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# HOW TO CONDUCT FEASIBILITY STUDIES FOR TOURISM PROJECTS

By Rob Tonge



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We hope you find this information useful in evaluating this book.

Designed to minimise risk, this 67 page best-selling manual is a comprehensive guide to conducting feasibility studies for different types of small and medium scale tourism projects. Each stage of the feasibility study is clearly and concisely explained - from the initial concept through the location evaluation process, market analysis and economic viability, to preparation of a report and business plan suitable for submitting to financial institutions or investors.

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----------------------	----------------------------------	---------------------------------	----------------------------

Chapter 1:

- “Introduction” . . . . . 5
- Understanding Tourism . . . . . 5
- Terminology . . . . . 8

Chapter 2:

- “Is A Pre-Feasibility Study Justified?” . . . . . 9
- The Pre-Feasibility Study . . . . . 9

Chapter 3:

- “Planning The Feasibility Study” . . . . . 10
- Defining the Scope of the Study . . . . . 10
- The Three Primary Elements of the Feasibility Study . . . . . 11
- Determining the Information You Will Need . . . . . 11
- Marketing Analysis Flowchart . . . . . 12
- Feasibility Analysis Flowchart . . . . . 13
- Types of Research . . . . . 14

Chapter 4:

- “Sourcing Tourism Facts And Figures” . . . . . 16
- Other Industry Organisations . . . . . 17
- Regional & Local Tourism Organisations . . . . . 18
- Visitor (Tourist) Information Centres . . . . . 18

Chapter 5:

- “Initial Research” . . . . . 19
- Government Regulatory Requirements . . . . . 19
- Local Government Requirements . . . . . 19
- Political Implications . . . . . 19
- Environmentally Sensitive Projects . . . . . 20
- Travel Industry Opinions . . . . . 20

Chapter 6:

- “Market Project Evaluation Checklists” . . . . . 21
- Government Policy . . . . . 22
- Socio-Economic Factors . . . . . 23
- The International Visitor Market . . . . . 24
- The Domestic Visitor Market . . . . . 26
- Regional Analysis . . . . . 27
- Seasonality Analysis . . . . . 28
- Competitor Analysis . . . . . 29
- Project Overview . . . . . 29
- Location & Site Analysis . . . . . 30
- Accommodation . . . . . 31
- Conference Facilities . . . . . 35
- Attractions . . . . . 36
- Tours & Cruises . . . . . 37
- Government Regulations, Licences & Insurance . . . . . 38
- Market Analysis . . . . . 39
- Management, Staffing & Operation . . . . . 40
- Projections of Demand . . . . . 41
- Attraction Projections Checklist . . . . . 42





<a href="#">HOME</a>	<a href="#">Business Manuals</a>	<a href="#">Tourism Manuals</a>	<a href="#">Contact Us</a>
----------------------	----------------------------------	---------------------------------	----------------------------

Chapter 7

“Environmental Impact Assessment” . . . . .	43
---	----

Chapter 8:

“Financial Feasibility” . . . . .	45
Determining the Pricing Structure . . . . .	45
Revenue . . . . .	46
Operating Costs . . . . .	46
Operating Cost Checklist . . . . .	47
Development Cost Checklist . . . . .	48
Expenditure/Time Budget Planning Chart . . . . .	50
Feasibility of the Project . . . . .	52
Feasibility Chart . . . . .	53
Economic Viability Chart . . . . .	55

Chapter 9:

“Structuring and Writing the Feasibility Report” . . . . .	57
Structure . . . . .	57
Writing the Report . . . . .	61

Chapter 10:

“Report Production” . . . . .	62
Format Options . . . . .	62
Perspectives, Plans, Photographs & Special Printing Requirements . . . . .	62
Typing/Word-Processing . . . . .	64
Title Page . . . . .	64
Table of Contents . . . . .	64
Proofreading . . . . .	64
Assembling the Material . . . . .	64
Pagination . . . . .	64
Reproduction of the Report . . . . .	64
Binding . . . . .	64

Chapter 11:

“Preparing A Business Plan” . . . . .	65
Business Plan Checklist . . . . .	66





<a href="#">HOME</a>	<a href="#">Business Manuals</a>	<a href="#">Tourism Manuals</a>	<a href="#">Contact Us</a>
----------------------	----------------------------------	---------------------------------	----------------------------



# Introduction

## CHAPTER ONE

This manual has been compiled to assist readers who are considering starting a tourism venture in any location. It is written primarily for the establishment of small to medium-scale businesses or projects, and describes the process necessary to undertake a comprehensive feasibility study.

### UNDERSTANDING TOURISM

At the local and regional level the industry comprises tourism operators, other businesses not directly involved in tourism, local tourism organisations (LTOs), regional tourism organisations (RTOs), community groups, residents and local government which, by working together, have the capacity to attract visitors, satisfy their needs and expectations, and generate economic and other benefits for the wider community.

Today’s visitor market is more sophisticated, selective, knowledgeable, demanding, and more experienced in travel than ever before. With overseas travel now commonplace, many travellers have experienced innovative, quality attractions and experiences overseas, and are able to compare these with the attractions and experiences in Australia.

With advances in communication, technology and increasing use of the Internet, a wide range of destination and product information can be accessed from home and business computers. Added to these issues is the ever-increasing range of leisure product and experience options on offer.

One of the fundamental issues that needs to be recognised by anyone starting a tourism project is that a tourism operation, whatever it may be, cannot work in isolation.

Tourism ventures rely on a network of organisations working cohesively to meet the needs of travellers. Depending on the type of business, this network can include booking services, transport, accommodation, attractions, tour operators, special events, retailing, local, regional and state tourism organisations, and community groups.

Tourism is a volatile industry, and today, operators are faced with the challenge of fierce competition for the tourist dollar, necessitating a thorough investigation of business potential.

As tourism has grown over recent years, many people have entered the industry to ‘buy’ employment. Others have started or purchased a tourism business with the perception that the industry is the ‘pot of gold at the end of the rainbow’. In both cases there have been many instances where expectations have been far above reality.





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A tourism project can have its beginnings in any of the following ways:

- An idea; with a suitable location to be determined;
- A perceived opportunity for a particular facility or service;
- A need identified by market demand;
- A site; a particular site may be appropriate for a range of development options, or it may already be approved for a specific purpose;
- A need to upgrade existing facilities;

Or a combination of these factors.

Whatever the starting point or the type and size of the venture, the same three underlying questions must be addressed:

- 1) Is there an existing or potential market for the project?
- 2) If so, what is the likely level of demand?
- 3) Can the project generate sufficient revenue to achieve viability?

. . . in other words, is the idea or concept feasible?

Conducting a feasibility study is all about minimising risk. It is testing the idea or concept for viability, before making a financial commitment.

Despite the importance of this exercise, it is surprising how many people are willing to invest significant amounts of money in an enterprise - in some instances life savings - but begrudge the time and costs involved in doing the necessary research to see if the venture is likely to be successful.

In some instances a feasibility study is perceived only as a necessary evil required by financiers, rather than an essential process to reduce the risk factor and establish a sound foundation for business development.

It is not unusual in the small business sector of tourism to find people who have grandiose plans for a business or project, but say they cannot afford a feasibility study - which brings us to the golden rule in establishing a tourism venture . . .

***If you cannot afford a feasibility study -  
you cannot afford to proceed with the project.***

One important issue which has contributed to the downfall of a number of tourism ventures in recent years has been the failure to expand the market research horizons beyond the project location and regional factors, to identify what is happening in the industry and visitor market on a global and national basis - the 'bigger picture'.

Visitor attitudes have undergone substantial change and are continuing to do so, and the markets of the future will be different from the markets of today. It is therefore essential to identify the tourism trends and socio-economic changes which may influence the level of success the project is expected to achieve.

Another important issue is that, while a particular type of business may well be successful in one particular region, it does not automatically follow that a similar type of tourism operation or development will be successful elsewhere.





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----------------------	----------------------------------	---------------------------------	----------------------------

One common error made in the development of ‘bricks and mortar’ projects is to have plans prepared, local government authority approval obtained for the venture, and then set about conducting the feasibility study.

If this process is followed without firstly conducting an analysis of the potential market, subsequent market research findings may indicate major changes in concept or design to align with demand factors, which in turn can result in unnecessary additional costs to have plans redrawn.

Depending on the changes required, it may also be necessary to resubmit the proposal for approval.

In the same way, particular sites are often advertised as being approved for a specific type of development such as units or a motel. Irrespective of the approval, again there is the key question: is there a demand for that type of project?

So, while it is important to have a preliminary concept or plan for the project, that is where planning should stop, until such time as the market analysis has been completed. This analysis will then provide clear guidelines for the final planning phase.

The following chapters describe the basic principles involved in conducting a feasibility study, how to investigate the potential or opportunity, and how to prepare a comprehensive feasibility report and business plan.

The market analysis section in Chapter 6 provides a series of checklists covering the ‘core’ research subjects, however, because of the wide variation in types of tourism projects, these checklists should be modified/expanded if necessary in accordance with the size, scope and type of venture.

As most feasibility studies are undertaken with the view to using the study report in support of an application for finance, the procedures described in this manual are designed to conform with this requirement; which brings us to one final point . . .

It is a fact of life today that many lending institutions will not even consider a tourism venture unless a feasibility study is completed and a business plan prepared for the project.

Furthermore, lenders will go through feasibility studies in detail, and unless all the necessary market research and financial analysis is done and presented properly, applications will have little chance of gaining finance.

The guidelines contained in this manual cannot guarantee the success of tourism ventures. Nevertheless, the process outlined will assist intending operators or developers to ensure the main issues are addressed in the assessing feasibility.

Undertaking a feasibility study takes time, however, the failure rate of small business is high, therefore, the time spent to thoroughly investigate the feasibility of a proposed venture should be regarded as an essential part of the overall investment, to minimise the risk.





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----------------------	----------------------------------	---------------------------------	----------------------------

## TERMINOLOGY

For the purposes of this manual, the following terms have been used:

**‘Project’** denotes any type of new tourism venture / business.

**‘Product’** refers to the overall range of facilities and services to be offered in the marketplace.

**‘Component’** refers to the individual facilities and services to be included in the project.

## ABOUT THE AUTHOR

Rob Tonge is Senior Partner of the Queensland based regional tourism development consultancy firm Rob Tonge and Associates providing assistance to the tourism industry around Australia and the Pacific since 1977.

The company specialises in community and regional tourism planning, remote area tourism, feasibility analysis, tourism association development and the establishment and operation of visitor information centres.

Since 1980 Rob Tonge and Associates have conducted 70 research projects giving the Rob Tonge organisation an unparalleled depth of knowledge and experience.

Rob has used his extensive experience to compile the popular Tourism Management Series of practical “how-to” manuals now used by all levels of government, the private sector and training organisations, in 24 countries.

Contact Rob:

[www.robtongetourism.com](http://www.robtongetourism.com)







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----------------------	----------------------------------	---------------------------------	----------------------------



# Is A Pre-Feasibility Study Justified?



## CHAPTER TWO

### THE PRE-FEASIBILITY STUDY

Firstly, what is a pre-feasibility study?

A pre-feasibility study is an initial overview of the project, and on the basis of preliminary market and other research, should give an initial indication if it is likely/unlikely to be a feasible proposition. This stage assists in deciding whether proceeding to a detailed feasibility study is justified.

This breaks a feasibility study down into two stages:

- 1) A pre-feasibility study; and
- 2) The detailed, comprehensive feasibility study.

The pre-feasibility work should address:

Purpose and objectives of the project;

- **Concept;**
- **Potential market/s;**
- **Competitor analysis;**
- **Preliminary pricing;**
- **Preliminary revenue projections;**
- **Preliminary development cost; and**
- **SWOT analysis.**

It is stressed this should be preliminary research at this stage - an indication in summary document form in 10-12 pages. This pre-feasibility stage should also show if the project concept needs to be modified to produce a more cost-effective outcome.

The pre-feasibility is not necessary for every project but for those that would include substantial cost and time to undertake or commission a detailed feasibility study, the pre-feasibility study is advisable.





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