

Sea Change



Mike started his working life as an astrophysicist, became a government officer, moved to public relations and entered the tourism industry via scuba diving. He made more money out of tourism than any of his other ventures but it wasn't easy. In this free ebook he gives advice on how to make the *sea change* from a salaried job to being self-employed.

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Revised 2016

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So you want to join the tourist industry. Wouldn't it be great to leave your boring job and lead a more eventful life?

People in the tourism industry have the right idea. They combine work with pleasure and have a great time. The opportunities are limitless: hotel, motel, pub, restaurant, fishing, scuba, horse riding, boating, sky diving ... the list goes on and on. You could even turn your hobby into a job.

It's a marvellous idea but don't rush into it. The rewards can be great but many business ventures fail and that's something to be avoided. Failure often occurs when people make career changes in middle life.

I started my career as a research astrophysicist and ended up owning a backpacker resort. Between these extremes, I worked in public administration, public relations, journalism and the diving industry. It was a slow evolution from one job to the next and I learnt a lot on the way.

I offer the following advice for those who are planning a major change in lifestyle. It comes free of charge and you won't be pestered by adverts. I'll start with a list of Dos and Don'ts and follow up with some examples.

1. Don't invest any significant amount of money in a new venture until you are fully aware of what you are letting yourself in for.
2. Don't place undue reliance on the advice of others, including accountants, solicitors, architects, loan managers, advertising consultants and travel agents.
3. Location ... location ... location.
4. Carefully research market size and market share.
5. Don't borrow a cent more than necessary.
6. Don't pay anyone to do anything you can do yourself.
7. Don't get involved in Tourism Awards.
8. The customer matters more.
9. The bottom line matters most.

1. Look before you leap

I'll give two examples. Both are from the scuba industry. Similar considerations apply to most other businesses.

A) My friend John was an electrical engineer and a keen sailor. In his late thirties, he was taken off operational projects and transferred to administrative work. He hated being stuck behind a desk and resolved to leave his safe job with an electrical supply authority. In his spare time he built a large boat and set sail from his home in New South Wales on his fortieth birthday. He put down anchor in Townsville in North Queensland and earned a living taking divers out to the Great Barrier Reef. That's how I got to know him.

John's switch from being a paid employee to a self-employed dive operator was far from smooth but he made it. He skippered the boat, did all necessary maintenance work himself and kept costs to a minimum. His family was staunchly behind him and prepared to live in rented accommodation that was grossly inferior to their former home. In time he traded his motor/sailing boat for a larger vessel and his business prospered. When I last heard of him, he was a highly respected master mariner running courses in marine safety.

B) The person who bought John's second dive boat was a former farmer. He was in his early fifties and fed up with raising cattle. He sold the farm and used the proceeds to establish his family in a nice house on the coast. The

dive boat was intended to provide a pleasurable lifestyle and source of income.

At first, everything went according to plan. The boat was in good condition. John had acquired a solid reputation as a dive operator and the customers kept coming. Skippers had to be hired but there was sufficient cash flow to pay them.

Then things started to fall apart. The new owner lacked an overall grasp of the operation. He enjoyed going out on the boat but was not taking any affective part in the operation. Worse of all, he relied on others to tell him what was going on.

Maintenance work was neglected and that led to serious and costly problems. The reputation of the boat suffered and the supply of customers dropped off. He was unable to judge the reliability of his skippers and dive staff. Good people deserted him and he was left with a substandard crew. He sold the boat for a small fraction of what he had paid for it.

2. Don't place undue reliance on others

Of course you will need an accountant and you will need a solicitor. I'm not suggesting otherwise. You'll need them to give specialist advice. Accountants are good at getting tax returns in order and advising on loans. Solicitors are essential when purchasing real estate. But don't let them tell you how to run your business. You might have a different breed in your neck of the woods. My experience is that accountants and solicitors are hopeless in operational matters. They imagine that everything is achieved at the stroke of a pen. In their world that might happen. You live in a different world.

If you are building a hotel, motel, lodge or whatever, you'll need an architect. They are great at making buildings look right and some win prizes. The latter are the ones to avoid. Prizes come at the client's expense. If the client is a major company, that's fine. But, you are not a major company and your building must earn money to keep the bank happy. Give your architects a written brief and look critically at everything they come up with. Hunt for ways to save money while achieving a pleasing result.

My next remarks are about people whose agenda is likely to be different from yours. Indeed, it may be diametrically opposed to your interests.

Loan managers frequently receive commissions based on the size of a loan. It may be in their interest to grant a bigger loan than you need even if that places an unnecessary burden on you.

The first imperative of advertising agents is to look after Number One, as in other businesses. They are very good at convincing clients of the value of their services. Convincing the client's customers often takes second place. You can waste a small fortune on advertising. Try to tag your adverts in some way so that you can see what yields results. Speak with colleagues and exchange ideas. Treat everything the advertising people say with caution. After a while you should have a far better grasp of your market than they do.

There are good travel agents. Others have attitudes analogous to those of a hyena. They will extort commissions of fifty or more percent from you, saying they control the market and you will go bust if you don't knuckle down. We have laws to stop that sort of thing in Australia and I have watched regulators try to enforce them. The sad fact is that hyenas can get away with almost anything when their victims cooperate. As with consumer protection, there are limits to what the law can do without exerting an unhealthy influence on the market. Keep an eye out for hyenas.

3. Location ... location ... location

In real estate only three things matter and I don't have to tell you what they are. A beachfront block is worth far more than a block two streets back. In business it makes good sense to pay the extra and get the custom that comes with location.

By the same token, it makes little sense to open a business in the wrong place. Australia has lots of superb beaches but only a few attract tourists. I'm sure the same applies to beautiful scenery in North America and picturesque villages in Europe. You have to site your business to suit your customers ... not the other way round.

I've just returned from the mountains near Brisbane. We stayed in a cottage on a farm. An expensive resort was nearby amongst spectacular scenery. We decided to visit it and set off down a steeply sided gorge, past impressive waterfalls and through numerous fords. Our vehicle is well suited to off-road driving but there were times when I wondered if we should turn back. Signs told us we were getting close to our goal then a gate barred our way. The resort had run into financial difficulties and closed. One wonders what sort of customer they hoped to attract and what transport they provided. Their web page said nothing about the problems of getting there.

4. Market size and market share

It doesn't matter how good a business you have. If there aren't enough customers you won't prosper. That simple rule is often overlooked by people offering advice: particularly when they have a vested interest. I'll give just one example.

I got into the backpacker business through my involvement in diving. That was in the very early days before the term "backpacker" even existed. Within a short while backpacking took off in a big way and backpacker hostels were popping up all over Australia. The wife of a local surgeon thought it would be nice to get involved. Together with her husband, she sought advice and was told to go big. Three hundred beds were proposed and a leading commercial bank was eager to put up the funds. I later learnt that the success of my hostel was cited as a reason why the venture couldn't possibly fail.

My hostel had sixty beds and our average occupancy was about fifty, which is 82 percent. The assumption was that the three-hundred-bed hostel would score the same. But what if it got no more people than me? That would

bring its occupancy down to a miserable 17 percent and it would be totally unviable.

The outcome was not quite as bad as 17 percent but it was not good enough. A big place is expensive to run regardless of occupancy. You need a manager and other staff. Council rates, insurance and maintenance costs must be paid and there's a huge debt to finance. You will only succeed by attracting a large number of people. It all comes down to bums in beds in the accommodation business. In transport, it's bums on seats ... and so on.

The surgeon and his wife were nice people and I got to know them. He'd made his money performing operations in Australia and worked for free in overseas aid programs. In the end they had to sell their beautiful house and move into the manager's apartment in their hostel. Later, the bank forced a sale. The hostel fetched a third of what it had cost yet the new owners failed to make a profit. The place was far too big for its situation.

I should add that the loan manager who arranged finance got his commission in full but later ran into difficulties when a banking crisis put an end to the lending splurge. He left his lucrative position with the bank and took a poorly paid job as manager of a small photocopying outfit.

5. Don't borrow more than needed

It's vital to do sums. Start with really simple calculations since they provide the best insights. The data for income are subject to a huge amount of guessing but many costs are predictable. Draw up a list. Costs vary from operation to operation. The cost of outfitting a shop or restaurant can be huge even when you don't own the premises. The cost of maintenance must be met if your assets are to maintain value. Think of everything and talk to people. Ferret out as much information as you can.

There is one cost that is rarely predictable and that is the cost of finance. This can be the killer. When I built my hostel, interest rates hit 14 percent and rose to over 20 percent! Yet my interest payments, in real terms, were lower than under a low-rate regime. Interest payments were tax-deductible and rampant inflation was increasing my bed price and the value of my assets. This was back in the 1980s and it would be unwise to think that history won't be repeated. There's no need to get scared. Do the sums and understand what can happen. Then think about how you will face up to each eventuality. Don't let events sneak up on you.

(I am editing this revision in February 2016. The financial world is again distressed. That's life. Nothing stays the same. The future is not ours to know. We must always have Plan B)

When my backpacker hostel was being built, a big hotel was under construction nearby. It was a pub with beer garden, liquor barn and nightclub. The owner had worked in the hospitality industry and knew what was needed to draw in the crowds ... but he'd not done the basic sums.

He told me about the capital costs. It so happened that we were relieving ourselves in his new urinal at the time. That prompted me to ask if the drains could cope with the output of his customers' bladders. I'd done the sums in

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