

BUSINESS PLAN FOR VIRTUAL USER PORTAL

By

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Abstract

Virtual User Portal (VUP) is a Vancouver based start-up company, currently building an ‘experience’ marketplace designed to connect experience seekers with local experience providers. This business plan examines the viability of VUP’s business model. The industry analysis is conducted to determine the intensity of competition and profit potential. The market analysis defines the target market and VUP’s positioning in the marketplace. As a result, we built pro-forma financial statements that show two important predictions: VUP will become profitable after two years of operation and there is a need to raise additional 500,000 to support the growth.

Keywords: experience marketplace; online travel agency; Virtual User Portal; VUP; Adventica; Journey Builder; daily deals; travel;

Executive Summary

The Company

Virtual User Portal (VUP) is a Vancouver based start-up company, currently building an 'Experience Travel Portal' named Adventica, an online marketplace designed to connect experience seekers and local experience providers. Adventica connects travellers, experience providers and hotels/resorts, and aims to create a unique value for all parties involved. Travellers can use Adventica to research and organize experiences, and conveniently book experiences at the same time they are booking their accommodation. In return for creating their profiles on Adventica, experience providers receive a risk free, targeted advertising campaign, and as a bonus, a light version of an e-Commerce suite, free of charge. Partnering hotels integrate Adventica platform into their websites and in exchange receive a percentage of the revenue collected from experience providers.

VUP's Management team has years of experience in e-Commerce, Business Development and most importantly, in building websites for travel industry clients. VUP partnered with Autobox Media, a premier web design company based in Vancouver. Autobox is currently building the Adventica site. Furthermore, Autobox will cover all technical aspects of the business, such as changes to Adventica design, website maintenance and enhancements, mobile platform development and maintenance, and the e-Commerce suite support.

The company raised \$150,000 from a local investor and already secured their first partner, Canadian Rocky Mountain Resort (CRMR), which operates four hotels in BC and Alberta.

The Market

VUP operates in the Travel Services industry of the Tourism Sector, and offers Recreation and Entertainment booking services. From 2002, Recreation and Entertainment spending in Canada has been growing at 2.4% per year, and in 2011, travellers spent over five billion dollars on Recreation and Entertainment. VUP targets travellers who book their

accommodation through hotel sites and hotel call centres. Total market size in Canada is estimated at \$250 to \$450 million.

Overall, industry rivalry is weak to medium. The most serious competition comes from daily deal sites, however their target market is completely different, and their offers are time sensitive. VUP is the only company operating through partnership with hotels, which is important for two reasons: first, VUP needs less money for advertising than daily deal sites; second, VUP has a unique opportunity to own that marketing channel and become a dominant online experience marketplace.

Financials

VUP needs to raise \$500,000 to support their growth. The company is forecast to become profitable in its third year of operation, and by the sixth year it is forecast to generate over \$2.7 million in net income. A consolidated income statement is shown below.

| Year | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 |
|-------------------|-----------|-----------|------------|------------|------------|------------|
| Revenue | 1,499,464 | 4,383,866 | 12,027,334 | 24,197,897 | 40,895,556 | 63,252,083 |
| Expenses | 1,617,061 | 4,539,687 | 11,988,712 | 23,627,299 | 39,470,618 | 60,520,266 |
| Net Income | (117,597) | (155,822) | 38,622 | 570,598 | 1,424,938 | 2,731,817 |

Table 1-1: Consolidated Income Statement

Dedication

To my family.

Acknowledgements

Thank you to Patrick Kleine, Adrian Alleyne, Rob Berg and Ryan Griffiths from VUP executive team, for the time and patience they invested in this business plan.

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Glossary

| | |
|-------------------------------------|--|
| Experience Travel Portal | Online Experience Marketplace |
| Journey Builder | Proprietary tool for managing experiences online |
| LOHAS | Lifestyles Of Health And Sustainability – Customer segment including people interested in goods and services focused on health, the environment, social justice, personal justice and sustainable living |
| Metamarket | Cluster of complementary products and services that are closely related in the minds of consumers but are spread across a diverse set of industries |
| Tourism Sector | The aggregate of all businesses that directly provide goods or services to facilitate business, pleasure, and leisure activities away from the home environment |

1: Company Overview

1.1 Company Summary

Virtual User Portal (VUP) is a Vancouver based start-up company, offering an 'Experience Travel Portal', a virtual marketplace designed to connect hotel guests seeking to enhance their stay, with experience providers associated with a given hotel. VUP's website Adventica serves as a platform for this marketplace. Experience providers will create their profiles on Adventica and offer their services to experience seekers. Experience seekers will be able to browse through all experiences available at their hotel, choose one of the pre-packaged adventures, or build their own journey.

The company will enter the marketplace via a partnership with hotel chains. Hotel chains will integrate Adventica into their websites, and in exchange share a portion of the revenue. In effect, hotel websites will be the primary advertising channel for Adventica. This approach differentiates VUP from established competitors in the field, daily deal companies like Living Social Escapes and Jetsetter. Competitors need to spend a significant amount on advertising to drive enough traffic to their websites (Eliason, Frezgi & Khan, 2010). VUP's advertising expenses will be lower for two reasons: first, the traffic from hotel sites will be highly targeted, resulting in a higher conversion rate; second, VUP will pay hotels only if experience providers buy on Adventica.

VUP will enter the marketplace through a relationship with Canadian Rocky Mountain Resorts (CRMR), the owner of four resorts located in Alberta and British Columbia. VUP plans to expand in the near future by offering Adventica integration to Canadian and international hotel chains.

The company will have several revenue sources. First, as an intermediary between experience providers and experience seekers, VUP will keep a portion of the collected revenue. Second, VUP will earn interest on the collected revenue for a certain period, since experience providers will be paid when travellers redeem their experiences. Next, some experience providers will pay monthly subscription fee to use a full version of VUP's e-Commerce suite. Finally, VUP

will collect the revenue from experience providers who choose to pay for a special placement on the website, for example 'Featured Provider'.

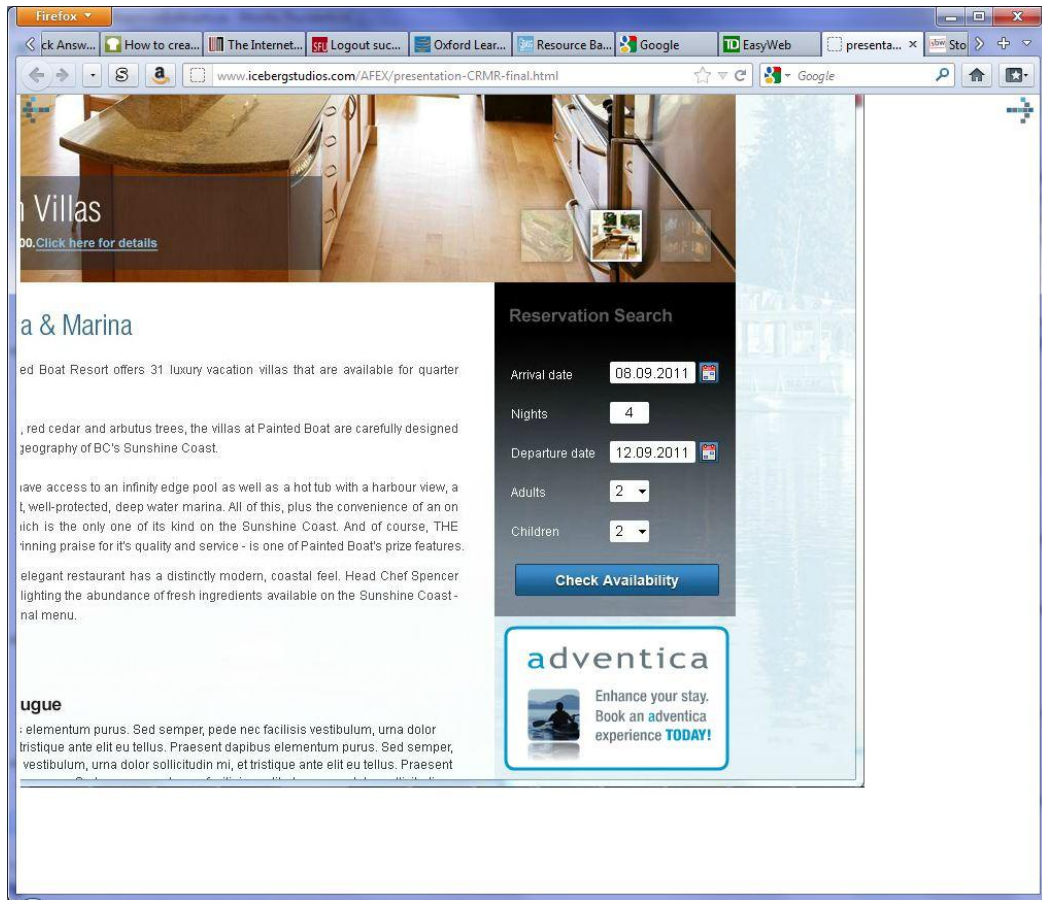
Adventica platform aims to offer a distinct value to all parties involved. Experience seekers can book their hotel stay and experiences simultaneously, reducing the time spent on search. Furthermore, reviews on the site will reduce the risk of booking bad experiences. Experience providers will benefit from a highly targeted advertising campaign on Adventica, with no upfront cost. Moreover, they will receive a light version of e-Commerce suite free of charge, giving them a better control of their calendar and a full integration with Adventica. As a main marketing channel, hotels will share a portion of the collected revenue.

1.2 Description of Company's Offering

The company offers its services through Adventica, an online marketplace featuring profiles of local experience providers. Adventica will be integrated into hotel website and travellers will be able to come to Adventica in three different ways.

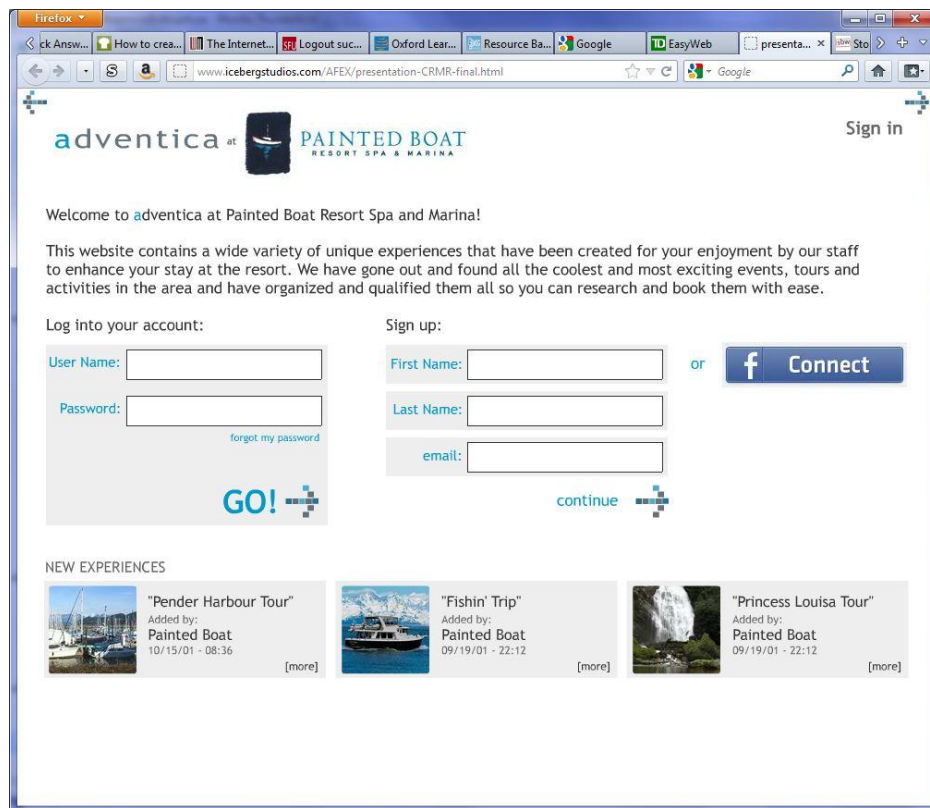
1. They can follow the link to Adventica, prominently featured on the hotel site (Figure 1-1).
2. After completing the booking process, customers will be redirected to the confirmation page, containing the link to Adventica and an invitation to enhance their stay by enjoying local experiences. Furthermore, booking confirmation e-mail will contain the link to Adventica.
3. Customers booking by phone will receive a confirmation email with the Adventica link. Furthermore, the operator will recommend Adventica and forward the call to the Adventica call centre if needed.

Figure 1-1: Adventica integrated to hotel's website



Before entering the site, customers will create an account with Adventica, or sign-up using their Facebook accounts. The signup screen is displayed on the Figure 1-2.

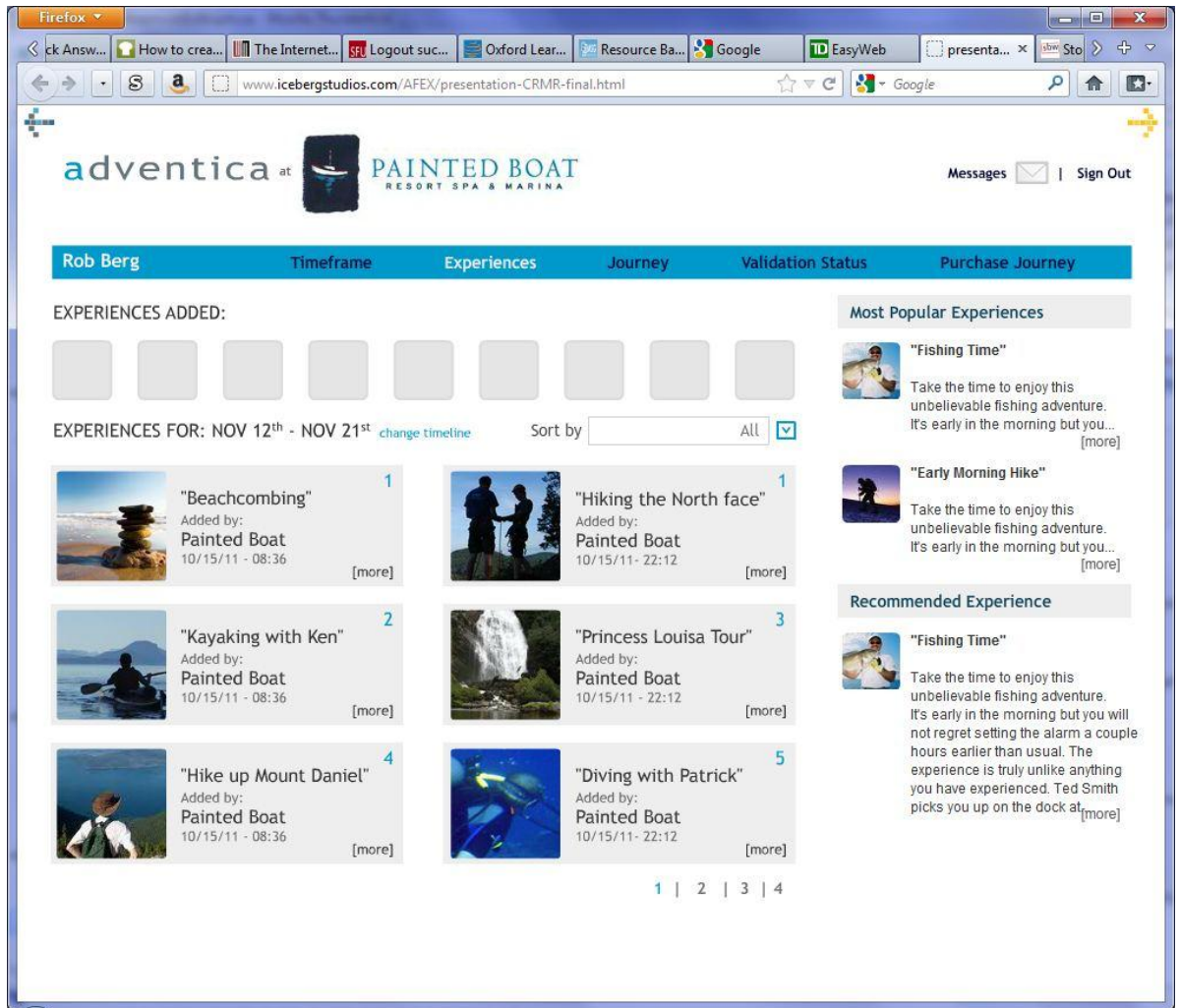
Figure 1-2: Adventica Signup Page



In the next step, customers will specify arrival and departure dates. This information is used to show only experiences available during customers' stay at the resort.

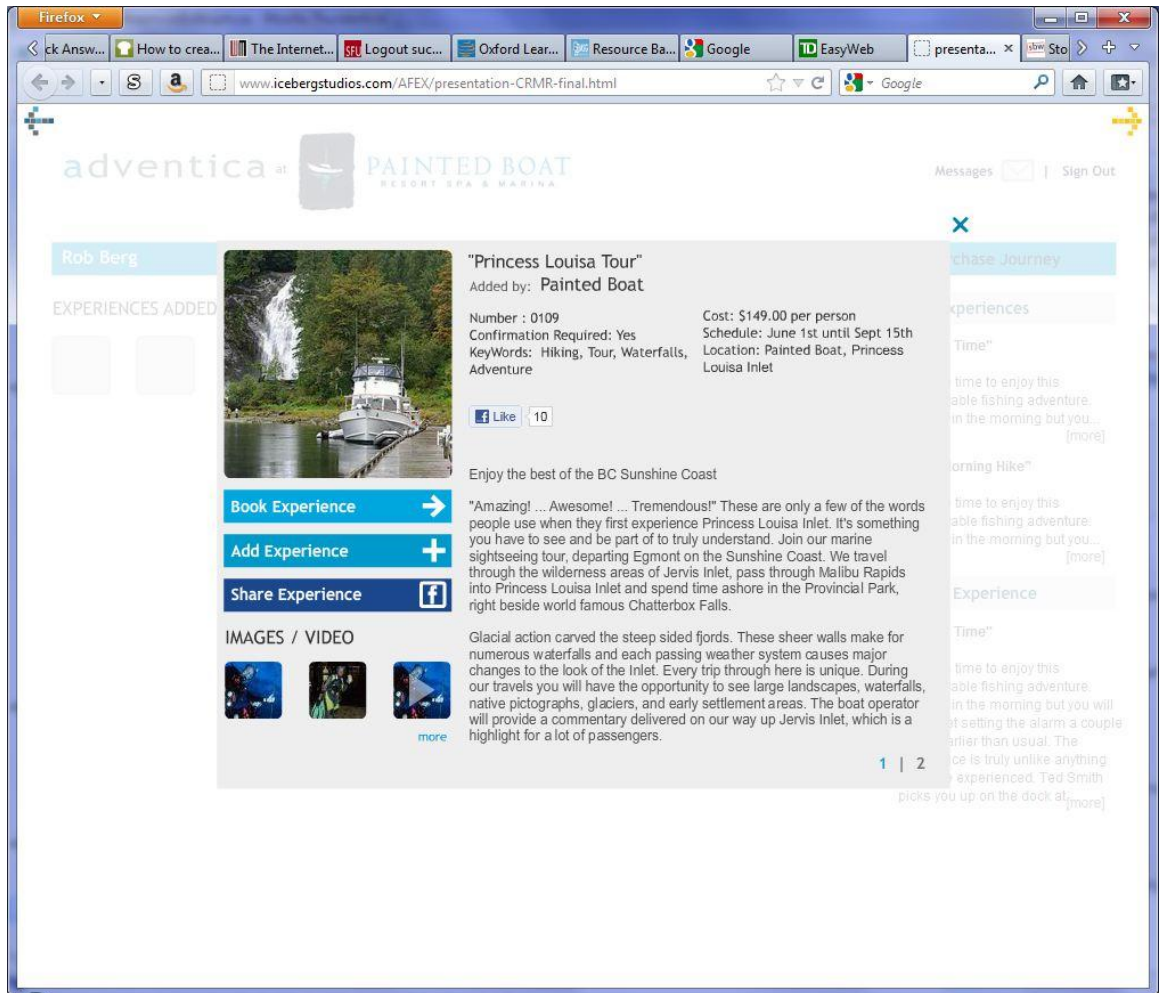
Once customers enter the Adventica site, they will have access to available experiences, organized and vetted by the company. The site will prominently feature Most Popular and Recommended Experiences on the right side of the screen, as displayed on the Figure 1-3.

Figure 1-3: Adventica Experience Selection Page



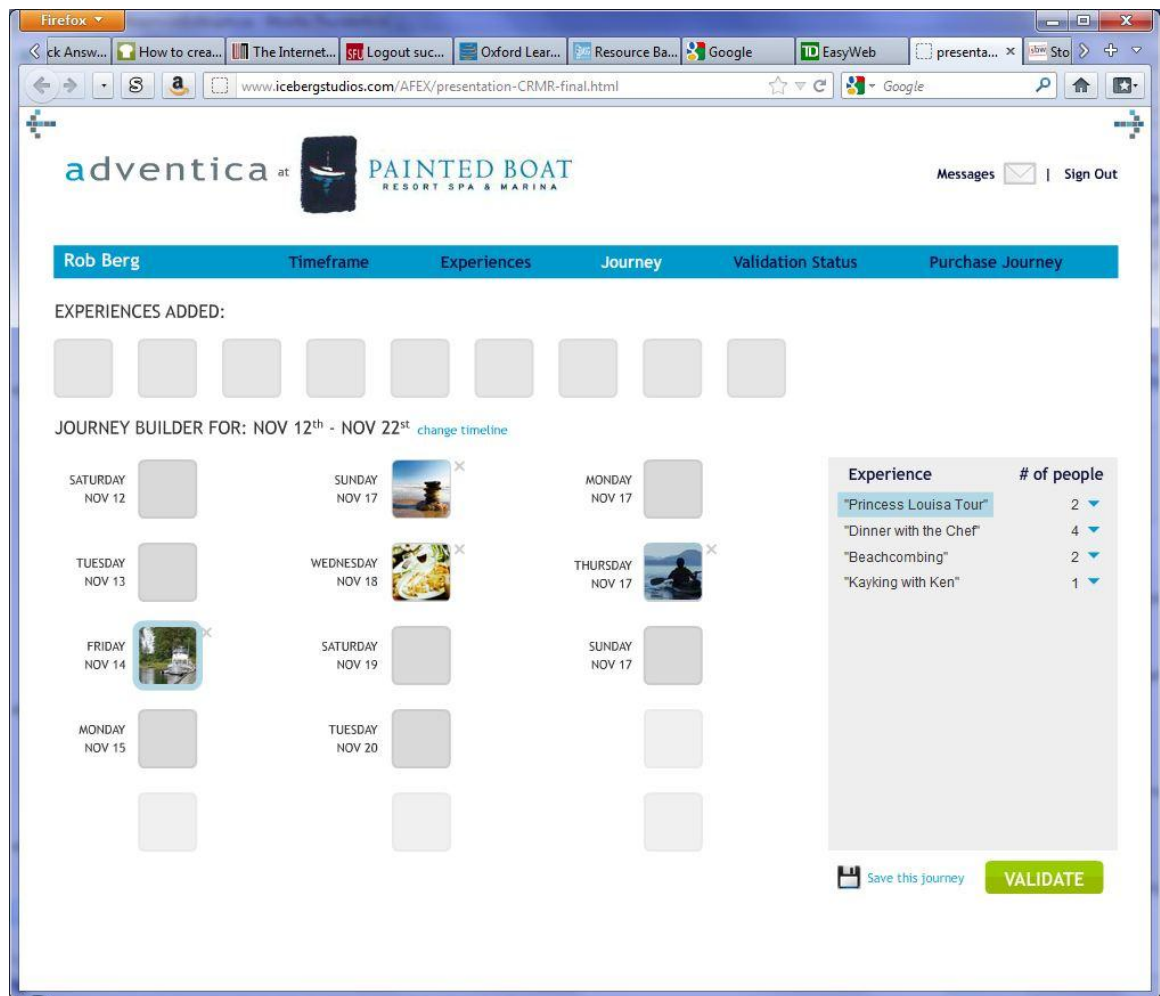
Every experience will have its separate page, with a detailed description, location, availability details and cost. Customers can book experiences or drag and drop experience icons to 'Experiences Added' wish list. The page will also offer social media sharing option. Experience page is displayed on the Figure 1-4.

Figure 1-4: Single Experience Page



Once a list of desired experiences is created, customers can use Adventica's 'Journey Builder' for scheduling and booking. Journey Builder enables seamless 'experience optimization', giving customers a full overview of available experiences and a complete control over their schedules. Journey Builder is illustrated on the Figure 1-5.

Figure 1-5: Journey Builder



1.3 Mission Statement and Objectives

VUP's vision is to become the largest and most profitable facilitator of experiences in the world, by building Adventica, a premier online experience marketplace. Experience providers worldwide will use Adventica to offer their experiences to travellers. Experience seekers will come to Adventica to research, organize, manage and book their experiences, and to participate in a vibrant online community. Experiences on the site will be carefully curated and community rated.

To accomplish this vision, VUP executive team has set the following short-term objectives:

Within one year of the public launch, the company will:

- Create a minimum of 250 billable experiences on Adventica

- Create a minimum of 250 free experiences
- Integrate Adventica with a minimum of 25 different locations (one hotel chain can have multiple locations)
- Have a minimum of 6,000 users who created user profiles and used Journey builder to create Journeys on Adventica.

1.4 Value Proposition

Adventica platform brings together three parties: travellers, experience providers and hotels/resorts. All parties involved will have tangible benefits from Adventica. Specific value propositions for travellers, experience providers and hotels are described below.

VUP's value proposition to travellers is enhanced 'experience management' using Adventica's proprietary Journey Builder. Generally, travellers would have to arrive at their destination before even knowing what experiences are available. Advance experience booking is not new, but information is fragmented and frequently outdated. At the moment, travellers need to research local experiences independently from booking the hotel stay. With Adventica, they can book their accommodation and schedule experiences simultaneously. Furthermore, Journey Builder offers a unique capability of connecting and managing several experiences as one adventure or Journey. Adventica will offer customers a full overview of available experiences, vetted by the company and reviewed by other users. In addition to that, Adventica will have a social component, where customers can review their experiences and read reviews posted by other user. Utilizing Adventica, travellers will save time for research and reduce the risk of booking questionable experience providers.

Experience providers will benefit on several levels. Firstly, having a profile on Adventica is equivalent of a highly targeted advertising campaign. Majority of visitors on Adventica will come from hotel confirmation links, and they will be the most likely customers. Secondly, this advertising campaign has no upfront cost. Experience providers pay a percentage of the deal to Adventica only if customers book their experiences. Furthermore, experience providers will keep most of the revenue (in the 80% range), and actually make money from the transaction. This is a major difference from heavily discounted approach of daily deal sites such as Groupon that leaves only 25% of the revenue for providers. Next, providers will be encouraged to keep a high level of service, because customers will have an option to review their experiences. Providers with best reviews will gain additional exposure on the site. Finally, as an added benefit, experience providers will get full calendar integration with Adventica. This

service is free, and it is offered through a light version of an e-Commerce suite developed by VUP's partner Autobox Media. For additional fee, providers can use a full version of the e-Commerce suite, offering inventory management and analytics.

VUP's value proposition for participating hotels is straightforward: hotels will receive a percentage of the revenue collected from experience providers. In exchange, they will integrate Adventica platform into their websites and conformation email mechanism.

1.5 History and Current Status of the Company

1.5.1 Current Activities

Adventica is currently being developed by Autobox Media, a Vancouver based web design company. Autobox is headed by Ryan Griffiths, who also serves as VUP's Technical Director. Development cost will be covered by a \$150,000 convertible loan, raised from a local angel investor.

1.5.2 Planned market entry

Once the website and necessary infrastructure are finished, VUP will approach hotel chains and offer to integrate Adventica into hotel websites. Adventica will be a revenue source for hotels, experience providers, and VUP as an intermediary. Canadian Rocky Mountain Resort (CRMR), a hotel chain with four resorts in Alberta and British Columbia, has agreed to be the first partner and a testing site for Adventica integration. VUP's angel investor brokered this agreement. After the website integration, VUP will contact experience providers recommended by CRMR and help them to create their profiles on Adventica. VUP expects to start generating revenue soon after Adventica integration.

In the rest of this paper, we analyse the viability of VUP's business model. Industry analysis determines intensity of competition and profit potential. In the market analysis and marketing strategy section we select VUP's target market, define company's positioning in the marketplace and specify the plan for marketing activities to achieve desired positioning. Next, we present VUP's implementation plan and discuss operation requirements for main implementation phases. In the financial section, we identify funding requirements and present detailed financial projections for the business. Furthermore, we discuss potential risks and ways to mitigate those risks. In closing, we present VUP's exit strategy.

2: Industry Analysis

In this chapter, we analyse VUP's competitive landscape to determine the intensity of competition and profit potential in the industry. We define the industry in which the company operates, and describe the industry structure. We analyse the industry using Porter's Five Forces model. We look at three sources of 'horizontal competition': Threat of Substitutes, Industry Rivalry and Threat of Entry; and two sources of 'vertical' competition: Bargaining Power of Suppliers and Bargaining Power of Buyers (Porter, 2008). The five-force analysis leads to a definition of key success factors for the industry, the factors that 'determine the firm's ability to survive and prosper' (Grant, 2010).

2.1 Industry Definition

VUP operates in the Tourism Sector, which can be defined as “. . . [T]he aggregate of all businesses that directly provide goods or services to facilitate business, pleasure, and leisure activities away from the home environment” (Smith 1988:183). According to the North American Industry Classification System, Tourism is now a 'Sector' divided into five Industry Groups (Canadian Academy of Travel & Tourism n.d.):

- Accommodation
- Food and Beverage Services
- Recreation and Entertainment
- Transportation
- Travel Services

Based on this classification, VUP operates in the Travel Services industry of the Tourism Sector. Travel Services companies make reservations for other four tourism industries: Accommodation, Transportation, Food and Beverage and Recreation and Entertainment. VUP offers booking only for the Recreation and Entertainment industry.

2.2 Threat of Substitutes

Substitutes give buyers choices and make them more price sensitive. When close substitutes exist, buyers are more likely to switch. The threat of substitutes is higher when the price/performance ratio is close.

Currently, experience providers can advertise using paid channels like print newspapers, radio and local magazines, or free channels like daily deal sites or upcoming Facebook deals.

Paid channels are losing ground and cannot substitute VUP's free advertising offering. However, daily deal sites are growing, and they offer free advertising. Following factors decrease the threat of substitutes for VUP's offering:

- Most buyers will come to Adventica through hotel's recommendation, immediately after booking their accommodation
- Daily deal sites may not offer experiences in the same area
- Adventica's offering is not as time sensitive as daily deal's offering
- Adventica features Journey Builder, a proprietary tool for 'Experience Management'
- Most importantly, the industry is growing, and daily deal sites and VUP may not be competing in the same geographical space.

In summary, the threat of substitutes is medium.

2.3 Threat of New Entrants

The threat of new entrants measures how easily new firms can enter the industry. If the industry is profitable, new firms will be attracted to it. If barriers to entry are low, competitors can enter the industry without restriction, and profit rate will decrease. We examine several sources of barriers to entry in the Travel Services industry.

It does not take a big investment to setup a company with VUP's business model. VUP plans to enter the market for under \$150,000. The cost to start a new daily deal site was \$89,000 in 2010 (Eliason, Frezgi & Khan, 2010). Therefore, the start-up cost presents no barrier to entry.

However, while it may not cost much to start the business, the cost to scale is substantial. Signing up a large number of experience providers requires significant manpower. Conversion rates in this industry are very low, especially for daily deals business model. Websites require a lot of traffic to generate adequate revenue. Driving sufficient traffic to the site requires advertising spend that is out of reach for new entrants. For example, in June 2010 LivingSocial

spent over \$2.2 million on Google Adwords (Eliason, Frezgi & Khan, 2010). Only venture backed start-ups have finances necessary to scale the business and compete with the established players. Clearly, marketing spend poses barrier to entry for new players in the market.

VUP choice to enter the market through a relationship with hotels and resorts circumvents the need for significant advertising spend. Companies using Google Adwords and other means of internet advertising experience low conversion rates because it is complicated to identify target market groups. Visitors that come to Adventica through hotel sites will be already prequalified as potential buyers; therefore, VUP's conversion rate is expected to be higher.

New companies have to deal with another entry barrier. Signing up merchants may be challenging for new entrants because experience providers may not want to work with intermediaries unless they have a large user base (Eliason, Frezgi & Khan, 2010).

VUP overcomes this barrier by using relationship with hotels and by creating free experiences. The relationship with hotels will establish the company in the eyes of experience providers. VUP already secured a partnership with the first hotel chain, Canadian Rocky Mountain Resort. Furthermore, before approaching merchants for billable experiences, VUP can create a number of free experiences on Adventica. Free experiences will attract user traffic, and user traffic is what experience providers ask for.

Considering the analysis above, the threat of a new entry is medium to high.

2.4 Industry Rivalry

Competition among existing firms in the industry is the major indicator of the state of competition and the level of industry profitability. If the industry rivalry is high, the firm has to monitor competitors constantly and frequently adjust price and service levels (Tribe 2010). Firms can compete aggressively on price, or on non-price factors such as innovation and advertising. Factors that influence industry rivalry are concentration of competitors, diversity of competitors, product differentiation, excess capacity combined with exit barriers, and cost conditions (Grant, 2010). We examine these factors one at the time.

2.4.1 Concentration

Concentration is measured by market share of leading producers (Grant, 2010). Price competition is lower in industries with higher concentration. To understand the concentration, we

look at three different categories of competitors: large online travel agencies, smaller websites specialized in experiences and daily deal sites.

Large online travel agencies, like Expedia and Travelocity, offer 'Activities' on their websites, which correspond to experiences. However, these companies deal exclusively with major tourist destinations and feature only major attractions that warrant their attention. They command a great deal of user traffic, but mostly because they offer booking in the Travel and Accommodation sectors. They are not direct competition and do not hold a major portion of the market.

Smaller companies like Samba Days (<http://www.sambadays.com/index.html>) or Red Letter Days (<http://www.redletterdays.co.uk/Home>) specialize in selling experience. However, their target market is people who are giving gifts, not travelling tourists. They do not occupy a significant portion of the market

Daily deal sites are another player in the industry in which VUP operates. At one point, the number of daily deals was rapidly growing. The number of daily deal sites in the US doubled in the first six months of 2010 (Moran, 2010). However, the growth subsided, and the number of sites in US decreased by 3% in the second half of 2011 (Wauters, 2012). Established companies like Groupon, LivingSocial Escapes and Yipit offer deals on experiences in the cities where they operate. Even though these companies attract a great deal of traffic, none of them hold a significant portion of experience market.

In summary, whilst the industry has many players, no player holds a significant portion of the market. Therefore the industry concentration is low, which increases price competition.

2.4.2 Diversity of Competitors

If competitors in the industry have a similar strategy, objectives and cost structure, price competition will be lower (Grant, 2010). As outlined above, competitors in different categories have very different origins, different objectives and cost structures. Deal sites, online tourist agencies and smaller experience sites all have different strategies and their cost structures are different. Therefore, this factor increases the price competition.

2.4.3 Product Differentiation

If products are not differentiated, customers are more likely to switch between them. This forces firms in the industry to cut prices if they want to increase sales (Grant, 2010). As

presented earlier, firms competing in this industry can be divided in three categories: Large online travel agencies, smaller websites specialized in experiences and Daily deal sites. There is little or no difference in the quality of the offering within categories. However, the offering between two firms in different categories will be different. Specialized sites featuring experiences without discount dimension will have more experiences available. Daily deal sites have time sensitive offers, and their offers depend on the number of buyers who sign up. Daily deals target deal seekers, not travellers. On the other hand, customers on Adventica can use Journey Builder to organize their experiences, feature that no other competitor has.

There is some degree of product differentiation between different categories of competitors. Since VUP does not belong to any of three categories of competing companies, price competition should decrease from VUP's perspective. However, product differentiation is not substantial, and we cannot make that conclusion with certainty. Therefore, this factor neither increases nor decreases price competition.

2.4.4 Excess Capacity and Exit Barriers

The combination of Excess Capacity and Exit Barriers is another factor affecting the industry rivalry. If the industry is growing, there is no excess capacity, and price competition is lower. However, if the industry is not growing, and excess capacity cannot exit because of high exit barriers, price competition is fierce. Firms cut prices to attract new business in order to utilize excess capacity (Grant, 2010). On the other hand, if the exit barriers are low, the excess capacity leaves the industry, and firms do not have to compete on price.

Clearly, exit barriers are low, since firms do not have to invest in durable, specialized resources, and employees do not have employment protection (like in the automobile industry for example). However, industry growth rate is questionable. Daily deal sites were growing aggressively, but growth was negative in last six months in 2011 (Wauters, 2012). Sites that offer experiences without discount are rare, and their number is not noticeably growing. Even if the industry is not growing fast any more, barriers to exit are still low. Therefore, this factor will not increase price competition.

2.4.5 Cost Conditions: Ratio of Fixed to Variable Cost

This factor determines how low prices can go if excess capacity causes price competition (Grant, 2010). The main factor is ratio between fixed and variable cost. If fixed cost is high and

variable cost is low, company can sell the product at any price that covers variable cost. This can cause fierce price competition and loss of profit.

In this case, variable cost is high (mostly advertising spend and salaries) and fixed cost is low (no need to invest in expensive fixed assets). Therefore, this factor will not increase price competition.

2.4.6 Summary of Industry Rivalry Factors

Following table shows the summary of all factors affecting industry rivalry from the perspective of a new entrant

| Factor | Favourable/ Unfavourable | Effect on price competition |
|--|-----------------------------|--------------------------------|
| Concentration of competitors | Unfavourable | Increases competition |
| Diversity of Competitors | Unfavourable | Increases Competition |
| Product Differentiation | Neutral | Neutral |
| Excess Capacity and Exit Barriers | Favourable | Decreases Competition |
| Cost Conditions: ratio of fixed to variable cost | Favourable | Decreases Competition |

Table 2-1: The Summary of Industry Rivalry Factors from the perspective of a new entrant

In conclusion, Industry Rivalry is Weak to Medium.

2.5 Bargaining Power of Buyers

A transaction of selling experiences creates value for the firm and for the buyer. Distribution of that value depends on their economic power. Bargaining power of buyers is determined by the degree of product differentiation and buyers' switching cost.

There is virtually no switching cost between different offerings; however, there is some degree of differentiation between categories of firms competing in the industry. As related before, daily deal sites offer time sensitive products and they target deal seekers in general.

Websites specializing in experiences target internet public at large, while VUP targets travellers who use hotel sites to book their accommodation. Therefore, VUP's customers will be less price sensitive.

Bargaining power of buyers is Medium to Strong.

2.6 Bargaining Power of Suppliers

Bargaining power of suppliers determines distribution of created value between the firm and its suppliers. Factors influencing power of suppliers are suppliers' switching cost, suppliers' size and concentration, and uniqueness of supplied resources (Tribe, 2010).

VUP deals with two types of suppliers: experience providers and hotels/resorts. Suppliers operate in two distinct markets: large metropolitan areas and smaller tourist areas.

Relationship with hotels is important for VUP's business model for several reasons. First, hotels are the primary channel through which VUP accesses end consumers. Furthermore, hotels can introduce VUP to local experience providers, which can reduce time and effort needed to create billable experiences on Adventica. Next, relationship with hotels bypasses the need to significant advertising spend (refer to 1.1 Company Summary). Finally, if VUP establishes relationship with the large number of hotels, VUP can become a main experience intermediary operating through that marketing channel. Therefore, hotels hold a significant bargaining power. However, hotels' bargaining power depends on the size of the market: VUP has more choices in larger markets, hence individual hotels hold less power.

Experience providers have some bargaining power, but not nearly as much as hotels. In smaller markets with fewer choices, providers have more power than in larger markets with large number of providers. Moreover, daily deal sites operate in many cities in North America. Since providers' switching costs are low, that increases their bargaining power. Figure 2.7 shows North American cities with daily deals (Source yipit.com)

Figure 2-1: Cities with Daily Deals. Source yipit.com

| | | | | | |
|-----------------|--------------------------|-------------------------|------------------------|------------------|----------------------|
| Akron/Canton | Albany | Allentown/Reading | Atlanta | Augusta | Austin |
| Baltimore | Baton Rouge | Birmingham | Boise | Boston | Buffalo |
| Calgary | Cedar Rapids / Iowa City | Central Jersey | Charleston | Charlotte | Chicago |
| Cincinnati | Cleveland | Colorado Springs | Columbia, SC | Columbus | Dallas |
| Dayton | Denver | Des Moines | Detroit | Edmonton | El Paso |
| Fort Collins | Fort Lauderdale | Fort Myers / Cape Coral | Fresno | Grand Rapids | Green Bay |
| Greenville | Halifax, Nova Scotia | Hampton Roads | Harrisburg / Lancaster | Hartford | Honolulu |
| Houston | Huntsville | Indianapolis | Jacksonville | Kansas City | Kitchener - Waterloo |
| Knoxville | Las Vegas | Lexington | London, Canada | Los Angeles | Louisville |
| Lubbock | Madison | Memphis | Miami | Milwaukee | Minneapolis |
| Mississauga | Montreal | Nashville | New Orleans | New York | North Jersey |
| Oakland | Ocala | Oklahoma City | Omaha | Orange County | Orlando |
| Ottawa | Palm Beach | Palm Springs | Philadelphia | Phoenix | Piedmont Triad |
| Pittsburgh | Portland | Portland, ME | Providence | Raleigh-Durham | Reno |
| Richmond | Rochester | Sacramento | Salem OR | Salt Lake City | San Antonio |
| San Diego | San Fernando Valley | San Francisco | San Jose | Santa Barbara | Santa Cruz |
| Seattle | Shreveport/Bossier | South Bend | South Jersey | Spokane | Springfield, MA |
| Springfield, MO | St. Louis | Stockton | Syracuse | Tallahassee | Tampa St Petersburg |
| Toledo | Toronto | Tucson | Tulsa | Vancouver | Victoria |
| Washington DC | Wilmington-Newark | Winnipeg | Worcester | Nation | |

In cities with active daily deal sites, some providers are inundated with calls and offers for promotion (Eliason, Frezgi & Khan, 2010). However, they prefer to deal with sites that have a high amount of traffic. These merchants have a high bargaining power.

Overall, bargaining power of suppliers is medium.

2.7 Key Success Factors

Key success factors determine a firm's ability to survive and prosper in its industry (Grant, 2010). They are further defined as "Those variables that management can influence through its decisions and that can affect significantly the overall competitive positions of the firms in an industry" (Hofer & Schendel, 1977). A firm needs to meet two criteria to prosper in the industry: it must supply what customers want to buy, and must survive the competition (Grant, 2010).

Following Key Success Factors are identified:

- **Business growth and finance needed to support it:** As stated in the industry analysis, barriers to entry are low, and anybody who can muster the start-up cost can enter the market. However, to make it work, entrants have to grow, and they cannot

do that without capital backing. Therefore, once the pilot phase is done, it is crucial to secure finances to grow the business.

- **Relationship with suppliers:** Hotels and resorts are the primary channel through which VUP accesses end consumers. Furthermore, hotels can introduce VUP to local experience providers, which can reduce time and effort needed to create billable experiences on Adventica. In addition, relationship with hotels bypasses the need for significant advertising spend (refer to 2.6 Bargaining Power of Suppliers);

Therefore, establishing close relationship with hotels is crucial.

The number and quality of experience providers will drive conversion rate and revenue on Adventica site. VUP has to establish a good relationship with quality experience providers, and needs to keep that relationship on-going. Daily deal businesses can lose up to 50% suppliers after the first deal, mostly because suppliers lose money (Dholakia, 2011). VUP cannot afford this kind of attrition.

- **Product differentiation:** One of the biggest problems of the daily deal model, and internet e-commerce in general, is lack of differentiation. Lack of differentiation directly translates into lack of customer loyalty. VUP has to find a way to differentiate its offering from competition and increase customer lifetime value.

Some of the ways to differentiate are listed below:

- Engaging carefully vetted, high quality experience providers
- Superior customer service
- Creative packaging of experiences
- Brand building through carefully managed social media presence
- Offering customers outlet to share their experiences through a social media component on Adventica and integration with existing social media sites

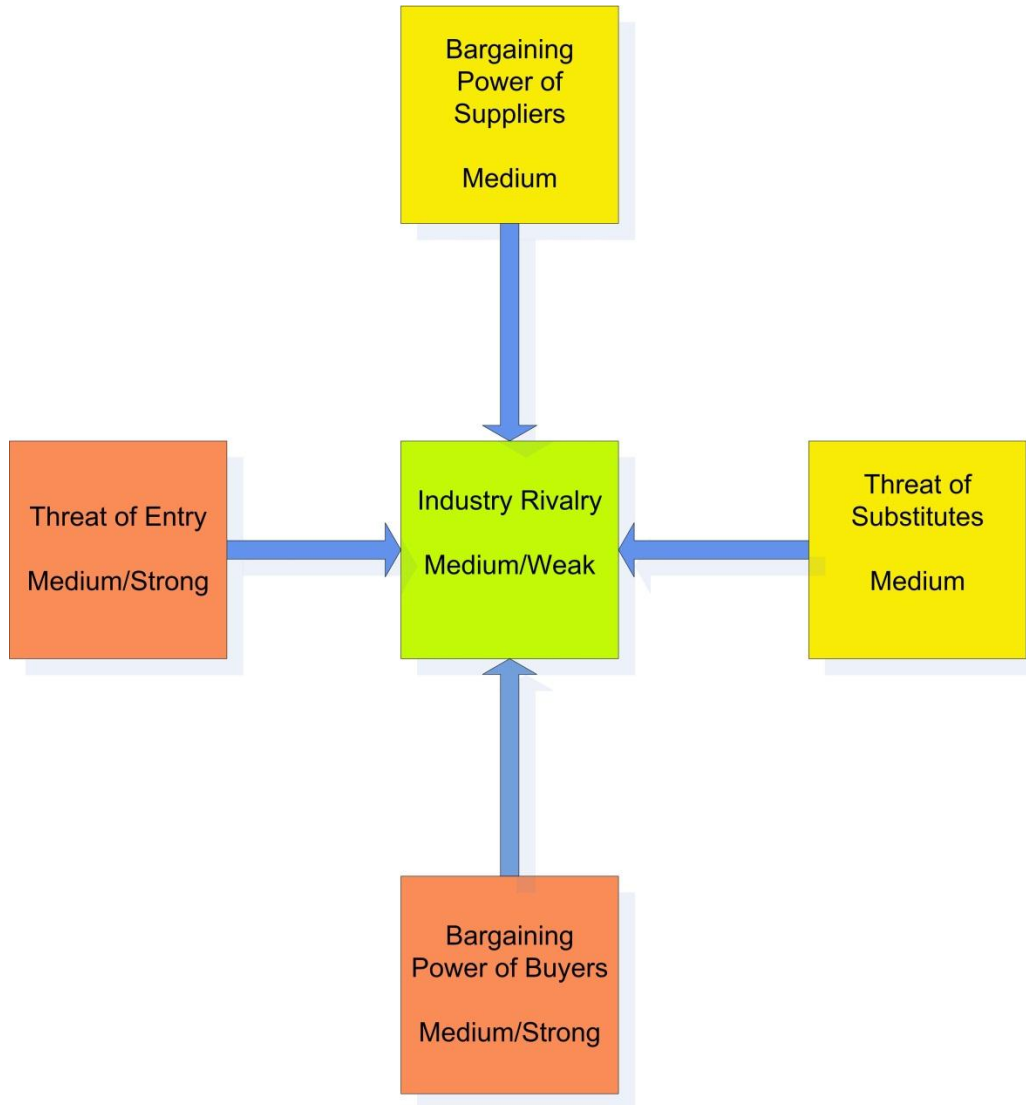
2.8 Industry Analysis Summary

Based on the above analysis, VUP operates in a moderately competitive industry. Two of the competitive forces are medium to strong (Threat of Entry and Bargaining Power of Buyers), two are medium (Bargaining Power of Suppliers and Threat of Substitutes) and one, the Industry Rivalry is weak to medium. To realize the profit potential in the industry, VUP needs to take advantage of weak Industry rivalry, and find a way to shield itself from the Threat of Entry and Bargaining Power of Buyers. VUP can exploit weak industry rivalry by aggressive growth, as outlined in key success factors. Product differentiation and relationship with suppliers will

decrease Bargaining Power of Buyers. VUP can increase barriers to entry by becoming a main experience broker working through hotels. Higher barriers to entry would decrease the Threat of Entry into VUP's niche market.

Following figure illustrates summary of Porter's five forces analysis:

Figure 2-2: Porter's Five Forces Summary



3: Market Analysis and Marketing Strategy

In this section, we look at the market in which VUP operates, and examine VUP's marketing strategy. Marketing strategy comprises of two basic activities (Dolan, 2000):

- Selecting a target market and determining desired product positioning in target customers' minds
- Specifying a plan for marketing activities needed to achieve desired positioning

To select a target market, we analyse current marketing situation, starting with Market Trends. Market analysis leads to the market segmentation, selection of the target market and estimate of the market size. As a part of the market segmentation, we develop VUP's product positioning.

We continue with the Opportunity and Issue analysis, looking at company's Strengths and Weaknesses, and Opportunities and Threats coming from the marketplace. This leads to formulation of 4 Ps of the Marketing Mix: Product, Place (Channels of Distribution), Promotion (Communication Strategy) and Pricing.

3.1 Market Trends

3.1.1 Market growth and impact of economic cycles

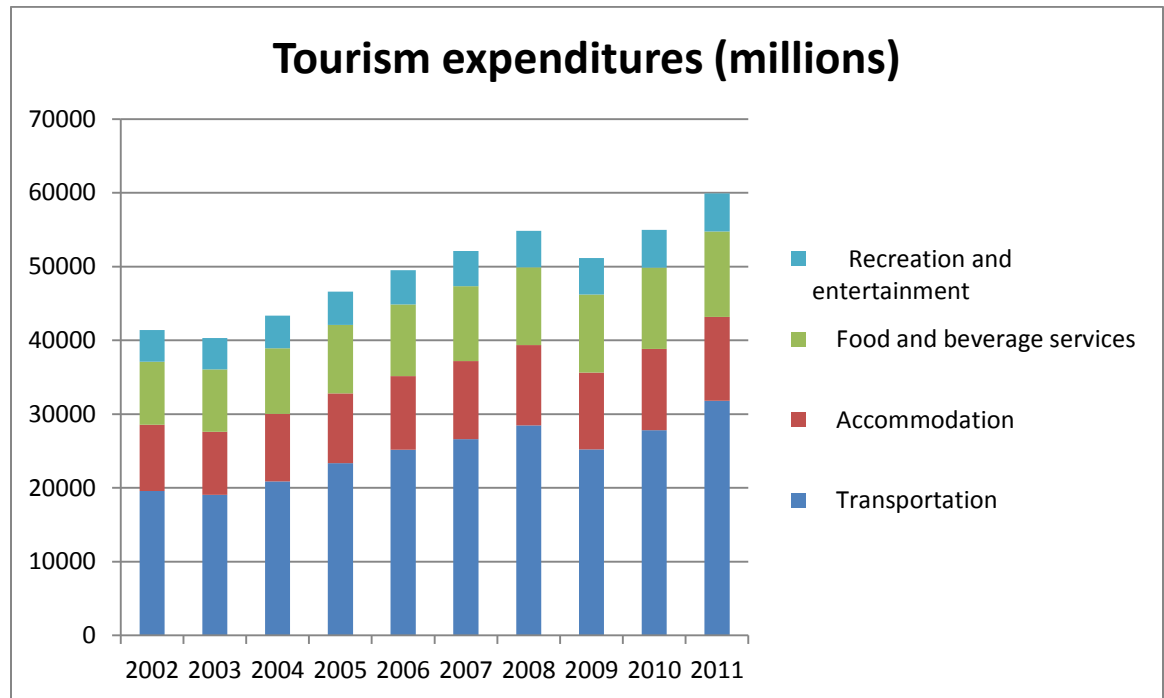
Since 2002, overall tourism spending in Canada increased on average 4.08% per year. Tourism expenditures are cyclical in nature. During the recession in 2009, numbers declined by 6.5%, but bounced back by 7.1% in 2010. The main reason for growth and cyclical nature of tourism are prices in the Transportation industry, especially air transport and vehicle fuel prices.

Over the last ten years, spending on Recreation and Entertainment averaged 8.56% of total tourism spending. From 2002, Recreation and Entertainment spending has been growing at 2.44% per year. Overall, Recreation and Entertainment portion of total tourism spending is slowly declining. It went from over 9% in 2002, down to 8.36% in 2010.

Economic cycles do not affect Recreation and Entertainment spending as much as they affect other Tourism industries. During the 2009 recession, spending in this area still grew for

1.2% (Statistics Canada, Table 387-0001, 2012). Following figure shows growth of tourism expenditures in Canada since 2002.

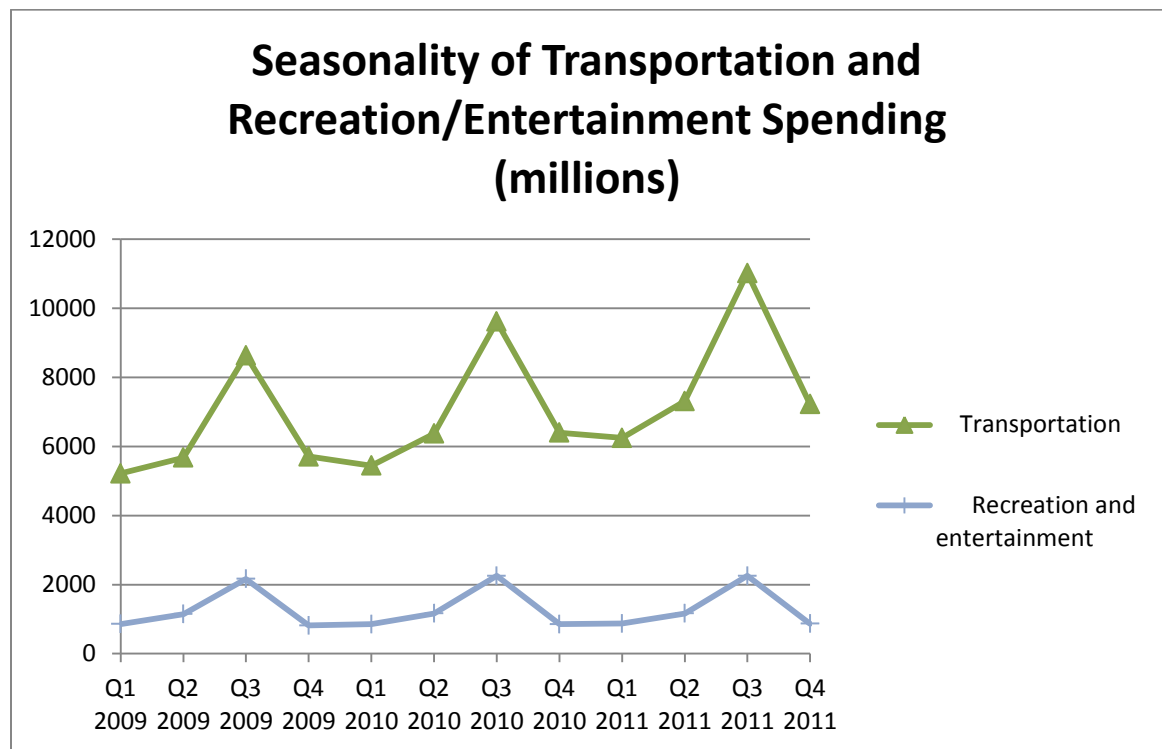
Figure 3-1: Tourism Expenditures in Canada



3.1.2 Seasonality of Recreation and Entertainment spending

Recreation and Entertainment spending is seasonal in nature, although not as much as the spending in the Transportation segment. Travellers spend 44% of total entertainment dollars in third quarter of the year, while in Q1 and Q4 they spend total 34% (17% in Q1 and 17% in Q4). In Q2, travellers spend 23% of the total yearly amount (Statistics Canada, Table 387-0001, 2012). Figure 3-2 illustrates seasonality of Recreation and Entertainment spending.

Figure 3-2: Seasonal nature of Recreation and Entertainment Spending



3.1.3 Impact of technology

According to experts at the World Travel Monitor Forum in Pisa, Social Media and Mobile technology will significantly affect tourist industry in the future (IPK International 2010). Exchanging travel tips with friends on Social Media sites and using smart phones for trip planning and booking are fast becoming a norm. Tourism industry is responding by offering new apps, such as Tripadvisor app or TripDeck iPhone app that manages flights and hotel reservations.

3.1.3.1 Impact of Social Media

More than 50% of adult leisure travellers in the US use Social Media, and they generate 60% of tourism spending. They take an average of 5.4 trips per year, versus 4.2 trips for non-Social Media travellers, although they spend less per trip on average. Forty one percent of Social Media travellers sign up as fans or followers of travel suppliers.

However, only 20% rely on Social Media sites for travel information. Websites and traditional sources of information like friends and family, and travel brochures are still preferred sources for travel research (IPK International 2010).

3.1.3.2 Impact of Smartphones

The Tourism industry has been dramatically impacted by the rise of smartphones. Almost 40% of travellers own a smartphone, while 57% own a conventional mobile phone, and 2% have no phone at all. Forty percent of smartphone owners use their phones to get destination information, and 26% of leisure travellers use phones to make booking changes while on a trip. In Japan, 20% of domestic flights are booked via smartphones. Furthermore, 37% of travellers access Social Media via smartphones during the trip, which means that photos and comments are posted online while travellers are still at their destinations (IPK International 2010).

3.1.4 LOHAS - lifestyles of health and sustainability - premium customer segment for the future

Lohas is a social phenomenon that appeared in the last 10 years. It officially stands for 'Lifestyles Of Health And Sustainability' and includes people who are interested in goods and services "...focused on health, the environment, social justice, personal justice and sustainable living" (Lohas.com). They are also interested in spirituality and new technologies. In the US, 13 to 19% of adults are considered Lohas consumers. As Katja Neller, Senior Consultant with German research company explains: "They think global, are very mobile and open-minded. They are looking for a type of tourism that is ecologically sustainable and meets their standards of ethics and social justice." Lohas tourism market in US is estimated at \$42 billion (IPK International, 2010).

3.2 Market Segmentation and Target Market Selection

Target market selection is a starting point for the development of the marketing strategy. To identify the target market, company has to segment customers in groups. Segmentation can be done based on various criteria, however the most effective segmentation divides customers into groups that require a different marketing approach (Dolan, 2000).

We use two main criteria for the market segmentation: by hotel booking channel, and by psychographic/lifestyle attributes. The segmentation by booking channel determines the target market. Target market customers are further grouped based on psychographic attributes. VUP will design a customized offering for each of the major customer groups.

3.2.1 Segmentation by Hotel Booking Channel

VUP's initial target market is traveling tourists who book their hotels through hotel sites. In 2011, 53% customers booked a hotel through the internet. Sixty five per cent of hotel internet bookings were done through 'Brand Sites', directly owned by hotels. Therefore, 34% of total hotel bookings in 2011 happened through hotel owned sites. A breakdown of hotel booking channels is shown in the following tables (TravelClick.com, n.d.).

| CRS Hotel Bookings | Share of CRS Reservations Full Year 2011 | Share of CRS Reservations Full Year 2010 | Percent Growth/Decline FY 2011 to FY 2010 |
|--------------------|--|--|---|
| Internet | 53.5% | 52.7% | 0.8% |
| GDS Travel Agent | 21.7% | 21.2% | 0.5% |
| Total Electronic | 75.2% | 73.9% | 1.2% |
| Voice | 24.8% | 26.1% | -1.2% |
| Total for CRSs | 100.0% | 100.0% | 0.0% |

Table 3-1: Reservation Sources for Major Hotel Brands

| Internet Bookings | Share of Internet CRS Reservations Full Year 2011 |
|--------------------|---|
| Brand Sites (1) | 65.4% |
| Retail Sites (2) | 3.7% |
| Merchant Sites (3) | 19.5% |
| Opaque Sites (4) | 11.3% |
| Total Internet | 100.0% |

Table 3-2: Internet Source Breakdown for Major Hotel Brands

3.2.2 Target Market Size Estimate

In 2011 in Canada, traveling tourists spent \$5,157 million on Recreation and Entertainment, up 0.6% from 2010 (Statistics Canada, 2012). Since 34% tourists booked through hotel sites, we assume that they spent 34% of the total, which represents \$1,753 million. VUP plans to charge 15% for its services and give 5% to hotels. If all travellers using hotel sites book

their Recreation and Entertainment using Adventica, VUP's total Canadian revenue would be \$263 million, and hotels would receive \$88 million.

However, additional 25% bookings were done by phone, which is mostly controlled by hotels. Most customers booking by phone receive an email confirmation. Furthermore, phone operators can offer experiences on Adventica after customers book the hotel. If we add customers booking by phone to the target market, that would be additional \$1,289 million spent on Recreation and Entertainment. Assuming 15% service charge, phone booking would increase VUP's Canadian market by \$193 million.

Therefore, total size of Canadian market for VUP's business model is between \$263 and \$456 million.

3.2.3 Segmentation by Psychographic Attributes

We further divide the Target market into customer groups requiring a distinct marketing approach. Market segmentation can be done based on four broad sets of attributes: geodemographic characteristics, psychographic, behavioural and destination product attributes. Geodemographic, behavioural and destination product segmentation are dealing with questions of who travels, where they go and what they do (Gountas & Gountas, 2001). The segmentation by booking channel already answered questions of who travels and where they go. The question of what they do is limited by experiences offered on the location. Therefore, VUP's product offering will not be customized based on purely descriptive data about consumers.

On the other hand, psychographic segmentation deals with the understanding of tourists' motivation. Based on their personality type, customers can be divided into two broad categories: introverts, who are looking for a "get away from it all" holiday, and extroverts, who are looking for exciting experiences. Most importantly for VUP's business model, these two groups want the online experience to reflect their personality type. Introverts want a website with relaxing, 'get away from it all' feel, and extroverts want an exciting, stimulating site (Jones, 2010).

Matching the website to customers' personality type is important for two reasons. First, visitors decide within first 500 milliseconds whether they like the website or not. If they like the website they will spend time on it, otherwise, they will leave. Second, customers are more likely to be persuaded by the content of the website if it matches their personality type (Jones, 2012).

To address the segmentation by a personality type, Adventica will be offered in two modes: Adventica Chill, emphasising relaxing experiences, and Adventica Thrill, offering exciting, stimulating experiences.

3.2.4 Positioning and positioning statements

After the segmentation and target market selection, the firm needs to position its offering and image to occupy a distinctive place in consumers' mind. Positioning clarifies company's essence and defines the unique value it offers to customers (Kotler, Keller, Cunningham, & Sivaramakrishnan, 2009).

To specify company's position, we define two sets of parameters: Points of Parity and Points of Difference. Points of parity are attributes that the firm has to have to be viewed as legitimate in a specific market, and these attributes can be shared with competitors. Points of difference positively differentiate the company from competition in the mind of consumers (Kotler, Keller, Cunningham, & Sivaramakrishnan, 2009).

VUP as an intermediary needs to position its offering towards two distinct groups: travellers and experience providers. We define points of parity and points of difference for each of the two groups in the following table.

| Positioning for | Points of Parity | Points of Difference |
|----------------------|---|---|
| Travellers | <p>Endorsed by Hotels</p> <p>In depth information</p> <p>User reviews</p> <p>Information exchange</p> <p>Integrated with Social Media</p> | <p>Convenience of booking experiences and accommodation at the same time</p> <p>Packaging experiences with Journey builder</p> <p>Customized for traveller type</p> <p>Prominently featuring eco-friendly and sustainable experience providers</p> <p>Supporting local causes</p> |
| Experience Providers | <p>Endorsed by Hotels</p> <p>Risk free advertising campaign</p> | <p>Advertising campaign highly targeted</p> <p>Earning profit from the campaign</p> <p>Free calendar integration and light e-Commerce suite</p> <p>Optional full e-Commerce suite</p> <p>Goodwill through helping local causes and supporting the community</p> |

Table 3-3: Adventica's Positioning Parameters

Based on Points of Parity and Points of Difference, we define positioning statements for travellers and experience providers as follows:

Positioning Statement for travellers:

Adventica, one of a kind experience travel portal, endorsed by your favourite hotel/resort: To travellers everywhere, whether you are looking to escape from it all, or seeking your next thrilling adventure, Adventica offers a carefully curated catalogue of local experiences with in-depth information and detailed user reviews. With Adventica, you can book your accommodation and your experiences at the same time. You can use Adventica's unique Journey Builder to plan and organize your experiences just the way you like it.

We prominently feature eco-friendly, sustainable providers and proudly support local causes.

Positioning statement for experience providers:

Adventica, one of a kind experience portal, endorsed by your local hotel/resort: to local experience providers, looking to enhance your business through advertising, Adventica offers online exposure equivalent to a highly targeted advertising campaign, with no upfront cost. Moreover, you will earn a profit from this campaign, unlike a good percentage of experience providers dealing with daily deal sites. As a special bonus for being associated with Adventica, you will receive a light version of an e-Commerce suite free of charge, giving you complete control of your calendar, and a full integration with Adventica. For a small fee, you will be able to use a full version of e-Commerce suite, with analytical profiling of your customers and inventory control. Adventica is passionate about helping local causes, and you will have an option to participate in the scheme and in the process create goodwill and support your community.

3.3 Opportunity and Issue Analysis

In this section, we use the SWOT framework to analyse company's strengths and weaknesses, and identify opportunities and threats from the competitive environment.

3.3.1 Strengths

3.3.1.1 Management Team

VUP's Management Team is one of company's key strengths. The Team has years of experience in Business Development, Project Management, Website Development and specifically e-commerce. Most importantly, they have a significant experience in building websites for travel industry clients. Team members also bring with them a pool of contacts consisting of industry experts, potential clients and sales contacts.

Patrick Kleine is the CEO of the company, responsible for the company's overall business strategy and direction. Patrick is highly accomplished executive with domestic and international experience in operations, P&L management, multi-channel project management, strategic positioning, technology development, social media and strategic innovations, with both start-up and growth organizations. He is a founder and managing partner at AFEX, Vancouver based Enterprise level technology consulting company. He served as a VP of strategy and

Innovation at ZIP Local (former Yellow pages), Program Director at Blast Radius, and VP of Project Management and Professional Services Western Region at Fujitsu Consulting.

Adrian Alleyne is the Chief Operational Officer of the company. He brings a unique combination of strategic, technical and entrepreneurial experience in the areas of Web2.0, social networking and online and mobile (iPhone) applications and sites. Adrian has worked with some of the leading global online agencies like Blast Radius, Tribal DDB and various social network start-ups. He has held various positions, including Managing Director, Vice President of Production, CTO and Director of Client Services. Amongst his wide range of clients, he has extensive knowledge and experience within the travel industry with clients such as, Intrawest, Seattle Visitor and Convention Bureau and Holland America.

Ryan Griffiths serves as the Chief Technology Officer. Level-headed, approachable, and commanding an infectious sense of calm and confidence, Ryan brings to bear more than two decades of success in IT development, leadership, and site design. In his years as a team leader with Capgemini (then Ernst & Young), Ryan oversaw and completed a number of diverse projects bridging the needs of both technology and business. Working with leading clients like Vancity Credit Union and Telus, he steered massive amounts of data into simple, flexible frameworks, as well as having guided the teams that built those frames.

Rob Berg is VUP's Creative Director. Rob brings years of experience as Creative Strategist, Creative Director and Interactive Architect. His worked with number of high profile clients, like WCB, ICBC, Terasen Gas, BC Hydro, London Drugs, Royal Bank, Vancity, The New Wembley Stadium and The Ministry of Tourism for BC. His work included creatively strategizing interactive solutions, establishing technical requirements for websites, designing websites, managing teams of designers and programmers for website development, and implementing search engine optimization best practices.

3.3.1.2 Alliance with Autobox Media

The partnership with Autobox Media is another key strength. Vancouver based Autobox Media is a premium web design company. They build ‘...cutting-edge websites that are simple to use and stunning to see--showcasing the best of the web while staying streamlined and efficient...' (Autobox Media, n.d.).

Autobox is one of the first shops using Magento, the world's fastest growing e-commerce platform. Magento offers distinct advantages over similar technologies, such as (Autobox Media, n.d.):

- Built-in marketing and promotional tools
- Multiple storefronts for different languages
- Highly customizable front design
- Search engine optimized
- Tools for management of products, users, campaigns and storefronts

Autobox Media is currently developing Adventica site, and will have an extended role in technical support and further website development. Company has already built a robust e-commerce solution that can be deployed to experience providers with minimal customization. Autobox media is headed by Ryan Griffiths, VUP's Chief Technology Officer.

3.3.1.3 Technological strengths

Journey Builder and the e-Commerce suite are two key technological pieces of VUP's offering. Journey Builder is an integral part of Adventica, and it is one of a kind tool for organizing experiences on multiple locations. The solution is proprietary to VUP, and team will explore patenting options. Journey Builder simplifies organization of multiple experiences over time and location, creating a clear value for consumers.

The e-Commerce suite developed by Autobox Media will be used to integrate experience providers into Adventica site. A light version of the suite will be provided free of charge. Use of the e-Commerce suite increases the switching cost for experience providers, creating a distinct competitive advantage for VUP.

3.3.2 Weaknesses

3.3.2.1 Lack of necessary financial backing for the growth phase of the project

After a successful finish of the pilot phase, VUP will need to expand by integrating with new hotels and signing up new experience providers. This growth needs to be financed, since revenues from the existing business will not cover expenses. Therefore, VUP needs to secure financing for the growth phase.

3.3.2.2 No brand awareness

At the beginning, Adventica will be unknown both to travellers and to experience providers. With no help from brand awareness, company's marketing communication will be significantly less effective, and consequently, company's transaction cost will be higher (Macdonald & Sharp 2003). On the positive side, hotels' endorsement will help, giving Adventica the credibility with experience providers and experience seekers.

3.3.2.3 No dedicated Chief Financial Officer on the team

When VUP starts raising funds for the expansion, the business will need careful financial structuring. Since current team members do not have a financial background, they will need to find a dedicated CFO.

3.3.2.4 Lack of explicit Tourism industry experience on the team

The Management Team does not have any experience in the tourism industry, except building websites for clients. An executive with good connections in the tourism industry can help the company to approach hotels and resorts. Before they start with the expansion phase, VUP team needs to find someone experienced in the tourism industry.

3.3.3 Opportunities

3.3.3.1 Become a main experience intermediary operating through hotels and resorts

VUP will enter the marketplace through a partnership with hotels and resorts. Since no other competitor operates in this space, Adventica has a chance to establish a relationship with significant number of hotels and effectively own that marketing channel. Hotels will earn a portion of the revenue, and the relationship with hotels will give Adventica credibility with experience providers and travellers.

3.3.3.2 Create a dominant experience marketplace and partner with major online travel agencies

Planning a vacation can be viewed as 'Metamarket'. Metamarket is defined as "...cluster of complementary products and services that are closely related in the minds of consumers but are spread across a diverse set of industries..." (Kotler, Keller, Cunningham, & Sivaramakrishnan, 2009). Travellers need to book transportation, accommodation and, if possible, experiences at

their destination. Travel and hotel booking is packaged together by large online travel agencies like Expedia and Orbitz. However, none of them include a comprehensive experience marketplace. VUP has an opportunity to create such a marketplace, and become a go to place for both travellers and experience providers. A large number of experience providers on Adventica will attract a large number of customers looking for experiences. This can create a powerful network effect, and establish Adventica as a dominant player in the experience market. If this happens, Adventica can partner with online travel agencies and integrate its offering with their websites.

3.3.3.3 Vertical integration - partner with profitable experience providers and expand their business

As an experience intermediary, VUP will have a unique perspective on the experience market. They can identify successful experience providers who operate in one location and do not have resources or expertise to expand to other places. They can partner with those experience providers, and help them to expand their business to other locations. A good example is Vancouver based Flyzone Bodyflight (<http://www.flyzone.ca/index.html>).

3.3.4 Threats

3.3.4.1 Competitor with strong financial backing may enter the marketplace

Because of low barriers to entry, competitors can easily enter the market. A company with a strong financial position can grow quickly and establish itself as a primary intermediary in the experience marketplace.

3.3.4.2 Signing up Experience providers may be difficult in some cities

VUP may have a problem signing up experience providers in areas with active daily deal sites. Daily deals aggressively call merchants with promotion offers, and merchants can pick the site with the highest amount of traffic or the best deal. Naturally, Adventica may not have the highest traffic, but their traffic will be more targeted and conversion rate will be higher.

3.3.4.3 VUP's business model is highly dependent on the relationship with Hotels

Hotel websites are Adventica's primary marketing channel. This gives hotels high bargaining power, and creates a potential hold-up problem. Hotels can negotiate a higher than planned revenue percentage, reducing VUP's profit margin. There is not much VUP can do at the

beginning to avoid this threat. However, as the company grows, its bargaining power will increase.

3.3.4.4 Lack of funds to support growth

Securing funds for the expansion phase is one of the keys to VUP's success. However, hundreds of daily deal companies are also looking to finance their growth, and they may be competing for the same financial resources. Therefore, VUP will need to distinguish its offer in the eyes of investors.

3.4 Marketing Mix

We now discuss four elements of company's marketing mix: Product, Place (Channels of Distribution), Promotion (Communication Strategy) and Pricing.

3.4.1 Product

VUP is positioned as an intermediary between experience providers and travellers looking to enhance their vacation through various activities. The company offers its services through Adventica, website designed as an online experience marketplace. Adventica will be integrated into websites of hotels and resorts, and it will feature profiles of local experience providers, curated and vetted by the company. Travellers will use the site to research available providers, and use Adventica's Journey Builder to conveniently organize and book their experiences at the same time they are booking their hotel.

In addition, Adventica will be integrated with major social media sites, and offer its own social media module. Travellers will be able to review experience providers and share their opinion with other site users.

Experience providers featured on Adventica will benefit from targeted online exposure with no upfront cost. Providers will pay on average 20% of the revenue only if customers book their experiences, which is much better than what they can get from daily deal sites. In addition, providers will receive a light version of an e-Commerce suite free of charge, including a full calendar integration with Adventica. This is part of company's plan to establish a long-term relationship with providers. Furthermore, providers will have an option to use a full version of the e-Commerce suite, which will be available on a monthly subscription basis.

3.4.2 Distribution Channels

VUP will use both direct and indirect distribution methods to access its customers. Customers will come to Adventica mostly through hotel sites. However, travellers will always be able to find Adventica on the Web, either through a web search, or through referrals from their peers or from social media sites.

3.4.2.1 Hotels as intermediaries

VUP will initially offer its services in partnership with hotels and resorts. Hotels will be intermediaries, and they will funnel visitors to Adventica using several options:

- Adventica will be integrated with hotel sites, and a link to Adventica will be prominently displayed
- When customers book the stay with the hotel, purchase confirmation screen will have a link to Adventica
- A confirmation email sent to the customer will also have a link to Adventica
- Customers who book by phone will be recommended to visit Adventica, and operator will be able to forward customers to VUP's call centre if needed

3.4.2.2 Adventica as a Primary Distribution Channel

VUP's primary distribution channel is its website, Adventica. Travellers will use Adventica to research and book experience providers. Adventica will offer a complete customer experience, including:

- An Integration with Social Media sites
- A Social Media component, allowing travellers to create communities and discuss experiences on the site
- A Customer Service module, with Chat Now feature, frequently asked questions and a customer service phone number.

3.4.2.3 Call Centre as a Supplementary Distribution Channel

For those travellers who prefer booking by phone, VUP will use an outsourced call centre as a secondary distribution channel. Based on the market research, 25% of people book their hotel rooms by phone (refer to section 3.2.2, Target Market Size Estimate). Call centre sales people will be given simple sales scripts to handle incoming calls, and they will use Adventica's

Journey builder to book experiences for customers. Therefore, VUP does not have to build a separate booking system for call centres.

3.4.3 Promotion (communication strategy)

VUP will use a separate communication approach for hotels, experience providers and travellers.

3.4.3.1 Communicating with Hotels

Hotels are crucial to VUP's success, therefore VUP's management team will engage hotels directly, at the executive level: VUP's CEO and other Management Team members will personally contact hotels, present VUP's business and negotiate terms of the partnership. VUP will communicate with hotels with two main objectives: first, to integrate Adventica into the hotel website, and second to be introduced to experience providers already dealing with the hotel. Main points that need to be communicated are:

- The hotel will make a percentage of the revenue for every transaction that goes through the hotel site.
- Adventica integration is safe and simple. All technical details will be covered and there will be no interruption of hotel's business.
- Introducing VUP to local experience providers will expedite the process of setting up Adventica. Sooner providers create their profile on the site, sooner revenue starts flowing to the hotel.

3.4.3.2 Communicating with experience providers

Company will communicate with experience providers directly, using sales representatives. Sales representatives will offer experience providers to create a profile on Adventica and negotiate the terms of the revenue split. Offer to experience providers will include a light version of an e-Commerce suite, free of charge, and integration with the Adventica calendar. Key points of communication are:

- Adventica is endorsed by a local hotel
- Experience providers will have a targeted marketing campaign with no upfront cost
- Experience providers will be profitable from the very beginning. VUP's business model is different from daily deal sites, where more than 50% providers lose money on the deal (Eliason, Frezgi & Khan, 2010)

- Experience providers will get a free integration with Adventica, giving them a full control of their calendar

3.4.3.3 Communicating with travellers

As stated previously, VUP's targets travellers who book their stay through hotel sites or over the phone. Communication with travellers will be designed with following objectives in mind:

- Increase travellers' awareness of Adventica and its integration with local hotels; emphasize benefits for customers, such as simultaneous booking of accommodation and experiences, time saving on research and a social dimension through Adventica's social media module
- Establish Adventica as a premium resource for researching local experiences
- Encourage travellers to create a community on Adventica, where they can share information and review experiences

The marketing message to travellers will have following key points:

- Benefits of using Adventica will be emphasized:
 - Research, organize and book experiences while booking the stay at the hotel
 - Track and optimize experiences using Adventica's proprietary Journey Builder.
 - Participate in Adventica's community, review experiences and share information; Adventica offers an easy integration with other social media platforms
- Adventica will be promoted as a premium resource for research and booking of local experiences, endorsed by local hotels
- Adventica is a secure site, customers privacy is protected, and customer support is first class
- Adventica supports communities by promoting local causes and charities

As a start-up company, VUP will have a limited budget for promotion. The company will not use mass media or pay-per-click campaigns at the beginning. Instead, they will focus on following channels:

- Adventica will be advertised through hotel websites and email confirmation system
- Adventica website will be a main channel for delivering messages to customers, establishing trust, emphasizing customer privacy and access to customer support
- VUP will aim to gain exposure through social media and word of mouth by creating and nurturing traveller's community on the site, and by integration with other social media sites
- Adventica will support local charities and local causes, which may generate earned media coverage and exposure in blogs and social media
- Adventica will run loyalty programs for return purchasers. They will also establish referral points, enticing customers to refer their friends to Adventica

3.4.4 Price

VUP will have a pricing strategy for two revenue streams. The main revenue stream comes from booking experiences featured on Adventica. The second one is from the full version of the e-Commerce suite that some providers may choose to use.

3.4.4.1 Pricing Experiences on Adventica

Since VUP's uses a differentiation strategy in a niche market, the pricing objective will be to maximize current profit for all three parties involved. Providers will set experience prices on Adventica. VUP will contractually ensure that travellers who buy on Adventica pay the same or lower price as travellers who buy directly from Providers.

VUP's main task is to negotiate the revenue split. By default, experience providers will get 80% of the listed price, Adventica will keep 15%, and hotels will get 5%. However, actual percentages may vary, depending on bargaining power of hotels and experience providers.

3.4.4.2 Pricing the full version of e-Commerce suite

VUP will give a light version of an e-Commerce suite to experience providers free of charge. Providers will have an option to use the full version of the e-Commerce suite in software as a service model. Depending on their data volume, providers can choose between several subscription packages:

- For light users, handling less than 100 transactions per day, e-Commerce suite Bronze with the online support included, for \$50 per month

- For medium users, handling between 100 and 1000 transactions per day, E-Commerce Suite Silver with an extended toolset and the assistance with integration, for \$150 per month
- For heavy users, processing more than 1000 transactions daily, E-Commerce Suite Gold with a full toolset, premium reporting suite and extended support for \$450/month

4: Implementation plan and Operation Requirements

In this section, we present VUP's implementation plan and discuss operation requirements. We identify and discuss in detail four main implementation phases: Prelaunch activities, Pilot phase, Expansion to Vancouver area and Expansion to other cities.

4.1 Implementation phases - objectives and key activities

4.1.1 Phase 1 - Prelaunch Activities

The main objective of the prelaunch phase is development of Adventica. The website is being developed by Autobox Media, and they will provide support and additional development if needed.

The secondary objective is to identify the first hotel for Adventica Integration. VUP has already secured a partnership with Canadian Rocky Mountain Resort (CRMR), which owns four small hotels in BC and Alberta.

Key tasks of phase 1 include:

- Complete development and testing of Adventica.
- Secure website hosting in preparation for the Pilot phase
- Create content on the website in preparation for the Pilot phase.
- Test the light version of the e-Commerce suite in preparation for the Pilot phase

4.1.2 Phase 2 – Pilot

The main objective of the Pilot phase is to test Adventica in the area with a limited number of visitors and experience providers. Website will be optimized and all potential issues will be ironed out.

CRMR's Painted Boat Resort on Sunshine Coast is chosen as a test site for the Pilot phase. The Pilot phase includes following tasks:

IT tasks:

- Integrate Adventica with the Painted Boat resort website and the e-mail confirmation system
- Launch the website and make experiences available to hotel visitors.
- Develop and test a mobile version of Adventica
- Finalize and test the full version of the e-Commerce suite in preparation for Phase 3, Expansion to Vancouver
- Help providers to integrate with Adventica's light version of the e-Commerce suite.

Sales tasks:

- Create a number of free local activities on Adventica
- Solicit the resort to recommend local experience providers who would be a good fit for Painted Boat customers. Offer recommended experience providers to create their profiles on Adventica.

Support tasks

- Establish customer support and support for experience providers.

4.1.3 Phase 3 - Expansion to Vancouver area

After a successful Pilot phase, VUP will expand to the Vancouver area. The main objective of Phase 3 is to fully prove VUP's business concept. Vancouver is a well-known tourist destination and offers more than sufficient traffic. Furthermore, the company can utilize local contacts to connect with hotels and resorts in the area.

The secondary objective is to prepare the company for the expansion to other cities. Adventica will be prepared to handle higher traffic volume, company will optimize customer support and outsource phone ordering to one of the established call centres. Furthermore, all of the IT development will be finalized, the website, mobile platform and e-commerce suite will enter the support phase.

Main activities of phase 3 include:

- Contact hotels in Vancouver and offer them integration with Adventica.
- Create a number of free experiences on Adventica to attract website traffic and provide site content

- Integrate Adventica with hotel websites
- Contact experience providers and create paid experiences on Adventica
- Make the full version of the e-Commerce suite available to providers
- Monitor website usage and conversion rate and make necessary adjustments
- Outsource call centre services for travellers ordering by phone

4.1.4 Phase 4 - Expansion to other cities

After a successful deployment in Vancouver, VUP will expand to other cities. The main objective of Phase 4 is capturing market share in as many cities as possible. By now, the company will establish connection with number of hotels, and they can expand to the cities where they already have partnering hotels. During this phase, company will focus on following activities:

- Contact hotels and offer Adventica integration
- Integrate Adventica with Hotel Sites
- Create free experiences on Adventica
- Contact experience providers and create paid experiences on Adventica

4.2 Operation Requirements

4.2.1 IT Requirements

In this section, we set main objectives for the company's website. Adventica is the core of VUP's business model, and its main objective is to give customers 'compelling online experience', through the highest quality of online service. This objective will be achieved through four key dimensions: Reliability/fulfilment, Website design, Security/privacy and Customer service (Kotler, Keller, Cunningham, & Sivaramakrishnan, 2009). These key dimensions are further defined bellow:

Reliability/fulfilment

- Adventica will have a detailed and accurate description of available experiences
- Ratings and reviews will further help users in their research
- Travellers will get what they ordered, without surprises
- Travellers will be able to enjoy their experiences in the time they specified during the booking process

Website design

- Adventica will provide extensive content through a mix of written information and media.
- The process of managing and booking experiences will be easy and intuitive.
- The website will be offered in two modes: Adventica Chill for travellers looking for relaxing experiences and Adventica Thrill, for travellers looking for excitement.
- The site will feature a comprehensive selection of free and paid local experiences.

Security/Privacy

- Customer's privacy will be protected at all times
- Transactions will be fully secure

Customer Service

- VUP will listen to customers and respond to customer needs
- Customers will be able to get a real time help if needed
- Complaints and compensations will be handled promptly and painlessly

4.2.2 Staffing Requirements

VUP's staffing requirements will grow as the project moves through implementation phases. We discuss needed human resources for Phase 1 (Prelaunch), Phase 2 (Pilot) and Phase 3 (Expansion to Vancouver area).

4.2.2.1 Phase 1 - Prelaunch Activities

Autobox Media employees will perform most of the activities during the prelaunch phase. Company will contract an experienced writer to create the content on Adventica.

Following table summarizes resources and tasks for Phase 1.

| Resource | FTE | Task |
|------------------------------|------------|---|
| Autobox Media Web developers | 2.0 | Develop and test Adventica site |
| VUP Executive Team | 0.1 | Secure website hosting in preparation for the Pilot phase |
| Writer | 0.5 | Create content on Adventica in preparation for the Pilot phase. |
| Autobox Media developers | 0.5 | Test the light version of the e-Commerce suite in preparation for the Pilot phase |

Table 4-1: Phase 1 - Prelaunch Activities

4.2.2.2 Phase 2 – Pilot

During the Pilot phase, Autobox Media will continue to provide technical resources for the website support, mobile platform development and e-Commerce suite integration. VUP executive team will create free experiences on Adventica and engage experience providers to create paid experiences. Towards the end of the Pilot phase, company will hire a dedicated customer support specialist.

Resources and tasks for Phase 2 are shown below

| Resource | FTE | Task |
|------------------------------|-----|---|
| Autobox Media Web developers | 0.2 | Integrate Adventica with Painted Boat resort website and e-mail confirmation system |
| Autobox Media Web developers | 1.0 | Develop and test a mobile version of Adventica |
| Autobox Media developers | 0.5 | Finalize and test the full version of the e-Commerce suite in preparation for phase 3 |
| Autobox Media developers | 0.2 | Support the deployment of the light version of e-Commerce suite to Experience Providers |
| Autobox Media Web developers | 0.5 | On-going website support |
| VUP Executive Team | 1.0 | Create local free experiences on Adventica |
| VUP Executive Team | 1.0 | Create local paid experiences on Adventica |
| Customer support specialist | 0.2 | Customer support |

Table 4-2: Phase 2 – Pilot

4.2.2.3 Phase 3 - Expansion to Vancouver area

During the expansion to Vancouver, VUP Executive team will work on partnering with Hotels, and Autobox Media will continue to cover technical aspects of the business, like Adventica integration and support and e-Commerce suite support. The company will hire a full time writer to create free experiences and content on the site. One full time sales representative will engage experience providers and create paid experiences on Adventica. VUP will also need one full time customer support specialist.

Resources and tasks for phase 3 are summarized below

| Resource | FTE | Task |
|-----------------------------|-----|--|
| VUP Executive Team | 1.0 | Identify hotels for a potential partnership. Present Adventica integration opportunity. Secure contracts with interested hotels. |
| Autobox Media | 0.5 | Integrate Adventica with hotel websites |
| Writer | 1.0 | Create number of free experiences on the Adventica |
| Sales Specialist | 1.0 | Contact experience providers and create paid experiences on Adventica |
| Autobox Media | 0.5 | Support deployment of the light version of e-Commerce suite to Experience Providers |
| Autobox Media | 0.5 | Support deployment of the full version of e-Commerce suite to Experience Providers |
| Autobox Media | 0.5 | On-going website support |
| Customer support Specialist | 1.0 | Customer Support |

Table 4-3: Phase 3 - Expansion to Vancouver

4.2.3 Funding Requirements

VUP raised \$150,000 in venture capital for Adventica development. That is sufficient to cover Phase 1 - Prelaunch activities. However, company needs to raise additional \$510,000 for subsequent phases. Financial details are discussed in the next chapter. Funding requirements and sources of funds per phase are shown below:

| Phase | Capital Required | Source of Capital |
|-----------------------------|------------------|-------------------|
| Pilot phase | \$60,000 | Owners' equity |
| Expansion to Vancouver | \$200,000 | Venture Capital |
| Expansion to other cities | \$250,000 | Venture Capital |
| Total Capital Needed | \$510,000 | |

Table 4-4: Funding Requirements Summary

5: Financial Information

This section presents detailed financial projections for VUP's business. As explained in Chapter 4, the company has four implementation phases:

- Phase 1 - Prelaunch Activities
- Phase 2 - Pilot
- Phase 3 - Expansion to Vancouver area
- Phase 4 - Expansion to other cities

We show pro forma financial statements for Pilot phase, Expansion to Vancouver and Expansion to other cities. Financial statements are created based on assumptions specific for each phase.

5.1 Pro Forma financial statements for Pilot Phase

5.1.1 Assumptions

5.1.1.1 Funding assumptions:

VUP raised \$150,000 to finance the development of Adventica and partially cover the Pilot phase. This initial investment is a convertible loan. We assume 10 years amortization period with 10% yearly interest rate.

To support the Pilot phase, VUP will raise additional \$60,000 in owners' equity.

5.1.1.2 Revenue forecast and revenue distribution assumptions

For the Pilot phase, VUP will integrate Adventica with Painted Boat resort's website. To calculate the revenue, we first estimate the number of guests who book experiences on Adventica. We assume that average experience costs \$100. Experience providers receive 80% of the revenue, and this is presented as Cost of Goods Sold. Hotels receive 5% of the revenue, and we show it as Advertising. Furthermore, to account for expected issues in first few months of operation, we assume 5% returns during the Pilot phase.

5.1.1.3 Occupancy assumptions

We need to estimate the number of guests who use hotel’s website to book their stay. Painted Boat Resort has 31 Villas on its property. We assume that each villa holds on average five guests per shift, and there are four shifts in a month. Therefore, fully occupied resort has 620 guests per month. Furthermore, 34% of guests book the hotel through hotel website (refer to 3.2.1 Segmentation by Hotel Booking Channel), which results in 210 guests for fully booked resort.

We also assume 60% occupancy rate (Stromer, 2011), resulting is 126 guests who book the accommodation through hotel’s site. Table 5-1 summarizes occupancy assumptions.

| Pilot Phase Occupancy Assumptions | |
|--|-----|
| Number of villas | 31 |
| Average guests per villa | 5 |
| Total guests (fully occupied) | 155 |
| Shifts per month | 4 |
| Total guests / month (fully occupied) | 620 |
| Percentage of guests booking through hotel site | 34% |
| Total guests booking through site (fully occupied) | 210 |
| Occupancy rate | 60% |
| Total guests booking through site (60% occupied) | 126 |

Table 5-1: Pilot Phase Occupancy Assumptions

5.1.1.4 Revenue calculation assumptions

We assume that 10% of guests ordering through hotel site use Adventica to book one experience per person per month. Since 126 guests per month book through the site, that would be 12.6 guests, generating total of \$1,260 revenue per month.

We also assume that resort will need three months to achieve full sales capacity. First month revenue will be 30% of the full capacity, second month 60% and 3rd month full 100%.

5.1.1.5 Expense assumptions

Monthly expenses are calculated based on following assumptions:

- At the beginning of the Pilot phase, VUP will pay \$120,000 for Adventica development
- Additional \$3000 will be paid to external designers.
- Salary is estimated at \$15,100 per month. There will be no executive salaries during the Pilot phase.
- Merchant account and banking fees are \$100 per month
- Server hosting is \$125 per month.
- Equipment cost is \$11,400 - price for computers and desk for two employees (Kawasaki, 2007)
- Pilot phase will be managed from Autobox Media offices, therefore office rent is zero

5.1.1.6 Balance sheet assumptions

Pro Forma Balance Sheet is created based on following assumptions:

- VUP will not carry any inventory
- Collection period is 0 days, meaning that company will not have any receivables.
- We assume immediate payment policy to simplify the calculation. Therefore, company will not have any Account Payables.
- Interest and Loan Payments are calculated based on 10-year amortization for \$150,000 loan at 10% interest.

5.1.2 Pilot Phase Monthly Income Statement

| Monthly Income Statement Pilot Phase | | | | |
|--------------------------------------|------------------|-----------------|-----------------|-----------------|
| Revenue | Pilot | | | |
| | Sep-12 | Oct-12 | Nov-12 | Dec-12 |
| Adventica booking | 378 | 756 | 1,260 | 1,260 |
| Call centre booking | - | - | - | - |
| e-commerce sute | - | - | - | - |
| (returns) | 19 | 38 | 63 | 63 |
| SALES | 359 | 718 | 1,197 | 1,197 |
| COGS | 302 | 605 | 1,008 | 1,008 |
| GROSS MARGIN | 57 | 113 | 189 | 189 |
| Operating expenses: | | | | |
| Salaries | 15,100 | 15,100 | 15,100 | 15,100 |
| Advertising | 19 | 38 | 63 | 63 |
| Call Centre Cost | - | - | - | - |
| Office rent | - | - | - | - |
| Merchant account fees | 100 | 100 | 100 | 100 |
| Server hosting | 125 | 125 | 125 | 125 |
| Adventica development | 120,000 | - | - | - |
| External designers | 3,000 | | | |
| Equipment | 11,400 | | | |
| Patent | | - | - | - |
| Loan payment | 577 | 584 | 591 | 597 |
| Total Operating Expenses | 150,321 | 15,947 | 15,979 | 15,985 |
| EBITDA | (150,264) | (15,833) | (15,790) | (15,796) |
| DEPRECIATION | 190 | 190 | 190 | 190 |
| EBIT | (150,454) | (16,023) | (15,980) | (15,986) |
| INTEREST | 1,757 | 1,750 | 1,744 | 1,737 |
| EBT | (152,211) | (17,774) | (17,723) | (17,723) |
| TAX | - | - | - | - |
| NET INCOME | (152,211) | (17,774) | (17,723) | (17,723) |

Table 5-2: Pilot Phase Monthly Income Statement

5.1.3 Pilot Phase Monthly Balance Sheet

| Monthly Balance Sheet Pilot Phase | | | | | | |
|-------------------------------------|----------------|---------------|---------------|---------------|---------------|--|
| | Pilot | | | | | |
| Assets | Aug-12 | Sep-12 | Oct-12 | Nov-12 | Dec-12 | |
| Current Assets | | | | | | |
| Cash | 210,000 | 57,979 | 40,395 | 22,862 | 5,328 | |
| Accounts Receivable | - | - | - | - | - | |
| Inventory | - | - | - | - | - | |
| Fixed Assets Net | | 11,210 | 11,020 | 10,830 | 10,640 | |
| Total Assets | 210,000 | 69,189 | 51,415 | 33,692 | 15,968 | |
| LIABILITIES | | | | | | |
| Current Liabilities | | | | | | |
| Accounts payable | - | - | - | - | - | |
| Accruals & other payables | - | - | - | - | - | |
| Total current Liabilities | - | - | - | - | - | |
| Long Term Debt | 150,000 | 149,423 | 148,839 | 148,256 | 147,672 | |
| Equity | 60,000 | 60,000 | 60,000 | 60,000 | 60,000 | |
| Earned Capital | | -140,234 | -157,424 | -174,564 | -191,703 | |
| Total liabilities and equity | 210,000 | 69,189 | 51,415 | 33,692 | 15,968 | |

Table 5-3: Pilot Phase Monthly Balance Sheet

5.1.4 Pilot Phase Monthly Cash Flow Statement

| Monthly Cash Flow Pilot Phase | | | | | |
|-------------------------------|----------------|----------------|---------------|---------------|---------------|
| | Pilot | | | | |
| | Aug-12 | Sep-12 | Oct-12 | Nov-12 | Dec-12 |
| Begin Cash | - | 210,000 | 57,979 | 40,395 | 22,862 |
| Loan | 150,000 | | | | |
| Equity In | 60,000 | | | | |
| Sales | - | 359 | 718 | 1,197 | 1,197 |
| TOTAL CASH IN | 210,000 | 210,359 | 58,697 | 41,592 | 24,059 |
| COGS | | 302 | 605 | 1,008 | 1,008 |
| Salaries | - | 15,100 | 15,100 | 15,100 | 15,100 |
| Advertising | - | 19 | 38 | 63 | 63 |
| Call Centre Cost | - | | | | |
| Office rent | - | | | | |
| Merchant account fees | - | 100 | 100 | 100 | 100 |
| Server hosting | - | 125 | 125 | 125 | 125 |
| Adventica development | - | 120,000 | | | |
| External designers | - | 3,000 | | | |
| Equipment | - | 11,400 | | | |
| Patent | - | | | | |
| Loan Payment (principal) | - | 577 | 584 | 591 | 597 |
| Other Overhead | - | | | | |
| Interest | - | 1,757 | 1,750 | 1,744 | 1,737 |
| Tax | - | | | | |
| TOTAL CASH OUT | - | 152,381 | 18,302 | 18,730 | 18,730 |
| ENDING CASH | 210,000 | 57,979 | 40,395 | 22,862 | 5,328 |

Table 5-4: Pilot Phase Monthly Cash Flow

5.2 Pro Forma financial statements for Expansion to Vancouver

5.2.1 Assumptions

5.2.1.1 Funding assumptions

To fully support the Expansion to Vancouver, VUP will raise additional \$200,000 in equity.

5.2.1.2 Revenue forecast and revenue distribution assumptions

Vancouver expansion phase has three revenue sources:

- Adventica booking - based on number of guests booking experiences on Adventica
- Call centre booking - based on number of people booking experiences through call centre
- E-Commerce suite revenues - coming from experience providers using the full version of the e-Commerce suite

Price of one Experience is \$100, and revenue split is like in the Pilot phase:

- 80% of the revenue to Experience providers (presented as Cost of Goods Sold).
- 5% of the revenue to Hotels (Advertising)
- 1% of the revenue as returns (part of COGS)

5.2.1.3 Occupancy assumptions

Occupancy is calculated based on two actual hotels located in Vancouver. We average occupancy numbers for Fairmont Vancouver (<http://www.fairmont.com/pacificrim/Accommodations/>) and Days Inn Vancouver (<http://www.daysinnvancouver.com/>) and create a template hotel used for the revenue calculation. Occupancy assumptions are summarized in the following table.

| Template Hotel Occupancy Assumptions Vancouver Expansion Phase | |
|---|--------|
| Average Number of Rooms | 231 |
| Average guests per room | 1.5 |
| Total guests | 346.5 |
| Shifts per month | 4 |
| Total guests / month | 1386 |
| Percentage of guests booking through hotel sites | 34% |
| Percentage of guests booking through the call centre | 25% |
| Total guests booking through sites | 471 |
| Total guests booking through the call centre | 346 |
| Occupancy rate | 65% |
| Total guests booking through sites (65% occupancy) | 306.15 |
| Total guests booking through the call centre (65% occupancy) | 224.9 |

Table 5-5: Occupancy Assumptions for Vancouver Expansion

5.2.1.4 Revenue calculation assumptions for the template hotel

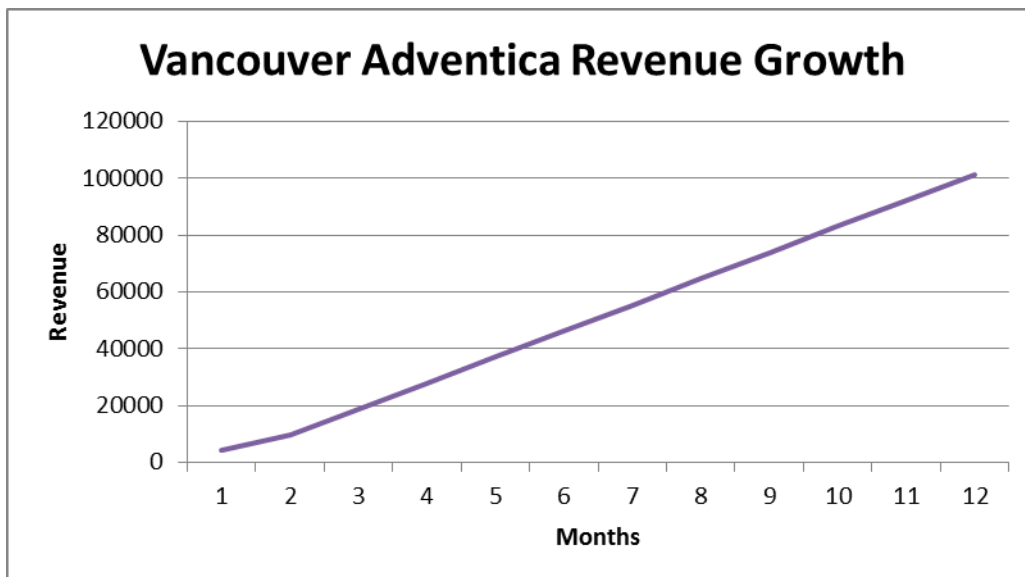
Occupancy assumptions estimate that 306 customers per month book hotel rooms through hotel site. We assume that 10% of them use Adventica to book one experience per person. Furthermore, 223 customers book hotel rooms by phone. We assume that 10% of these customers book experiences through VUP's call centre. Therefore, template hotel brings \$3,062 through Adventica and additional \$2,249 through the call centre.

We also assume that hotel needs three months to achieve full sales capacity. First month revenue will be 30% of the full capacity, second month 60% and 3rd month full 100%. Moreover, the call centre will start operation one month later than Adventica.

5.2.1.5 Growth assumptions

We assume that VUP's executive team will sign-up three hotels per month. Taking into consideration revenue calculation assumptions, revenue growth rate will be linear. Graph of revenue through Adventica is illustrated below.

Figure 5-1: Adventica Revenue Growth for Vancouver



5.2.1.6 Expense assumptions

Monthly expenses are calculated based on following assumptions:

- 80% of the revenue to Experience providers (presented as Cost of Goods Sold).
- 5% of the revenue to Hotels (Advertising)
- 1% of the revenue as returns (part of COGS)
- 6% of call centre revenue for call centre cost. Rationale: Call centre charges \$1.2 per minute, and it takes on average 5 minutes to finish simple sales call¹. That is \$6 per call; since revenue per one experience is \$100, call centre cost represents 6% of the revenue.
- Salary is estimated at \$19,500 per month. There will be no executive salaries during this phase.
- Merchant account and banking fees are \$100 per month
- Server hosting is \$125 per month.
- Equipment cost is \$5,700 - price computers and desk for one additional employee (Kawasaki, 2007)
- Office rent is \$2,000 per month
- Interest and Loan Payments are calculated based on 10-year amortization for \$150,000 loan at 10% interest.

¹ Based on conversation with TigerTel call center, <http://www.tigertel.com/>

5.2.2 Vancouver Expansion Phase Monthly Income Statement

| Monthly Income Statement Expansion to Vancouver | | | | | | | | | | | | |
|---|------------------------|----------|----------|----------|----------|----------|----------|----------|---------|---------|---------|---------|
| Revenue | Expansion to Vancouver | | | | | | | | | | | |
| | Jan-13 | Feb-13 | Mar-13 | Apr-13 | May-13 | Jun-13 | Jul-13 | Aug-13 | Sep-13 | Oct-13 | Nov-13 | Dec-13 |
| Adventica booking | 4,120 | 9,631 | 18,816 | 28,000 | 37,185 | 46,369 | 55,554 | 64,738 | 73,923 | 83,107 | 92,292 | 101,476 |
| Call centre booking | - | 2,024 | 6,072 | 12,819 | 19,566 | 26,313 | 33,060 | 39,807 | 46,554 | 53,301 | 60,048 | 66,795 |
| e-commerce sute | - | - | - | 100 | 200 | 300 | 400 | 500 | 600 | 700 | 800 | 900 |
| (returns) | (41) | (117) | (249) | (409) | (570) | (730) | (890) | (1,050) | (1,211) | (1,371) | (1,531) | (1,692) |
| SALES | 4,079 | 11,539 | 24,639 | 40,510 | 56,381 | 72,253 | 88,124 | 103,995 | 119,866 | 135,737 | 151,608 | 167,480 |
| COGS | 3,296 | 9,324 | 19,910 | 32,655 | 45,401 | 58,146 | 70,891 | 83,636 | 96,381 | 109,127 | 121,872 | 134,617 |
| GROSS MARGIN | 783 | 2,214 | 4,729 | 7,855 | 10,981 | 14,107 | 17,233 | 20,359 | 23,485 | 26,611 | 29,737 | 32,863 |
| Operating expenses: | | | | | | | | | | | | |
| Advertising | 206 | 482 | 941 | 1,400 | 1,859 | 2,318 | 2,778 | 3,237 | 3,696 | 4,155 | 4,615 | 5,074 |
| Call Centre Cost | - | 121 | 364 | 769 | 1,174 | 1,579 | 1,984 | 2,388 | 2,793 | 3,198 | 3,603 | 4,008 |
| Salaries | 19,500 | 19,500 | 19,500 | 19,500 | 19,500 | 19,500 | 19,500 | 19,500 | 19,500 | 19,500 | 19,500 | 19,500 |
| Office rent | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 |
| Merchant account fees | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| Server hosting | 125 | 125 | 125 | 125 | 125 | 125 | 125 | 125 | 125 | 125 | 125 | 125 |
| Equipment | 5,700 | | | | | | | | | | | |
| Patent | - | - | - | - | - | - | - | 30,000 | | | | |
| Loan payment | 604 | 612 | 619 | 626 | 633 | 641 | 648 | 656 | 664 | 671 | 679 | 687 |
| Total Operating Expenses | 28,236 | 22,940 | 23,649 | 24,520 | 25,392 | 26,263 | 27,135 | 58,006 | 28,878 | 29,750 | 30,622 | 31,494 |
| EBITDA | (27,453) | (20,725) | (18,920) | (16,665) | (14,411) | (12,156) | (9,902) | (37,648) | (5,393) | (3,139) | (885) | 1,369 |
| DEPRECIATION | 285 | 285 | 285 | 285 | 285 | 285 | 285 | 285 | 285 | 285 | 285 | 285 |
| EBIT | (27,738) | (21,010) | (19,205) | (16,950) | (14,696) | (12,441) | (10,187) | (37,933) | (5,678) | (3,424) | (1,170) | 1,084 |
| INTEREST | 1,730 | 1,723 | 1,715 | 1,708 | 1,701 | 1,693 | 1,686 | 1,678 | 1,671 | 1,663 | 1,655 | 1,647 |
| EBT | (29,467) | (22,733) | (20,921) | (18,659) | (16,397) | (14,135) | (11,873) | (39,611) | (7,349) | (5,087) | (2,825) | (563) |
| TAX | - | - | - | - | - | - | - | - | - | - | - | - |
| NET INCOME | (29,467) | (22,733) | (20,921) | (18,659) | (16,397) | (14,135) | (11,873) | (39,611) | (7,349) | (5,087) | (2,825) | (563) |

Table 5-6: Vancouver Phase Monthly Income Statement

5.2.3 Vancouver Expansion Phase Monthly Balance Sheet

| Monthly Balance Sheet Expansion to Vancouver | | | | | | | | | | | | |
|--|------------------------|----------------|----------------|----------------|----------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | Expansion to Vancouver | | | | | | | | | | | |
| Assets | Jan-13 | Feb-13 | Mar-13 | Apr-13 | May-13 | Jun-13 | Jul-13 | Aug-13 | Sep-13 | Oct-13 | Nov-13 | Dec-13 |
| Current Assets | | | | | | | | | | | | |
| Cash | 176,146 | 153,698 | 133,063 | 114,654 | 98,473 | 84,519 | 72,793 | 33,294 | 26,022 | 20,977 | 18,160 | 17,570 |
| Accounts Receivable | - | - | - | - | - | - | - | - | - | - | - | - |
| Inventory | - | - | - | - | - | - | - | - | - | - | - | - |
| Fixed Assets Net | 16,055 | 15,770 | 15,485 | 15,200 | 14,915 | 14,630 | 14,345 | 14,060 | 13,775 | 13,490 | 13,205 | 12,920 |
| Total Assets | 192,201 | 169,468 | 148,548 | 129,854 | 113,388 | 99,149 | 87,138 | 47,354 | 39,797 | 34,467 | 31,365 | 30,490 |
| LIABILITIES | | | | | | | | | | | | |
| Current Liabilities | | | | | | | | | | | | |
| Accounts payable | - | - | - | - | - | - | - | - | - | - | - | - |
| Accruals & other payables | - | - | - | - | - | - | - | - | - | - | - | - |
| Total current Liabilities | | | | | | | | | | | | |
| Long Term Debt | 147,067 | 146,456 | 145,837 | 145,211 | 144,578 | 143,937 | 143,289 | 142,633 | 141,969 | 141,298 | 140,619 | 139,932 |
| Equity | 260,000 | 260,000 | 260,000 | 260,000 | 260,000 | 260,000 | 260,000 | 260,000 | 260,000 | 260,000 | 260,000 | 260,000 |
| Earned Capital | (214,866) | (236,987) | (257,289) | (275,357) | (291,189) | (304,787) | (316,151) | (355,279) | (362,172) | (366,831) | (369,254) | (369,442) |
| Total liabilities and equity | 192,201 | 169,468 | 148,548 | 129,854 | 113,388 | 99,149 | 87,138 | 47,354 | 39,797 | 34,467 | 31,365 | 30,490 |

Table 5-7: Vancouver Phase Monthly Balance Sheet

5.2.4 Vancouver Expansion Phase Monthly Cash Flow

| Monthly Cash Flow Expansion to Vancouver | | | | | | | | | | | | |
|--|------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | Expansion to Vancouver | | | | | | | | | | | |
| | Jan-13 | Feb-13 | Mar-13 | Apr-13 | May-13 | Jun-13 | Jul-13 | Aug-13 | Sep-13 | Oct-13 | Nov-13 | Dec-13 |
| Begin Cash | 5,328 | 176,146 | 153,698 | 133,063 | 114,654 | 98,473 | 84,519 | 72,793 | 33,294 | 26,022 | 20,977 | 18,160 |
| Loan | - | - | - | - | - | - | - | - | - | - | - | - |
| Equity In | 200,000 | - | - | - | - | - | - | - | - | - | - | - |
| Sales | 4,079 | 11,539 | 24,639 | 40,476 | 56,312 | 72,149 | 87,985 | 103,822 | 119,658 | 135,495 | 151,331 | 167,168 |
| TOTAL CASH IN | 209,408 | 187,685 | 178,337 | 173,538 | 170,966 | 170,622 | 172,505 | 176,615 | 152,952 | 161,517 | 172,308 | 185,328 |
| COGS | 3,296 | 9,324 | 19,910 | 32,655 | 45,401 | 58,146 | 70,891 | 83,636 | 96,381 | 109,127 | 121,872 | 134,617 |
| Salaries | 19,500 | 19,500 | 19,500 | 19,500 | 19,500 | 19,500 | 19,500 | 19,500 | 19,500 | 19,500 | 19,500 | 19,500 |
| Advertising | 206 | 482 | 941 | 1,400 | 1,859 | 2,318 | 2,778 | 3,237 | 3,696 | 4,155 | 4,615 | 5,074 |
| Call Centre Cost | - | 121 | 364 | 769 | 1,174 | 1,579 | 1,984 | 2,388 | 2,793 | 3,198 | 3,603 | 4,008 |
| Office rent | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 |
| Merchant account fees | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| Server hosting | 125 | 125 | 125 | 125 | 125 | 125 | 125 | 125 | 125 | 125 | 125 | 125 |
| Equipment | 5,700 | - | - | - | - | - | - | - | - | - | - | - |
| Patent | - | - | - | - | - | - | - | 30,000 | - | - | - | - |
| Loan Payment (principal) | 604 | 612 | 619 | 626 | 633 | 641 | 648 | 656 | 664 | 671 | 679 | 687 |
| Interest | 1,730 | 1,723 | 1,715 | 1,708 | 1,701 | 1,693 | 1,686 | 1,678 | 1,671 | 1,663 | 1,655 | 1,647 |
| Tax | - | - | - | - | - | - | - | - | - | - | - | - |
| TOTAL CASH OUT | 33,262 | 33,986 | 45,275 | 58,884 | 72,493 | 86,102 | 99,712 | 143,321 | 126,930 | 140,539 | 154,149 | 167,758 |
| ENDING CASH | 176,146 | 153,698 | 133,063 | 114,654 | 98,473 | 84,519 | 72,793 | 33,294 | 26,022 | 20,977 | 18,160 | 17,570 |

Table 5-8: Vancouver Phase Monthly Cash Flow

5.3 Pro Forma financial statements for Expansion to other cities

5.3.1 Assumptions

5.3.1.1 Funding assumptions

To support the Expansion to other cities, VUP will raise additional \$250,000 in equity.

5.3.1.2 Growth and revenue assumptions

After one year of operating in Vancouver, VUP will expand to other cities. We assume that the company expands to a new city every six months. We also assume that the company continues to add 3 hotels per month in every city where they operate, and that hotels are the same as template hotel defined for Vancouver. Revenue growth per city is the same as revenue growth for Vancouver operation.

5.3.1.3 Expense assumptions

- COGS is 86% of total revenue plus 6% of call centre revenue. 86% of total revenue is split to 80% for experience providers, 5% for hotels and 1% for returns.
- Salary is estimated at \$17,500 per month per city. In the second year of expansion, VUP will start paying executive salaries.
- Equipment cost is \$17,100 per year - price for computers and desk for three additional employees (Kawasaki, 2007)
- Office rent grows at \$300 per month for every additional employee (Kawasaki, 2007)
- Miscellaneous expenses are estimated at \$10,000 per city per year.
- Interest and Loan Payments are calculated based on 10-year amortization for \$150,000 loan at 10% interest.
- Tax rate is 38%

5.3.2 Expansion to Other Cities Yearly Income Statement

| Yearly Income Statement | | | | | |
|---------------------------------|---------------------------|------------------|------------------|------------------|------------------|
| Revenue | Expansion to Other cities | | | | |
| | FY14 | FY15 | FY16 | FY17 | FY18 |
| SALES | 4,383,866 | 12,027,334 | 24,197,897 | 40,895,556 | 63,252,083 |
| COGS | 3,880,598 | 10,646,596 | 21,419,979 | 36,200,746 | 55,990,744 |
| GROSS MARGIN | 503,268 | 1,380,738 | 2,777,919 | 4,694,810 | 7,261,339 |
| Expenses: | | | | | |
| Salaries | 553,500 | 1,179,500 | 1,685,500 | 2,191,500 | 2,617,500 |
| Equipment and rent | 71,100 | 98,100 | 125,100 | 152,100 | 179,100 |
| Misc Expenses | 15,000 | 22,500 | 30,000 | 37,500 | 45,000 |
| Loan Payment (principal) | 8,901 | 10,236 | 11,772 | 13,538 | 15,568 |
| Total Operating Expenses | 639,600 | 1,300,100 | 1,840,600 | 2,381,100 | 2,841,600 |
| EBITDA | (136,332) | 80,638 | 937,319 | 2,313,710 | 4,419,739 |
| DEPRECIATION | 380 | 570 | 760 | 950 | 1,140 |
| EBIT | (136,712) | 80,068 | 936,559 | 2,312,760 | 4,418,599 |
| INTEREST | 19,110 | 17,774 | 16,239 | 14,473 | 12,443 |
| EBT | (155,822) | 62,293 | 920,320 | 2,298,287 | 4,406,157 |
| TAX | - | 23,672 | 349,721 | 873,349 | 1,674,339 |
| NET INCOME | (155,822) | 38,622 | 570,598 | 1,424,938 | 2,731,817 |

Table 5-9: Expansion to Other Cities Yearly Income Statement

5.3.3 Expansion to Other Cities Yearly Balance Sheet

| Yearly Balance Sheet | | | | | |
|-------------------------------------|---------------------------|----------------|----------------|------------------|------------------|
| | Expansion to Other cities | | | | |
| Assets | FY14 | FY15 | FY16 | FY17 | FY18 |
| Current Assets | | | | | |
| Cash | 103,227 | 132,183 | 691,769 | 2,104,119 | 4,821,508 |
| Accounts Receivable | - | - | - | - | |
| Inventory | - | - | - | - | |
| Fixed Assets Net | 29,640 | 46,170 | 62,510 | 78,660 | 94,810 |
| | | | | | |
| Total Assets | 132,867 | 178,353 | 754,279 | 2,182,779 | 4,916,318 |
| | | | | | |
| LIABILITIES | | | | | |
| Current Liabilities | | | | | |
| Accounts payable | - | - | - | - | |
| Accruals & other payables | - | - | - | - | |
| Total current Liabilities | | | | | |
| | | | | | |
| Long Term Debt | 131,031 | 120,794 | 109,023 | 97,251 | 85,479 |
| Equity | 510,000 | 510,000 | 510,000 | 510,000 | 510,000 |
| Earned Capital | (508,164) | (452,442) | 135,256 | 1,575,528 | 4,320,839 |
| | | | | | |
| Total liabilities and equity | 132,867 | 178,353 | 754,279 | 2,182,779 | 4,916,318 |

Table 5-10: Expansion to Other Cities Yearly Balance Sheet

5.3.4 Expansion to Other Cities Yearly Cash Flow

| Yearly Cash Flow | | | | | |
|--------------------------|---------------------------|-------------------|-------------------|-------------------|-------------------|
| | Expansion to Other cities | | | | |
| | FY14 | FY15 | FY16 | FY17 | FY18 |
| Begin Cash | 17,570 | 103,227 | 132,183 | 691,769 | 2,104,119 |
| Loan | - | - | - | - | - |
| Equity In | 250,000 | - | - | - | - |
| Sales | 4,383,866 | 12,027,334 | 24,197,897 | 40,895,556 | 63,252,083 |
| TOTAL CASH IN | 4,651,435 | 12,130,561 | 24,330,080 | 41,587,325 | 65,356,202 |
| COGS | 3,880,598 | 10,646,596 | 21,419,979 | 36,200,746 | 55,990,744 |
| Salaries | 553,500 | 1,179,500 | 1,685,500 | 2,191,500 | 2,617,500 |
| Equipment and rent | 71,100 | 98,100 | 125,100 | 152,100 | 179,100 |
| Loan Payment (principal) | 8,901 | 10,236 | 11,772 | 13,538 | 15,568 |
| Misc Expenses | 15,000 | 22,500 | 30,000 | 37,500 | 45,000 |
| Interest | 19,110 | 17,774 | 16,239 | 14,473 | 12,443 |
| Tax | - | 23,672 | 349,721 | 873,349 | 1,674,339 |
| TOTAL CASH OUT | 4,548,209 | 11,998,378 | 23,638,311 | 39,483,206 | 60,534,694 |
| ENDING CASH | 103,227 | 132,183 | 691,769 | 2,104,119 | 4,821,508 |

Table 5-11: Expansion to Other Cities Yearly Cash Flow

6: Risk Assessment

In this section, we look at potential risks and ways to mitigate or avoid those risks. We discuss three main risk categories: Operational Risks, Market Risks and Financial Risks.

6.1 Operational Risks

6.1.1 Website security risks

As an internet based business, VUP will have to deal with website security risks. Adventica will be used for payment processing, and travellers will create personal profiles on the site. Therefore, the company will hold customers' personal information, which creates a security risk.

This risk is mitigated by Autobox Media, which has extensive web-design experience, including handling technical aspect of security. Furthermore, VUP will need to create a sound security plan from the beginning, ensuring that the company meets its legal obligations to protect consumers' data (Bureau of Consumer Protection, n.d.).

6.1.2 General website performance risks

As a web based company, VUP will be heavily dependent on Adventica's performance, its stability and ability to handle large data volumes at times. Any downside is potential revenue loss for the company and loss of goodwill with travellers, Experience Providers and hotels.

However, VUP's management team has extensive experience in similar projects, and Autobox brings technical expertise to deal with potential problems. To reduce the risk further, VUP needs to ensure thorough testing of Adventica before it goes live, and to allocate sufficient funds for support once the website becomes operational.

6.1.3 Relationship with Autobox Media and possibility of a hold-up

Partnership with Autobox Media is one of the VUP's key strengths. However, VUP's business is fully dependent on technical expertise provided by Autobox, which creates possibility of a hold-up.

This risk can be mitigated by a careful contractual definition of the relationship between two companies. Furthermore, Autobox's founder Ryan Griffiths serves as VUP's Technical Director, which decreases the risk even more.

6.2 Market Risks

Market risks were identified under section 3.3.4 Threats. We elaborate further on ways to mitigate those risks.

6.2.1 Competitor with strong financial backing may enter the market place

Strong financial backing would be a tangible advantage for any competing company. Sufficient finances can support the aggressive growth, and the competitor can become a dominant player in the experience marketplace.

However, it takes at least six months to a year to develop a website and necessary infrastructure. By the time another company finishes development and testing, Adventica may already be an established player. Furthermore, experience market is fragmented into geographical areas, and it may take a while before companies start competing directly in the same cities.

6.2.2 Signing up experience providers in the area with active Daily Deals may be difficult

Signing up experience providers in cities with Daily Deal sites may be difficult for two reasons. First, experience providers will have a higher bargaining power, and may choose to deal only with sites that have a high traffic volume. Second, some experience providers may have a negative experience with daily deals because they lost profit; they can be reluctant to deal with another internet-based intermediary.

VUP can attract users' traffic by creating free experiences. However, the most effective way to mitigate this risk is to have a capable sales team, which will be able to emphasize the advantages of VUP's business model:

- Experience providers keep 80% of the revenue, and actually make money
- The website traffic is highly targeted and conversion rate is expected to be higher
- Adventica is endorsed by hotels
- Experience providers can fully integrate their calendar with Adventica, using the light version of the e-Commerce suite, provided free of charge

6.2.3 Relationship with hotels and possibility of a hold-up

In the beginning, VUP's business model will heavily depend on a relationship with hotels, which creates a potential hold-up problem. Opportunistic hotels may require a higher percentage of the revenue for the Adventica integration, or even a monthly fee.

We list possible options to deal with this risk:

- VUP needs to structure communication with hotels carefully, emphasizing win-win situation if parties come to agreement.
- VUP's team needs to be fully prepared for the negotiation. They need to set their reservation price and estimate a bargaining zone, and be prepared to walk away from the deal if the hotel asks too much.
- A team member or a consultant with executive experience in tourism industry can facilitate relationship with hotels.
- As Adventica grows and becomes a known brand, VUP's bargaining power will increase

6.3 Financial Risks

6.3.1 Lack of finances to support business growth

One of VUP's key success factors is raising the capital to finance aggressive growth. However, number of Daily Deal sites will be looking to fund their growth, and VUP will be competing with them for the same financial resources.

To mitigate this risk, VUP needs to communicate two important points to potential investors:

- **VUP's business requires less capital than Daily Deals:** VUP's business model significantly reduces advertising cost because of the partnership with hotels (refer to 1.1 Company Summary). Therefore, VUP will require less capital than daily deal sites.
- **Funding can be staged per implementation phases, which reduces investor's risk:** Phase 1 - prelaunch activities is covered by \$150,000 initial investment. VUP will fund the Pilot phase with owners' equity, and it will use the funding for the expansion to Vancouver only if the Pilot phase is successful. Similarly, expansion to other cities will happen only if Vancouver operation meets required objectives.

7: Exit Strategy

VUP's primary exit strategy is a trade sale to one of the major online travel agencies, like Expedia, Travelocity or Orbitz. Adding Experiences to Travel and Hotel booking would complete vacation travel Metamarket (refer to 3.3.3.2 Create dominant experience marketplace and partner with major online travel agencies). After five to six years in operation, Adventica will have enough traffic to be a perfect acquisition target for large online travel agencies.

Another potential exit strategy is a trade sale to one of the major hotel chains, which will benefit the most from Adventica's revenue. Large hotel groups like Intercontinental Hotel Group, Wyndham Hotel Group or Hilton Hotels, operate thousands of hotels with hundreds of thousands hotel rooms worldwide (Llenrock Blog, 2011). Any one of them may view the acquisition of Adventica as a strategic investment, which would increase the revenue and online exposure of their business.

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