD: United States Dollar

VAT: Value-added tax

VN: Vietnam

VNAT: Vietnam National Administration of Tourism

VND: Vietnam Dong

WYSE: World Youth, Student and Educational

1 INTRODUCTION

1.1 Background for thesis

In recent years, tourism has become a significant factor in the modern economy of Vietnam. In 2013, Vietnam received over 7.5 million international arrivals, representing a 10.6% growth over the same period of 2012 (Vietnam National Administration of Tourism 2013). Most of the international segments saw increases, especially among Western visitors. According to the latest report by Hayes & Travis in 2013, Vietnam was among the top 10 most popular long-haul destinations among British tourists, outperforming Thailand. This report also indicated that Vietnam was the destination with the strongest growth in bookings.

Residing in the central district of Ho Chi Minh City (HCMC), both authors are very well-familiar with the famous tourists' hotspots, being Bui Vien and Pham Ngu Lao, where international backpackers from all over the world converge. However, as observed by the authors, though the number of hostels in the area has flourished in response to the increasing number of backpackers, the quality of those hostels does not seem to meet the demand. This market is currently dominated by small family-owned businesses which provide "home-made" services aiming at the low-end segment. These hostels, therefore, tend to compete over the price levels rather than the value that they offer. For that reason, the hostel market in HCMC has not been very well-developed. Being young backpackers themselves who have had the chance of traveling around Europe, staying at numerous backpackers' hostels and mingling with like-minded travelers, the authors truly understand the needs and habits of this tourist segment. As such, the authors strongly believe that there are huge potential for backpackers' accommodation market in HCMC to grow to another level.

Being greatly inspired by the outstanding European hostel concept, the authors have long nurtured a plan to bring this business model to their home country. Commonly referred to as "youth hostels", these hostels are widely recognized by their youthful and dynamic atmosphere along with extremely cool interior design. Besides basic services, a typical youth hostel often provides extensive communal spaces along with interesting activities to encourage social interaction among travelers. In short, with excellent amenities and services providing at decent price levels, the main goal of a youth hostel is to bring people together and maximize the staying experience of travelers coming from different parts of the world. This model sometimes is classified as a luxury hostel concept due to their professionalism and outstanding quality.

Realizing that this European hostel concept has not been seen anywhere in HCMC, the authors decided to conduct insightful market research along with a preliminary business plan as the first step to explore whether this novel business idea can be further developed in this target market.

1.2 Thesis objectives and research questions

This study aims to propose a novel business idea for the Vietnamese market: a European youth hostel model for international travelers in HCMC offering services that go above and beyond what have already existed in the market. In order for this idea to be further developed, the first and foremost thing is to measure the viability of this model in the new market.

Research question: Is the European youth hostel concept a potential business for HCMC market?

To answer this research question, the following sub questions are to be identified accordingly:

- What is a European youth hostel? How is it different from other budget accommodation models?
- How is the current situation of the hostel market in HCMC? What are the threats and opportunities?
- Who are the potential customers? What are their preferences? How are their attitudes towards this model?
- How is the original concept adjusted in accordance with the target market? How is it translated into the preliminary business plan?
- How much capital is required for setting up the business?

And finally,

- How profitable is the business?

With the above research questions being adequately answered, this thesis attempts to give investors in Vietnam and people who are interested in the subject a more concrete idea about this hostel model including the concept, the scale, the mechanism, the estimated financial requirement and potential for development in the Vietnamese market.

1.3 Scope and limitations

First and foremost, the term “youth hostel” used in this research refers to the youthful and dynamic image that these hostels commonly promote. This term, however, does not relate to the age restriction.

Second, the ultimate goal of this study is to introduce the European youth hostel concept to the Vietnamese market. Though youth hostels have nowadays become popular in many other regions as well, this thesis only focuses on studying the European concept which was the main inspiration for the business idea.

Third, a general analysis of the Vietnamese market will be conducted, followed by a more detailed research that is specially designed for Ho Chi Minh city market which is the focus market of this thesis. Though already mentioned that the original European youth hostel specifically focuses on young international backpackers, the authors find it essential to conduct an insightful market analysis of Ho Chi Minh City in order to identify its own target group. Once the target market is thoroughly examined, the original business concept is then modified accordingly for best fulfilling the market demand.

Last but not least, it is important to note that, the main focus of this study is the market research and the process of developing the business idea into a preliminary business plan to present to the audience the potential of this concept in the target market. This study, thereby, does not focus on the actual process of implementing a hostel business in order to raise capital or make profit. Thus, the preliminary business plan is only suggested on a fundamental basis as an illustration of the modified business concept and its potential. As such, the following matters will be left out: business owenership and business form of the case company, source of finance, business partners, legislation and paperwork, specific business location and property.

1.4 Research framework

The research framework of this paper is illustrated in the figure below:

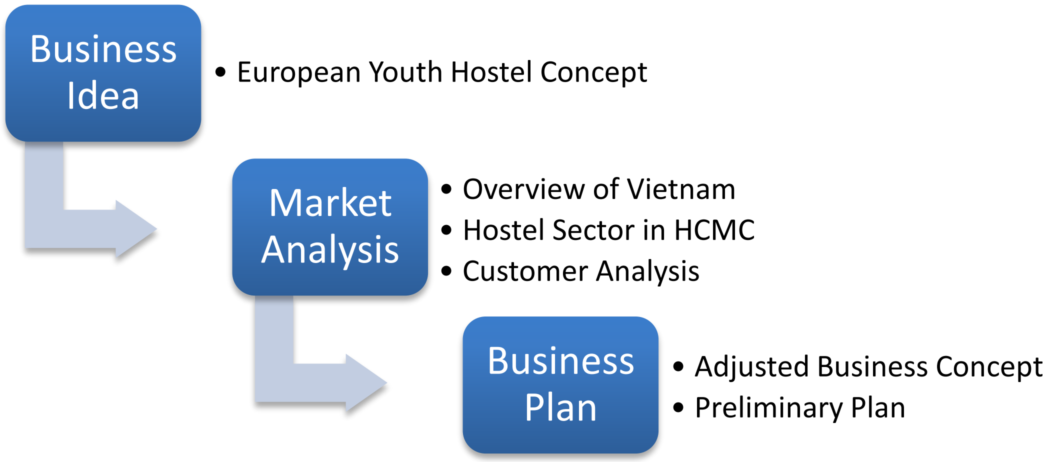

FIGURE 1. Research framework

As this study attempts to conduct a preliminary business plan for European hostel concept to assess its potential in HCMC, Business Planning Theories are the foundations of the whole research. The framework of this research follows the streamline of the business planning process from the initial business idea to the preliminary business plan.

First of all, the original European hostel concept is thoroughly introduced as the foundation for the business idea to be further developed. Second, PESTEL analysis will be applied for a general overview of Vietnam, followed by Porter's Five Forces analysis of the hostel industry in Ho Chi Minh City. In addition, a customer survey will be conducted in order to study the target customer's behavior towards the business concept.

After thoroughly examining the target market and its impacts on the business, the original business concept is then adjusted accordingly to form the preliminary business plan. For this, certain business models such as Hoffren's Dynamic Business Model (2002), the Business Model Canvas (Osterwalder 2009) and the Atomic e-business Model of Weill and Vitale (2001) are to be examined. Considering the objective of this research, one of the above business models will then be selected for the construction of the preliminary plan.

More detailed information regarding the theoretical framework and its supporting elements will be presented in the second chapter of this thesis.

1.5 Research method and data collection

An overview on the research methodology applied in this study is given in the figure below:

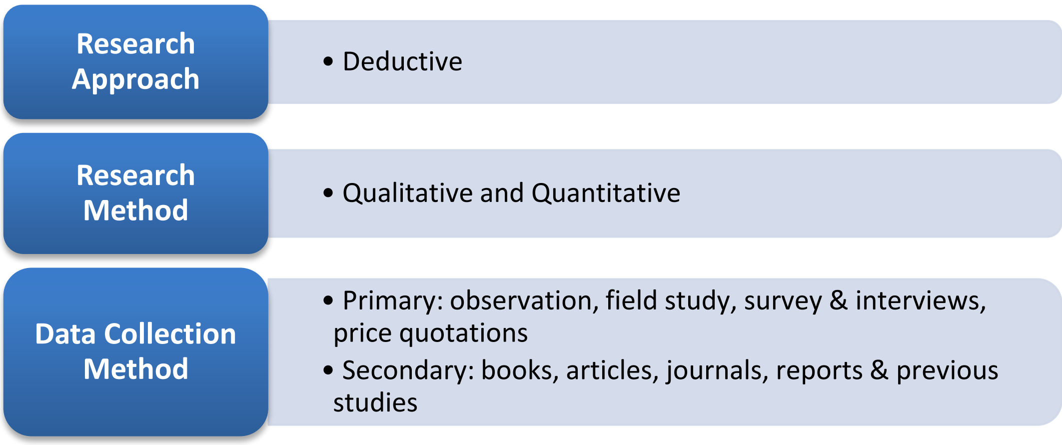

FIGURE 2. Research methodology

Research approach

According to Burney (2008), the method of reasoning can be divided into two main approaches: deductive and inductive. Deductive approach goes from the more general to the more specific, while the other goes from specific observations to broader generalizations and theories (Burney 2008). The combination of both approaches includes building and testing of theories at the same time (Saunders et al. 2009, 127). Based on the nature of this research, deductive research approach will be applied as illustrated below:

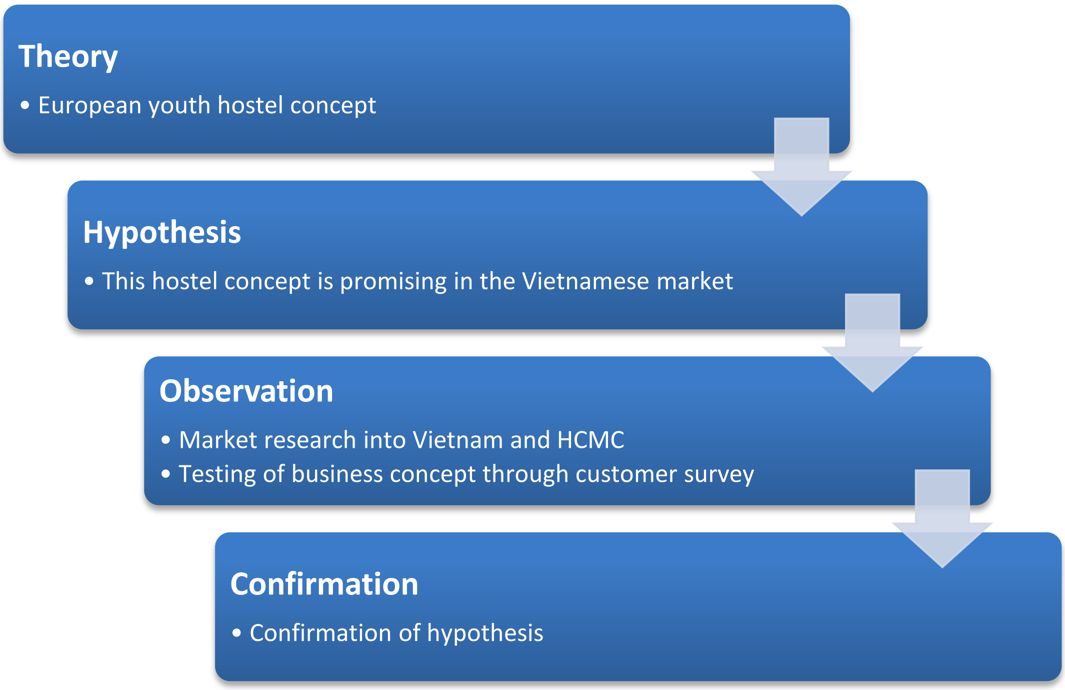

FIGURE 3. Deductive research approach (modified from Burney 2008)

Research method

With regard to research method, Thomas (2003, 1-2) suggested that qualitative method utilizes the collection of various empirical data sources in order to make sense of them. Quantitative research method, on the other hand, is based on statistical methods or other procedures of quantification (Ghauri & Grønhaug 2002, 86). Qualitative research often involves interviews to produce data in the form of words, pictures or objects; whereas quantitative research involves questionnaires to generate accurate numerical data (Saunders et al. 2009, 151-153).

Besides the processing of qualitative data in this research, a survey was conducted for better knowledge regarding the target customer behavior towards the business idea. Data collected from this survey is analyzed in the quantitative manner. As a result, a combination of both qualitative and quantitative research method was applied. This mixed method is believed to complement each other for their strengths and weaknesses.

Data collection

As different aspects in this study require different data collection methods, information from both primary and secondary sources was utilized.

In the theoretical section, primary sources include the authors' personal observations and reasoning while secondary sources vary from academic books, scientific journals, related articles, reports to earlier research related to the field of study.

In the empirical part, besides personal observation and other reliable secondary sources such as newspapers articles, industry reports, previous studies and so on, different field trips to Helsinki and HCMC were carried out by the authors to fulfil the ultimate goal of this research. During these trips, a number of semi-structured interviews with relevant people and professionals working in the field were implemented on a face to face basis.

The list of conducted interviews is presented in the table below (for more details regarding the interview questions, please refer to Appendix 1):

TABLE 1. List of conducted interviews

Interviewee	**Job tittle**	**Organization**	**Topic**
Annika Rantanen	Marketing and Communications Coordinator	Hostelling International Finland	Hostel sector in Europe, role of Hoteling International
Marko Repo	Hostel Manager	Eurohostel Helsinki	Hostel sector in Europe, hostel operation
Anna Vunneli	Accommodation Manager	Hostel Domus Academica Helsinki	Hostel sector in Europe, hostel operation
Riikka Kallio	Sales Secretary	Hostel Domus Academica Helsinki	Hostel sector in Europe, hostel operation
Nguyen Dinh Tuyen	Deputy Director	Asian Hotel Saigon	Accommodation market in HCMC, potential of youth hostel
Hever Rudolf	Executive Director	Alternaty Vietnam	Accommodation market in HCMC, potential of youth hostel
Johnny An Nguyen	Receptionist	The Town House	Accommodation market in HCMC, hostel operation
Oliver Lewis	Founder and CEO	Cheap Sleep Hostels Helsinki	Hostel implementation

In addition, in order to support the financial plan of the case company, prices of furniture and equipment were colleted from reliable local outlets and online stores in HCMC. From these stores, the products whose price, quality and design met the affordability and the required standard of the hostel were chosen. Regarding the renovation costs, the table below shows the list of parties that the authors contacted for quotations:

TABLE 2. List of parties who had their price quoted

Name	**Organization**
Mr. Phan Thai	Freelance architecture
Mr. Do Trong (Master of Architecture)	Hoa Phu Joint Stock company
Mr. Viet Nguyen (Master of Architecture)	Freelance architecture
Mr. Hop Nguyen	Q&D Contruction Ltd
Mr. Dung Vu	Vu Gia Hung Construction & Investment Ltd

Last but not least, a customer survey was designed to study the target customer's behavior towards the proposed business concept. More detailed information regarding this survey will be provided in Chapter 5 of this paper.

1.6 Structure of thesis

This thesis is divided into five main sections: the introduction, the theoretical part, the empirical part, the conclusion and the summary.

In the first section, the research questions, objectives, limitations, research framework and methodology applied in this research are briefly introduced.

The second section thoroughly goes though the Business Planning Theories which lay the foundations of the whole research. These theories include: role of business planning, business planning process, business idea and business concept, business planning models, market analysis and customer analysis.

The third section, or the empirical part, goes from Chapter 3 to Chapter 6. First, the original business concept is thoroughly introduced in Chapter 3 with the European youth hostel concept being explained in details. Subsequently, Chapter 4 focuses on the market analysis, in which the country analysis of Vietnam and the hostel sector in HCMC is presented. In Chapter 5, the customer analysis is conducted, based on which the original business idea is tested and modified. As a result of the empirical part, a preliminary business plan is then established in Chapter 6 as an illustration for the adjusted business concept.

Lastly, section four brings the conclusions of this study with major findings and recommendations, followed by a brief summary of the whole thesis.

The structure of this thesis is summarized in the following figure, with letter S stands for Section:

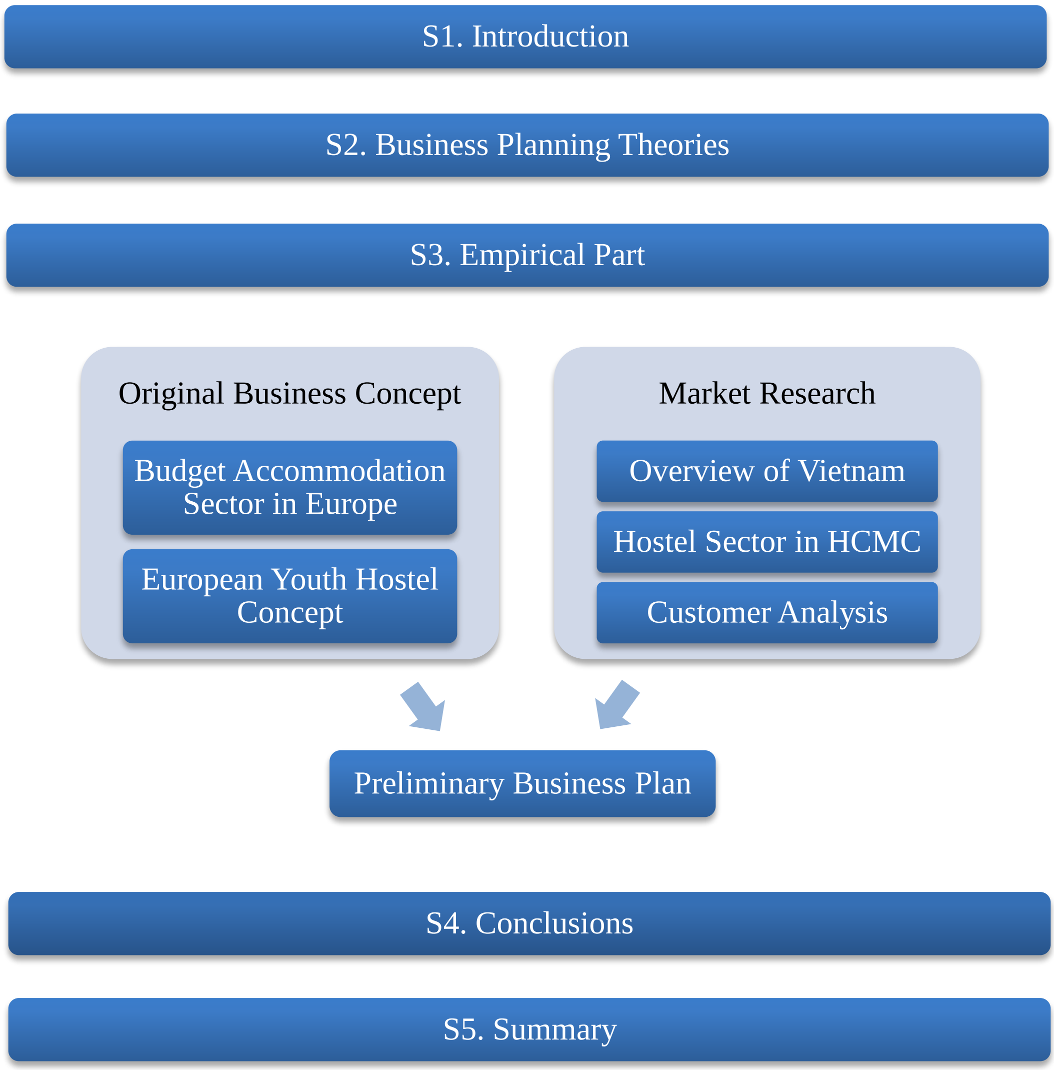

FIGURE 4. Thesis structure

2 BUSINESS PLANNING THEORIES

2.1 Role of business planning

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 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.)

According to Friend & Zehle (2004, 1), "successfully launching a new business requires careful planning and the results of a business planning process are usually captured in a business plan."

A business plan details the overall business concept behind a planned business (McKinsey & Company 2014). It describes the business's vision and objectives as well as the strategy and tactics employed in order to achieve them. It may also provide the basis for operational budgets, targets, procedures and management controls. (Friend & Zehle 2004, 1.)

Eugene Kleiner, a venture capitalist and also one of the original founders of the Silicon Valley venture capital firm Kleiner Perkins Caufield & Byers, once stated that:

> *Writing a business plan forces you into disciplined thinking, if you do an intellectually honest job. An idea may sound great, but when you put down all the details and numbers, it may fall apart. (Abrams 2003, 11.)*

Indeed, business plans are written for many significant reasons. First, preparing a business plan is one of the most important tasks in setting up a new business. It assists business planners in having a clear view of their business idea and allows them to develop their business ideas systematically. (Burns 2007, 373; McKinsey & Company 2014)

Second, a carefully written business plan serves as a guideline during the lifetime of a business (Pinson and Jinnett 1999, 2). It provides the tools to analyze a business and implement changes required to make the business more profitable

(Pinson 2003, 2). It gives a clear and comprehensive evaluation of the opportunities and risks, and allows business planners to prepare for any contingency (McKinsey & Company 2014).

Third, the business planning process helps evaluate the potential of the business. It let us decide if the business idea is really as good as we think. (Kubr et al. 1998, 24.) McKeever (1999, 2) also advised that a good business plan enables business planners to measure the feasibility of their business idea and keep the business implementation on the right track.

In addition, throughout the business planning process, alternative ideas and assumptions can be tested as one of the main reasons for planning is to prepare for an uncertain future (Friend & Zehle 2004, 1).

Last but not least, a business plan is always a prerequisite for gaining access to any financial resources such as venture capital, bank loans or government grants (West 1995, 7). Business planning allows people to assess the potential profitability of the company, which is usually of great interest to many investors (Pinson 2008, 1). Thus, any investor would invariably want to see a business plan before making any financial commitment (Friend & Zehle 2004, 1).

To sum up, the start-up needs to be thought through and the business plan is a vital tool that allows people to do this. It is “the basis on which a business idea can be measured and realized”, and serves to obtain the capital required for successfully setting up and developing a business (Kubr et al. 1998, 14).

2.2 Business planning process

It is said that, the starting point for every single successful enterprise is a convincing business idea (Kubr et al. 1998, 33). However, the idea itself is not the end of the creative process, it is just the beginning (Kubr et al. 1998, 20). Burns (2011, 143) stated that you need more than just an idea to establish a successful business. For the idea to be translated into reality with a chance of success, certain personal attribute to run the business is required. Apart from that, one of the most important things is to identify customers who are willing to pay for your products or services. Knowledge regarding the market place and the competitors also needs to be acquired. In addition, an efficient marketing strategy to persuade customers to buy from you is essential if you want to stand out in the market. Lastly, sufficient resources are to be tackled before any business can be established. Pulling all these factors together means research. (Burns 2011, 143.)

Friend & Zehle (2004, 1) suggested that the stages of the business planning process should begin by evaluating the environment in which the business operates, followed by the specific industry and the suppliers, competitors and customers within it. The insights from this market analysis and a good understanding of the internal strengths and weaknesses of the business, together with a set of future expectations help lay the foundation for the business (Friend & Zehle 2004, 1). Then, to evaluate whether this business has a chance of success, it is essential to plan how the business can be implemented and how it might grow. Evaluating its potential for success means that you need first to prepare a business plan. (Burns 2011, 143.)

At this stage, plans are to be laid down and initial budgets for key activities of the business are to be prepared. Many decisions will need to be made, such as which target customers will be addressed? What price will be asked for this product or service? What is the best location for the business? Who are the partners? And so on. (Kubr et al. 1998, 26.) Also, for preparing the business plan, it might be necessary to come in contact with a large number of specialists: investors, layers, market researchers, experienced entrepreneurs, etc. It is also important to reach out to the potential customers, for example by means of consumer surveys, to make initial assessments of the market and measure the potential of the business before finalizing everything into a business plan. (McKinsey & Company 2014).

Once the initial business idea has been thought through with the business environment thoroughly analyzed and the key questions answered, the idea is ready to turn into a business concept which lays the foundation for the business plan.

Finally, as mentioned earlier, financing is an existential issue for a business plan to be translated into an established business. Therefore, a business plan should be regarded from the view of the potential investors if it is to raise financial resources

(Kubr et al. 1998, 19). In other words, the objective at this stage is to present the business concept and market "so clearly and impressively as to pique the interest of potential investors in helping you cultivate your idea further" (Kubr et al. 1998, 25-26).

The figure below summarizes the whole business planning process from a business idea to an established business:

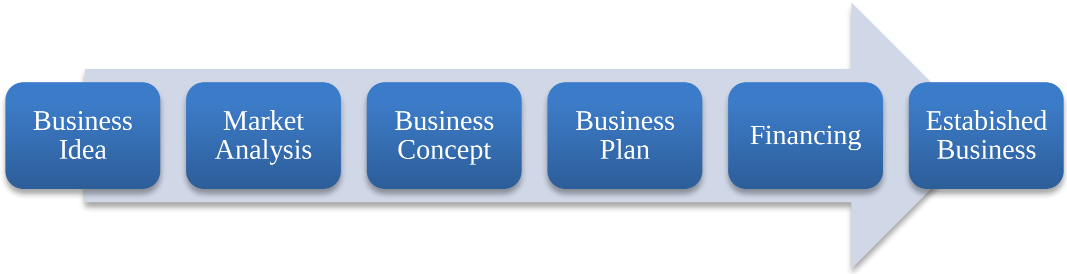

FIGURE 5. Business planning process (modified from Kubr et al. 1998; Burns 2011; Muller 2012)

This chapter, aligning with the aforementioned objectives of this thesis, focuses on the first four stages of the business planning process from the initial business idea to the final business plan.

2.3 Business idea and business concept

Business idea

It is said that, without a business idea, there is no business. However, the idea itself needs to mature and develop before it can gain any prospects of financing and market success. (Kubr et al. 1998, 20.)

According to Burns (2011, 125), good business idea can come from good commercial opportunities. These opportunities might results from exposure to business and commerce around the world. They could be products or services that you have seen but are not available in your area. (Burns 2011, 123-126.)

However, David Sanger stated that an idea is of no use unless it is linked to market demand. There must be a need for the product or service in the market place which can be exploited. It is important to identify your target customers and the reasons why they are buying products. Therefore, careful research needs to be undertaken into the industry in which you are launching the business. (Burns 2011, 163.)

As mentioned in the previous part, in order for the business idea to become viable, the evaluation of both the market place and the business itself is essential before any further plan can be developed. In other words, before following up on an idea, it is important to evaluate it in light of its customer value, market chances, degree of innovation as well as its feasibility and profitability (McKinsey & Company 2014).

The whole process of generating a viable business idea is summarized in the below figure:

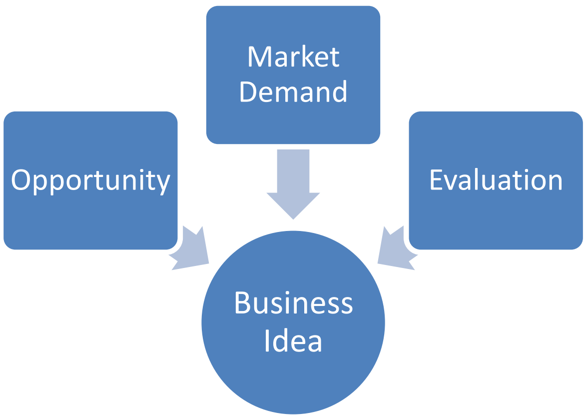

FIGURE 6. Process of generating a viable business idea (modified from Burns 2011, 156)

As financing is indispensable to any start-ups, it is important that your business idea be able to draw the attention of the investors. This means, first of all, to identify clearly what value your business idea will deliver in which markets, and how it will produce money (Kubr et al. 1998, 33). In addition, the idea must be tested to see whether there are customers for it, and how large the market might be. McKinsey & Company (2014) stated that a business idea does not worth of being financed until it is “so concrete that it can be launched on the market in the foreseeable future at reasonable risk”.

Therefore, in order to successfully develop a business idea which stands out in the eyes of investors, the following questions need to be addressed:

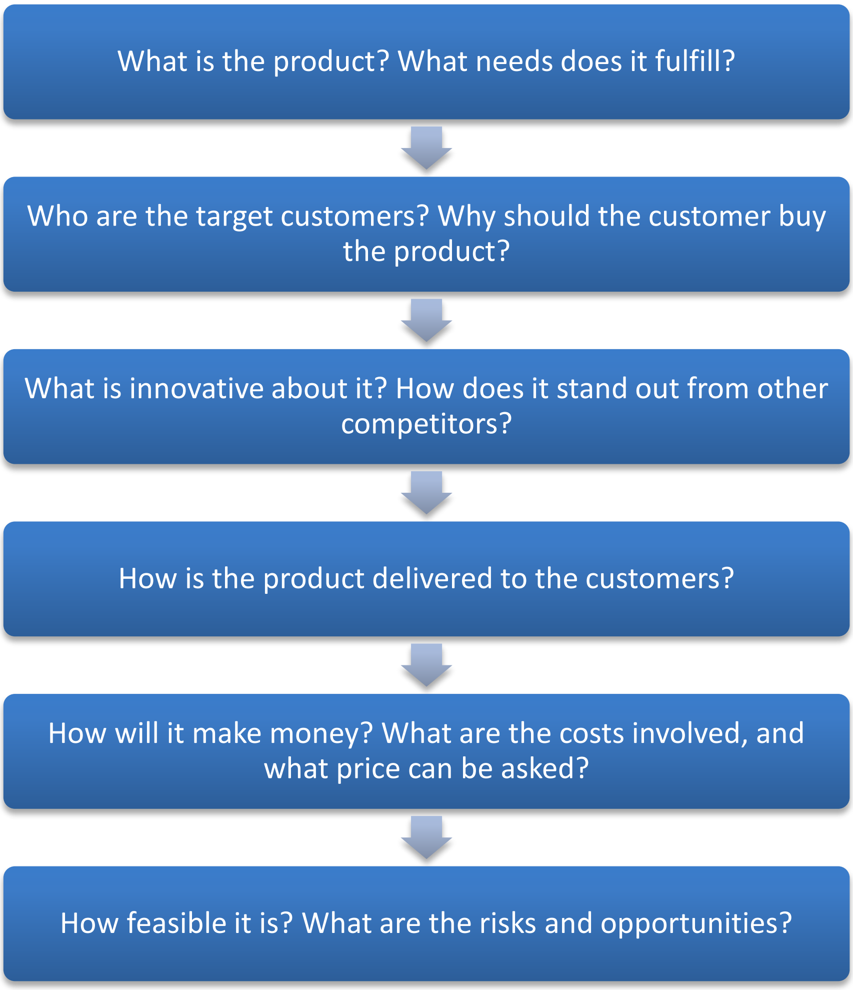

FIGURE 7. Building a business idea (modified from Kubr et al. 1998, 45; Muller 2012)

Once the answers for the above questions are acquired, the business idea is ready to become a business concept.

Business concept

According to McKinsey & Company (2014), a business idea is just the beginning of the planning process. For an idea to grow into a mature business concept it must be developed, tested and refined (McKinsey & Company 2014). The idea itself has no intrinsic economic value until it has been transformed into a concept with a plan and implemented (Kubr et al. 1998, 25).

A business concept can be a new product or simply a novel business approach such as a new method of marketing or delivering for an existing product (BusinessDictionary 2014).

As the foundation for all follow-up activities of the business planning process, a business concept often includes basic information regarding the product, its features and benefits, the unique selling proposition that differentiates it from other competitors, and the target demographic (Muller 2012). It also defines strategies for successfully delivering the product to the target market, which include pricing, revenue, and distribution channels (Icon 2014). The figure below illustrates the key components of a business concept:

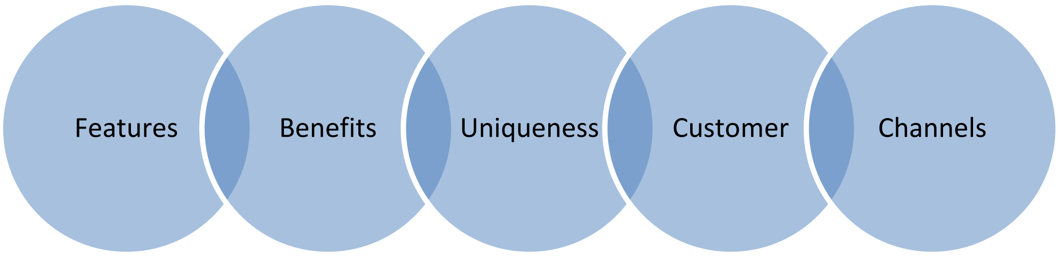

FIGURE 8. Business concept (modified from Muller 2012)

Once the concept is developed and matured from the initial business idea, it is incorporated into a business plan (BusinessDictionary 2014). In other words, a business concept is “a bridge between an idea and a business plan”, from which the more detailed work of business planning and implementation is built up. (Muller 2012).

According to Muller (2012), a business concept may be modified during the business planning process as business planners learn more about the market and the potential of the business itself. Eventually, however, a matured business concept should be able to concisely summarize the whole business idea into one or two sentences.

Muller (2012) also stated that, a clearly-defined business concept serves as the guideline for the whole business planning process and helps focus on the key factors for research. In addition, it allows entrepreneurs to succinctly describe the concrete nature of the business to investors, customers, business partners, and resource team members, making it easier for review and evaluation.

2.4 Business plan and business models

As above mentioned, a business plan is a fundamental tool for entrepreneurs to plan their businesses. It is a written document resulting from the business planning process, in which the business idea and important aspects of the business are thoroughly presented. The nature of the business plan is often determined by the ultimate purpose that it serves. (The Government of St. Vincent and the Grenadines 2014.) For example, a formal and comprehensive business plan is usually required for raising financial resources while a brief preliminary plan might be sufficient for developing a business concept (Burns 2011, 164).

In this section, three different business models supporting the formulation of different types of business plan are carefully examined. These models includes: the Dynamis business model of Hoffren (2002), the business model Canvas (Osterwalder & Pigneur 2009) and the Atomic e-business model schematics (Weill & Vitale 2001). Once the nature and purpose of each model have been thoroughly discussed, the most suitable model will be picked out to serve the ultimate goal of this thesis.

2.4.1 Hoffren’s dynamic business model

The dynamic business model introduced by Hoffren (2002) contains 6 elements: market need, image, product/service, target customers, mode of operations and resources including physical, financial and human. With a clear description of these elements, a business idea can be comprehensively identified and presented.

The outline of this model is presented in the figure below:

FIGURE 9. Hoffren’s dynamic business idea model (modified from Hoffren 2002)

Hoffren’s dynamic business model is unique in the sense that it effectively assists the business planners in illustrating their business concepts. Therefore, this model is taken into consideration as a potential framework for the preliminary business plan in this study.

2.4.2 Business model Canvas

The business model Canvas is a visual chart which presents how a business idea can be implemented through an organized system of nine integrated elements which are displayed in Figure 10 (Osterwalder & Pigneur 2009, 15). According to Clark (2012, 29), this business model, which illustrates how the nine elements of a business integrate with each other, is an effective tool in picturing how a business works.

The figure below describes how the nine elements of this business model position:

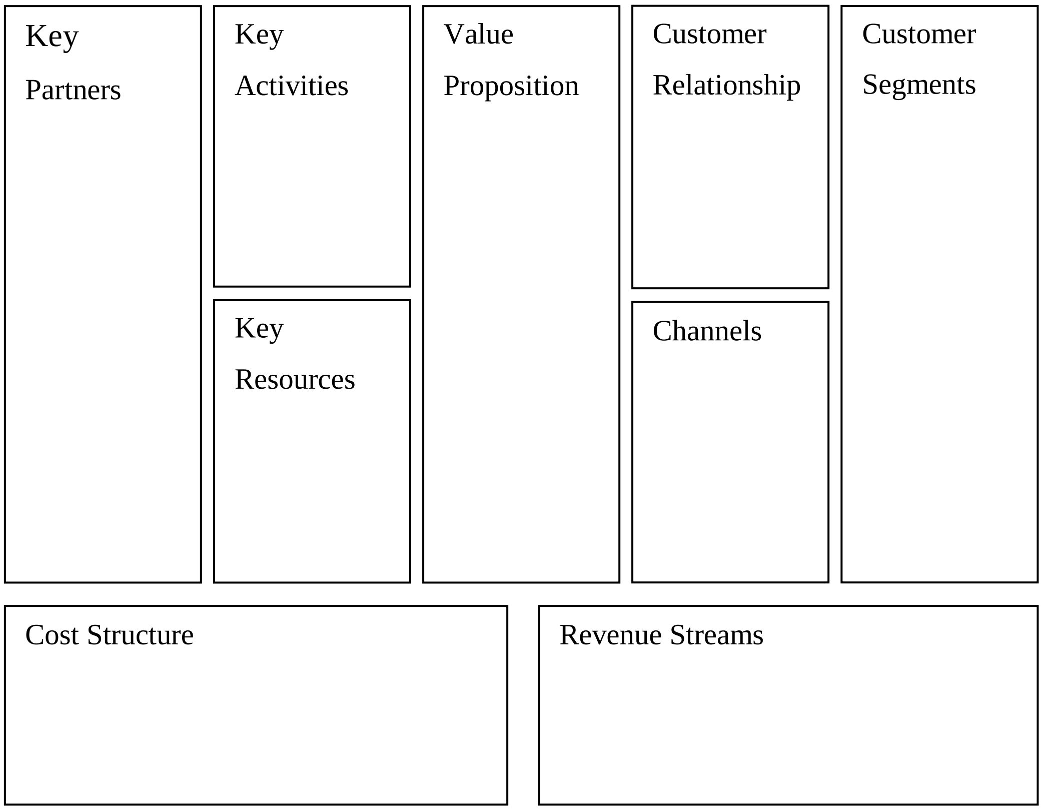

FIGURE 10. Business model Canvas (modified from Osterwalder & Pigneur 2009, 44)

The nine elements of the business model Canvas together presents the mechanism for earning profit of a planned or an existing business in a single sheet of paper. Osterwalder and Pigneur (2009, 42) suggest companies should have a large printed version of this model in order to support groups of people in discussing and visualizing the business model elements.

2.4.3 Atomic e-business model

Weill and Vitale (2001, 36) developed an e-business model schematic which graphically highlights the most important elements of a business. Those elements are: the major entities in the e-business model which are the company and its suppliers, allies and customers; the benefit each entity receives; the flow of products/service, information and money. In order to describe and categorize e-business model, Weil and Vitale (2001, 34) proposed eight atomic models and each one represents a different way of conducting e-business.

The figure below is an example of one atomic model, which is called Content Provider model:

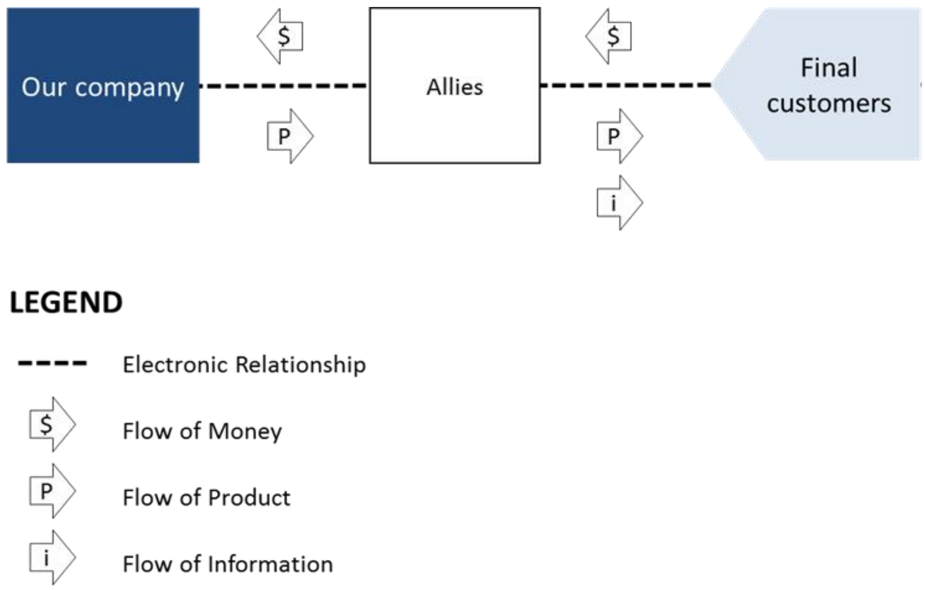

FIGURE 11. Content provider atomic e-business model (modified from Weil & Vitale 2001, 42)

With such an systematically arrangement of those highlighted elements, a company is able to reveal the major contradictions of the business, the core competencies and processes needed to implement the business model, the position of each entity in the value chain, the organizational form and IT infrastructure required for implementation and which entity possesses the customer relationship, data and transaction.

It is important to note that, the term e-business which is used in this model refers to any business activities that are conducted electronically, such as marketing, buying, selling, transaction, etc. (Weill & Vitale 2001, 5). Therefore, this business model is potential for any businesses whose activities partly involve the use of open networks such as the internet or phone calls.

2.4.4 Business model selection

As mentioned in chapter 1, this thesis focuses on the process of developing the original business idea into a preliminary business plan in accordance with the target market rather than the actual implementation of a hostel business. This objective of the thesis will be taken into consideration in the selection of an appropriate business model.

The e-business model of Weill and Vitale is very clear in terms of the value chain and different partnerships of the business. However, in this model, the business idea and the situation of the market, which are very important in the scope of this thesis, cannot be identified. Since it does not provide sufficient information regarding the thesis' objective, this model is not chosen.

The business model Canvas is well-designed, easy to use and supports greatly the implementation process of a business. However, although this model can be effectively applied by business planners who are coming closely to the launching stage, it does not satisfy the need of this study which is to propose a concrete business idea.

Hoffren's dynamic business model responses very well to the objective of this thesis because it pictures a holistic view of different elements of the business and most importantly the business idea, the products and the target market need. With such useful information, Hoffren's dynamic model helps construct a qualified business model for the ultimate goal of this thesis. Therefore, this model is selected as the foundation for the preliminary business plan in Chapter 6.

2.5 Market analysis

2.5.1 Country analysis – PESTEL

PESTEL is a simple but powerful tool to analyze the Political, Economic, Social, Technological, Legal and Environmental factors which are important in shaping a business environment of a country. HIA (2011) defined these as external factors which may have influence on our business yet is commonly out of our control. For businesses and organizations, it is important to understand the implications of these factors for product development and business strategic planning (Morrison 2012). In this study, PESTEL analysis will be utilized in order to positively align the business strategy with those uncontrollable elements. This alignment will keep the business from opposing the rules of the environment in which it will be operating.

The key factors of PESTEL analysis are listed as followed:

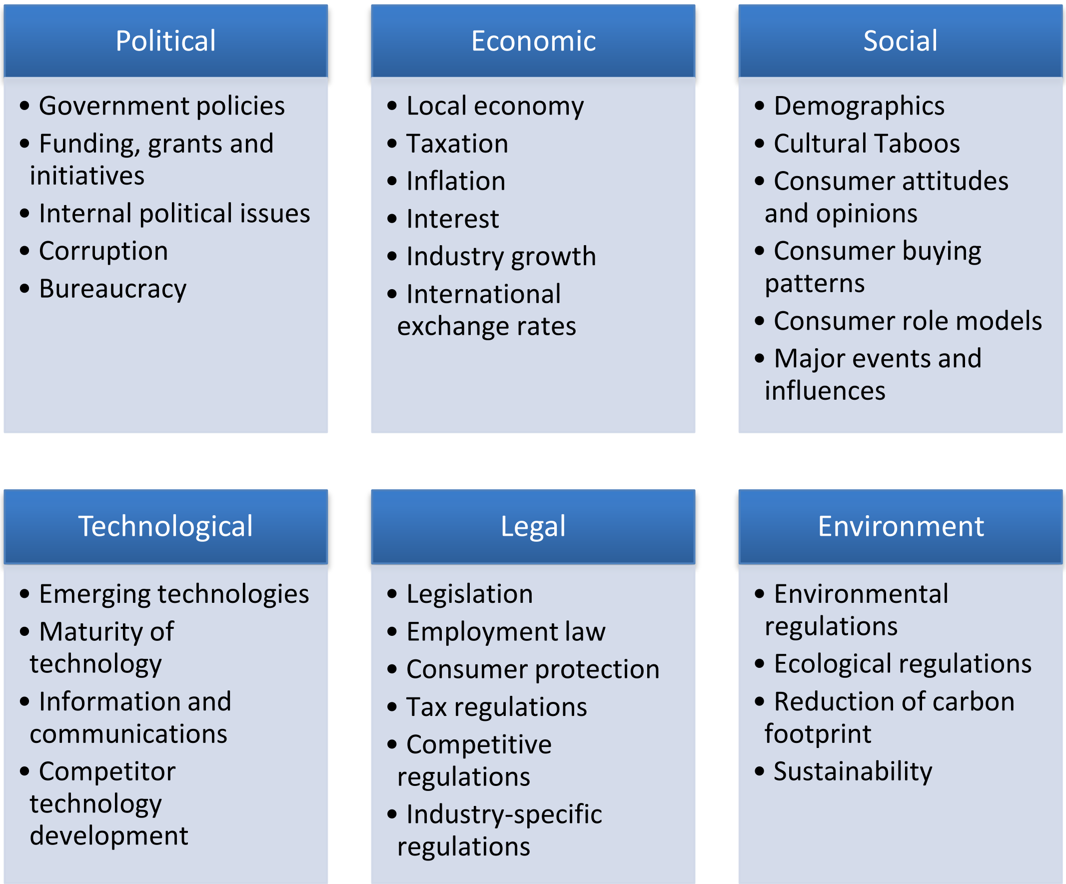

FIGURE 12. Factors of PESTEL analysis (modified from Process Policy 2014)

According to FME (2013), the significance level of each factor varies from business to business. For example, companies selling alcohol beverage consider Legal factor as an important one while mobile applications are prepared for launching with great consideration in Technology factor. In the sphere of this study, political, legal, social, economic and environmental factors will be discussed thoroughly while technological factor will be left out.

2.5.2 Industry analysis – Porter's Five Forces

Porter's Five Forces analysis is an effective model which helps identify the competitive forces within an industry. Nowadays, managers assume competition as if it only happens among direct competitors. In reality, competition also includes four other elements which are the bargaining power of customers, bargaining power of suppliers, threat of potential entrants and threat of substitute products. (Porter 2008.) The competitive force of each element is different from industry to industry and their collective strength determines the potential profitability of an industry (Porter 1979). In this study, Porter's Five Forces assists the business in identifying the strength of each competitive force and its root. With these findings, suggestions will be made in order to assist the business in defending itself against the most intense forces.

The five competitive forces are displayed in the figure below:

FIGURE 13. Porter's Five Forces model (modified from Porter 2008)

Bargaining power of suppliers. They are those who supply the input for an industry such as products, services, labors, etc. When the force from suppliers is intense, they can increase the price or reduce the quality of their products and services. As a result, powerful suppliers are able to take profitability out of an industry where firms must bear the cost imposed by them. (Porter 1979.)

Bargaining power of buyers. Normally buyers include the end consumers of products or services and the resellers such as retailers or wholesalers Depending on their power, buyers can either drive the price level and product quality of an industry or have to endure those determined by the firms. (Hill & Jones, 60.)

Threat of substitute products or services. This threat refers to the ability of customers to access a substitution to satisfy their needs instead of purchasing the companies' products or services. If this substitution is widely available and can be made at low cost, apparently it does pose a serious threat towards the industry.

Threat of new entrants. New entrants often have the desire to have one share of the market and thereby create potential threat of competition. The intense level of this threat depends on the entry barriers of an industry. When the products or services of an industry are hard to copy or the newcomers need to expect fierce competitions from experienced companies who are currently operating, obviously the barriers are high and therefore weaken the threat of entry.

Rivalry among existing competitors. This refers to the competition among direct competitors inside an industry. Manktelow (2007, 148) linked the strength of this force to the number and capability of the competitors. He pointed out that the position of one company among its competitors results in its bargaining power with its sellers and buyers.

2.5.3 Customer analysis

An insightful customer analysis is vital for every business before launching their products (Burns 2011, 145). It assists the businesses in understanding their potential customers' behavior and thereby having proper response. According to Aaker (2001, 20), an effective customer analysis should be able to describe customer's segmentation, motivations and unmet needs. In addition, concept testing among potential customers is also needed for the case company in order to measure the new product's demand and seek for the optimal product design (Dahan & Mendelson 2001). In the sphere of this thesis, the concept testing process is considered as an important part of the customer analysis.

Further knowledge regarding those theories of customer analysis will be explained in the continuing text of this section.

SEGMENTATION

Customer segmentation is the process of dividing a large market into smaller segments whose needs are more specific and can be served more efficiently. Kotler and Keller (2012, 214-229) categorized customer segmentation into four main areas which are geographic, demographic, psychographic and behavioral. Examples of common variables for each category are listed in the table below:

TABLE 3. Segmentation categories (modified from Kotler & Keller 2012, 214-229)

Geographic Segmentation	Demographic Segmentation	Psychographic Segmentation	Behavioral Segmentation
Nation Region City Neighborhood	Age Gender Income Occupation Education	Personality Life style Value	Needs Product usage Attitude towards products Buyer-Readiness stage

MOTIVATION

Motivation is the impelling force that drives individuals or organizations into actions (D'Souza 2008). In the context of customer analysis, motivation refers to the positive preferences of the customers towards a product or service (Voicu 2013).

In order to collect data regarding customer motivation, Aaker and McLoughlin (2010, 32) suggested that researchers should ask the customers about the products or services systematically by questioning about the good and bad experiences of customers or their objectives of using the products/services. The question list below was proposed as guidance for acknowledging the customer motivation:

- *What elements of the products/service do customers value most?*
- *What are the customer objectives? What are they really buying?*
- *How do segments different in their motivation priorities?*
- *What changes are occurring in customer motivation? In customer priorities?*

FIGURE 14. Question list for exploring customer motivation (modified from Aaker & McLoughlin 2010, 26)

UNMET NEEDS

Exploring customer unmet needs reveals what the customers are not satisfied with in their experiences of using the services/products or in other words, the preferred values that customers cannot find or are not fulfilled in their usage of the products. According to Acclaro (2014), customer unmet needs also refer to the needs that they are unaware of which can only be raised and satisfied through business' innovation.

Aaker and McLoughlin (2010, 26) listed the following questions in order to assist businesses in identifying their customers' unmet needs:

- *Why are some customers dissatisfied?*
- *What are the severity and incidence of customer problems?*
- *What are unmet needs that customers can identify? Are there some of which consumers are unaware?*
- *Do these unmet needs represent leverage points for competitors or a new business model?*

FIGURE 15. Question list to explore customer unmet needs (modified from Aaker& McLoughlin 2010, 26)

Obtaining the reliable answers to the above questions brings businesses closer to the opportunity of "filling in the empty hole" of the market and therefore, enables them to increase market share, penetrate a new market or even create a new one (Marketing Management 2010).

CONCEPT TESTING

Concept testing is often used to examine the success rate of a new product or service before it is launched into the target market. In the testing process, the potential customers are asked to express their opinions about the descriptions, images or actual implementations of the product concept (Macorr 2014.) Because the objective of this thesis is to propose a new hostel concept, testing it in the new target market is one of the most important tasks of this study. Therefore, in the parameter of this thesis, the potential customers will be brought into a discussion on this new hostel concept which includes stating their attitude, willingness and preferences for it.

Attitude. Changing a person's attitude towards a product/service requires several difficult adjustments of many factors. Thus, it is easier for businesses to tailor their products/services in accordance with current customer attitude rather than trying to change it (Kotler et al. 2015, 275.) Therefore, in the empirical part of this study, after the potential customers are introduced about the youth hostel model, they will be asked for their reactions and attitude towards this new concept. For those who are not familiar with this hostel concept, this introduction and attitude testing also helps raising their awareness and demand for one.

Willingness. Studying and acknowledging the customers' willingness to pay is really important for the new product development (Breidert et al. 2006). Regarding the crucial roles of testing the willingness to pay, Kher (2012) stated that even a brilliant and innovative business idea will not be successful if the customers are not willing spend their money on it. Because of its necessity, in the customer analysis section of this study, the willingness to pay for the new youth hostel concept at a certain price level also will be tested among the potential customers.

Preferences. Every product has several different features, and some of them may be important to a number of customers but less preferred by others (Mennecke et al. 2006). For instance, a hostel service consists of many attributes and some attributes, such as a small cozy bar or aesthetically designed interior, may be desired by a group of potential customers but less important to others. This gives the motivation to explore the customer preferences towards the new hostel concept in order to identify an optimum combination of features which can be used to build the desired hostel.

3 EUROPEAN YOUTH HOSTEL CONCEPT

3.1 Overview on budget accommodation sector in Europe

According to ITB World Travel Trend Report (2013), many different types of budget accommodation have emerged in Europe in recent years. “Budget hotel chains are expanding rapidly, hostels are improving and diverse private accommodation forms are springing up,” according to Maria Teresa Agostini, Junior Consultant at PKF Consulting Italy (ITB World Travel Trend Report 2013). Couchsurfing, a global community network which enables travelers to look for a host‘s place to stay on a hospitality exchange basis, has reached over 6 million members with an average age of 28 years old (ITB World Travel Trend Report 2013; Couchsuring 2014). New forms of low-cost vacation rentals have also emerged. The most common network of this type, Airbnb, has reached over 10 million bookings recently (Airbnb 2014).

Meanwhile, hostels are transforming their image by improving their offer with excellent facilities, better services, central locations and more professional management. Nonetheless, their price levels remain low with an average room rate of 59 euros and a bed rate of only 17. As a result, they are now attracting a wider range of clientele, both in terms of age and purpose of traveling. Many new hostel chains have emerged in Europe and are growing fast, such as A&O, Meininger, Generator and Wombats. (ITB World Travel Trend Report 2013.)

Take Generator as one example. In recent years, this hostel chain has grown and expanded across different regions Europe. The chain offer innovative and quality products located in prime city areas, attracting everyone from young backpackers to families and business travelers looking for affordable accommodation with extensive public facilities emphasizing excellent social interaction. (Bourget 2012.)

Being owned by the leading private equity groups, Patron Capital, and operated by both people with extensive experience in the hostel sector as well as senior executives with backgrounds in other industries, Generator represents “a shift from a traditional single owner-operated system into a professional hospitality segment". (Bourget 2012.)

The table below illustrates the major hostel operators in Europe by number of beds, with A&O, Meininger and Generator leading the market:

TABLE 4. Major European hostel operators by number of beds (HVS Research 2013, according to Douglass 2013)

Operator	Number of Hostels	Total Number of Beds *	Owners	Property Interests
A&O	22	14,000	Oliver Winter & Michael Kluge	Freehold and Leasehold
Meininger	17	7,000	Cox & Kings	Leasehold
Generator	11	5,000	Patron Capital	Freehold
St Christopher's Inns	17	2,000	Beds & Bars Group	Freehold and Leasehold
Wombats	6	1,900	Sascha Dimitriewicz & Marcus Praschinger	Freehold and Leasehold
Equity Point	9	1,800	Equity Point Group	Freehold and Leasehold
Plus Hostels	3	1,100	The Cardini Family	Freehold and Leasehold
Hip Hop Hostels, Paris [1]	12	1,000	Thomas O Huertas	Freehold and Leasehold
Euro Hostels, UK [1]	3	900	Andrew Silverstone	Leasehold

* Approximate [1] Selected others Source: HVS Research 2013

Overall, European hostel operators nowadays have managed to change their image of cheap mass accommodation in the past by offering "hip and trendy rooms along with thriving public spaces" (Bourget 2012). As such, "the only difference between a hostel and a hotel nowadays is simply the 's' which stands for the 'social' aspect," said David Chapman, General Director of WYSE Travel Confederation (ITB World Travel Trend Report 2013).This hostel sector is believed to be eating away share from traditional budget hotels (Bourget 2012).

3.2 Youth hostel concept in details

3.2.1 Target segment

First of all, it is important to note that the term 'youth hostel' was formerly used in accordance with the age restriction generally practiced by most hostels in the past. However, many hostels today have dropped this age limit to cater for a much broader range of customers. Thus, this term is now used rather to reflect the youthful and dynamic atmosphere commonly promoted by these hostels.

According to Steves (2014), the average age of hostel-goers is between 18 and 24. However, this sector is currently shifting towards an older and savvier segment with the emergence of ‘flashpackers’ – the former backpackers who are now older and more financially capable of higher-end accommodations but rather enjoy the social atmosphere of youth hostels (Bourget 2012).

To prove the above statement, Figure 16 represents the age distribution of hostel-goers between different regions in 2010, with the age groups of 19 – 24 and 25 – 35 dominating the figures.

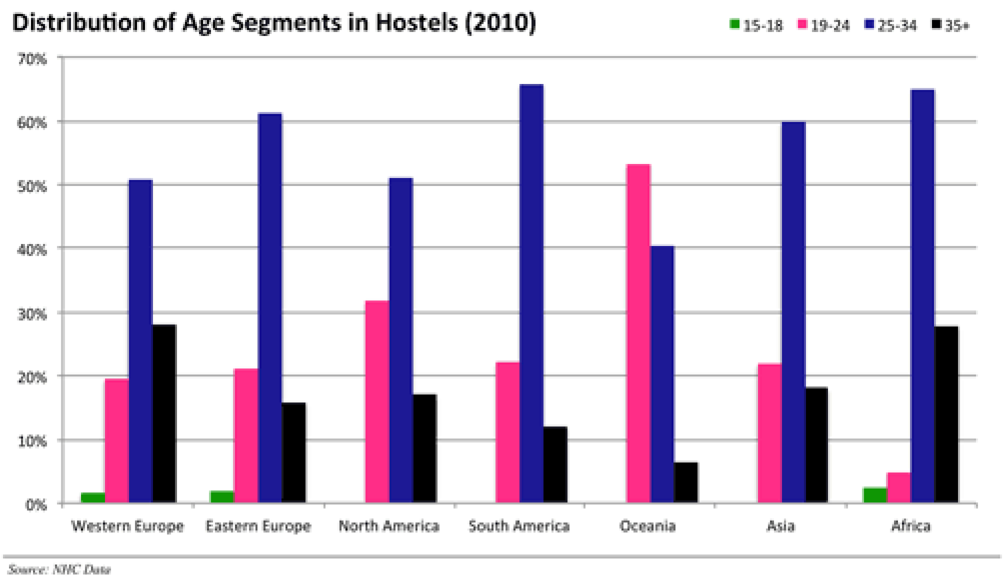

FIGURE 16. Age distribution of hostel-goers between regions (Nordic Hotel Consulting, according to Bourget 2012)

In Figure 17, the segmentation profile of hostel-goers is illustrated with Youth Groups dominated the figure by 45%. Having said that, the notable presence of Families and Corporate Travelers (or Business Travelers) in this figure indicates a shift of hostel-goers from young travelers to an older and savvier demographic.

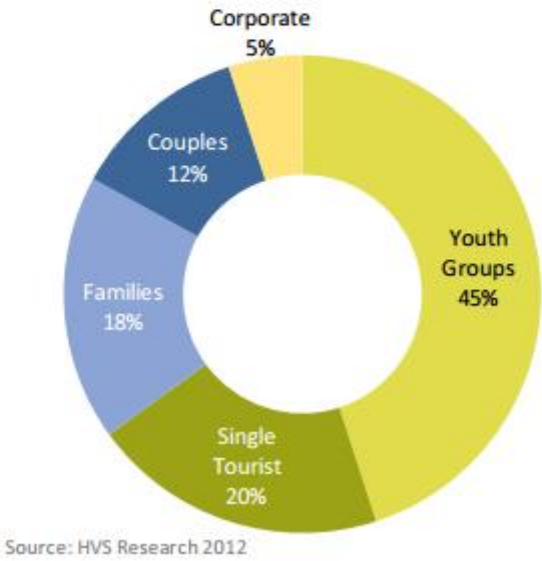

FIGURE 17. Segmentation profile of typical commercially operated hostels (HVS 2012, according to Douglass 2013)

All in all, as derived from the above figures, youth hostels today are appealing to a more diverse clientele, both in terms of age and purpose of travelling.

3.2.2 Main features

From their humble beginning, most European hostels today have grown into a very mature concept with outstanding features and characteristics. The most remarkable features of a typical youth hostel are listed as follow:

Location. Youth hostels are often conveniently located in central areas where main tourist attractions, convenient stores, public transportation, bars and restaurants, etc. are only a short distance away.

Atmosphere and design. One of the key features of youth hostels is the youthful and dynamic atmosphere which helps facilitate an excellent social environment for young travelers to get together. To make this feature become even more prominent, unique and extremely cool interior design is a must to create an exceptional value for these properties, making them stand out from other competitors in the market.

Amenities. Besides basic amenities, a typical youth hostel often provides a wide range of extra amenities along with extensive and animated common areas to encourage social interaction between guests. In addition, a wide range of room types offered by most hostels nowadays provides an extra value to satisfy a much broader range of customers. The list below specifies the most remarkable amenities provided by youth hostels, noted that some of the amenities are available at a small cost:

- Room variety
- Private lockers
- Luggage storage
- Breakfast
- 24/7 reception
- Computer room
- Free Wi-Fi
- Shared kitchen
- Tour desk
- Travel maps/brochures
- Organized activities
- Onsite bar/club
- Restaurant
- Game room
- Pickup service
- Laundry service
- Book exchange
- DVD libraries
- Security guard
- Board games
- Event board

Staff. Youthful, friendly and helpful staff is a significant trait of a youth hostel. Generally, hostels staffs are community minded and can offer unique local knowledge, providing guests a more authentic experience in a city. According to Festa & Perrota (2013), most staff members are backpackers or social locals who enjoy socializing and planning activities for guests.

Services and activities. Besides excellent customer service provided by hostel staff, many youth hostels offer a wide range of interesting services and activities to entertain guests and introduce them to the city. Examples are as tour desks with a variety of travel guides and leaflets, free walking tour around the city, pub crawls, football night, or cooking classes. These activities are great opportunities for guests to make friends.

Price. Price ranges of youth hostels vary greatly depending on different properties, regions, room types, and other characteristics of the hostel. However, as the main target group is backpacker, most youth hostels in general offer much lower price compared to an average hotel in the market. Thus, it is not only an accommodation option for the budget segment but also an alternative to the traditional hotels for families, business travelers, and other older segments.

Marketing. Nowadays, the main marketing channels of most youth hostels are online travel agents (OTAs) which enable hostels to reach a wide range of customers from many parts of the world. The customer feedback system provided by these online agents is a powerful tool that helps customers actively acknowledge the actual service quality of any property. Therefore, increasing the quality of customer reviews by offering excellent service is, for the time being, one of the cheapest and most efficient marketing strategy for youth hostels. (Nguyen 2014.)

To sum up, youth hostel is a novel accommodation concept catering for a higher-end segment of backpackers and flashpackers. Aligning with the nature of these target groups, youth hostels encourage social interaction between guests by providing extensive common areas with cool interior designs and interesting activities for guests to mingle. They are not only style-conscious but also budget-friendly. They provide value for money, while offering a wide range of amenities and accommodation options. As backpackers are usually independent travelers who love to explore the city themselves, extensive travel information and advices are always available at hand. In short, more than just nice beds, youth hostels provide customers an experience (Bhattachararya 2012).

3.2.3 The diversity of youth hostel concept

According to Festa & Perrota (2013), not all hostels are created equal. Hostels come in all different shapes and sizes and cater to different types of people. Some hostels cater to high-end travelers and flashpackers, while others aim towards young party goers. As such, different hostels promote different styles and cultures. There are “green” hostels, family-friendly hostels, party hostels, historic hostels and so on.” (Festa & Perrota 2013.)

Below are the most popular hostel themes with examples taken not only from Europe but also from some other parts of the world.

Luxury hostels

In general, hostels lack the polish and grandeur of a hotel; however, modern hostels nowadays are making the experience more luxurious (Festa & Perrota 2013). Along with private rooms, rooftop lounges, spas and hot tubs, many luxury hostels showcase some of the following: stylish interiors, saunas, Turkish baths, outdoor dining patio, scenic balconies, fitness centers, swimming pools, cinemas, libraries and so on. In some cases, these types of upscale hostels rival even the most stylish hotels in the market.

Examples can be Plus Hostel in Florence; Eco Resort in Chiang Mai, Thailand and Siem Riep Hostel in Cambodia. The table below details the special features of each property:

TABLE 5. Examples of luxury hostels (adapted from Festa & Perrota 2013)

Hostel Names	Locations	Special Features
Plus Hostel	Florence, Italy	Sauna Turkish bath Steam room Fitness room Scenic rooftop terrace Indoor & outdoor swimming pools
Eco Resort	Chiang Mai, Thailand	Outdoor art Contemporary Thai design Gym, library, movie theater Private & small-dorm rooms In-ground pool surrounded by palm trees Outdoor dining surrounded by lush jungle Cooking classes Wedding packages
Siem Riep Hostel	Siem Riep, Cambodia	Tour desk Game room Onsite spa Daily happy hours Poolside bar & restaurant Well-manicured gardens Airport pickup service

Party hostels

These hostels feature an energetic atmosphere with bars and nightclubs aiming towards party lovers. Featured activities involve pub crawls, flip cup or beer pong tournaments, theme parties and so on.

Some examples include Flying Pig Downtown in Amsterdam, Netherlands; Kabul in Barcelona, Spain; The Rising Cock Hostel in Lagos, Portugal; and The Loki Hostel in Cuzco, Peru (Festa & Perrota 2013).

Chill hostels

Unlike party hostels, these properties feature a very low-key and chill vibe. Instead of parties and alcohol, social atmosphere is promoted through relaxing common spaces with comfy couches and chairs for lounging and chilling out. Beanbags, swing chairs, TV rooms, libraries and book exchange are some typical amenities.

For instance, AlterNative Hostels in Cuenca, Ecuador features comfortable furniture, a relaxing balcony, a DVD library with calming interior colors to set the mood. In Hostel of the Sun in Naples, Italy, it is very common to find backpackers snuggled up on the couch or lounging into the plump beanbags, playing games or watching movies. (Festa & Perrota 2013.)

Quirky hostels

According to Festa & Perrota (2013), quirky hostels feature unique designs which provide travelers with one-of-a-kind experiences. Emerging as a new interesting trend, these hostels are commonly built from unusual backgrounds such as a train, an airplane, a ship, a castle or a former prison, creating a unique theme to the whole property.

Examples are Jumbo Stay hostel in Stockholm, Sweden which was built from an airplane; Santos Express Train Lodge – a train-style hostel in Santos Beach, South Africa; Laivahostel Borea – a hostel ship in Turku, Finland and Auberge Griffon Aventure in Quebec, Canada where travelers can sleep in a charming old fishing boat.

Besides the aforementioned hostel themes, some other popular concepts might include family-friendly hostels, 'green' hostels, resort hostels and so on.

3.3 Example youth hostel models

In this section, two European youth hostel models will be examined, being Wombats Hostel and Meininger Hotels. These hostels are selected as typical models of youth hostel because both of these chains are major European hostel operators (Bourget 2012). In addition, both showcase the most sufficient characteristics of a typical youth hostel in their own ways. Last but not least, the wonderful experience of the authors with these hostels was the inspiration for this study to be conducted.

As they are two of the most popular youth hostels in Europe, they certainly serve their guests with all the characteristics of a youth hostel. This section only focuses on their prominent activities and image which makes them different from others.

3.3.1 Wombats Hostel

Wombats Hostel is the 5th biggest hostel operator in Europe in terms of number of beds (Douglass 2013). They are still looking for qualified investors in key European countries in order to expand their business. The table below displays the overview figures of this hostel chain:

TABLE 6. Wombats' overview figures (Wombats 2013)

Year of establishment	1999
Owners	Sascha Dimitriewicz & Marcus Praschinger
Head quarter	Vienna
Location	Vienna, Munich, Berlin, Budapest
Number of hostels	6
Number of rooms	524
Number of beds	2083
Website	http://www.wombats-hostels.com/

Wombats are famous for their womBars and their huge common rooms which create the very atmosphere of a real decent Youth Hostel. Besides serving inexpensive food and drink, those places are decorated with youthful image and playful facilities which are exactly what a young traveler looks for to socialize and enjoy the atmosphere of international friendship. Since the atmosphere in Wombats hostels is very young and informal, its target customers mainly are backpackers aged from 20 to 35 who do not hesitate to interact with like-mined people in order to share and learn (Wombats Hostels 2010).

Below are photos taken from Wombats’ properties characterizing their concept:

FIGURE 18. WomBar in Wombats Berlin (Wombats Hostels 2014)

FIGURE 19. Common room in Wombats Munich (Bourget 2012)

Similar to other popular Youth Hostel in Europe, Wombats serve their guests with fully-equipped amenities as well as enthusiastic and helpful staff who are backpackers themselves (Wombats Hostels 2014). However, besides the atmosphere from indoor, what also makes Wombats different from outdoor is their free walking tour. The tour is meant for their guests and guided by a well-English speaking, enthusiastic, knowledgeable and humorous tour guide totally free of charge. Guests are able to tip the tour guide if they found the tour interesting and informative. These tours carry the spirit and atmosphere of the hostel because it is meant for young travelers who want to know more about the historic cities they visit without paying for expensive local tour operators.

3.3.2 Meininger Hotels

Having opened their first hotel in Berlin in 1999, Meininger now rank the second place in numbers of beds with approximately 7000 beds in 10 different cities in Europe (Douglass 2013). Some key figures of Meininger Hotels are displayed in the table below:

TABLE 7. Meininger's overview figures (Meininger Hotels 2013; Douglass 2013)

Year of establishment	1999
Head quarter	Berlin
Location	Amsterdam, Berlin, Cologne, Frankfurt M.A, Hamburg, London, Munich, Salzburg, Vienna, Brussels
Number of hotels	16
Number of rooms	2065
Number of beds	7037
Owners	Cox & King
Website	http://www.meininger-hotels.com/

Compared to Wombats, Meininger carry a very different image. They are the combination of the comfort and formality of an international budget hotel and the dynamic, youthful design and features of a hostel (Meininger Hotels 2014). Therefore, Meininger also create a youthful and dynamic atmosphere but in a completely different way. They also include in this spirit the feeling of a privacy and mature, modern accommodation. The below photos characterize this special atmosphere and design of this hotel:

FIGURE 20. Six-bed dorm in Meininger Brussels (Meininger 2014)

FIGURE 21. Onsite bar in Meininger Brussels (Meininger 2014)

As a combination of hostel and hotel, Meininger aim at many different customer segments such as backpackers, school groups, business guests and families. In order to satisfy such different groups of customer, Mieninger design their properties with a variety of room types from dormitories to private rooms with double or multiple beds, all with high quality and well-designed furniture. In addition, Meininger offer different services specialized for each segment in order to maximize their customer value. Being a very comprehensive type of hostels, Meininger is a comfortable and desired destination for customers of almost all ages and purposes. (Meininger Hotels 2014.)

One attribute which makes Meininger different is that they offer USE-IT guide to their guest free of charge. This guide stands out from others while carrying with it the local, urban knowledge together with a youthful image which is exactly what Meininger wants to bring to their customers. The idea of this guide is to make young travelers feel like a local and experience the real city in an active way. There is no commercial relationship between USE-IT and the suggested places in its guide. Therefore, they always ensure honest communication and quality information for young travelers (USE-IT 2009.)

Wombats and Meininger are the major players in the segment of young travelers in Europe. They possess excellent service, youthful design and outstanding atmosphere which help them gain nearly 2.3 million overnight stays in 2012

(Wombats Hostel 2013; Meininger Hotels 2013). Their positive attributes and attitude towards their customers are the inspiration for the case company to build its preliminary business plan in Chapter 6.

4 MARKET ANALYSIS

This chapter is divided into two main parts. The first parts provide a country overview of Vietnam followed by an adapted PESTEL analysis focusing on external factors which have significant impacts on the case company. The second section focuses on the hostel sector of Ho Chi Minh City with an industry overview, followed by Porter’s five forces analysis of the hostel sector and finally a competitor analysis.

4.1 Country analysis of Vietnam

4.1.1 Country overview

Socialist Republic of Vietnam is a tropical country located in South-East Asia. Since their renovation in 1986, the Vietnamese government has reformed this country into a market economy by legalizing private ownership and encouraging foreign investment. As a result of this open-minded vision, Vietnam has become a member of many international organizations. The following table summarizes the key figures of Vietnam:

TABLE 8. Summary of Vietnamese key figures (CIA 2013; VNAT 2014)

Official name	Socialist Republic of Vietnam
Land area	331,210 sq km
Population	93,421,835 (July 2014 est.)
Language	Vietnamese
Currency	VND
GPD (official exchange rate)	$170 billion (2013 est.)
GDP per capita	$4,000 (2013 est.)
Total international visitors	7.5 million (2013)

In recent years, Vietnam has become a new destination for those who want to gain exotic experience. Previously, only the braver tourists came to Vietnam. However, it has become more popular. In addition, Vietnam is also a very affordable destination compared to other places which is a key that makes Vietnam one of the most attractive destinations among backpackers. (Hever 2014).

Vietnam is now at the beginning of its tourism boom and the number of international visitors is increasing year by year (Hever 2014). VNAT (2013) stated that in the period 2000-2013, the tourism sector in Vietnam has seen an average annual growth rate of 10.1% regarding the number of total international visitors. According to the latest statistic provided by VNAT (2014), in the first quarter of 2014, Vietnam welcomed 2.3 million international guests representing a growth of 29.3% compared to this period last year.

The figure below represents the yearly number of foreign tourists in the period 2000-2013:

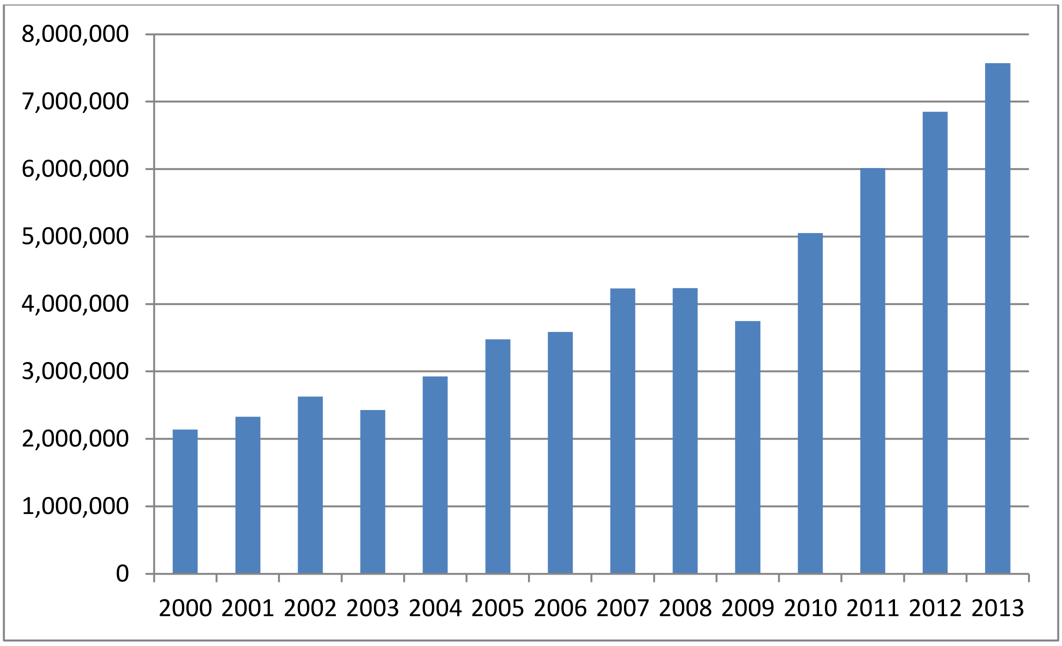

FIGURE 22. International visitors in Vietnam from 2000 to 2013 (modified from VNAT 2013)

Since 2000, the number of tourists has always consisted of more than 50% of the total number of international guests in Vietnam. In the period 2000-2013, this number has been growing at an average rate of 11.6% annually and reached

61.3% in 2013. (VNAT 2013.) These figures represent a promising prospect for the tourism industry of Vietnam in general and the case company as well.

4.1.2 PESTEL analysis of Vietnam

In this section, the macro-factors of the country which might affect the business model will be displayed in Table 9 under the guideline of PESTEL analysis. The most important characteristics of each factor will be discussed further in the later paragraph. As aforementioned in the theoretical background, technological factor will be left out in this analysis as it is considered to be out of scope of this study.

The table below displays the PESTEL analysis of Vietnam customized for the case company's business model:

TABLE 9. Adapted PESTEL analysis of Vietnam

Political
• Single-party country operating under the Communist party of Vietnam • Since 1986, Vietnam has reformed its policies and become more open to the world at all aspects • Corruption and bureaucracy is two main problems of the country which the case company needs to pay attention to
Economic
• Vietnam is a member of many regional and international trade organizations such as ASIAN, WB, WTO, APEC, etc. • Economic structure: 19.3% agriculture, 38.5% industry and 42.2% service (CIA 2014) • Get over the crisis in 2008 with an average growth rate of 7% (McKinsey Global Institute 2012) • Inflation rate is 6.8% in 2013 from 18% in 2011 (Pham 2011; CIA 2014). Foreign currency reserves is increasing and interest rate is brought down (Hever 2014) • Tourism contributes 5.3% of GPD in 2012. The government is improving national tourism in order to make it one of the most important industry sectors. (Tam 2013.)

Social – Cultural
• Long-standing and diverse cultures • Religion is affected by Buddhism, Confucianism and Taoism (known as "triple religion") • Most people practice animism and ancestor worship (Gruen & Doan 2010**)** • High level of wealth inequality (Amcham Vietnam 2012) • Not good attitude in traffic, environment and community issues • Education is considered as an important social value but the teaching method is outdated (Inter Nations 2014) → All of it makes a distinctive VN, makes up the hidden charm of VN.
Environmental
• Vietnam is located in the inter-tropical zone. The average temperature is 27^{o}C in the South and 21^{o}C in the North (Ba 2014) • Air-polluted country, especially in Ho Chi Minh City • In Ho Chi Minh City, there are dry season from December till April and rainy season from May till November • Natural disasters do not pose serious threat on Ho Chi Minh City
Legislation
• Corporate income tax (CIT) is 20%-22% (Vietnam Briefing 2013). CIT will be adjusted to 17%-20% from 1/1/2016 (Hoang 2014) • Value-added tax (VAT) is 10% for the case company's business model (Laws of Value-Added Tax 13/2008/QH12 2008, chapter II) • Financial report must be presented annually at the local government within 30-90 days after the end the a fiscal year (Decree of Accounting Laws 129/2004/NĐ-CP 2004, point 20th) • There are not many restrictions for accommodation service in Vietnam. • The case company's business model is categorized as "city hotel" and must conform to the applicable regulations for this mode of accommodation (circular of Tourism Laws 88/2008/TT-BVHTTDL 2008, section 2) • Registration for a hotel takes 1-2 months and must be done within 3 months since the first operating date (circular of Tourism Laws 88/2008/TT-BVHTTDL 2008, section 3)

Political factors. Vietnam is a single-party state operating under its Communist party. Recently, Vietnam has started to raise awareness on its limitations in the political system and decided to face and solve the problems (Ba 2014). However, despite of their effort, high corruption level and bureaucracy are still two critical issues of this country especially from a business point of view. These problems will affect any business, including the case company's, both in the establishing and operating phase. Therefore, it is advisable for the case company to consider corruption and bureaucracy in planning and operating its business in Vietnam.

Economic factors. Mr. Hever (2014) stated that Vietnam economy had gone through a big boom with excess investment and two-digit inflation rate. Sky-high inflation rate posed a major threat to the Vietnamese economy in 2011 with an average of 18% (Vinacapital 2011). Fortunately, this situation is under control now when inflation rate decrease to 6.8% (CIA 2014). This positive figure is the result of Vietnamese government's macro-economy policies in which the tighter monetary policy plays a crucial role. In addition to lowering the inflation rate, the monetary policy also results in the increasing in foreign currency reserves and reducing the interest rate. (Lacey 2014.) These three results of the policy make this economy become more business friendly and "it is a good time to be in the market" (Hever 2014). In another study about Vietnamese economy, Matthaes (2012) also had the same conclusion about the Vietnamese economy that 2013 was a "good time to invest for the future" because it is the first time since 2008 that the positive figures of the economy overweighed the negative ones.

Social – Cultural factors. Vietnam has a strong and diverse culture reflected through thousands years of history. Affected by the triple religions consisting of Buddhism, Confucianism and Taoism, Vietnam consider education as an important social value. However, because of the outdated teaching method, it is difficult to find employees with strong competency (Inter Nations 2014; Bodewig and Magnusson 2014). Regarding the society, many people in VN do not have a good attitude towards many social aspects such as traffic, environment or community. Despite being a negative issue of the society, this fact together with the Vietnamese cultures and natural landscape make Vietnam very much an experience destination for international travelers. Another noteworthy social aspect of Vietnam is the housing pattern. A majority of Vietnamese households have their own houses facing the street which are not part of any buildings. This leads to the fact that a great number of Vietnamese people utilize their private houses for doing business. Therefore, as long as they are well-located, it does not require a huge capital to turn their home into their own business premises. This is the reason why this type of family-owned business mushrooms in Vietnam, especially in a busy city like HCMC. The picture below is an example of a Vietnamese street with full of family-own businesses:

FIGURE 23. Example of the housing pattern in Vietnam (Dhushara 2010)

Legal factors. In its effort to increase direct foreign investment and support local businesses, Vietnam adjusted its CIT from 25% in 2013 to 20%-22% since 1/1/2014 (Vietnam Briefing 2013). This rate is expected to be 17%-20% in 2016 (Hoang 2014). Regarding tourist accommodation service, the Vietnamese lawmakers have one chapter in their Tourism Laws (number 44/2005/QH11) and many circulars and decrees concerning different issues such as the prerequisites for running this business, registering the service, the required paper work, etc. However, because of the high corruption level and bureaucracy in Vietnam, there is distance from the laws to reality. Therefore, it is essential for the case company to be aware of these problems and select appropriate approach in dealing with Vietnamese legal matters.

Environmental factors. Because of its diversity in topography and a length of approximately 2000km from north to south, the Vietnamese climate varies from the cold winter in northern hills to the year-round warmth in Mekong Delta. The case company’s target market, Ho Chi Minh City, located in the south of Vietnam and does not seriously affected by natural catastrophes which other regions suffer every year. In Ho Chi Minh City, there are two main seasons which is rainy and dry one. The rainy season lasts from May till November and often carries with it a hot and high humidity environment. The other season, which is much less rainy, lasts from December till April with a cooler and more comfortable weather. These seasonal periods might be the reason for its low and high tourist season: VNAT (2013) stated that the low season in Vietnam is May and June while the high season is from November to February. This is a critical issue which the case company needs to consider when establishing appropriate approach to maximize occupancy rate for each season.

Overall, the business environment in Vietnam is currently very potential for the case company with the burgeoning tourism sector and positive macroeconomic status. In addition, the government is making effort in supporting local businesses and encouraging foreign direct investment, which is a good sign for the case company. However, Vietnam is a country with a high level of ambiguity in its political system. Therefore, it is advisable for the case company to pay attention to this matter and select an appropriate approach in order to effectively establish and operate the business.

4.2 Hostel sector in Ho Chi Minh City

4.2.1 Industry overview

Key figures

Ho Chi Minh City, also known as Saigon, has long been a major transit hub of Vietnam which attracts an enormous number of tourists coming to the city every year. According to HCMC Department of Culture, Sports and Tourism (2013), the tourism sector in HCMC is on the growth with very positive figures during the last few years. The table below represents the key tourism figures or of HCMC in 2012 and 2013:

TABLE 10. Key figures of the tourism sector in HCMC (adapted from HCMC Department of Culture, Sports and Tourism 2013; VNAT 2013)

Criteria	Year	Figures
Total number of international tourists	2013	4.1 million
Total revenue of tourism	2013	3.8 billion USD
Total number of accommodation properties	2012	1,723 properties
Total number of rooms	2012	40,202 rooms
Occupancy rate	2012	68.7%

In 2013, HCMC received the highest number of tourists in Vietnam with over 4.1 million international visitors (raised by 8% compared to 2012), accounting for 55% of the total figure of the whole country. Total revenue of the tourism sector reached over 3.8 billion USD, accounting for 43% of the total tourism revenue of Vietnam. (HCMC Department of Culture, Sports and Tourism 2013.)

Accommodation market structure

In response to the increasing number of tourists, the accommodation market in the region is expanding vigorously. In 2012, HCMC led the whole country with a total number of 1,723 accommodation properties (almost twice the number of the second position). Specifically, the one-star segment held the greatest proportion in the market with 830 properties, accounting for 48% of the total figure. Followed by ungraded properties (602 units, 35%), two-star (201, 12%), three-star (60, 3%), four-star and five-star accommodation with 15 units (1%) each. (VNAT 2013.)

The pie chart below summarizes the accommodation market structure in HCMC in 2012:

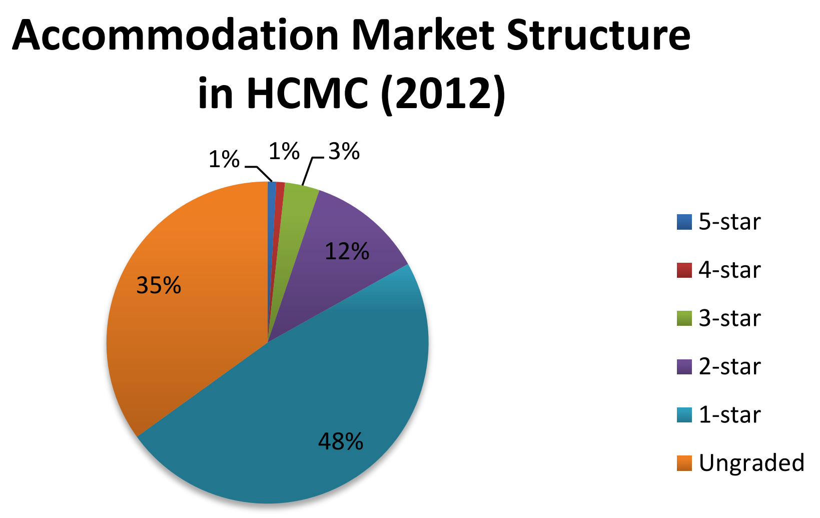

FIGURE 24. Accommodation structure in HCMC (adapted from VNAT 2013)

Despite the burgeoning number of accommodation properties in the market, the general occupancy rate remains high. In 2012, the average occupancy rate was 68.7% and increased to 74% in the first quarter of 2014. According to CPV Online Newspaper (2014), accommodation service in the city center performed better than that in other areas with an average occupancy rate of 76%. In fact, District 1 – the central district of HCMC where the main attractions and tourist hotspots are located – holds the highest number of tourists in the whole region. The table below explains briefly how the accommodation sector in this area is segmented:

TABLE 11. Accommodation market structure of District 1 by key areas

Area	Description	Segment
The City Center	The central part of District 1 where the main historic attractions and shopping centers are located	4-star and 5-star properties catering for the high-end segment
Ben Thanh Market	The surrounding area of Ben Thanh Market – the symbol of HCMC which is one of the main tourist attractions	Mostly 2-star and 3-star properties catering for the middle market
Bui Vien, Pham Ngu Lao	The famous backpacker area – one of the key hotspots in HCMC, especially for Westerners	Budget and family-run properties such as hostels and mini hotels

Budget segment

As can be seen from Figure 24, the middle and low-end segments are dominating the market by over 90%. In fact, budget accommodation is a specialized segment in HCMC which is saturated by an enormous number of unbranded family-run properties catering for the low-end market (Hever 2014).

One advantage of these models is that they often require very low capital for start-up as the owners set up the business using their own properties. In addition, as the scales of these businesses are relatively small, they are able to adapt swiftly to the changing market demand. As a result, these local players often manage to provide decent service quality at very competitive price levels rivaling also bigger players in the market. (Hever 2014.) For example, instead of paying 10 USD for a low standard private room in a two-star hotel, a traveler can spend the same amount of money on either a much nicer private room in a smaller accommodation, or a single bed in the best-quality hostel dorm in the market.

The table below provides further insights into the accommodation rates in HCMC:

TABLE 12. Accommodation rates in HCMC (adapted from agoda.com 2014; hostelbookers.com 2014; ivivu.com 2014)

Market Segment	Grading	Room Type	Average Price	Unit
Upmarket	5-star	Private room	70 - 200 USD	Room/night
	4-star	Private room	40 – 100 USD	Room/night
Middle-market	3-star	Private room	15 – 60 USD	Room/night
	2-star	Private room	10 – 40 USD	Room/night
Downmarket	1-star and below	Private room	7 – 25 USD	Room/night
		Dorm room	4 – 10 USD	Bed/night

As can be seen, the accommodation rates in HCMC vary tremendously depending not only on the grading but also the location, room type, service quality and the scale of the properties in question. This, to some extent, reflects the complexity of the accommodation sector in HCMC.

Hostel market

In response to the emerging trend of youth hostels around the world, the number of hostels in HCMC is increasing rapidly. However, this sector is still operating on a small, unprofessional scale with undistinguished products resembling each other, catering mainly for the low-end market. What most of these properties commonly offer are decent dorm rooms with very basic facilities and services, probably a good social atmosphere compared to a normal hotel, all provided at very low price levels. A few players manage to showcase some extra values such as The Town House with outstanding design and customer service, Vietnam Inn Saigon with large common areas and a rooftop lounge, or Hong Kong Kaiteki Hotel – the very first capsule hostel in Vietnam where travelers can experience sleeping in pod-style hostel rooms. However, none of the above mentioned properties in the market has managed to meet the ultimate standard of the European youth hostel concept mentioned in the previous chapter.

Recap

Overall, the increasing number of international tourists in recent years is creating lots of opportunities for the accommodation sector in HCMC. In fact, the market is currently dominated by efficient budget and middle-end properties. Though hostel is an emerging sector, this market is lacking a more sophisticated model catering for some segment in between, such as flashpackers. This, therefore, leaves room for the European youth hostel concept to grow. According to Mr. Nguyen Dinh Tuyen (2014), though a comprehensive model of this concept has not been seen anywhere in HCMC, it is expected to become popular in the next 2 – 5 years as the market reacts very swiftly to the changing demand. Indeed, since the first day this research was carried out, every month there was a new hostel model emerged in the market, one after another outperformed the preceding ones.

That being said, one of the biggest challenges to enter this market is the enormous number of local players in the market who are 'getting good at what they do with decent services provided at optimal price levels' (Hever 2014). On the other hand, the undistinguished price ranges between hostels and budget hotels are making it hard for hostels to break through and raise their prices (Hever 2014).Therefore, the only way to survive in this market is either to reside in the budget segment and apply the same conventional price levels with insignificant service quality, or to stand out completely and provide an exceptional product that no one has ever managed to offer and increase the price ranges.

4.2.2 Porter's five forces analysis of the hostel sector in HCMC

Table 13 summarizes Porter's five forces analysis of the hostel market in HCMC with the pros and cons regarding each competitive factor being specified from the viewpoint of the case company.

TABLE 13. Porter's five force analysis of hostel sector in HCMC

Bargaining Power of Suppliers	Threat of Substitute Products
(+) Diverse number of suppliers in almost every sector (+) Expanding labor force (+) Low switching costs (-) Importance of quality suppliers (-) Limited skilled labor (-) High real estate price → **Medium** bargaining power of suppliers	(+) High competitive advantages (-) Great number of substitutes (-) Decent quality of local players (-) Highly competitive prices of local players → **High** threat of substitute products
Bargaining Power of Customers	Threat of New Entrants
(+) Great number of tourists (+) Highly differentiate product (+) Sole position of the case company (-) Wide range of substitute options (-) High price sensitivity → **Medium** bargaining power of customers	(+) Pioneer advantages (+) Capital intensive (-) Cost advantage of family-run properties (-) Swift reaction of local players to the market demand (-) Threat of being copied (-) The emergence of Hanoi Backpacker Hostel in Vietnam → **High** threat of new entrants
Rivalry Among Existing Competitors	
(+) Sole player (+) Great competitive edges (+) No outstanding competitors (-) Fast growing market (-) Great number of substitutes (-) High threat of emerging competitors → **Medium** rivalry among existing competitors	

Bargaining power of suppliers

Generally, the key suppliers in the hotel and hospitality industry can be divided into 4 main groups: labor, real estate, goods and services suppliers. Some specific examples are property owners, real estate agents, construction and furnishing companies, architects, ICT manufacturers, management and training service providers, F&B providers, marketing agents, travel agents, tour operators and so on.

In the case of HCMC market, the bargaining power of suppliers remains on a medium level. Specifically, the market offers an enormous number of suppliers in almost every sector mentioned above, from labor, real estate, to goods and services. Thus, a great number of substitutes are available with relatively low switching costs due to the low general price level of the market. However, due to the professional and outstanding quality requirements of the business concept, the roles of quality suppliers and skilled labor are of great important to the business. This, fortunately, is one of the main shortcomings of the Vietnamese market. In addition, according to many professionals, the costly real estate price in HCMC is one crucial challenge, especially for small and medium start-ups.

Threat of substitute products

As mentioned, the hostel market in HCMC is saturated by a large number of local players ranging from budget to middle-end segments who have been active in the market for a long period of time. In fact, backpackers coming to HCMC are familiar with the satisfactory services being offered by these established players at highly attractive price. For these reasons, the threat of substitute products in the market is relatively high despite the unique competitive advantages of the case company.

Bargaining power of customers

Regarding the bargaining power of customers, the great number of tourists coming to HCMC is one big advantage for the case company. In addition, the sole position of the case company with highly differentiated product drives down the buyers' bargaining power. However, as the business concept requires premium extra facilities and services in order to remain this exclusive position, an above-average price levels are expected to be applied. This constitutes a great challenge for the case company since backpackers in general are highly price-sensitive. Most of them tend to expect a very low price level when coming to Vietnam, especially when the market is dominated by a wide range of budget and family-owned substitutes with highly competitive prices. Altogether, these factors leave the overall bargaining power of customers on a moderate level.

Threat of new entrants

Since youth hostel is still a very new concept in HCMC, there would be plenty of room for newcomers to enter the market. Despite the advantage of being a pioneer, the case company still has to face the severe threat of being imitated by local players, especially when the market manages to react very swiftly to the changing market demand. Another point is that, though the high capital requirement denotes a big challenge in this sector, many family-run properties tend to enjoy a huge cost advantage when entering the market. With the help of the internet, certain barriers to entering the market such as cost of marketing and branding are reduced. Other entry barriers including legislations and access to resources are favorable for newcomers to enter this market. Lastly, as far as the authors are concerned, there is currently an emerging hostel chain called Vietnam Backpacker which showcases a very similar concept mentioned in this study. This chain currently has two branches in Hanoi, the capital, and another one in Hue and they have gained high popularity among backpackers in these regions. Hence, it is highly predictable that Vietnam Backpacker will soon penetrate the hostel market in HCMC. All in all, the threat of new entrants is significantly high in this market.

Rivalry among existing competitors

As youth hostel is still a new concept, the number of remarkable rivals in this sector is scarce. Vietnam Inn Saigon, The Town House and Hong Kong Kaiteki Hotel are among the most notable players in the market. However, what these properties manage to offer is still far from the novel European youth hostel concept that the case company is aiming towards. Hence, with outstanding competitive edges that no other competitor has been able to meet, this business is expected to enjoy a great advantage of being a market pioneer. However, as the hostel market in HCMC is currently growing with a great number of substitutes and high threat of emerging competitors, the case company is exposed to an overall moderate level of rivalry.

4.2.3 Competitor analysis

As mentioned, a comprehensive model of the European youth hostel concept is yet to be recognized anywhere in HCMC. In other words, the case company is not facing any severe direct competition in the market for the time being. That being said, there are of course some salient names which appear to stand out from other local players in this sector, namely The Town House, Vietnam Inn Saigon and Hong Kong Kaiteki Hotel. This section provides further information regarding these three competitors, each with their own strengths and weaknesses.

The Town House

FIGURE 25. Mixed dorm in The Town House (hostelworld.com 2014)

The Town House is a boutique hostel located 15-minute walk from the backpacker area in HCMC. Looking at the customer reviews on many online booking sites, this property has an enormous number of highly positive feedbacks, most of which referred to the exceptional hostel staff. Realizing that this hostel is a redoubtable competitor in the market, the authors decided to experience one night in this property, during which an insightful interview to one of the staff members was conducted.

According to Johnny An Nguyen, the receptionist whose name was praised repeatedly in several customer feedbacks, the most remarkable values of The Town House is attributed to its outstanding staff, customer service and interior design. According to the authors' own experience, every member of the staff always maintains a pleasant and helpful attitude towards the customers. Besides their functional job, they constantly keep an eye on their guests and actively provide help when necessary. Apart from remarkable customer service, the hostel also possesses an outstanding design bringing a modern and cozy atmosphere, which is also difficult to find in HCMC. This is one important feature to catch the attention of travelers from online booking pages and also helps increase the customer value while staying at The Town House. The aforementioned attributes make this a remarkable hostel in HCMC with constantly high occupancy rate, even though its price level is among the highest in the market. Most travelers staying here also claimed that they would definitely come back in the future.

That being said, this property still has its own weaknesses. Despite being in the central district of HCMC, it is nestled in a small alley which is not close to any of the tourist hotspots or attractions. Also, the limited communal space of about 35-40 square meters restricts the hostel in many aspects of its daily activities.

Overall, The Town House is one of the most outstanding competitors in HCMC for the time being. However, it still lacks many essential factor of a standard youth hostel. This gives the case company an opportunity to create a strong competitive position by establishing an exceptional accommodation with sufficient attributes of a youth hostel being satisfied.

The table below sums up the key information regarding The Town House hostel:

TABLE 14. Key information about The Town House (adapted from agoda.com 2014; hostelworld.com 2014; tripadvisor.com 2014)

Location	50 E Bui Thi Xuan, HCMC (in a small alley between the backpacker area and Ben Thanh market)
Customer ratings	92% from 164 reviews . Value for money 93% . Security 90% . Location 88% . Staff 95% . Atmosphere 91% . Cleanliness 95% . Facilities 91% (hostelworld.com 2014)
Number of rooms	Apr. 12 rooms
Room types	Single private Twin private Double bed private 3 bed private 4 bed family room 8 bed female dorm 12 bed mixed dorm
Average price	Dorms from 10 USD Privates from 32 USD
Advantages	Cozy and modern design, cleanliness, outstanding staff
Disadvantages	Location, limited space in the common area

Vietnam Inn Saigon

FIGURE 26. Vietnam Inn Saigon – The front (tripadvisor.com 2014)

Located on one of the main streets connecting the backpacker area and Ben Thanh market, Vietnam Nam Inn Saigon is often recognized by its extensive façade (Figure 26). From the first look, this property resembles the style of many obscure three-star hotels in the market. However, after more thorough examination, this hostel appears to be one of the most expanded properties in the budget segment in terms of its scale. The list below specifies some of the most remarkable features provided by this hostel:

- 24/7 reception
- Keycard access
- Luggage room
- Travel desk
- Elevator
- Restaurant
- Rooftop bar
- Nice view
- Pool table
- BBQ facilities
- Air conditioning
- Room variety
- Private lockers
- Book exchange
- Bike rental
- Laundry service
- Cooking class
- Spa

With such extensive amenities and services being provided at medium price level, Vietnam Inn Saigon is getting close to the comprehensive European youth hostel concept. However, there are still a number of significant drawbacks which hinder this hostel from standing out in the market.

First of all, Vietnam Inn Saigon features a party theme with the rooftop bar being the main place for people to get together, which might not be appealing to everyone. Secondly, the hostel design is insignificant which lacks the youthful and dynamic spirit of a youth hostel. The figures below illustrate the property’s rooftop lounge and the reception area:

FIGURE 27. Vietnam Inn Saigon - Rooftop lounge (tripadvisor.com 2014)

FIGURE 28. Vietnam Inn Saigon - Reception area (hostelworld.com 2014)

As can be seen from the pictures, this hostel is lacking a prominent style and character to distinguish it from other competitors. Lastly, according to many customer reviews, the not-so-outstanding staff is another notable shortcoming of Vietnam Inn Saigon. This can also be seen from the very unprofessional way that they replied to their customer feedbacks with poor command of English.

All in all, much as it attempts to imitate the novel youth hostel concept, this property is more of a large-scale budget hotel with additional services being provided to cater for the casual backpacker segments.

The table below highlights the key information regarding Vietnam Inn Saigon:

TABLE 15. Key information about Vietnam Inn Saigon (adapted from agoda.com 2014; hostelworld.com 2014; tripadvisor.com 2014)

Location	200 Le Lai, District 1, HCMC (between the backpacker area and Ben Thanh Market, close to the city center)
Customer ratings	86% from 291 reviews . Value for money 85% . Security 91% . Location 93% . Staff 78% . Atmosphere 84% . Cleanliness 86% . Facilities 85% (hostelworld.com 2014)
Number of rooms	26
Room types	Twin private Double bed private 3 bed family room Mixed dorms (4, 8 and 12 beds)
Average price	Dorms from 7 USD Privates from 26 USD
Advantages	Extensive amenities and services, security key card access, rooftop terrace
Disadvantages	Cleanliness, design and style, not so outstanding staff

Hong Kong Kaiteki Hotel

FIGURE 29. Economy capsules in Hong Kong Kaiteki Hotel (kaitekihotel.com 2014)

Located right in the backpacker area, Hong Kong Kaiteki Hotel offers travelers a unique experience of sleeping in pod-style hostel rooms. Having been in the market for approximately seven months, this property has soon become very popular among different target groups, from casual backpackers to flashpackers and business travelers. One of the key values that attract customers to Hong Kong Kaiteki is the extra privacy and convenience gained at the same price level compared to normal hostel dorms. Each capsule is well-equipped with air conditioning, a cable TV, a curtain, USB interfaces, an earphone, a laptop desk and earplugs. Besides pod-style rooms, the hotel also offer a number of double rooms with high-end facilities.

However, being a hotel as it addresses itself, Hong Kong Kaiteki lacks the essential social atmosphere that is commonly found in a youth hostel. Similar to

Vietnam Inn Saigon, the design of Hong Kong Kaiteki is more of a high-end hotel and does not match the fun and unique theme of the capsule model that it promotes. In addition, extra amenities such as common rooms, shared kitchens, dining rooms, etc. to facilitate social interaction among guests are not being provided.

Overall, being the very first pod-style hotel in the market, Hong Kong Kaiteki has managed to stand out from other competitors by its uniqueness and attract a wide range of customers. Nonetheless, this property is still very far from the extensive European youth hostel concept, especially in terms of social atmosphere.

The table below summarizes the key information on Hong Kong Kaiteki Hotel:

TABLE 16. Key information about Hong Kong Kaiteki Hotel (adapted from agoda.com 2014; kaitekihostel.com 2014; tripadvisor.com 2014)

Location	22 Bui Vien, Pham Ngu Lao Ward, Dist.1 (right in the backpacker area)
Customer ratings	83% from 114 reviews . Value for money 9.2% . Location 9.2% . Staff 8.5% . Cleanliness 8.4% . Room comfort 8.2% . Food/Dining 6.1% (agoda.com 2014)
Number of rooms	Apr. 60 rooms
Room types	Double bed private Economy male/female capsules Business male/female capsules
Average price	Capsules from 6 USD Privates from 20 USD
Advantages	Excellent location, unique concept, extra privacy and convenience at low cost
Disadvantages	Atmosphere, design

To sum up, the positioning of the three main competitors is illustrated in Figure 30. According to this, the case company is aiming towards the star position, which is to provide an outstanding product quality at above average price level.

FIGURE 30. Positioning map of main competitors

5 CONCEPT TESTING - CUSTOMER ANALYSIS

Aligning with the objective of this thesis, a survey was conducted to study the potential customers' behavior towards the new youth hostel concept. The target group of this survey is non-Vietnamese international travelers – both current and potential ones – to HCMC, Vietnam.

To serve the ultimate goal and requirement of this survey, a field trip to HCMC was conducted from 24 February 2014 to 17 March 2014. Within these three weeks, the survey was tested, modified and then finally sent out to the target segments, both via the internet and face to face.

This chapter gives more insights into the process of constructing, implementing, collecting and analyzing the customer survey. Most importantly, the key findings of the analyzing process are also provided, from which a preliminary target segment for the case company is derived.

5.1 Data collection procedures

5.1.1 Construction and testing of survey

First and foremost, the content of the survey was carefully designed to meet not only its primary objective but also the nature of the target group. Therefore, close attention had been paid to the number, type, relevance, sequencing and wordings of the questions so that the participants were not discouraged from completing or even starting the survey. Apart from being succinct, concrete and comprehensible, the questionnaire must also be able to collect sufficient information in accordance with the research objective.

After the first draft of the questionnaire had been completed, it was then tested in one week, from 24 February 2014 to 2 March 2014, both via the internet (13 respondents) and face to face (7 respondents). For the objectiveness of the feedbacks, the draft version was intentionally sent out to people from different age groups and backgrounds, both those who were very well-aware of youth hostel and those who were not, such as teachers, friends around the world and of course international travelers in HCMC, which is the main target group of the survey. During the test, the participants were asked to complete the questionnaire and provide their feedback afterwards (for more information regarding the feedback questions, please refer to Appendix 2).

Based on the survey feedbacks, the finalized questionnaire was completed and ready to be sent out on 3 March 2014.

5.1.2 Survey structure

The survey was conducted using a structured questionnaire with 23 questions. Based on the customer analysis theories along with the objectives of the research, the questionnaire was divided into 4 main sections:

- Section 1: Demographic questions (Question 1 – 4)
- Section 2: Experience of target group in HCMC (Question 5 – 13)
- Section 3: General preferences of target group (Question 14 – 15)
- Section 4: Youth hostel concept testing (Question 16 – 23)

FIGURE 31. Survey structure

Note that Section 2 was designed only for participants who already had some experience regarding HCMC market. In addition, for those who were not familiar with the youth hostel concept, detailed information and pictures were provided right before the youth hostel concept testing section.

A sample questionnaire is also presented in Appendix 3 of this paper.

5.1.3 Target group and data collection method

As mentioned, the target group of this survey is non-Vietnamese international travelers – both current and potential ones – to HCMC, Vietnam. This is also the general target segment of the case company. Apart from that, no other demographic restrictions such as age, education level, income, etc. were imposed on the target group in order to maintain the objectiveness of the survey.

The table below summarizes key information regarding the data collection method:

TABLE 17. Target group and data collection method

	Face to face survey	Online survey
Period	3.3.2014 - 16.3.2014 (2 weeks)	3.3.2014 - 30.3.2014 (4 weeks)
Target group	Current international visitors in HCMC	International travelers around the world
Purpose	Information on HCMC market; General performance of local players; More specific customer behavior and expectation for HCMC	General demand; Potential customers' behavior and preferences
Location/ Platform	Main tourist hotspots and attractions in HCMC; Certain hostels and hotels in HCMC	Relevant social platforms, email, networking
Validated response	68/70 (2 unfinished questionnaires were filtered out)	185/189 (4 Vietnamese were filtered out)

As can be seen, the face to face survey was conducted in two weeks during the authors' field trip in HCMC. For the validity of the results, close attention was paid to ensuring that the right target group was reached and inadequate responses were filtered out. Thus, printed questionnaires were handed out directly to international visitors around the main tourist hotspots and attractions in HCMC. Some were distributed at certain hotels and hostels. Regarding the online channel, the survey link was sent out one by one to 53 relevant people whom the authors knew well. These people were then asked to either complete the questionnaire or forward the link to three other people who met the criteria of the survey and had the highest potential of completing it. By that, the chance of getting an inadequate respondent was minimized while the number of people completing the survey was better guaranteed. In addition, emails and some other relevant social platforms such as Saigon Backpackers group on facebook were also utilized for spreading the survey link.

Afterwards, 253 out of 259 questionnaires collected were completed and validated. These questionnaires had been thoroughly checked and edited before all the data was entered in Statistical Package for Social Sciences version 22 for analyzing.

Detailed information regarding the survey analysis is provided in the following sub-chapter.

5.2 Data analysis

5.2.1 Sample description

The first part of the questionnaire includes certain demographic information such as age, gender, income level and continent of origin. As the survey is meant non-Vietnamese international visitors in HCMC, 6 out of 259 respondents were filtered out of the survey. Thus, the total number of validated questionnaires was 253.

The four pie charts in Figure 32 show the demographic classification of the respondents. It can be seen from the gender pie chart that 43.9% of the respondents are male and the rest are female (56.1%). Regarding the age distribution, a very large majority of the sample consists of people from 18-35 years old which accounts for 94.5% (n=239). This group of respondent falls into the age range of backpackers and “flashpacker” who are predicted to be the target customers of this business model. Therefore, it is promising that the other data collected in this survey are valuable for the case company.

Concerning the continent of origin, European respondent amount to 50.6% of the sample (n=128), the other half of the sample mainly consists of Asian (24.1%, n=61) and North American participants (20.2%, n=51). Respondents from Australia, Africa and South America consist of only minority of the sample (5.2% altogether).

The figure below displays the demographic information of the survey respondents:

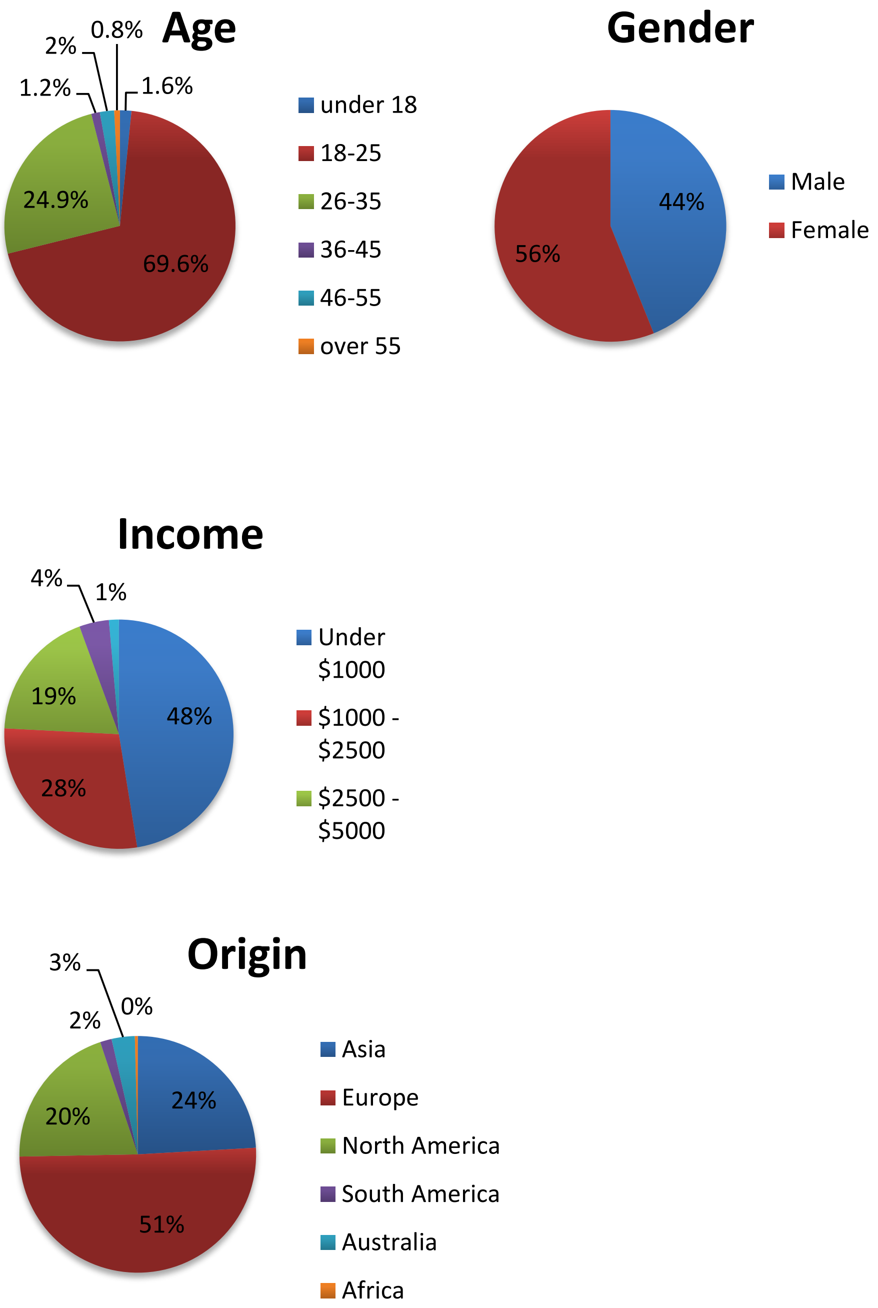

FIGURE 32. Demographic information of the survey respondents

When it came to the question about monthly income, 15% of the respondents refused to answer. Among the rest of the participants, the most common answer is under 1000 USD (47.4%), followed by 1000-2500 USD and 2500-5000 USD with 28.4% and 18.6% respectively. There are only 5.6% of the respondents have monthly income of more than 5000 USD.

5.2.2 Experience of target group in HCMC

After 4 questions related to demographic information, in question 5, the respondents were asked if they had visited HCMC. Among 253 participants, 113 (44.7%) provided a positive answer. These 113 participants were then questioned on their experience and behavior concerning the accommodation service in HCMC (question 6-13). Therefore, in this sub chapter, the term “respondents”, “participants”, etc. refers to these 113 respondents who had experience of staying in HCMC.

The first question in this section of the survey, question 6, aims at acknowledging the purpose of the respondents’ staying in HCMC. A large majority of the participants were tourists (77.9%) while a minority (14.2%) was in their business trip. Other purposes such as studying, volunteer, etc accounts for only 8%.

When the respondents were asked how they found the accommodation they stayed in HCMC, the most common answer was via online booking pages such as hostelbookers.com or hostelworld.com, etc (34.5%). Information from friends also played an important role in the respondents’ searching for accommodation in HCMC and was selected by 25.7% of the participants. Channels such as social media or travel blogs receive a surprisingly low concern from the respondents with only 0.9% each. The other channels such as travel sites and main website of the accommodation are selected by respectively 12.4% and 6.2% of the respondents. An overview of this statistic is presented in the following pie chart:

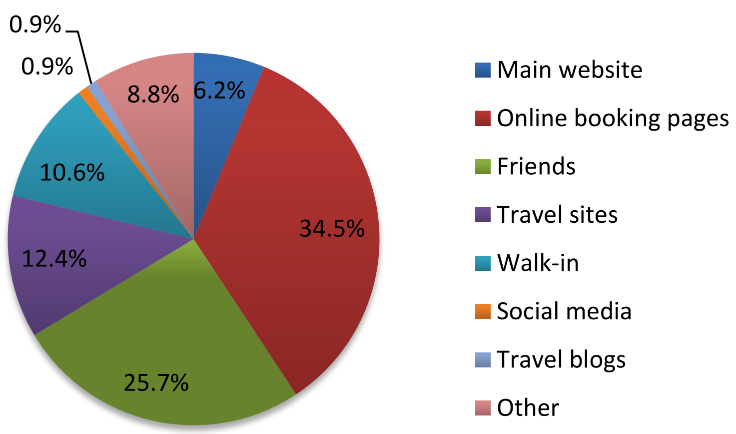

FIGURE 33. How respondents found accommodation in HCMC

As to the duration of staying in HCMC, the respondents' average nights spent in HCMC is 17.16 with a standard deviation of 53.02 nights. This high standard deviation results from some respondents with exceptionally long staying time. The figure below displays the frequency distribution of nights spent in HCMC:

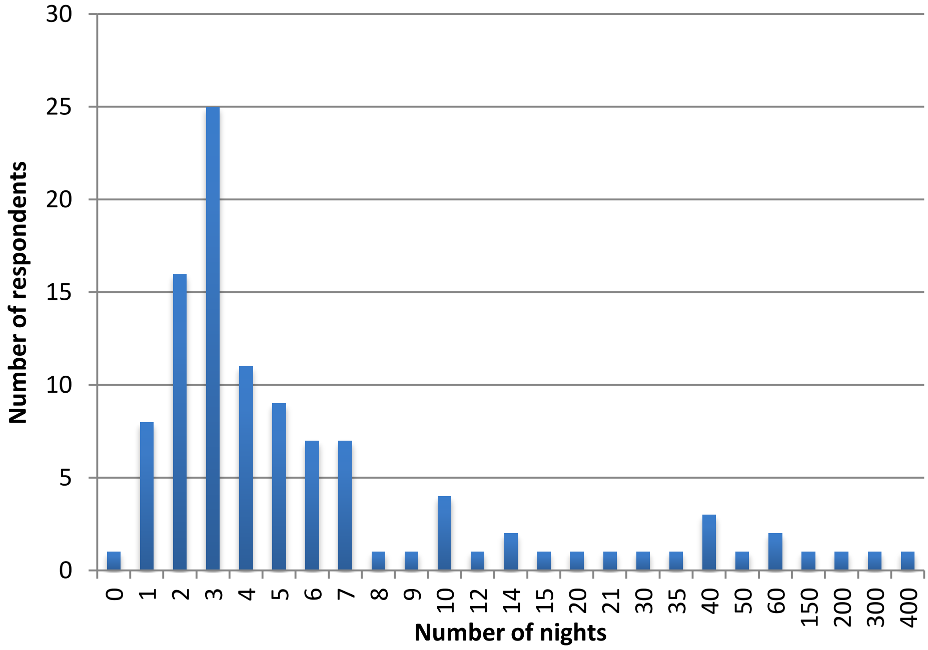

FIGURE 34. Frequency distribution of the respondents' nights spent in HCMC

Based on Figure 34, it is apparent that most of the respondents spent 2-4 nights in HCMC (48.1%) and more than three quarters (77.8%) spent 7 nights or less.

Ho Chi Minh City is a very large city with many 24 different districts and a great diversity of accommodation services. In order to support the case company in discovering their customer decision when visiting HCMC, the respondents were requested to provide their preferred type of accommodation and its location.

The figure below displays the choice of the respondents on their preferred type of accommodation in HCMC:

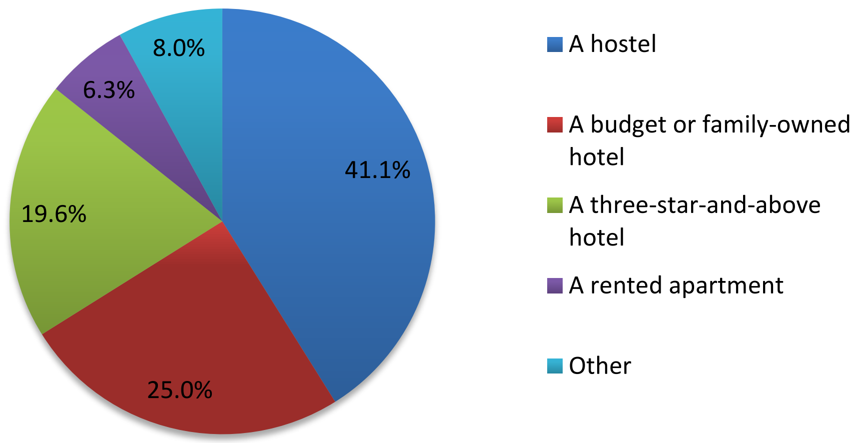

FIGURE 35. Respondents' types of accommodation in HCMC

The most common accommodation type of the respondents in HCMC is hostel (41.1%) and budget, family-hotel (25%). Only less than a fifth of the respondents in this group stayed at a three-star or above hotel (19.6%).

When it came the question about the location of their accommodation service, a large proportion (74.1%) of the respondents stated that they stayed in District 1 in which the backpacker area and most of the tourist attractions are located. As a result, District 1 is a potential location of the hostel concept. However, as aforementioned, District 1 consists of many different areas serving different customer segment. Therefore, it is essential for the case company to select the right location in District 1 which is suitable for its business concept.

Concerning the purchasing price of accommodation service in HCMC, more than half of the respondents (51.3%) stated that they did not look for the cheapest accommodation in HCMC. This statistical result proves that half of the respondents are willing to pay more for a better accommodation service. In order to achieve a better understanding of the pricing situation, the respondents were also asked to state the price they paid for their accommodation in HCMC. Among 113 participants who stayed in HCMC, nine people were not able to provide the requested information and five ones did not stayed in a service accommodation.

Studying the rest 99 respondents reveals that the most common price was 10 USD per night (22.2%). This partly makes the price range from 5-10 USD per night the most popular paid price level among the respondents (47.5%). The second most common price range is over 25 USD, which accounts for 23.2% of the respondents. It is essential to notice that 14 respondents in this price range stayed in a 3-star-and- above hotel. The other price ranges were mentioned by much less respondents. The figure below displays the distribution of the respondents in different price ranges:

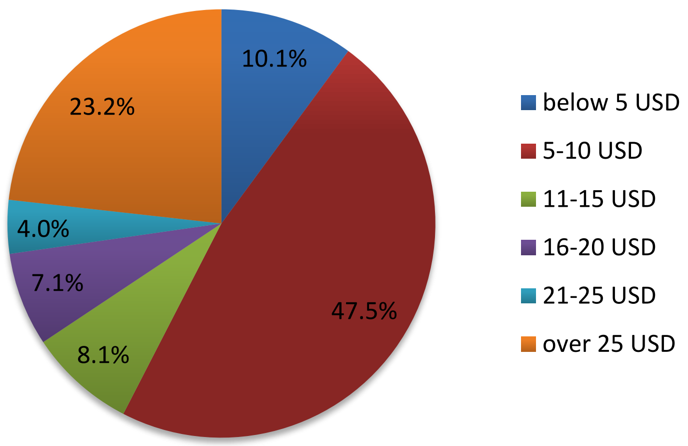

FIGURE 36. Accommodation price ranges per night in HCMC

In question 12, the respondents were asked if they were not satisfied with any attributes of the accommodation they stayed in HCMC. Among 11 attributes listed in the survey, travel information received the highest concerns of the respondents (25.7%), follow by cleanliness, group activities, extra amenities, security and design. All of these attributes were mentioned by 19 or more respondents (16.8% or more). Price and location are least concerned by the participants (n=11 and 12 respectively).

The respondent's experience with their accommodation in HCMC is summarized in the figure below:

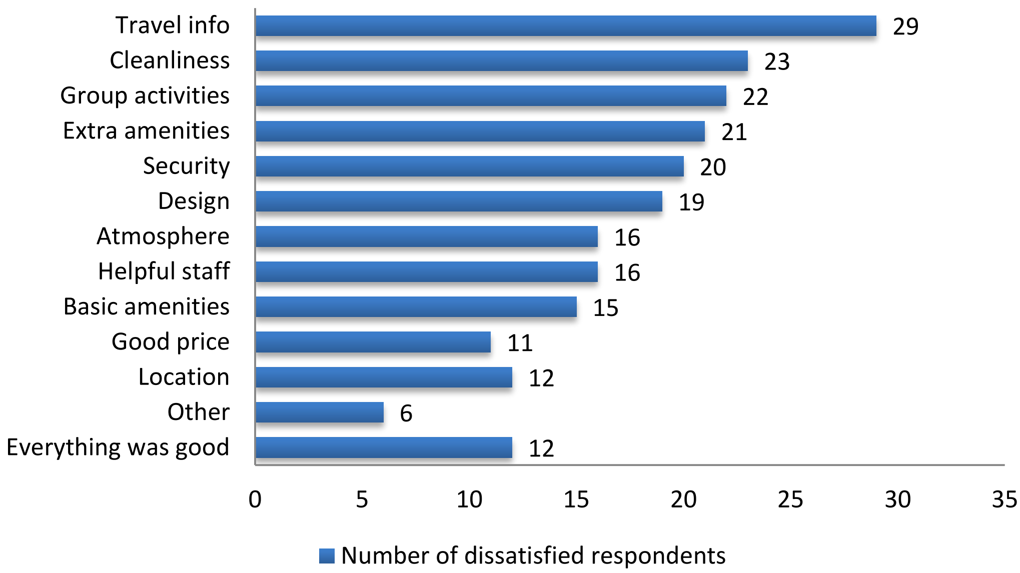

FIGURE 37. Respondents' dissatisfied factors towards their accommodation in HCMC

5.2.3 General preferences of target group

This subchapter assists the case company in exploring how the customers usually find an accommodation when they travel. In addition, this section also brings into discussion the most important characteristics of a hostel from the customer's viewpoint.

Regarding the channels from which the respondents look for their accommodation, a significant proportion of the participants (70%, n=177) chose online booking pages (hostelbookers.com, hostelworld.com, etc) as one of their most used channels. The second most popular channel among the respondents is travel sites such as tripadvisors.com or wikitravel.org (43.5%, n=110). This is followed by getting information from friends which was selected by 84 out of 253 respondents (33.2%). These are the three most popular channels when the respondents search for their accommodation when traveling. In contrast, channels such as social media or travel blogs are often used by only approximately 6% (n=16 and n=15 respectively) of the respondents. It is noteworthy that in the specific case of finding an accommodation in HCMC, the respondents had a tendency to get information from friends more than from travel sites while generally speaking, they used travel sites more.

The figure below displays the respondents' selection on accommodation searching channels:

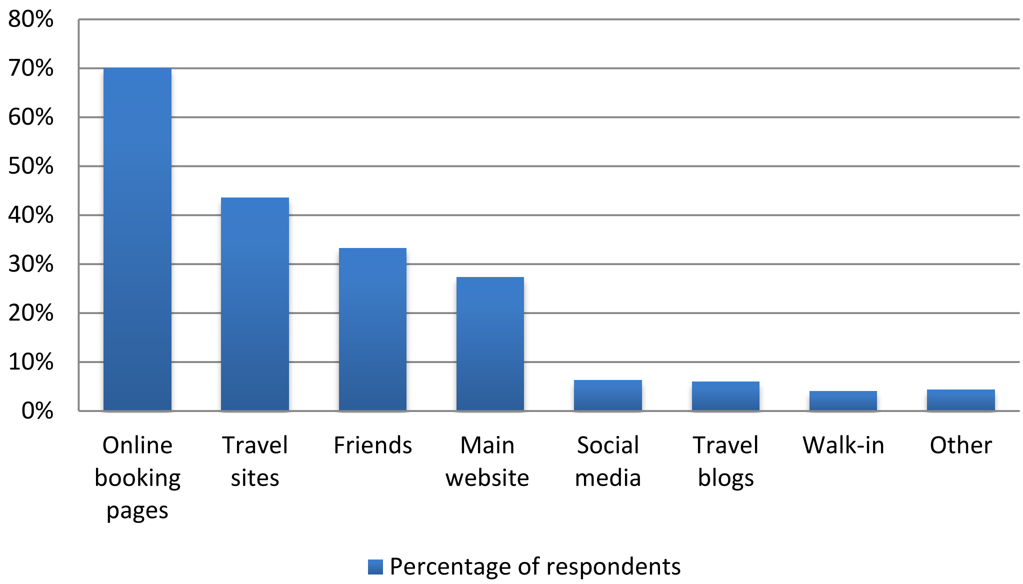

FIGURE 38. Respondents' general preferences for accommodation searching channels

Concerning the most important characteristics of a hostel, the respondents were provided with 10 options and were asked to select three of them. A summary of the respondents' answers is presented in the figure below:

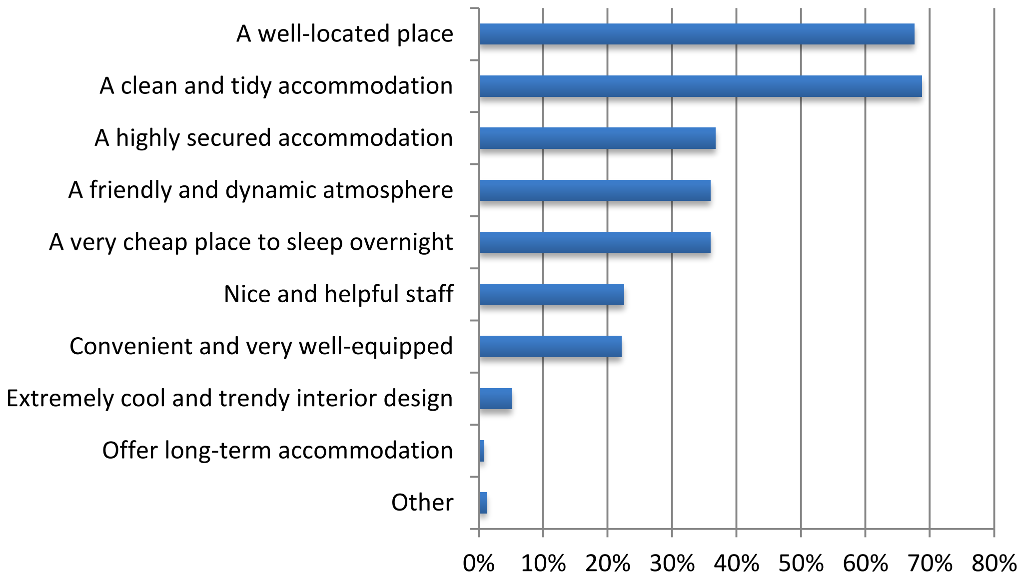

FIGURE 39. Respondents' preferred characteristics of a youth hostel

According to the survey, the two most important characteristics of a hostel are cleanliness and good location, which were correspondingly selected by 68.8% and 67.6% of the respondents. These features are followed by being a cheap place to sleep over night, being highly secured and having friendly atmosphere. These three characteristics were preferred by approximately more than one third of the sample. On the contrary, offering long-term accommodation not generally preferred by the respondents. The respondents who valued this characteristic account for only respectively 0.8% of the entire sample.

5.2.4 Youth hostel concept testing

The concept testing section starts with an introduction to the youth hostel concept. A short paragraph mentioning the most prominent attributes of a youth hostel and 7 photos were presented to the survey participants. After reading and understanding the concept, the respondents were asked to answer 6 questions regarding their awareness, preferences, willingness to pay and attitude towards this concept in HCMC.

Awareness

Concerning the respondents' awareness of this concept, about one third of the participants (30.8%) stated that they had never heard about this concept. Among the rest of the sample, there are 68 respondents (38.9%) mentioned that they were a fan of this hostel concept while 60 (34.3%) were aware of this concept but have never stayed in one before. The other respondents have stayed in a youth hostel before and it was either a good experience (18.9%) or just acceptable (8%). In addition to this statistic, a cross tabulation including a chi-square test (an analysis in SPSS which helps test the dependence of two variables) was run in order to find out how demographic factors affect the awareness of the youth hostel concept. The result of the chi-square test is displayed in the table below:

TABLE 18. Chi-square test showing the relationship between demographic factors and youth hostel concept awareness

Demographic factors	*Asymp. Sig. (2-sided)*
Gender	0.285
Age	0.349
Origin	0.004
Income	0.102

According the chi-test, with this sample, continent of origin is the only demographic factor which influences the awareness of the youth hostel concept. The figure below displays the youth hostel concept awareness of each group of respondents (divided by continent of origin):

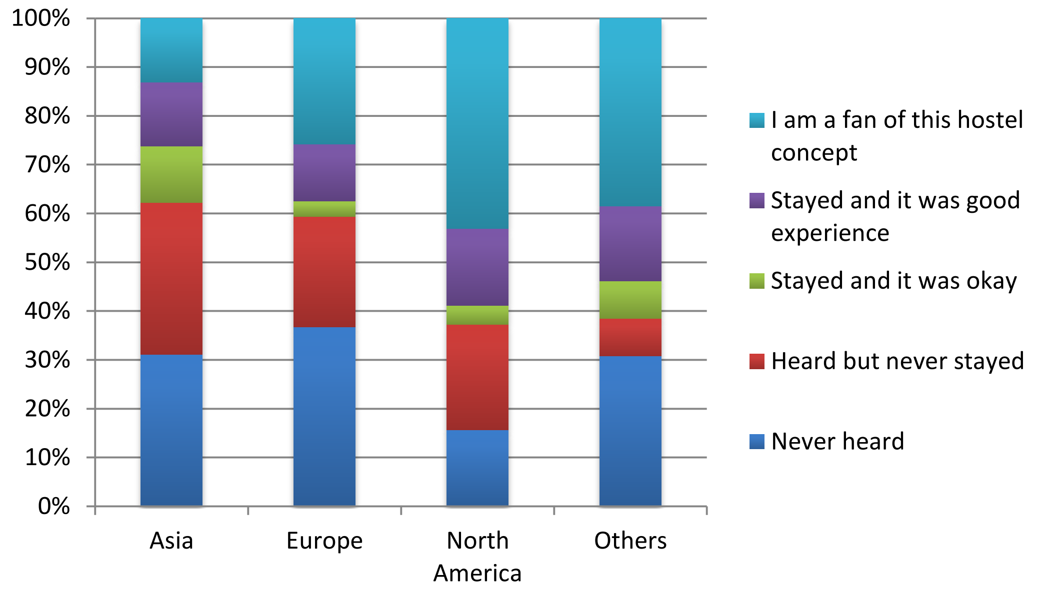

FIGURE 40. Respondents' awareness of youth hostel concept by continents

It can be seen from the figure above that 62.2% of Asian respondents never heard of or heard but have never stayed in a youth hostel before and only approximately 13% are fans of the concept. The result provided by North American respondents is totally different with 43.1% were fans and only around 15% were not aware of this concept. European respondents stand in the between of the mentioned continents with 25.8% are fans and 36.7% did not know about this hostel concept.

Willingness to stay

After an introduction to the youth hostel concept, the survey participants were asked in question 15 if they wanted to stay in a "youth hostel" in HCMC. A significant proportion of the respondents said yes to the question, which account for 71.9% of the sample (n=182). 21.3% stated it did not matter for them to have this concept in HCMC. Only a minority of the sample (6.7%) said no to this concept mainly because of their needs of privacy, their preference of hotel over hostel or just because they considered themselves too old for such hostel concept.

The figure below reveals how the age of the respondents affect their willingness to stay in this youth hostel concept:

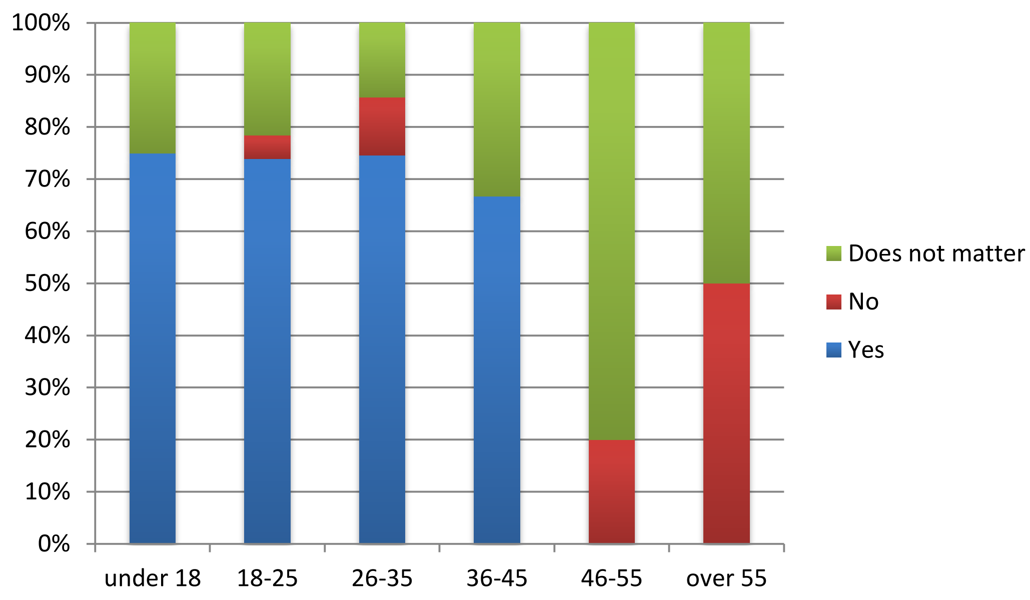

FIGURE 41. Respondents' willingness to stay in this youth hostel concept divided by different age groups

It can be seen from the figure above that generally, the percentage of the answer "no" to question 15 is higher at higher age groups while the answer "yes" is provided only by respondents under 45 years of age. In the two last age groups, the respondents who said "no" to the question explained that they are not suitable for the concept because of their age. One limitation of this analysis is the low number of respondents in the first and the three last age groups (5.6%, n=14). Therefore, it is advisable for the case company to conduct further research at this point in order to have a more insightful understanding of the influence of age on the customer's attitude.

It can be seen from the figure above that the respondents who are over 45 showed very little interest in the concept with no positive answer. On the other hand, approximately 74% of those who are 18-35 years old said "yes" to this concept. As a result, they are very potential to be the target customer of the case company. The group under 18 and 36-45 years old also shows positive interest to the concept. However, these two groups consist of only 2.8% of the sample (n=7), therefore, it still needs further research to achieve a proper conclusion for these age group.

Willingness to pay

After being provided with a lot of information regarding the youth hostel concept, the participants were asked if they were willing to pay a higher price (2-5 USD more) than what a normal hostel charges for this youth hostel concept. Among 253 participants, there is a majority of the respondents who were willing to pay more for this youth hostel concept (72.3%). A chi-square test was conducted to reveal the influence of income on the willingness to pay of the respondents. As a result, it is statistically proved that income has no effect on the decision of the respondents. This result shows the low level of price sensitivity among the respondents. Therefore, there is an opportunity for the case company to offer more customer value at higher price in a market with full of cheaper alternatives.

Customer preferences

This is the last part of the survey focusing on exploring customer preferences regarding the youth hostel concept in HCMC. Firstly, in question 19, the respondents were asked to state their expectation of 10 different attributes in this hostel concept. Secondly, they stated the attributes of their desire which were not available in the provided list. Lastly, they were questioned about their expected price level and number of beds per room.

Question 19 provided the respondents with a list of 10 different attributes of the introduced youth hostel concept. Each attribute had a range of expectation from 1-lowest expectation to 5-highest expectation. 252 over 253 respondents managed to complete the expectation table. The figure below summarizes the result of this question by listing the mean expectation level of each attribute:

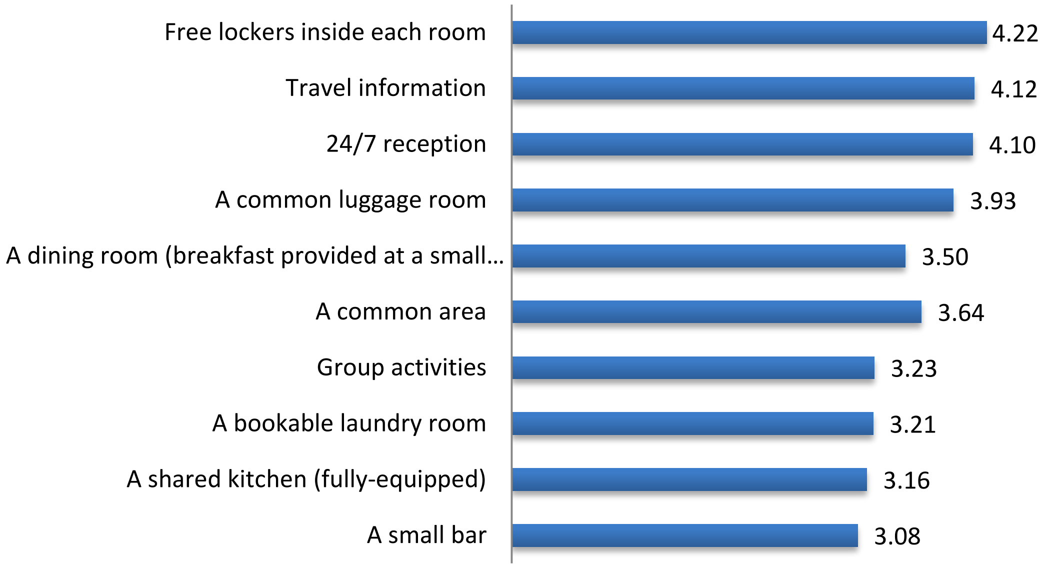

FIGURE 42. Respondents' expected attributes of a youth hostel

It can be seen from the figure that all of the attributes score at least three out of five in the expectation scale of this survey. This means that all of the listed elements receive at least moderate expectation from the respondents and there is no attribute falling into the low expectation level. Among the 10 listed attributes, the three most preferred elements are free lockers inside each room, travel information and 24/7 reception with the average expectation level of more than four out of five. These attributes are followed by a common luggage room, common area and dining room which score 3.93, 3.64, and 3.50 respectively. With the average expectation level of only 3.08 and 3.14 out of five, a small bar and a shared kitchen are the least expected elements in this survey.

Right after the expectation table with 10 listed attributes of the hostel, the respondents were asked if there was anything they wanted to add to the list. A majority of them stated that they had nothing to add (89.3%, n=226). According to the rest of the sample, the most common added attribute was basic characteristics of a normal youth hostel such as cleanliness, safety or helpful staff, etc (31.1%, n=14). This is followed by the expectation of wireless network (22.2%, n=10). Wireless network has always been one of the basic amenities of a youth hostel. However, in this analysis, it is counted separately from the basic amenities in order to reveal the high demand for it. Besides wireless network and basic characteristics of a youth hostel, the respondents also suggested some more added attributes such as basic amenities (excluded wireless network), room variety and luxury amenities (camp site, sauna, etc). Other minor attributes were also mentioned such as vehicle renting service, happy hour at the pub/bar, etc.

After the questions about the preferred features of the youth hostel in HCMC, the respondents came to the final questions of the survey regarding their expected price levels and the expected number of beds per room in accordance with that price level. Concerning the price level, the most common expected price range is 11-15 USD (34.8%). The price ranges 5-10 USD and 16-20 USD were respectively expected by 25.5% and 19.8% of the respondents. The lowest price range, which is under 5 USD, is expected by a minority of the sample (3.2%, n=8). The figure below displays the customer expected price range for the youth hostel concept in HCMC:

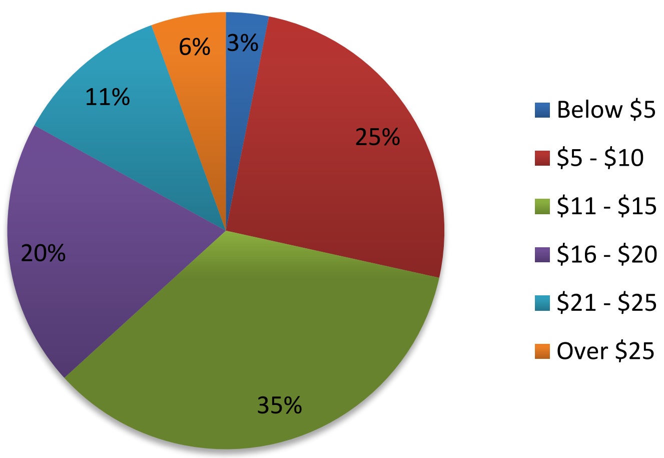

FIGURE 43. Respondents' expected price range of a youth hostel in HCMC

Regarding the number of beds in accordance with the expected price range, 40.7% of the respondents stated that they did not expect more than four beds in one rooms and maximum of two beds per room was expected by 21% of the respondents. 18.2% of the respondents stated that they felt comfortable with up to six beds in one room and this number for eight beds per room is 9.5% (n=24). The figure below displays the customer expected number of beds in one room:

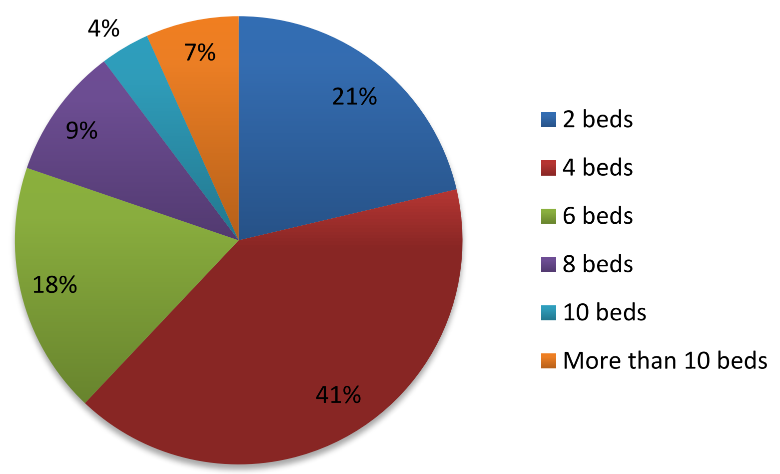

FIGURE 44. Respondents' expected number of beds

The very last question in the survey allowed the respondents to freely leave their comments, ideas and opinions. Some respondents suggested their own ideas to make the hostel a better place to stay. In addition, many respondents also stated that this concept was a wonderful idea which could help boost the tourism industry of Vietnam.

5.3 Survey findings

This chapter of customer analysis and concept testing can be summarized with the key findings as followed:

- A majority of the respondents are young travelers aged from 18-35 who come from Europe, Asia and North America. Three quarter of them have monthly income of less than 2500 USD.
- Their most common accommodation searching channels are online booking pages and travel sites.

- Respondents' most valued characteristics of a hostel are cleanliness, location, security, atmosphere, good price.
- The most common duration of stay was 2-4 nights.
- Hostel and budget, family-owned hotel were the most popular types of accommodation among the target group.
- Nearly three quarter of those who have been to HCMC stayed in District 1.
- Half of them did not look for the cheapest accommodation in HCMC. The most common accommodation price was 10 USD per night. The most common price range was 5-10 USD.
- The most dissatisfied attributes of the accommodation service in HCMC were travel information, cleanliness, group activities, extra amenities, security, and design.
- Most of the respondents found their accommodation in HCMC with the help of their friends and online booking pages.
- Less than one third of the respondents were unaware of the concept while more than one third was big fans of it. North American respondents had the highest awareness, followed by European and Asian.
- Nearly three quarter of sample wanted to stay in this hostel concept in HCMC. Among the age group 18-35 years old, a large proportion of customers have a demand for this concept.
- A majority of respondents agreed to pay higher price for this concept. Their willingness to pay was not affected by their income.
- The most expected features in the youth hostel concept in HCMC were private lockers, travel information, 24/7 reception, luggage room and common areas.
- The most expected number of beds was four beds per room. The most expected price range was 11-15 USD for all of the mentioned value of the youth hostel concept.

These results denote that the general market demand for a youth hostel model in HCMC is high with 75% of the respondents expressed their desire to stay in this youth hostel and the same proportion was willing to pay higher than the average price. Thus, there is an opportunity for the case company to offer a superior product with relatively higher price in a market with full of unexceptional alternatives.

Apart from that, according to this customer survey, the authors finally came up with a preliminary target segment for this youth hostel concept in HCMC. The suggested target group is 18- to35-year old international backpackers and flashpackers with low level of price sensitivity who have interests in a hostel with excellent social atmosphere alongside outstanding service quality. Based on the target customers' preferences expressed in the concept testing section, the initial business concept is then adjusted, which lays the foundation for the preliminary business plan of the case company.

6 CONCLUSIONS

This chapter recaps the key findings of this research, based on which the final decision for the primary research question is made. In addition, an overall assessment regarding the reliability and validity of this paper is provided, followed by suggestions for further research.

6.1 Findings

First and foremost, the business environment in Vietnam is bringing good potentials with favorable economic conditions. However, the low level of transparency in the political system is one significant challenge for any businesses operating in the environment.

Second, accommodation sector in HCMC is receiving great opportunities from the burgeoning number of international tourists in recent years. Though hostel is an emerging market, it is currently dominated by a large number of unprofessional budget properties. As a comprehensive model of European youth hostel is yet to be seen anywhere in HCMC, the case company is not facing any severe direct competitions. However, it is exposed to significant threats of substitutes and new entrants due to the great number of local players who are very swift in catching up with the changing market demand.

Third, a customer survey conducted on the potential groups of the business concept (i.e., international travelers in HCMC) revealed that the general market demand for a youth hostel model in HCMC is high. Specifically, 75% of the respondents indicated that they definitely wanted to stay in this youth hostel and the same proportion was willing to pay higher than the average price. Private lockers, travel info, 24/7 reception, luggage room and common areas were the most expected features of the target group for this youth hostel concept. The most expected number of beds per room was four and the most popular price range was 11 – 15 USD given all the expected values were satisfied.

Based on the conducted customer survey along with the overall background analysis, a preliminary target segment was defined, which is 18- to 35-year old international backpacker and flashpackers in HCMC with low price sensitive.

In accordance with the defined target market, the original European youth hostel concept was adjusted based on which a preliminary business plan for May Hostel was formulated. The core value of the business is to provide a chill and homey boutique hostel with high quality service and excellent social atmosphere. Besides exclusive amenities and services being provided at medium price level to maximize the customer value, another significant element which makes May Hostel stand out from other competitors is the unique Vietnamese vintage design with rattan furniture being the signature of the hostel.

Regarding financial matters, the estimated capital requirement for this business model is approximately 287,000 USD. Though the required investment is considerably high, the estimated profit margin of 18.9% in the first year denotes a good potential of the business.

All in all, based on the main findings of this research it can be concluded that youth hostel is a promising business concept in HCMC market.

6.2 Reliability and validity

To serve the ultimate goal of this thesis, a combination of both qualitative and quantitative research method was employed in which different sources of information were approached. Besides the wide range of reliable and up to date secondary sources, a variety of significant primary sources were utilized depending on different research topics. Specifically, regarding the original concept analysis, a number of interviews were conducted with relevant professionals working in the field. The information collected was of great value for the research. As for the market analysis, a field trip to HCMC was conducted to gain a thorough understanding regarding this target market. During this trip, a customer survey was conducted on 253 people for more specific and reliable knowledge about the potential customer behavior and preferences. Finally, regarding the implementation of the financial plan, a number of inquiries were sent for proper price quotations. The aforementioned factors enhanced the overall reliability and validity of this research.

That being said, certain matters still need to be carefully considered. First, though the sample size of the survey was relatively adequate, there were still certain imbalances between different groups of respondents, for example in terms of age groups and continents of origin. As such, the survey results might not reflect the overall picture, which might impact on the customer segmentation as well as product orientation decision. In addition, certain findings of this research are only valid for a short period of time due to the rapidly changing market situation, especially in terms of price. Therefore, for the most updated information, further research is suggested to be done.

6.3 Recommendations and suggestions for further research

As the main focus of this research was the background analysis for the assessment of the business concept, the authors suggest that more thorough studies regarding the following matters be conducted for the actual implementation of the business:

Competitors. As mentioned, the accommodation market in HCMC reacts very swiftly to the changing demand. Therefore, new competitors appear constantly in the market. Thus, for updated knowledge regarding the market competition, further research may need to be conducted.

Customer analysis. Due to the aforementioned limitation regarding the customer survey, a more thorough customer analysis is suggested to be done for better customer segmentation as well as product orientation decision.

Business implementation. If the business is to be implemented, a more thorough business plan must be conducted. First, decision regarding the form and ownership of the business needs to be made. Second, more insightful research into the business location and property is required. Third, matters related to legislation and paperwork need to be studied. After that, key business partners have to be reached. Also, sources of finance must be addressed and a more thorough financial plan needs to be done. Finally, risk management needs to be handled more carefully before the actual implementation of the business.

7 SUMMARY

The major research question of this study is whether European youth hostel concept is promising for Ho Chi Minh City market. Accordingly, the authors provided a logical research structure which ensured the reliable answer for this research question. The research structure was divided into two main parts: theoretical framework and empirical study.

The theoretical framework reviewed the theories needed for the study which were grouped into three main sections: business planning theories, environmental analysis and customer analysis. These theories provided a reliable knowledge base for the authors to understand the threat and opportunities of the business environment; explore the customer behavior in general and towards tested concept; establish a preliminary business plan to illustrate the adjusted hostel concept and its profitability in the target market. From the results of these studies, the authors came to the conclusion for the potential of this concept in HCMC.

The knowledge provided in the theoretical part was the guideline for the empirical part to be systematically conducted. Before testing the potential of the youth hostel concept in HCMC, the concept itself needs to be thoroughly understood. Therefore, the very first part of the empirical study focused on the introduction of the youth hostel concept with the information collected from electronic sources and three in-depth interviews with hostel experts in Finland.

Consequently, the actual process of testing started with analyzing the business environment. This section was divided into two subsections which were Vietnam country overview and HCMC hostel industry. Each subsection revealed the opportunities and threats of the business environment to which the case company must pay attention. Interviews with three experienced people in HCMC accommodation industry were conducted in order to ensure the provision of practical and updated information for this section.

After insightful knowledge regarding the business environment was provided, the study continued with the customer analysis. The information supporting the customer analysis was collected through a survey which was carefully designed and tested before being spread out to a selected group of respondents. As a major part this survey, the customer preferences and attitude towards the youth hostel concept was tested. A concise description of the customer information collected through this survey along with the preliminary target customer segmentation was presented at the end of Chapter 5.

The business environment and customer analysis formed a strong base for establishing the preliminary business plan of the youth hostel concept in HCMC. The purpose of this business plan was to illustrate the adjusted hostel concept in the context of HCMC market. In addition, the business plan also examined the potential of this hostel concept by estimating its profitability and future development.

To conclude, there is high potential for this hostel concept in HCMC. However, there are still suggestions for further research in order to reinforce the information given in this study before actually implementing the hostel business.

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APPENDICES

APPENDIX 1. Interview questions

Interviewee	Annika Rantanen
Position	Marketing Coordinator
Organization	Hostelling International, Finland
Date of interview	18 February 2014

1. Can you give an overview of the youth hostel market in Finland and in Europe?
2. Can you tell us something about Hostelling International (HI)? How does HI support its members and how a hostel can join HI network?
3. Why youth hostels are so popular in Europe?
4. Besides HI, is there any other organizations which supervise the activities of youth hostels?
5. The differences between a normal hostel and a youth hostel?
6. Can you say something about the future development of youth hostel? Is there any current trend?
7. Why big and well-known hostel like Wombats and Meininger do not join your network?
8. How a hostel is operated? What is the source of revenue of a hostel?
9. How can a hostel become a partner with online booking agents?
10. Is there any standard for the staff, especially the receptionists?
11. Can you tell us something about the activities organized by the hostel?

Interviewee	Rudolf Hever
Position	Exectutive Director
Organization	Alternaty Vietnam
Date of interview	10 March 2014

1. What is your general impression on the hotel/hostel industry in HCMC? How is the competition? Over which factors are they competing with each other (price, quality, design, etc.)?
2. Who are the major players in the hostel industry in HCMC? Are there any big groups or are they mainly family-owned businesses?
3. Why do you think there are so many hostels/hotels in HCMC?
    a. Is it because of the low cost for setting up such a business?
    b. How are the occupancy rates? Are they making profit?
4. Besides those family-owned hostels around Bui Vien, Pham Ngu Lao aiming at the low-end segment, are there any high-quality hostel models (such as those "youth hostels" in Europe) catering especially for the need of backpackers in HCMC? Why or why not?
5. Do you think there are potential for this hostel segment in HCMC? Will the competition be harsh?
6. What is the cost for renting hostel/hotel premises in the central area (Bui Vien, Pham Ngu Lao) of HCMC?
7. What is the cost for setting up or renovating a building into a hotel/hostel?
8. If we need to establish a hostel in the backpacker area (Bui Vien, Pham Ngu Lao, etc) with around 30 rooms, can you give us an approximate needed start-up capital?
9. Is there any legislation for setting up a hostel/hotel in Vietnam? Any restriction?
10. Is there any special license required by the government for hostel owners?
11. Who are the main suppliers e.g., of furniture, labors, food, etc., for hostels in HCMC?
12. If we want to establish a youth hostel in HCMC, whom or which organization should we contact for support?

Interviewee	Johnny An Nguyen
Position	Receptionist
Organization	The Town House
Date of interview	12 March 2014

1. Unique selling points of The Town House
    a. As a one-year old successful hostel, can you share some experience on how to do marketing for a newly opened hostel?
    b. Knowing that the staff here makes the place unique -> What is the characteristics of the staff?
    c. What make you outstanding?
2. About the customers
    a. Who are you main customers?
    b. How customers know about your place? How do they book?
    c. Are they price sensitive?
    d. Preferred payment method
3. About business environment
    a. Who are the competitors of TTH? What is the price level of TTH?
    b. What would you do if there is new competitor in your area?
    c. Who are the main suppliers of the hostel?
4. Some functions in the hostel
    a. What is this property type? Leasehold or freehold?
    b. How does your cooperation with local service provider work?
    c. How the work is divided among the staff in the morning? In the evening?
    d. How to monitor the cash flow?

Interviewee	Nguyen Dinh Tuyen
Position	Deputy Director
Organization	Asia Hotel Saigon
Date of interview	14 March 2014

1. What is your general impression on the HCMC accommodation market? Can you tell me something about the competition situation in this market sector in HCMC?
2. What is the average occupancy rate of your hotel?
3. What is your mode of operation? How is your staff and management board organized? How do you do the marketing jobs?
4. What is the average salary for different positions in your hotel?
5. Who are your partners?
6. What is the process of implementing a hotel-hostel business: paper work needed, who are the investors, operators, suppliers, etc?
7. What are the costs of establishing a hotel-hostel? Can you give some references regarding the rent and renovating cost in HCMC?
8. About tourists
    a. What are the target customers of different types of accommodation services: 3-4 star hotel, hostel, etc?
    b. What are the customer preferences and their trend?
    c. Why there is very few Asian tourists in the backpacker area?
9. About the youth hostel model
    a. Is this model potential for HCMC market? Is there a demand for it?
    b. What are the challenges for this hostel model in HCMC?
    c. If a youth hostel is to be established, how big do you think its scale should be in order to stands out from others competitors?
10. About the government control
    a. How much do they involve in the business?
    b. Is there any obligatory condition to run the business? Does the government cause any limitation for the business?

Interviewee	Anna Vunneli & Riikka Kallio
Position	Booking Manager & Sales Secretary
Organization	Hostel Domus Academica
Date of interview	22 March 2014

1. How is the competition situation for youth hostel in Helsinki? Over which factors do hostels compete with each other e.g. price, service, location, etc.?
2. Is there any legislation for the operation of Youth Hostel in Finland? Any restrictions or limitations?
3. Are the youth hostels in Finland under the control/supervision of any organization (such as Hostelling International)?
4. How does a youth hostel operate in general? The staff? The board of managers?
5. Who are the key partners in general?
6. What are the biggest challenges for establishing and managing a youth hostel? What are the costs?
7. How does the booking system work? How to allocate the guests in order to be cost-effective?
8. How to determine the number of rooms/beds?
9. What are the most important factors of a successful youth hostel?
10. What is your opinion about the future of youth hostel? Will they continue to grow? What are the main opportunities and challenges in the future?

Interviewee	Marko Repo
Position	Hostel Manager
Organization	Eurohostel Helsinki
Date of interview	22 March 2014

1. How does a youth hostel operate in general? The staff? The board of managers?
2. Who are the key partners in general?
3. How do they market themselves? Through which channels?
4. What are the values that Euro Hostel brings to the customers? How does it stand out from other competitors?
5. How is the competition situation for youth hostels in Helsinki? How do you compete with each other e.g. price, service or any other ways?
6. Is there legislation for the operation of youth hostels in Finland? Any limitations?
7. Are the youth hostels in Finland under the control/supervision of any organization (such as Hostelling International)?
8. What are the biggest challenges for establishing and managing a youth hostel?
9. How do youth hostels make profit besides the accommodation service?
10. How do you think the hostel concept will become in the future? (For example in the past, "hostels" are considered as very cheap places to stay over the night, while nowadays, "hostels" are expected to provide a great social environment for young travelers).

Interviewee	Oliver Lewis
Position	Founder and CEO
Organization	Cheap Sleep Hostel Helsinki
Date of interview	23 April 2014

1. Why did you start CheapSleep? What makes your hostel different from others?
2. The process of establishing the hostel
    a. How did everything begin? What was the biggest challenge at that time? How did you overcome it?
    b. How did you find financial resource?
    c. What was the first thing to do when you got the financing support?
    d. How to get customer when first started? What was your marketing method?
3. Can you explain briefly about how your hostel is operated? The functions and members of the management board, the staff, etc?
4. How did you define the number of rooms and room types when started?
5. What are you doing as an effort to minimize your cost?
6. Financial matter
    a. How was your profitability of the first year? Was it a positive figure?
    b. When did you started to make profit?
    c. What is the cost structure of your hostel?
7. What are the risks for running a hostel like this?
8. Do you have any advices for young entrepreneurs who want to follow this type of business?

APPENDIX 2. Survey feedback questions

1. What is your overall impression of the survey?
2. Are the questions easy to understand? Is there anything confusing?
3. Do you think there are too many questions? Are the questions interesting to follow or are they too boring?
4. Is the brief introduction of the "youth hostel" concept clear enough? Can you get the idea? Is it prominent?
5. Did you find any technical mistakes?
6. Are there other any details that you may want to add or edit? What are they?

APPENDIX 3. Customer survey

1. How old are you?
a. Under 18
b. 18 – 25
c. 26 – 35
d. 36 – 45
e. 46 – 55
f. Over 55

2. What is your gender?
a. Male
b. Female

3. (Optional) What is your monthly income (including your allowances) approximately in USD?
a. Under $1000
b. $1000 - $2500
c. $2500 - $5000
d. $5000 - $7500
e. Over $7500

4. Where do you come from?
a. Vietnam
b. Asia
c. Europe
d. North America
e. South America
f. Australia/Oceania
g. Africa

5. Have you ever been to Ho Chi Minh City (HCMC), Vietnam?
a. This is my first time in HCMC
b. I was there once
c. I have been there more than once
d. I have never been to HCMC (please go to question **14**)
e. I am going to HCMC in the near future (please go to question **14**)

6. What is the purpose of your latest trip in HCMC?
a. Travel
b. Business
c. Visiting relatives
d. Other: ________________

7. How many nights do you stay in HCMC in your latest trip?
Approximately ____________ nights

8. Do you look for the cheapest accommodation in HCMC in your latest trip?
a. Yes b. No

9. What type of accommodation do you stay in during your latest trip in HCMC?
a. A hostel
d. A rented apartment
b. A budget/family-owned hotel
c. A three-star-and-above hotel
e. Other: ________________

10. In which area is that accommodation located?
a. District 1 (city center)
b. District 3 (West side of city center)
c. District 5 (near “China Town” area)
d. District 7 (near Phu My Hung)
e. Tan Binh District (near the airport)
f. Other:___________

11. How much do you pay for that accommodation per one night?
Approximately _____________ USD/night

12. What do you think is lacking or needs be improved in that accommodation?
You can choose <u>maximum **3**</u> options.
a. Design
b. Security
c. Location
d. Good price
e. Cleanliness
f. Nice and helpful staff
g. Friendly and dynamic atmosphere to make friends
h. Basic amenities (shower, wifi, bed linen, etc.)
i. Extra amenities (shared kitchen, common room, laundry room, etc.)
j. Group activities (free walking tour around the city, board games to lend out, activities inside the hostel, etc.)
k. Travel information (maps, brochures, leaflets, pamphlets, vouchers, etc.)
l. Other:_______________

13. How did you get to know about that accommodation in HCMC?
a. Main website of the accommodation
b. Online booking pages (hostelbookers, hostelworld, trivago, etc.)
c. Travel sites (tripadvisor, wikitravel, lonelyplanet, etc.)
d. Social media (facebook, youtube, twitter etc.)
e. Travel blogs
f. Friends
g. Other: ___________

14. How do you usually find an accommodation in general when you travel?
You can choose <u>maximum **3**</u> options.
a. Main website of the accommodation

b. Online booking pages (hostelbookers, hostelworld, trivago, etc.)
c. Travel sites (tripadvisor, wikitravel, lonelyplanet, etc.)
d. Social media (facebook, youtube, twitter etc.)
e. Travel blogs
f. Friends
g. Other: ___________

15. Which are the 3 most important characteristics do you look for in a hostel?
Please choose exactly **3** options.
a. A friendly and dynamic atmosphere where I can make friends and share experience
b. A highly secured accommodation
c. A clean and tidy accommodation
d. A well-located place where I can easily get around
e. A very cheap place to sleep over the night
f. Extremely cool and trendy interior design
g. Convenient and very well-equipped
h. Nice and helpful staff
i. Offer of long-term accommodation
j. Other:___________

[Brief introduction of youth hostel concept, 7 photos provided]

16. What do you say about this "youth hostel" concept?
a. I have never heard about it
b. I've heard about it but never stayed in one before
c. I've stayed in one before and it was ok
d. I've stayed in one before and it was a good experience
e. I am a fan of this hostel concept!

17. Do you want to stay in a "youth hostel" in Ho Chi Minh City?
a. Yes!
b. No (please state your reason): ______________________
c. It doesn't matter

18. Are you willing to pay a relatively higher price ($2 - $5 extra) for this "youth hostel" compared to a normal hostel?
a. Yes
b. No

19. Which of the following services do you expect to have in this youth hostel:

	1 – lowest expectation	2	3	4	5 – highest expectation
A shared kitchen (fully-equipped)					
A dining room (breakfast provided at a small cost)					
A bookable laundry room					
A small bar					
A common area (separated from the reception area)					
Free lockers inside each room					
A common luggage room (where you can leave your luggage before check-in or after check-out)					
24/7 reception					
Group activities (free walking tour around the city, board games to lend out, activities inside the hostel, etc.)					
Travel information (maps, brochures, leaflets, pamphlets, vouchers, etc.)					

20. Is there anything else that you want to have?
a. No b. Yes (please elaborate):_____________

21. What is the maximum amount of money are you willing to pay for a "youth hostel" in HCMC with the above listed criteria (given the average price range for a normal hostel in HCMC is $5 - $10 per bed per night)?
Price in USD per bed per night.
a. Below $5
b. $5 - $10
c. $11 - $15
d. $16 - $20
e. $21 - $25
f. Over $25

22. What is the maximum number of beds in one room that you feel comfortable with in accordance with the price you chose in question 21?
a. 2 beds
b. 4 beds
c. 6 beds
d. 8 beds
e. 10 beds
f. More than 10 beds

23. (Optional) Are there any other ideas or comments that you might want to add? Please elaborate: ___________________

APPENDIX 4. Financial matters of May Hostel

Price in USD, 1 USD = 21000 VND

Renovation cost

Demolishing cost	2,285
Architecture cost	1,429
Building cost (including WC facilities, painted-wall, terrace, lighting and hot water system)	114,286
Elevator cost	19,058
Façade decoration	5,714
Total cost of renovation	**142,771**

Furniture cost

Furniture	Quantity	Price per unit	Total price
Bedrooms furniture			
Single beds	22	61	1,340
Bunk beds	53	152	8,077
Double beds	6	171	1,028
Mattress, pillow, blanket	150	60	9,060
Bed linen	200	2	460
Private lockers	23	50	1,139
Normal shelf	9	57	514
Towel	200	3	570
In-room table	17	23	392
Pub			0
Set of 4 chairs and 1 table	20	76	1,524
Common room			0
Table	5	62	310
Chair	10	23	230
Couch	3	57	171
Swing chair	2	119	238
Bean bags	15	23	345
Shelf	2	15	30
Office			0
Office chair	4	114	457
Office table	2	102	203
Office shelf	1	15	15
Dining room			0
Sets of dining and table	9	229	2,057
Total furniture cost			**28,160**

Equipment cost

Equipment	Quantity	Price per unit	Total price
Kitchen			
Gas stove	1	71	71
Microwave	1	104	104
Other Kitchen utensils		350	350
Fridge	1	952	952
Laundary			
Guests washing and drying machine	2	428	856
Hostel washing and drying machine	2	753	1,506
Cleaning			
Tools		95	95
Internet equiment			
Wifi router	6	86	516
Entertainment			
T.V	2	238	476
Board games and books, DVDs		95	95
PCs for guests	5	285	1,425
Office equipment			
PCs for hostel staff	4	474	1,896
Bedroom equipment			
Normal air-conditioner	27	470	12,690
Hair dryer	26	7	184.6
Security system			
Camera system	1		205
Safesty system			
Fire alarm system	1	10,411	10,411
Big air-conditioner	2	952	1,904
Pub			
Pub equipments & other stuff	1	680	680
Glasseware	1	133	133
Fridge	1	523	523
Total equipment cost			**35,073**

Pre-opening cost

Registering cost	104
Rent deposit (3 month-rent)	36000
Internet installment	0
Phone connection	57
Total pre-opening cost	**36161**

Monthly fixed cost

Electricity	323
Water	14.2
Rent	12000
Salary	4238
Phone+internet+cable TV	144
Insurance	12.5
Auditing	198
Other monthly fix cost	45
Maintenance	138
Total fixed cost per month	**17112.7**

Monthly variable cost in the 1st year

Commission to online booking channels (occupancy rate = 80%)	5814
Food	814.2
Beverage	4885
Electricity	1294
Water	75.6
Total variable cost per month	**12882.8**

Sales

Sales of the 1st month		
Accommodation sales	31008	OR=80%, price discount 20%
Drink	10260	
1st month sales	41268	
Sales of the rest 11 months		
Accommodation sales	38760	OR=80%
Drink sales	10260	
Total sales of 1st year	580488	

Depreciation

According to the Vietnamese Laws of Accounting Depreciation (203/2009/TT-BTC, section B), the depreciation is calculated on the business assets whose purchased price is more than 10,000,0000 VND, equal to 476 USD at the exchange rate of 1 USD = 21000 VND.

Method used: straight line depreciation

Estimated useful life of the renovated building is 10 years (leasehold contract will expired in 10 years' time)

Estimated useful life of equipment whose valued is more than 476 USD is 10 years.

Depreciation = Purchased price/Estimated useful time = (Renovation cost + equipment purchased price)/ 10 = 145,951/10 = 14,595.1 USD