

# The Cost and Return on Guesthouse Business in Chiang Mai, Thailand

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**ABSTRACT**—*In Thailand the main income is tourism and Thailand government motivates tourists around the world to travel to Thailand by promoting and pushing “Thailand Privilege Card” for priority services. The accommodation businesses have benefited from tourism industry due to many visitors looking for where to stay. In other word, the earning of guesthouse business depends on the number of tourists. In addition, Chiang Mai is the second biggest city in Thailand and they are many tourists from difference country and part of the country visiting Chiang Mai.*

*The investor who intends to operate guesthouse business in Chiang Mai has to consider the cost and return on guesthouse business. The small guesthouse consist of (1 – 20 rooms) has an investment cost of about 4,075,288.69 baht, with income per year average of 1,270,381.13 baht and net profit per year about 476,705.62 baht.*

*Moreover, the large guesthouse consist of (21 – 40 rooms) and has an investment cost of about 12,920,388.90 baht, with income per year average 3,520,550.00 baht and net profit per year about 1,799.968.89 baht. To choose what size of guesthouse an entrepreneur can be able to invest in depends on his/her capital and the expected return from business, as each guesthouse rate per room depends on many factor namely decoration, location and service provider.*

**Keywords** - Return, Guesthouse, Chiang Mai Initiative, Thailand Privilege Card

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## 1. INTRODUCTION

(Office of the National Economic and Social Development Board, 2002), stated that the majority income of Thailand is tourism together with the strategic competitiveness of Thai economy by The Tourism Authority of Thailand (TAT). (Royal Thai Consulate General, 2002), the Thai Government encourage foreigner to visit the country in order to spend money for traveling around Thailand by issuing the Thailand Privilege Card which make tourists special and more important. The Thailand Privilege Card consist of two types, the Personal Membership value at 25,000\$ and Corporate membership value at 50,000\$.

(Chiang Mai Municipality, 2006) cited that Chiang Mai Province is the center of Northern tourism, which is the second biggest city of Thailand. Presently, Chiang Mai is rich of nature places, historical monuments and traditional. The information statistics of tourism to Chiang Mai stated that travelers prefer to stay in the city due to the variety of attractions and convenient of the transport system thus, the accommodation business such as hotels, resorts; guesthouse get the benefit from tourists (Nongnuch Sritanaanun, 2001). The beginning of guesthouse business starts with a house that is separated from the main house for housing guests only because the house owner would like guest to feel relax and private. However, the size of guesthouse is not too big compared with main house. Recently, the concept of guesthouse makes accommodation became a business for making a profit. Guesthouse suits customers in terms of budget and low pricing compared to hotel that has no facility.

According to (Grimes, 2011), the 2008 and 2009 global crisis in Asia resulted to decade of dependence reduction of financial institution. This action created the Chiang Mai Initiative (CMI) that set up synergy to revitalize Chiang Mai financial situation. One of the profitable businesses in Chiang Mai and Thailand is guesthouse business.

The growth rate of the guesthouse business rapidly increases because houses are converted by many guesthouse entrepreneurs for profit making. As a result, the entrepreneurs do not consider “how to calculate the cost and the return on investment” yet as mentioned above it leads to the concern that prompted the study on subject of “the cost and return on guesthouse business in Chiang Mai, Thailand”. The researcher hope the study can contribute to the body of knowledge and prospective guesthouse entrepreneur in Chiang Mai, Thailand.

## 2. INFLUENCE OF ENTREPRENEURSHIP

What makes some entrepreneurs tick while others uptick. Culture refers to the customary practices and beliefs that have a significant impact on the basic values, perceptions, preferences, and behaviors of people. Culture and entrepreneurship intervene in many ways. People traditionally engaged in businesses have a pro business attitude and

disdain working as employees. Cultures where people are risk averse and do not attach much importance to hard work and persistence are not conducive to entrepreneurship. In guesthouse businesses, many competition and entrepreneur have to be concerned about how to create differentiation in the business such as price, location and service. The perceptions for guesthouse business are indicated below.

**2.1 Cost of investment**

Cost is the most important and essential for entrepreneur. The cost of running a guesthouse operation is very high with skyrocket overhead expenditure expense, administration expense and operating expense. Most entrepreneurs operate guesthouse business by using private finance or borrowing from financial institution.

**2.2 Return of investment**

The entrepreneur has to concern about how to calculation the cost of guesthouse correctly otherwise it would affect pricing cost. Pricing depend on appropriate of the market demand level, cost and quality and reputation of the guesthouse. Meeting your long-term investment goal is dependent on a number of factors. This not only includes your investment capital and rate of return, but inflation, taxes and your time horizon. This is the annually compounded rate of return you expect from your investments before taxes.

The actual rate of return is largely dependent on the type of investments you select, in this case the guesthouse business. It is important to remember that these scenarios are hypothetical and that future rates of return can't be predicted with certainty and that investments that pay higher rates of return are generally subject to higher risk and volatility. The actual rate of return on investments can vary widely over time, especially for long-term investments. This includes the potential loss of principal on your investment.

**2.3 Customer**

Type of guesthouse customer is divided into two types show:

- Short term customer

This type could be businessperson, foreign tourists and ordinary tourists.

- Long term customer

This type could be retirement foreigner that would like to stay in Thailand for long term.

Year	Number Tourist	Changes
2013(Jan-Mar)	6,828,718	+18.94%
2012	22,303,065	+15.98 %
2011	19,230,470	+20.67 %
2010	15,936,400	+12.63 %
2009	14,149,841	-2.98 %
2008	14,584,220	+0.83 %
2007	14,464,228	+4.65 %
2006	13,821,802	+20.01 %
2005	11,516,936	-1.15%
2004	11,650,703	no data

**Figure 1:** Annual Statistics of Tourism to Thailand  
"Amazing Thailand" - Thailand Tourism booth at a Travel and Tour Expo

Rank	Country or territory	2012	2011	2010	2009	2008	2007	2006
*	ASEAN	6,253,480	5,594,577	4,534,235	3,968,579	3,971,429	3,520,051	3,389,342
1	China	2,789,345	1,721,247	1,122,219	777,508	826,660	907,117	949,117
2	Malaysia	2,560,963	2,500,280	2,058,956	1,757,813	1,805,332	1,540,080	1,591,328
3	Japan	1,371,253	1,127,893	993,674	1,004,453	1,153,868	1,277,638	1,311,987
4	Russia	1,317,387	1,054,187	644,678	336,965	324,120	277,503	187,658
5	South Korea	1,169,131	1,006,283	805,445	618,227	889,210	1,083,652	1,092,783
6	India	1,015,865	914,971	760,371	614,566	536,964	536,356	459,795
7	Laos	951,090	891,950	715,345	655,034	621,564	513,701	276,207
8	Australia	930,599	829,855	698,046	646,705	694,473	658,148	549,547
9	United Kingdom	870,164	844,972	810,727	841,425	826,523	859,010	850,685
10	Singapore	821,056	682,364	603,538	563,575	570,047	604,603	687,160
11	United States	767,420	681,748	611,792	627,074	669,097	681,972	694,258
12	Germany	681,566	619,133	606,874	573,473	542,726	544,495	516,659
13	Vietnam	617,804	496,768	380,368	363,029	338,303	237,672	227,134
14	France	572,996	515,572	461,670	427,067	398,407	373,090	321,278
15	Hong Kong	472,699	411,834	316,476	318,762	337,827	367,862	376,636
16	Indonesia	448,748	370,795	286,072	227,205	247,930	237,592	219,783
17	Cambodia	424,766	265,903	146,274	96,586	85,790	99,945	117,100
18	Taiwan	394,475	447,610	369,220	362,783	393,176	427,474	475,117
19	Sweden	350,565	373,856	355,214	350,819	392,274	378,387	306,085
20	Philippines	288,889	268,375	246,430	217,705	221,506	205,266	198,443

**Figure 2:** Top 20 Most visiting nationalities to Thailand  
Data from Thailand Department of Tourism, Ministry of Tourism and sports

Figure 1 indicates the annual statistics of tourism to Thailand from 2004 to 2013 first quarter. The trend of tourist visiting Thailand increased steadily yearly which is a boost to guesthouse business. Figure 2 indicates ranking of the countries visiting Thailand. Thailand offers a great variety of attractions. These include diving sites, sandy beaches, hundreds of tropical islands, varied night-life, archaeological sites, museums, hill tribes, exceptional flora and bird life, palaces, a huge amount of Buddhist temples and several World Heritage sites. Many tourists follow courses during their stay in Thailand. Popular are classes in Thai cooking, Buddhism and traditional Thai massage.

#### **2.4 Competition**

Understanding the competition, Guesthouse business establishment should pay attention to other competitors nearby, by researching on the number of guesthouses in the area, the charge price per night, their location and service before making decision on strategies.

#### **2.5 Law**

There are several laws that guides guesthouse business and it is essential that guesthouse business allied to all of Law that relate to business as divided into 2 areas show as below

1. Tax Law
  - Individual Tax or Entity Tax
  - Local Tax
  - Withholding Tax
2. Hotel Registration by Hospitality Act. B.E. 2554

### **3. IMPLEMENTATION CRITERIA OF SOLE PROPRIETORSHIP**

One of the criteria considerations before making decision to operate guesthouse business are:

#### 1. Size of the business

The size of guesthouse business divided into 2 sizes as follow,

- a. Not more than 20 rooms
- b. 21 – 40 rooms

The appropriate size is between 16 – 20 rooms as well as the most of entrepreneur establishes the guesthouse in sole proprietorship position and have been operating over than 10 years.

#### 2. The place of business operating

- a. 1 –20 rooms

Most entrepreneurs are the owners of the land with structure and others renting the land with structure.

- b. 21 – 40 rooms

Large numbers of entrepreneurs purchase the land as well as build the building.

#### 3. Type of rooms

The study focused on 3 types of rooms as follow:

- a. Standard with fan room
- b. Standard with air-condition room
- c. Deluxe room

#### 4. Price

The price depends on type of room, location and service with the average minimum price is 221.82 baht per night as well as the average maximum price is 1,050 baht.

#### 5. Source of investment funds

They are 55% of entrepreneur investment the guesthouse business by private finance and 45% of entrepreneur loan capital with financial institution.

6. Loan and Interest payable

A small size of the guesthouse entrepreneur (own 1 – 20 rooms) have a loan amounting average of 3.9 millions, the entrepreneur have to pay an interest average 2.17% per year at the cost of about 85,000 baht. A large size of the guesthouse entrepreneur (own 21 – 40 rooms) have a loan amounting average of 6.6 millions however, the entrepreneur have to pay an interest average of 3.95% per year that cost about 262,000 baht.

7. Other services

The guesthouse business provides other services like restaurant, travel agent and laundry in order to motivate tourists visiting the guesthouse.

8. Worker

Total amount of worker have average of 5 people, 3 people are responsible for receptionist position and the other 2 people work on other services such as housekeeper position.

**4. GENERATING FINANCE OF ENTREPRENEUR**

<b>Expenditure Expense</b>	<b>1 -20 Rooms Average</b>	<b>Cost</b>	<b>21 -40 Rooms Average</b>	<b>Cost</b>	<b>Total Cost Average</b>
Land	2,388,679.25		7,527,777.78		4,467,415.73
Building	613,207.55		2,866,666.67		1,348,314.61
Building Improvement	578,679.25		1,143,055.56		806,966.29
Decoration	414,981.13		1,173,305.56		721,719.10
Equipment	79,841.51		209,583.33		132,321.35

**Figure 3:** Expenditure cost of guesthouse business (Baht)

Figure 3 demonstrates the expenditure cost of guesthouse business that the large business with the room provided between 21-40 rooms could have average cost on land, building, building improvement, decoration and equipment much more than small business with the room 1-20 rooms

<b>Description</b>	<b>1 -20 Rooms Average</b>	<b>Cost</b>	<b>21 -40 Rooms Average</b>	<b>Cost</b>	<b>Total Cost Average</b>
Variable Cost					
Electricity		117,905.66		243,500.00	168,707.87
Telephone		23,526.11		41,550.00	30,816.67
Commission		4,279.25		5,433.33	4,746.07
Total Variable Cost		145,711.02		290,483.33	204,270.61
Fixed Cost					
Manager salary		6,792.45		50,333.33	24,404.49
Worker salary		196,853.89		410,061.67	283,095.24
Building rental		174,083.00		180,200.00	176,557.29
Security fee		1,584.91		17,333.33	7,955.06
Depreciation- Building		158,558.87		476,813.89	278,572.14
Advertising		9,818.72		17,066.67	12,750.47
Maintenance		12,543.40		6,900.00	10,260.67
Interest payable		85,080.19		262,055.56	156,665.73
Other expense		2,649.06		9,333.33	5,352.81
Total Fixed Cost		647,964.49		1,430,097.78	955,613.90
Total Cost		793,675.51		1,720,581.11	1,159,884.51

**Figure 4:** Guesthouse business's operating expense (Baht)

The figure 5 shows the expenses of variable cost together with fixed cost of small business (1-20 rooms) and large business (21-40 rooms). It obviously illustrates that having large business shall be responsible for the higher cost of expenses.

Size	An average earning/Place/Year	An average other income/Place/Year
Not more than 20 rooms	1,270,281.13	211,018.87
21 - 40 rooms	3,520,550.00	834,333.33

**Figure 5:** Average income of guesthouse business (Baht)

The figure 5 indicates that the guesthouse size over 20 rooms had an average earning and other income higher than the guesthouse size less than 20 rooms. In other words, having a large number of rooms should have more earning.

The small guesthouse (1 – 20 rooms)

- Cost of investment is 4,075,288.69 baht
- Earning per year is 1,270,381.13 baht
- Total cost per year is 793,705.62 baht
- Net profit per year is 476,705.62 baht

The large guesthouse (21 – 40 rooms)

- Cost of investment is 12,920,388.90 baht
- Earning per year is 3,520,550.00 baht
- Total cost per year is 1,720,581.11 baht
- Net profit per year is 1,799.968.89 baht

## 5. CONCLUSION

To operate guesthouse business in Chiang Mai it is preferable to divide the business into two types of business size. The earning of large business has approximately 3.5 million baht and small business shall have an average amounting 1.27 million baht per guesthouse. The cost of investment is divided into two groups.

1) Expenditure cost: the small business had an average 4.07 million baht investment and the large business had an average investment 12.9 million baht. 2) Operating cost: the small business had expenses approximately 800,000 baht besides; the large had approximately 1.8 million baht. Additionally, the return in investment demonstrated on one hands, the small business had net profit per year approximately 470,000 baht and on the other hands, the large business had approximately 1.79 million baht per year. Furthermore, break-even point of the small business is as an average 730,000 baht while the large business is as an average 1.55 million baht.

A limited of the business among foreigner who wishes to operate the aforesaid business in Thailand is about the ownership of business's immovable property. Under the Thai law the foreigner cannot own any immovable property thus, the foreigner shall have only the right to take possession such the rent in construction or building on the land for fixed period of time.

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