TEACHER´S MANUAL

CONTENT:

CHAPTER 1: OVERVIEW OF FINANCIAL MANAGEMENT TEACHER`S MANUAL

Introductory video URL: [*https://video.th-deg.de/paella/ui/watch.html?id=e3694eeb-62c7-4d4f-90cb-f7a436571b1a*](https://video.th-deg.de/paella/ui/watch.html?id=e3694eeb-62c7-4d4f-90cb-f7a436571b1a)

1. Recommended Timetable for the Chapter

PARTS	Time in Minutes
1.1 A Quick Look at Finance	30
1.2 Financial Management Decisions	30
1.3 Types of Business Organizations and Agency Problem	90
1.4 Financial Management in the Tourism Industry	30
1.5 Interview	30
1.6 Financial Institutions and Markets	60
Annex: Sustainability in Financial Management	10
Chapter Quiz	20
TOTAL	300

2. Chapter Summary

The chapter draws a detailed framework of financial management by introducing the core financial topics and fundamental concepts in finance, primary goals of financial management, financial management decision types, the role of financial managers, types of business organizations, agency problems, financial management challenges in the tourism industry, internal and external sources of funds and types of financial institutions and markets. This chapter combines the recent literature in finance with interactive exercises to facilitate student comprehension.

3. Importance of the Chapter for Tourism Students

As the job market gets more competitive every day, new graduates of tourism programs are expected to be more qualified, especially in the primary operational areas such as financial management. This chapter is designed to equip students with primary knowledge about the fundamental concepts and key topics in financial management combined with a real-world case study and interactive exercises. Upon completing the chapter, students will be familiar with the financial terms, financial decision types, business organization types, types of financial institutions, internal and external sources of funds, and the role of financial managers and will be able to understand the financial management challenges in the tourism industry.

4. Video-Interview

The interview is recorded with Prof. Robert Goecke from Munich University of Applied Sciences who teaches finance courses for tourism students and specialized in revenue management and IT systems in the tourism industry.

5. Number and Types of Exercises

PARTS	Exercises
1.1 A Quick Look at Finance	1 x Quiz 1 x Fill in the Gap Text
1.2 Financial Management Decisions	1x Quiz
1.3 Types of Business Organizations and Agency Problem	Case Study with 4 Questions
1.4 Financial Management in the Tourism Industry	1x Quiz
1.5 Interview	3 Interview Questions
1.6 Financial Institutions and Markets	1 x Quiz
Chapter Quiz	10 Multiple Choice Questions
TOTAL	12 Questions

6. Exercises and Solutions

1.1 – Quiz 1

Cherrytime Hotels Inc. has recently received a new investment proposal to build a tourism complex abroad. In the following, Cherrytime Hotels Inc. CFO Daniel Hotcliffe reports on the new investment proposal. Please drag and drop the missing words into the appropriate empty fields.

In my point of view, the main cons of the new investment proposal are intense fixed **asset** requirements, a long construction period, and high political **risk**. During the pandemic period, our company heavily relied on its **owner`s equity** funds, therefore we currently do not have enough internal resources to finance this investment besides raising our **liabilities**. However, considering our high financial distress level, it is obvious that, even in the best possible scenario, the expected **returns** of this project will not be adequate to cover our liabilities in the short and medium term. As a **chief financial officer**, I am a strong supporter of our company`s long-term goals to enrich the locations of our operations in order to mitigate the overall political risk and to raise our global brand **value**. Unfortunately, I have to refuse this proposal due to the high political risk in the region, intense investment requirements, and low profitability, and I am going to express my opinion accordingly in the next **board of directors**` meeting.

1.2 – Quiz 2

Which one of the following does **not** lie inside the responsibility area of a finance manager?

a) Deciding on the capital structure of the company.

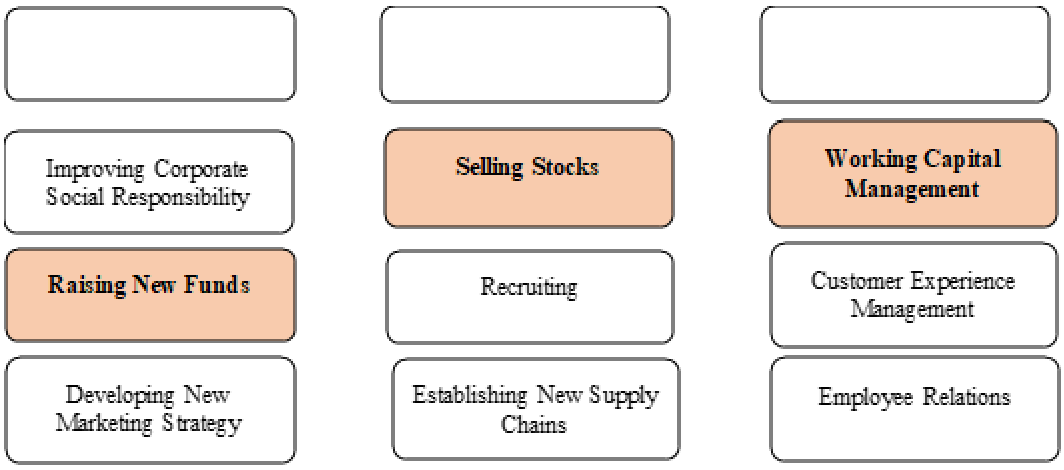
b) Preparing internal reports.

c) Calculating the short-term cash requirements of the company

d) Deciding on the strategical goals of the company

1.3 - Quiz 3

Which functions and activities are related to financial management within a company? Please drag and drop the appropriate options into the empty fields.



1.3 - Case Study

Reisender Travel Agency

In the first quarter of 2019, Mathias and Tobias Reisender founded the Reisender Travel Agency. The company offers various package tours, local airport transfer service and airplane tickets. Brothers formed the company as an outside interest and both continued to work at their current jobs. Mathias has been responsible for selling the package tours and airplane tickets, while Tobias handled the transport services. With good service quality and a sound online marketing plan, the sales grew rapidly. In early 2021, the company was featured in a widely distributed entrepreneurial magazine. Later that year, the company was featured in "Ticket Nach Himmel", a leading travel magazine. After the article appeared in Ticket Nach Himmel, the company`s global sales exploded and income tripled in 3 months.

Due to the increased sales, Tobias left his other job, followed shortly by Mathias. The company hired additional IT specialists to enlarge the company`s scope of service and engaged in new partnerships. Unfortunately, the fast growth experienced by the company led to cash flow and operational problems. The company has established new international partnerships to enlarge its scope of service with travel insurance and car rental services, however, confronted with working capital management problems by failing to pay its dues and experienced serious negative customer feedback in the new service lines. Besides, a fast increase in the number of

personnel led to serious pressure on the company`s profitability and caused personnel management problems.
Mathias and Tobias have operated the company as a sole proprietorship. They have approached you to help manage and direct the company's growth. Specifically, they have asked you to answer the following questions.

Case study - Questions

1. Discuss the benefits and drawbacks of changing the company organization structure from a sole proprietorship to an LLP?
2. Discuss the benefits and drawbacks of changing the company organization structure from a sole proprietorship to a corporation?
3. As a financial advisor, explain your recommendation about the optimal company organization structure with your reasonings.
4. What are the avails and flaws of each business organization type in the framework of agency problem?

Case study - Answers

1. Limited liability partnership structure has the same tax incentives with the sole proprietorship while it allows to have unlimited number of owners in return to administrative fees and periodical costs and owners are liable for the company operations with their shares. LLP is the first step for sole proprietorships to attract more capital while protecting the advantages of paying only an income tax and it is a separate business entity from owners in terms of liability and possessions.
2. Corporations provide the benefits of limited liability, easy transfer of ownership and various new and easier ways of raising capital for sole proprietorships and partnerships in return to corporate tax, high fees and administrative costs and agency problem. Corporation revenue is subject to the corporate tax which is commonly higher than income tax and there are various obligations for corporations such as board meetings in addition to administrative costs and agency problem.
3. In this case, company requires urgent working capital rather than a high sum, thereby LLP can be a more appropriate structure to establish new partnerships with the companies in the new sectors which the company moved in to raise more capital and get the support of experienced partners while keeping the tax benefits and ownership rights.
4. Agency problems covers the conflicts of interest that may arise between the stakeholders and the management of the firm. In sole proprietorships and small partnerships generally, the owners are also the managers of the company, therefore agency problem will not be the case. However, in big size partnerships and corporations, due to the large number of owners, owners delegate their rights on the company to the managers who may not always act in the best interest of the stakeholders and seek their own interests. This common case is known as the agency problem in the literature.

1.4 - Quiz 4:

Which of the following is not among the industry-specific flaws of the tourism industry?

a) High vulnerability to climate change and economic conditions
b) Impact of seasonality on financial performance

c) High fixed costs
d) Weak competition

1.5 – Quiz 5:

Financial Markets	• 1
A Private Placement	• 2
Capital Market	• 3
Primary Market	• 4

4- Medium in which the securities are initially offered by a government or a company.

3- Platform to meet the supplier and demander of long-term securities of business and government.

2- The process of selling a new security directly to an investor or group of investors.

1- Organized forums to bring together the lenders and borrowers.

Interview Questions

1. What is revenue management and what makes it critical and different from the yield management?
2. What are the goals of revenue management for the tourism industry and which key metrics does revenue management use for specific type of tourism companies such as Airlines, Hotels, Tour Operators, Recreation and Entertainment, and Food and Beverage?
3. What are the most effective and commonly used revenue management strategies and the biggest challenges in developing an effective strategy for the tourism companies?

CHAPTER QUIZ

Q.1 Which one of the following is financial management mainly concerned with?
a) Marketing decisions
b) Operational management
c) Investment decisions

Q.2 Which option is **not** a primary source of funds for new investments?
a) New shares
b) New debt
c) Fixed assets

Q.3 Which one of the following is **not** an asset type?
a) Current assets
b) Capital
c) Fixed assets

Q.4 Which one is **not** a financial management decision type?

a) Corporate governance decisions

b) Capital budgeting decisions

c) Capital structure decisions

Q.5 Which option does **not** lie inside the responsibility area of a financial manager?

a) Overseeing expenses

b) Regulating profitability

c) Establishing new supply chains

Q.6 Which one of the following is a con for sole-proprietorship organizations?

a) Absolute control of the owner over the firm

b) Low tax rates

c) Unlimited liability of owners

Q.7 Which one is a pro for partnership organizations?

a) Shared profits with partners

b) Collaborative decision-making processes

c) Subject to income tax

Q.8 Which one of the followings is a con for corporations?

a) Limited liability of shareholders

b) Easy transfer of ownership

c) Agency problem

Q.9 Which one of the following options is **not** a drawback for the tourism industry?

a) High capital intensity of investments

b) Robust competition

c) High level of regulations

Q.10 Which one is **not** an external source of funds for a company?

a) Financial Institutions

b) Financial markets

c) Retained earnings

7. Resources

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CHAPTER 2: INTERPRETATION OF FINANCIAL STATEMENTS

Introductory video URL:
https://video.th-deg.de/paella/ui/watch.html?id=7e53c6a8-2228-46cd-a1b7-c29418dbddf5

1. Recommended Timetable for the Chapter

PARTS	Time in Minutes
1.1 Disclosure of Financial Information	60
1.2 The Balance Sheet	60
1.3 The Income Statement	30
1.4 The Statement of Cash Flows and Cash Flow Management	30
1.5 Financial Statement Analysis	120
TOTAL	300

2. Chapter Summary

This chapter starts with introducing the types, purposes, importance and features of the most frequently used financial statements including balance sheet, income statement, and cash flow statement. In the second part, it explains the fundamentals of financial statement analysis and presents the primary the liquidity, financial leverage, activity, profitability and market value ratios. The chapter ends up with a ratio analysis in the tourism industry coupled with a case study.

3. Importance of the Chapter for Tourism Students

This chapter is expected to teach students the fundamentals of financial statement analysis, financial ratio classification, primary financial ratios with the most frequently used ratios in the tourism industry.

4. Video-Interview

With Mr. Anton Leiner, a hotel business economist (hotel sales consulting, previously employed by Arabella Starwood Hotels & Resorts, Kempinski Hotels & Resorts, among others).

5. Number and Types of Exercises

PARTS	Exercises
1.1 Disclosure of Financial Information	1 x Gap text
1.2 The Balance Sheet	1 x Quiz
1.3 The Income Statement	1 x Quiz
1.4 The Statement of Cash Flows and Cash Flow Management	1 x Quiz
1.5 Financial Statement Analysis	3 x Case Questions
Chapter Quiz	10 Questions
TOTAL	17 Exercises

6. Exercises and Solutions

Interview Questions:

1) What is the main component for implementing dynamic pricing in the hospitality industry?
2) Which key performance indicators (KPIs) can be derived from a daily manager report in a hospitality business?
3) What does RevPAR stand for and why is this financial ratio considered especially important?

2.1 – Quiz 1

Financial Statement Analysis is a crucial part of a company´s financial management with a range of important tasks and measures. Please, drag and drop the missing words into appropriate empty fields.

The main purpose of financial reporting by companies is to provide information about the performance of the firm and its **financial position**. This information is useful for a renge of different users, for instance **creditors**, directors and unions in order to conduct **economic decisions** for the organization.
In this context, financial statement analysis plays an important role: it incorporates **financial reports** generated by the firm, combined with a set of other data in order to analyze the past, current and future financial performance of the company. The most important statements include the **income statement** (profit and loss statement), the balance sheet and the **statement**

<u>of cash flow</u>. The information provided by these statements will in turn be useful for decision-making processes regarding **<u>investments</u>**, credits and further economic decisions.

2.2 – Quiz 2

Which statements about the Balance sheet are true? Please drag and drop the appropriate options into the empty fields.

Liabilities are listed on the left-hand-side	**Also known as the statement of financial position**	**Is based on the accounting equation**
Is prepared for every accounting period	Both sides do not have to be equal	Focuses on revenues, expenses and net income
Reflects on a specific time period	Can`t be combined with other financial statements	Assets are sorted by value.

2.3 – Quiz 3

Which one of the following equations display the basis for an income statement?

a. Income = Sales – Salary expenses
b. Income = Sales + Assets
c. Profit = Fixed assets + Current assets
d. **Profit = Income – Expenses**

2.4 - Quiz 4

Which of the following is not a cash activity listed on a cash flow statement?

a. Investing activities
b. **Purchasing activities**
c. Financing activities
d. Operating activities

2.5 - Case Study
Financial Statement Analysis

You are an investor and currently evaluating the pros and cons of investing in two different companies: Star Travels and Global Getaways. Both of these companies run multiple travel agencies all over Europe. In order to assess the financial situation of these businesses and in turn decide for only one of them to invest in, you will compare different financial ratios. Therefore, please consider the following financial data of each of the organizations:
(Data presented in thousands of Euros)

Company	Star Travels	Global Getaways
Total assets	500	400
Current assets	100	150
Total liabilities	300	300
Current liabilities	25	75
Net income, most recent fiscal year	15	20
Sales, most recent fiscal year	150	240

Case study - Questions

1. What is the current ratio of each company? How can it be interpreted with regard to the liquidity of each business?
2. What is the debt ratio of each organization? What can be said about each company concerning the solvency?
3. What is the profit margin of each of the businesses? How can the profitability of each enterprise be interpreted?

Case Study - Solution

1. **Current ratio = Current assets / Current liabilities**

Company	**Star Travels**	**Global Getaways**
Portion of total assets that are current	100	150
Portion of total liabilities that are current	25	75
Current ratio	**4.0 to 1**	**2.0 to 1**

Star Travels has a **higher liquidity** than Global Getaways. This means that it is less likely to run into issues paying off its current debt considering the fact that it has more current assets for every dollar of current debt than Global Getaways.

2. **Debt ratio = Total liabilities / Total assets**

Company	**Star Travels**	**Global Getaways**
Total assets	500	400
Total liabilities	300	300
Debt ratio	**60%**	**75%**

Star Travels has a **higher solvency** than Global Getaways due to the fact that a lesser proportion of its assets are financed by debt.

3. **Profit margin = Net Income / Sales**

Company	**Star Travels**	**Global Getaways**
Profit, most recent fiscal year	15	20
Sales, most recent fiscal year	150	240
Profit margin	**10%**	**8.3%**

Star Travels has a **higher profitability** than Global Getaways. This implies that every dollar of sales will generate more profit for Star Travels than for Global Getaways.

2.5 – Quiz 5

Inventory Turnover	**3)**	Financial ratios that provide information about how well a firm can pay off its short-term debts and meet unexpected needs for cash. **(1)**
Asset turnover ratio	**2)**	Financial ratio that tells how many times the average inventory was sold during an operating period. **(3)**
Liquidity ratios	**1)**	Financial ratios that give information about how much of each dollar of sales, assets and owner`s investments yielded to net profit. **(4)**
Profitability ratios	**4)**	A financial ratio that explains how efficiently a firm uses its assets to generate revenue. **(2)**

2.5 - Quiz 6

An international hotel chain presents the following balance sheet figures. Please compute the debt-equity ratio.

Current assets $ 500,000
Current liabilities $ 150,000
Non-current assets $ 200,000
Non-current liabilities $ 50,000

a) 30%
b) 23,6 %
c) **40 %**
d) 35 %

CHAPTER QUIZ

Q.1 Which one of the following is **not** a financial statement type?
a. Balance sheet
b. Income statement
c. **Tax declaration**

Q.2 A balance sheet contains the statement of a company`s;
a. Assets
b. Liabilities
c. **All of the above**

Q.3 Which one of the following equations describes balance sheet equality?
a. Assets = Liabilities
b. Assets = Shareholder`s equity
c. **Assets = Liabilities + Shareholder`s equity**

Q.4 Which one of the following is **not** an asset?
a. Equipment
b. Cash
c) Debt

Q.5 Which one of the following is **not** a liability?
a. Short-term debt
b. Long-term debt
c. **None**

Q.6 Which of the following asset has the highest liquidity?
a. **Cash**
b. Land
c. Vehicles

Q.7 The income statement contains which of the following items?
a. Cost of goods sold
b. Total revenue
c. **All of the above**

Q.8 Which one of the following items is **not** included in the cash flow statement?
a. Cash flow from operating activities
b. Cash flow from investment activities
c. **Cash flow from marketing activities**

Q.9 Which one is a financial ratio category?

a. Liquidity ratios
b. Profitability ratios
c. **All of the above**

Q.10 Which one of the following is **not** an activity ratio?

a. Inventory turnover
b. Total asset turnover
c. **Quick ratio**

7. Resources

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CHAPTER 3: STATIC EVALUATION OF PROJECTS

Introductory video:
https://video.th-deg.de/paella/ui/watch.html?id=c767f4b8-0ea2-4de4-86f6-804eb815a22e

1. Recommended Timetable for the Chapter

PARTS	Time in Minutes
3.1 Overview of Static Project Evaluation	60
3.2 Basic Static Methods	90
3.3 Net Present Value and Internal Rate of Return	90
3.4 Project Analysis in the Tourism Sector	60
3.5 Chapter Quiz	20
TOTAL	320

2. Chapter Summary

This chapter introduces the frequently used static capital budgeting techniques including cost and profit comparison methods, accounting rate of return, payback period, break-even analysis, net present value, and internal rate of return by illustrating examples. Chapter ends up with a sectoral analysis of the preferred static project evaluation methods in the tourism industry.

3. Importance of the Chapter for Tourism Students

This chapter is expected to equip students with the knowledge of static capital budgeting methods to evaluate different types of projects and introduce related concepts such as net present value, break-even analysis, internal rate of return, and so on.

4. Video-Interview

The interview is recorded with Prof. Christian Steckenbauer, professor of economy in tourism management and dean of the European Campus Rottal-Inn.

5. Number and Types of Exercises

PARTS	Exercises
1.1 Overview of Static Project Evaluation	1x Quiz
1.2 Basic Static Methods	1x Quiz 1x Gap text
1.3 Net Present Value and Internal Rate of Return	Case Study 3 Questions
1.4 Project Analysis in the Tourism Sector	1x Quiz
Chapter Quiz	10 Questions

6. Exercises and Solutions

3.2 – Quiz 1:

Consider the following data for a planned investment project:

- Investment required: $ 160,000
- Annual cash inflows: $ 40,000
- Life of the investment: 6 years
- Discount rate: 10%

Based on the data presented above, what is the payback period of the project?

a) 0,25 years
b) 3 years
c) **4 years**
d) 1,5 years

3.2 – Quiz 2:

Pricing can be considered one of the main factors for success for tourism businesses. It involves different tools and measures in order to determine adequate prices for the tourism products or services. Please drag and drop the missing words into the appropriate empty fields.

In the tourism industry, prices are often refered to as **rates**. It is crucial to take operating costs, distribution network costs and the **profit margin** into account, when the rate for the tourism product or service is determined. The operating costs include fixed and **variable costs**; the distribution network costs can optimize sales and **profitability** and involve costs regarding domestic and foreign wholesalers, inbound tour operators and retail travel agents. When the price for a tourism product or service is determined, it is highly important to take the key aspects competition, demand, **seasonality** and target markets into consideration. A frequently used pricing tool in the tourism sector is the **rack rate**, which refers to the official rate, before any discounts are applied. **Seasonal pricing** refers to various price levels throughout the year and is implemented during holidays or when special events take place. The main goal of including pricing strategies in the tourism sector should always be the optimalization of the firms´ revenue and increasing the **occupancy rate**.

3.4 - Case Study

Liz recently discovered a small commercial property on sale near her university. Considering its good location, she thinks that establishing a start-up with her house mates would be very successful there. She conducted intensive research of several possibilities with her house mates and came up with the following cash flow forecasts for the next four years with the initial outlays. She is planning to run the business for four years and quit after graduation to search for a professional career. She believes that she can earn at least 8 % per annum by investing her savings in the financial markets rather than starting a new business.

Project	Cash 0	Cash 1	Cash 2	Cash 3	Cash 4
Copy Center	€ 4.000	1.000	1.200	1.400	1.500
Market	€ 7.000	2.000	2.200	2.400	2.500
Book Store	€ 5.000	1.200	1.400	1.500	1.600
Café	€ 8.000	2.100	2.400	2.600	2.800

Following a cash flow forecast, Liz and her housemates progressed their analysis and calculated the ensuing internal rate of returns for each possibility.

Project	IRR
Copy Center	9.754 %
Market	10.93 %
Book Store	5.2 %
Café	8.66 %

Case study - Questions

1. Please calculate the NPV`s for each possibility and find out which option is the best for Liz and her house mates.
2. According to the IRR rule, which options should be accepted?
3. Do your conclusions of the IRR and NPV calculations conflict? If yes, which method would you prefer to use and why?

Case study - Answers

1.

$$\text{Copy Center} = -4000 + \frac{1000}{1.08} + \frac{1200}{1.08^2} + \frac{1400}{1.08^3} + \frac{1500}{1.08^4} = 169$$

$$\text{Market} = -7000 + \frac{2000}{1.08} + \frac{2200}{1.08^2} + \frac{2400}{1.08^3} + \frac{2500}{1.08^4} = \mathbf{481}$$

$$\text{Book Store} = -5000 + \frac{1200}{1.08} + \frac{1400}{1.08^2} + \frac{1500}{1.08^3} + \frac{1600}{1.08^4} = -322$$

$$\text{Café} = -8000 + \frac{2100}{1.08} + \frac{2400}{1.08^2} + \frac{2600}{1.08^3} + \frac{2800}{1.08^4} = 124$$

Market has the highest NPV.

2. IRR shows that market option outperforms the others with the highest IRR value.

3. IRR and NPV results are indicating similar results and the order of preference for both methods are the same, however this is not the case all the time. IRR method do not take the NPV of the projects into account and do not aim at profit maximization.

3.5 – Quiz 3:

Which one of the following is a **drawback** of applying static project evaluation methods for tourism companies?

a) Assumption of certainty in evaluating real world challenges
b) Easy implementation
c) Suitability to compare multiple projects
d) Effortless interpretation

Interview Questions

1. What is the importance of financial knowledge for tourism students and managers in the tourism industry?
2. What are the biggest challenges in business life waiting for new tourism graduates?
3. How have the dynamics of the tourism industry changed in recent years and how did these changes influence the significance of financial management for tourism companies?

CHAPTER QUIZ

Q.1 What do capital budgeting decisions deal with?
a) Marketing activities
b) Working capital management
c) Investment decisions

Q.2 Which one of the following methods is **not** a static evaluation method?
a) Accounting rate of return
b) Payback period
c) Simulation

Q.3 Which one of the following is a weakness of the payback period method?
a) Comparing the payback periods
b) Easy implementation
c) Not considering the cashflows after the payback period

Q.4 Break-even point is a point where
a) Sales revenue covers all fixed costs
b) Sales revenue and variable costs are equal
c) Sales revenue covers all fixed and variable costs

Q.5 Which one of the following is **not** a fixed cost?
a) Land
b) Equipment
c) Utilities

Q.6 Which of the following assumptions is **not** included in the certainty assumption?
a) The amounts of the initial cash outlay and all future cash flows are known with certainty
b) There are no constraints on the supply of capital or on other resources
c) Inflation cannot be estimated

Q.7 The Internal Rate of Return (IRR) is the rate of discount which
a) Equals the NPV of a project to zero.
b) Equals the cash inflows of the project
c) Differentiates the mutually exclusive project

Q.8 Which one of the following is a drawback of IRR method?
a) Compares the profitability of projects
b) Easy to evaluate the results
c) Fails in comparing the mutually exclusive projects

Q.9 Which of the following is **not** an advantage of static project evaluation methods?
a) Easy implementation
b) Understandable results
c) Excluding the risk factor

Q.10 Which one of the following aspects of business is **not** taken into consideration by static evaluation methods?
a) Costs
b) Revenues
c) Risks

7. Resources

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CHAPTER 4: DYNAMIC EVALUATION OF PROJECTS

Introductory video:
https://video.th-deg.de/paella/ui/watch.html?id=6e182a89-e320-4e5e-8d65-298a3b3c7c09

1. Recommended Timetable for the Chapter

PARTS	Time in Minutes
1.1 Concepts of Uncertainty and Risk	90
1.2 Expert Interview	60
1.2 Risk-Adjusted NPV and Payback Rules	90
1.3 Sensitivity and Break-Even Analysis	50
1.4 Simulation	30
1.5 Decision Trees and Real Options	60
Chapter Quiz	20
TOTAL	400

2. Chapter Summary

This chapter starts with the introduction of the concepts of risk, uncertainty, probability, risk premium, additional risk factors, and their implications in finance. Afterwards, capital budgeting techniques under risk including risk-adjusted NPV, payback rule, sensitivity and break-even analysis, simulation, decision trees, and real options are explained with their cons and pros. This chapter combines the recent literature of dynamic project evaluation with interactive exercises to facilitate student comprehension.

3. Importance of the Chapter for Tourism Students

This chapter will familiarize students with the fundamental concepts in finance including risk, uncertainty, probability, risk premium, and additional risk factors and project evaluation methods under risk with real-life implications.

4. Video-Interview

The interview is recorded with Dr. Michael Braun, director of the Tourismusverband Ostbayern and OBS Online Booking Service.

5. Number and Types of Exercises

PARTS	Exercises
1.1 Concepts of Uncertainty and Risk	1 x Gap Text
1.2 Expert Interview	3 Questions
1.2 Risk-Adjusted NPV and Payback Rules	Case Study 3 Questions
1.3 Sensitivity and Break-Even Analysis	1 x Quiz
1.4 Simulation	1 x Quiz
1.5 Decision Trees and Real Options	1 x Quiz
Chapter Quiz	10 Questions
TOTAL	20 Exercizes

6. Exercises and Solutions

4.1 – Quiz 1:

Fill the gaps with the appropriate words below.

Risk refers to a situation where all outcomes and **probabilities** of an event are known. On the other hand, **uncertainty** has a broader meaning by referring to situations where the outcomes and probabilities are not known.

4.2 - Case Study

Mr. Hofmann is the CEO of Traum Hotels Inc., who owes his success to his remarkable instinct of investing in promising sites. He emphasizes the importance of choosing the right location at some point in every planning meeting. Yet finance was not his strong suit. On this occasion, he asked CFO Bruno to go over the figures for a new 120 million € hotel complex designed to intercept tourists heading down east toward Monaco. "First thing next week" he said as he handed Bruno the file.

Bruno started the job by drawing up a summary of the projected revenues and costs. All project-related revenues and costs are depicted in table 4. The new hotel project includes the construction of a convention center complex, hence it is expected to earn revenues from accommodation as well as organizations.

	YEARS					
	0	1	2	3	4	5-20
Initial Investment						
Land	50					
Construction	30	40				
Operations						
Accommodation Revenue			20	20	25	25
Organizational Revenue			3	3	3	5
Operational and Maintenance Costs	2	2	7	7	7	7
Tax	1	1	4	4	4	4

Construction of the hotel is expected to take two years. As in the case of the company`s other developments, the hotel will be built with the highest specifications and will not need to be rebuilt until the year 20.
The interest rate for the 10-year-old government bond is 2 % and the project is evaluated to be 3 % riskier than the company`s existing investments. The company`s corporate tax rate is 25% and the cost of capital is 4 %.
Bruno decided first to check if the project really makes financial sense then proposed to check the risky aspects of the project. His boss is highly experienced in smelling a good project, but he is not infallible. The previous project had been a disaster because profits had turned out to be 30% below the forecast. What if that will happen again? He also wondered just how far sales could fall short of the forecast before the project would be underwater.

Case study - Questions:

1. Find the risk-adjusted discount rate for the project.
2. Calculate the risk-adjusted NPV of the project.
3. Find the risk-adjusted payback period of the project.

Case study - Answers:

1.

$$k = r_f + u + p$$

Risk-adjusted discount rate = 0.02+0.04+0.03 = 0.09

2.

$$NPV_{risk} = -83 - \frac{43}{(1.09)} + \frac{6}{(1.09)^2} + \frac{6}{(1.09)^3} + \frac{11}{(1.09)^4} + \frac{(9 * (\frac{1-(1+0.09)^{-16}}{0.09}))}{(1.09)^5}$$

$$= -83 - 39 + 5 + 4.6 + 7.8 + 48.6 = -56$$

3.

Since the risk adjusted NPV of the project is negative in the projected timeline of 20 years the payback period does not lie inside the first 20 years.

Interview Questions

1. In your opinion, what were the biggest challenges for the tourism industry in recent years and what will be the biggest challenges in the future?
2. Which risk factors do you think is your company currently exposed to and which tools are you currently using for risk management?
3. Do you use a specific risk management strategy to mitigate the effects of the current crisis and if so, can you explain this strategy?

4.3 - Quiz 2:

Which one of the following is true for sensitivity analysis?

a) It is an alternative decision-making method to NPV

b) It is a single-factor analysis tool

c) Sensitivity analysis and simulation are generally interchangeably used in the literature

d) Correlation between the underlying variables is not a problem in the sensitivity analysis

4.4 - Quiz 3:

Reorder the following steps of simulation modeling.

Identification of the Model

Testing the Model

Programming the Model

Experimentation of the Model

Inspection of the System

4.5 - Quiz 4:

Which one of the following capital budgeting techniques recognizes modifications of the project during its lifetime?

a) Risk-Adjusted Payback
b) Scenario Analysis
c) Simulation
d) Real Option

CHAPTER QUIZ

Q.1 Which one describes a situation in which all of the outcomes of an event and their probabilities are **not** known?

a) Risk
b) Probability
c) Uncertainty

Q.2 Which option is **not** a component of risk adjusted discount rate?

a) Risk-free rate
b) Market risk premium
c) Average risk premium

Q.3 Which rate does the adjusted payback period method use to evaluate the projects?

a) Internal rate of return
b) Risk free rate
c) Risk adjusted discount rate

Q.4 Which one of the following is **not** a limitation of sensitivity analysis?

a) Complexity of deciding on the appropriate number of cases
b) Assigning realistic probabilities for each case
c) Enabling to analyze the effects of forecast errors

Q.5 Which one of the following is a benefit of simulation analysis?

a) To test realistic estimate of the behaviors of a system under a variety of circumstances
b) To improve the outcome of the projects
c) To decrease implementation costs

Q.6 Which one is **not** a capital budgeting simulation model variable?

a) Status variables
b) Exogenous variables
c) Temporary variables

Q.7 Which one of the following is **not** a step in simulation modeling?

a) Programming the model
b) Testing the model
c) Developing the project proposal

Q.8 Which one of the following is a well-known simulation technique?
a) Las Vegas Simulation
b) Pfarrkirchen Simulation
c) Monte Carlo Simulation

Q.9 Which one of the following methods provides an opportunity to modify the projects even after the initialization?
a) NPV
b) IRR
c) Real options

Q.10 Which one of the following methods is used to illustrate the real options?
a) Simulation roots
b) Option branches
c) Decision trees

7. Resources

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CHAPTER 5: CATERING COMPANY

Introductory video:
https://video.th-deg.de/paella/ui/watch.html?id=d87a3a7f-5ad7-4e31-8301-f773a82c075e

1. Recommended Timetable for the Chapter

PARTS	Time in Minutes
5.1 Characteristics of catering services	30
5.1.1 Interview	30
5.2 Asset and capital structure in a catering company	30
5.3 Costs and revenues in a catering company	60
5.3.1 Case study	60
5.4 Cash flow in a catering company	30
5.5 Catering company performance indicators	60
Apendix: Pricing in a catering company	30
Chapter Quiz	30
TOTAL	360

2. Chapter Summary

This chapter focuses on financial management in catering companies. It first introduces the characteristics of food service and its importance for the tourism industry. It then describes the typical asset and capital structure of catering company and the typical cost, revenue and cash flow structure of this type of business. The final part explains the specifics of pricing and performance indicators in catering companies. All parts of the chapter are supplemented with examples and interactive exercises for better illustration and understanding.

3. Importance of the Chapter for Tourism Students

There are a huge number of types of food service businesses on the market, ranging from simple mobile food establishments, to traditional restaurants, to large food service chains. Many people find the idea of running a catering business according to their own vision appealing and often approach its implementation intuitively without knowing the economic principles of this type of business. These entrepreneurs then often run into financial problems. Studying financial management in catering businesses will enable students to gain an overview of the costs, revenues and cash flows in this type of business. They will be able to evaluate the success of the business in a catering business based on specific performance indicators and calculate the price of food and beverages.

4. Video-Interview

The interview is recorded with the owner and operator of the restaurant U Pinkasů in Prague, Mr. Karel Doubek. Beyond the scope of this chapter, the interview shows how the restaurant's performance is affected by seasonality.

5. Number and Types of Exercises

PARTS	Type of exercise
5.1 Characteristics of catering services	1x Quiz
5.1.1 Interview	3 Questions
5.2 Asset and capital structure in a catering company	1x Quiz
5.3 Costs and revenues in a catering company	1x Quiz
5.3.1 Case study	5 Questions
5.4 Cash flow in a catering company	3x Quiz
5.5 Catering company performance indicators	1x Quiz
Apendix: Pricing in a catering company	1x Quiz
Chapter Quiz	10 Multiple Choice Questions
TOTAL EXERCISES	16

6. Exercises and Solutions

5.1 - Quiz 1

What is the share of catering services in tourism in each indicator? Mark „X“ for the correct answer.

Indicator	1. (larges share)	2.	3.	4.	5. (smallest share)
Enterprises	X				
Turnover	X				
Value added	X				
Persons employed	X				

Interview Questions

1. How does seasonality affect restaurant costs and revenues?
2. What performance indicators does the restaurant track on a daily and monthly basis?
3. What proportion of this restaurant´s costs are attributable to labor and materials?

5.2 – Quiz 2

Drag and drop each of items into the correct category.

Tangible fixed asset	Intagible fixed asset	Long-term investments	Inventories	Accounts receivables	Cash
1					
			2		
			3		
				4	

			5		
6					
					7

1 – Convectomat 2 - Tableware
3 – Raw material 4 – Invoice issued for an event
5 – Payment terminal 6 – Restaurant building
7 – Money in the bank

5.3 – Quiz 3

Put the costs in the right category

Cost	Fixed	Mixed	Variable
Raw material costs			X
Labor costs		X	
Office supplies	X		
Rent	X		
Energy		X	
Flowers and decorations	X		
Marketing cost	X		

5.3 - Case study

During her studies at the University of Economics in Prague, Laura worked as a waitress in the Ferdinand restaurant. After graduation, the owner of the restaurant, which focused on traditional Czech cuisine, offered her a 50% stake in his business. Laura is considering the offer. She requested the financial statements for the last few years, from which she found the following information.

Profit/loss statement

Item	**EUR/Year**			
	2018	**2019**	**2020**	**2021**
Sales	75 100	72 400	42 100	16 900
Other financial revenues				19 500
Material costs	70 200	55 500	38 800	15 400
Labour costs	19 700	21 500	23 600	24 400
Energy and services	17 200	15 900	6 900	11 000
Other costs	1 300	2 000	1 200	400
Operation profit	-33 300	-22 500	-28 400	-14 800

Balance sheet

Item	EUR/Year			
	2018	**2019**	**2020**	**2021**
Assets	**4 900**	**15 900**	**14 700**	**8 800**
Fixed assets	0	0	0	0
Inventory	4 600	8 500	8 500	8 500
Accounts receivables	0	3 400	3 200	200
Cash in the bank + on hand	300	4 000	3 000	100
Capital	**4 900**	**15 900**	**14 700**	**8 800**
Shareholders equity	20 000	20 000	20 000	20 000
Profit/loss of previous years	-508 300	-479 900	-457 500	-424 200
Retained earning	-14 800	-28 400	-22 500	-33 300
Long-term debt	506 000	467 300	472 400	0
Short-term debt	2 000	5 100	2 300	428 700

Case study - Questions:

1. How do you assess the overall economic situation of the restaurant?
2. Is the restaurant operated in its own or leased space?
3. Does the cost structure correspond to the recommended (average) values for restaurants? What main differences do you see here?
4. What measures do you suggest to improve the economic situation of the restaurant?
5. Would you recommend Laura to buy a share in this restaurant? Under what conditions?

Case study - Answers:

1. In the last 4 years, the restaurant has always ended with a loss.
2. The restaurant is operated in a rented space.
3. Material costs have a very high share in the total costs. The recommended, average share is around 30% of the total costs. The amount of material costs is decreasing year on year. In 2021, material costs are already lower than labor costs. Labor costs continue to increase year-on-year. This is probably due to upward pressure on wages as a result of low unemployment and labor market shortages. Other costs (energy, services and other costs) have fallen in 2020 and 2021, probably due to the Covid-19 pandemic.
4. One way is to increase sales. This can be done by raising prices, unless higher prices cause a significant drop in demand. Or by increasing sales, e.g. by some marketing measures. The second way is to reduce costs. It is definitely necessary to strive to reduce material costs. Furthermore, do not increase wages and reassess the number of workers.
5. This depends on many factors. If Laura has ideas on how to increase sales and reduce costs and her partner in the business supports her intentions, then yes. However, the fact that the entrepreneur has been in the red for the past few years is not indicative of his entrepreneurial competence. If Laura wants to be in the catering business, she had better build her own business from the ground up.

5.4 – Quiz 4

Add the correct words to the text

Understanding the cash flow in a restaurant is essential to running a restaurant. Cash flow refers to the amount of cash that **comes** into the restaurant less the amount of cash that **goes out**, on a daily, weekly or monthly basis. Understanding this basic concept is key to ensuring the **financial health** of a restaurant. Cash flow management needs to be done on an ongoing basis, whether the restaurant has a cash flow problem or not. Solving a cash flow problem requires taking steps that will either increase **income** or reduce overhead **costs**, and ideally both.

5.4 – Quiz 5

Study the Cash Flow Statement in the Chapter 5.4 and mark an "X" for the correct statement.

Statement	YES	NO
The restaurant's income was EUR 95 000 higher than its expenditure during the period.	X	
The restaurant made a loss on the sale of assets during the period.		X
The restaurant reduced its inventories and liabilities during the period.		X
The restaurant paid the advance for purchase of equipment	X	
The restaurant took out a new loan	X	

5.4 – Quiz 6

Study the Cash Flow Projection in the Chapter 5.4 and mark an "X" for the correct statement

Statement	YES	NO
The restaurant expects its revenues to continue to grow over the projection period.	X	
The restaurant expects its total expenditure to continue to grow over the projection period too.		X
In only one week the restaurant expects to have more expenditure than income.	X	
The restaurant pays wages and taxes at monthly intervals.		X
Over the entire projection period, the restaurant will have more income than expenditure.	X	

5.5 – Quiz 7

Put the correct terms in the definitions

The most important metric to know when opening a restaurant is the **break-even point**, which shows how much revenue a restaurant needs to generate to start recouping the initial investment.

Cost of goods sold is the cost of inventory after it is sold to the customer. However, it does not include any expenses associated with the sale of goods such as labor or rent or excess inventory stored in the freezer.

The purpose of the **overhead rate** is to calculate how a restaurant's fixed costs are allocated on an ongoing basis.
Inventory turnover shows how many times the total amount of inventory is sold in a certain period of time.

Appendix – Quiz 8

Put the correct terms in the definitions

Menu optimization process:

- For **Runner** items, the restaurant reduces the cost of ingredients to increase the margin at the current selling price.
- **Looser** items are eliminated from the menu altogether.
- **Sleeper** items are better promoted or bundled with other items on the menu.
- The **Winner** item does not need to be modified in any way.

CHAPTER QUIZ

Q1. Food services are typically characterized by local and temporal interconnectedness of production, consumption, and ...... Complete.

1) Purchasing
2) **Services**
3) Distribution

Q.2 Running a restaurant with 50 seats is more financially demanding than running a café of the same size.

1) **Yes**
2) No
3) Only in large cities

Q.3 Which of the following businesses has the highest proportion of fixed assets?

1) Equipped restaurant for rent
2) **Restaurant in own building with own equipment**
3) Café in own building with own equipment

Q.4 Which of the following is not a fixed asset?

1) Kitchen appliances
2) **Tableware**
3) Delivery car

Q.5 What is the typical share of material and labor costs in a restaurant?

1) Material costs 40%, labor costs 40%
2) **Material costs 30%, labor costs 30%**
3) Material costs 40%, labor costs 30%

Q.6 What is the typical proportion of food and beverage sales in a restaurant?
1) Food 40%, beverages 60%
2) Food 50%, beverages 50%
3) **Food 60%, beverages 40%**

Q.7 On which day of the week does the restaurant's cash flow tend to be the slowest?
1) **Monday**
2) Wednesday
3) Sunday

Q.8 Which cash flow in a typical restaurant is prompt?
1) Revenue from the B2B segment
2) **B2C revenue**
3) Payment of wages to employees

Q.9 How does a restaurant typically determine Cost of goods sold?
1) By physical inventory at weekly intervals
2) **By comparing beginning inventory + new purchases - ending inventory at monthly intervals**
3) By comparing beginning and ending inventory at quarterly intervals

Q.10 Mark the correct statement about the indicators Food cost (FC) and Cost of goods sold (COGS).
1) There is no difference between FC and COGS
2) **COGS is expressed in money, FC is expressed as a percentage**
3) COGS expresses the share of material costs in the price of meals, FC expresses the value of raw materials consumed in the period under review.

7. Resources

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CHAPTER 6: LODGING COMPANY

Introductory video:
https://video.th-deg.de/paella/ui/watch.html?id=231f1048-4c25-43e3-8520-54a288e1da5a

1. Recommended Timetable for the Chapter

PARTS	Time in Minutes
6.1 Characteristics of lodging services	30
6.1.1 Interview	30
6.2 Financial department organization and Operations	30
6.3 Financial statements in a lodging company	60
6.4 Investment activity in hotel industry	30
6.4.1 Case study	30
6.5 Revenue management	60
6.6 Lodging company performance indicators	60
Chapter Quiz	30
TOTAL	360

2. Chapter Summary

This chapter focuses on the issue of financial management in lodging companies. The introduction to the topic requires a broader theoretical basis, therefore the position and structure of the financial department in a typical accommodation enterprise is first discussed. This is followed by an explanation of the specifics of the asset and capital structure, costs, revenues and cash flows in an accommodation enterprise. Since the lodging business is investment intensive, one part of the chapter is specifically devoted to investment decision making and forms of hotel operation. As a complement to the topic, specific pricing (revenue management) is also included in the chapter. All parts of the chapter are supplemented with examples and interactive exercises for better illustration and understanding.

3. Importance of the Chapter for Tourism Students

Lodging companies form an important part of the tourism industry. There is a wide range of types of accommodation services, the most common type being the hotel. The lodging business is generally capital intensive. It is also influenced by seasonality and specific pricing. After studying the chapter, the student will understand the position of the finance department and the specific financial processes in an lodging business. The student will be able to navigate through the accounting statements and calculate and interpret not only financial but also specific performance indicators. The student will understand the principles of dynamic pricing (revenue management) and the nature of financial decision-making for hotel investment.

4. Video-Interview

The interview is recorded with the General Manager of the Adria Hotel in Prague, Mr. Karel Doubek. Mr. Doubek is also the director of the restaurant U Pinkasů (see interview in chapter 5) and in the interview he gives an insight into the differences between running a restaurant and a hotel.

5. Number and Types of Exercises

PARTS	Type of exercise
6.1 Characteristics of lodging services	1x Quiz
6.1.1 Interview	3 Questions
6.2 Financial department organization and Operations	1x Quiz
6.3 Financial statements in a lodging company	1x Quiz
6.4 Investment activity in hotel industry	1x Quiz
6.4.1 Case study	3 Questions
6.5 Revenue management	1x Quiz
6.6 Lodging company performance indicators	1x Quiz
Chapter Quiz	10 Multiple Choice Questions
TOTAL EXERCISES	12

6. Exercises and Solutions

6.1 - Quiz 1

Put the correct terms in the definitions

Jane works as a flight attendant for a major airline. If, in the course of her work, she stays in a hotel where the airline has permanently booked rooms, then that stay falls into the **Contract** category. If Jane stays one night in a hotel when she travels to visit her parents, then this stay belongs to the **Transient** segment. If Jane stays in a hotel during her two-week holiday with family and friends, then this stay belongs to the **Group** category.

Interview Questions

1. How important is cash flow monitoring for a hotel?
2. What is the cost and revenue structure of this hotel?
3. What factors are key in the hotel's investment decision to choose a supplier?

6.2 – Quiz 2

Put the correct terms in the definitions

- The hotel records the previous day's revenue in **the revenue journal**.
- The **general cashier** collects, balances and consolidates all deposits for all departments on a daily basis.
- The **Night Auditor** receive, review, reconcile and balance all daily transactions.

6.3 – Quiz 3

True or false

- Fixed assets in the hotel do not account for a large proportion of total assets and are further broken down into intangible, tangible, and financial assets. They serve the hotel for more than 1 year and wear out over time. **False**
- The hotel's current assets are in tangible and monetary form and are constantly being transformed from one form to the other. **True**
- The hotel industry is characterized by a high proportion of fixed costs to total costs, making it more vulnerable to sales fluctuations than other industries. **True**

6.4 – Quiz 4

Investing in the refurbishment of hotel facilities will be reflected positively in client reviews and may generate more interest. But it is very important to be able to correctly estimate the effectiveness of the investment, because simply investing in hotel equipment is not enough to increase the number of visitors.

There are external factors that cannot be influenced by the hotel. List at least three.

Solution: political and economic situation, attractiveness of the surrounding environment, weather, lifestyle trends, etc.

Case study

A medium-sized investor with years of experience in real estate decided to buy his first hotel. It was the Jalta Hotel in Prague. For this purchase, he secured other co-investors and a bank as the main investor. His colleagues were not interested in managing the hotel, they were only investing in a property in a premium location, but not in very good condition, and expected an interesting return.

The hotel was initially operated as a management contract, but later the main investor decided to run the hotel himself, and so decided to get involved in strategic issues. His goal was to renovate the hotel into a modern form to maximize the potential profit. He therefore invested in the renovation of the hotel rooms, the conference center and the restaurant area. The restaurant was then leased to a reputable operator. The hotel thus had a fixed monthly rental income and did not have to take care of the catering operation itself.

The 120-room hotel is open 300 days a year. In the past year, the average rate per room sold (ADR, i.e. average daily rate) was EUR 90 and the average occupancy rate was 70%. There has been no investment in refurbishment of the facilities in the last 8 years. With the planned investment in renovation and modernization, the hotel wants to reach an ADR of EUR 120 and increase the occupancy rate to 80 %. The investment budget is: EUR 15 000 per room and EUR 2 500 000 for common areas.

Case study - Questions:

Evaluate the efficiency of the investment using the payback period method and the net present value method. The hotel assumes a return on investment of 5 % and a discount rate of 10 %.

Case study -Answers:

1. <u>What is the projected increase in sales after the renovation?</u>

Sales before reconstruction:

Number of rooms sold = OCC * total rooms, i.e. 0,7 * 120 = 84 rooms per day * 365 = 30 660 per year
Sales per year = ADR * number of rooms sold, i.e. 90 * 30 660 = 2 759 400 EUR
Sales after reconstruction:
Number of rooms sold = OCC * total rooms, i.e. 0,8 * 120 = 96 rooms per day * 365 = 35 040 per year
Sales per year = ADR * number of rooms sold, i.e. 120 * 35 040 = 4 204 800 EUR
Increase in sales per year: 4 204 800 – 2 759 400 = 1 445 400 EUR

2. <u>What is the payback period of the investment?</u>
Total investment = 15 000 * 120 + 2 500 000 = 4 300 000 EUR
Payback period = investment / increase in sales = 4 300 000 / 1 445 400 = 2,97

3. <u>What is the net present value of the investment after 4 years of operation of the upgraded hotel?</u>
Net present value = (1 314 000 + 1 194 545 + 1 085 950 + 987 228) – 4 300 000 = 281 723 EUR

4. <u>Will the investor be able to achieve the projected return after 4 years of operation of the upgraded hotel?</u>
Projected return on investment = 4 300 000 * 0,08 = 344 000 EUR

Case study - Conclusions:

1. The investment in the modernisation of the hotel will result in an increase in revenue of EUR 1,445,400.
2. The payback period is just under 3 years. However, the payback period indicator does not take into account the effect of the time value of money.
3. The net present value of the investment after 4 years of operation is EUR 281 723, i.e. the investment is worthwhile.
4. However, the investor will not achieve the expected 8% rate of return, i.e. EUR 344 000.

6.5 – Quiz 5

Mark the correct answer.

- Hotel A achieved an ADR of EUR 120 and RevPAR of EUR 105 in the past period.
- **Hotel B** achieved an ADR of EUR 130 and a RevPAR of EUR 95 in the past period.

Which hotel performed better? Give reasons.

6.6 - Quiz 6

Mark "X" all the correct answer.

From which financial statements will you draw the data for the financial analysis indicators?

	P&L Statement	Balance Sheet
Activity ratios	X	
Operating ratios	X	
Profitability ratios	X	X
Liquidity ratios	X	X
Solvency ratios		X

CHAPTER QUIZ

Q.1 Which of the revenue management indicators is considered key and used to compare hotel performance?

a) ADR

b) **RevPAR**

c) ALOS

Q.2 Which type of cost is predominant in the hotel industry?

a) **fixed**

b) variable

c) financial

Q.3 The indicator Current ratio belongs to a group of indicators

a) Solvency ratios

b) Operating ratios

c) **Liquidity ratios**

Q.4 The Occupancy indicator (OCC) is expressed as

a) **a percentage**

b) in money

c) in room nights

Q.5 ROI indicator considers

a) only the risk factor

b) **does not consider the risk factor and the time factor**

c) considers both the risk factor and the time factor

Q.6 Which type of revenue is predominant in a hotel?

a) **room revenue**

b) food and beverage revenue

c) event revenue

Q.7 Mark the correct statement.

a) There is no difference between the cash flows of a city hotel and a seasonal seaside hotel over the year,

b) **The city hotel has relatively constant revenues and expenses,**

c) The seasonal hotel has relatively constant revenues and expenses

Q.8 The hotel's balance sheet is dominated by assets:

a) **fixed assets**

b) cash

c) current assets

Q.9 Investments in the renewal of hotel equipment are recommended to be made in the span
a) of 3-5 years
b) **of 5-7 years**
c) of 7-10 years

Q.10 Which of the above indicators does not belong to the group Profitability ratios:
a) **Debt-Equity Ratio**
b) Return on Assets
c) Profit margin

7. Resources

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Hales, J.,: Accounting and Financial Analysis in the Hospitality Industry, 1st. Ed. Imprint Routledge 2005, ISBN 9780080458113

CHAPTER 7: TOUR OPERATORS AND TRAVEL AGENTS

Introductory video:
https://video.th-deg.de/paella/ui/watch.html?id=aabf4a38-5f1e-4702-8bd0-2ce3ed64dd64

1. Recommended Timetable for the Chapter

PARTS	Time in Minutes
7.1 Introduction: TOs and TAs in the EU	30
7.2 Financing when starting a business	60
7.3 Finance in operation management	60
7.4 Financial management and strategy	60
7.5 Accounting and taxes	60
Video interview with an expert	30
TOTAL TIME IN MINUTES	300

2. Chapter Summary

The chapter introduces what do tour operator (TO) and travel agent (TA) mean and what is the difference in some European countries and how is the impact of pandemic situation on these businesses. It summarizes the legal requirements, type of financing when starting a business of TO/TA in the EU, main principles of TO/TA´ financing – finance sources, financial and cash-flow management and strategy. This chapter also deals with business risks for entrepreneurs in tourism and measures they can take to reduce the impact of the risk. It shows typical TOs´ financial statements as balance sheet and income statement, generating a profit and its distribution, with the accent on monitoring cash flow. For the comprehensive view the chapter indicates main principles of Tour Operators´ Margin Scheme and VAT rules in travel services.

3. Importance of the Chapter for Tourism Students

Students will get clear and specific content about financing in tourism by an attractive and businesslike way, so they can use these knowledges in practice of Tour Operators and Travel Agents management and financing. Upon completing the chapter, students will be familiar with the specifics of tour operators and travel agents´ activities and financing – when starting a business, in operation management, when creating a strategy.

4. Video-Interview

The interview is recorded with Mrs. Dana Kozakova, the vicepresident of the Association of Tour Operators and Travel Agents of the Czech Republic and the owner and managing director of the tour operator specialized in destinations Austria and Greece.

5. Number and Types of Exercises

PARTS	Type of exercise
7.1 Introduction: TOs and TAs in the EU	1x gap text
7.2 Financing when starting a business	x quiz 1 *(all of answers are correct)*
7.3 Finance in operation management	2x exercise with solution
7.4 Financial management and strategy; quiz	1x quiz 2
7.5 Accounting and taxes	1x exercise with solution
Video interview with an expert	1x case study 3x questions to the interview
Chapter Quiz	Multiple-choice test (10 questions)
TOTAL EXERCISES	9

6. Exercises and Solutions

7.1 – Quiz 1:

The tour operators and travel agents in the EU have solved many complications in the last 10 years, due to the global **economic crises** (since 2008), the insolvency of **Thomas Cook** (the oldest and biggest tour operator in the world), 2 years of C-19 **pandemic** all over the world, and **Russian-Ukrainian war**, which has started on February 24th, 2022. These main events caused worse economic situation for TOs and therefore they had to take **measures** to reduce significant **costs**, including dismissal of employees, suspension of **investments,** reducing numbers of stores and **expenses** for marketing activities.

7.1 - Quiz 2

Which cases are covered by tour operators (“organizers” of the travel package) insolvency protection in the EU?

a) **the refund of all payments made by or on behalf of travellers, when the relevant services are not performed as a consequence of the organiser's insolvency;**
b) **the travellers' repatriation from the holiday destination;**
c) **the refund of the rest of payments made by or on behalf of travellers, when the relevant services are performed in part only.**

(All answers are correct)

7.2 - Exercise 1 with solution: Package travel calculation for a family

Describe in points the standard procedure of package travel calculation (in the meaning of the purchase price of travel services).

<u>In the package there are following services included:</u>

- air transport to Croatia and back (the city Split) -
- stay 7 nights – 2 adults, 1 child (1,5 year), 1 child (6 years)
- accommodation: hotel directly by the sea with half board

- private transfer from and to the airport

What do you need to consider?

- Price for double room, discount for children (different prices for regular bed or added bed and baby cot), discounts for half board for children.
- travel insurance as a supplement service (clients can buy with a package or not)
- seasonal prices (during summer holidays)

Solution (better to calculate in one currency, taking into account an exchange rate risk):

- air ticket price per adult x 2 pax
- air ticket price per infant (baby; without a seat) and for second child
- price for double room with 1 baby cot and 1 added bed/night x 7 nights
- price for half board for 2 adults, 1 child till 6 years and 1 infant
- price per transfer (provided by the hotel or as a supplement)
- tourist tax as a supplement paid at the reception after arrival
- **add up all the sums + margin of the tour operator**
- **= the selling price of the travel package** (rounded up)

7.3 - Exercise 2 with solution:

Internal and external hedging of exchange rate risk when buying accommodation in Italy

- write some samples of internal and external types of hedging to avoid changes of exchange rate, in the operations of tour operator from Hungary

Solution:

Internal types of hedging:

- Customers pay in euros to the euro account of the TO;
- The partner TA buys rooms at specific dates of the season - invoicing in euros and transfer to euro accounts;

External types of hedging:

- classic forward - over-the-counter futures trading

The example can be applied similarly to any EU-based tour operator purchasing travel services in the UK (British Pound) or Egypt (US Dollars).

7.4 - Quiz 3:

Which of these statements are true:

For the financial management of TO/TA is very important cash flow planning. **YES**

TOs/TAs accounts in double-entry system, transactions are recorded in terms of debits and credits. **YES**

TOs/TAs typically use the cash basis method of accounting, when cash related to those transactions is received or dispensed. **NO**

7.5 - Exercise 3 with solution: The calculation of Tour Operators´ Margin

Let´s calculate the amount of the TO´s margin, which is the difference between income for travel package and expenses for travel services included in the travel package.

- the price for the package including bus ticket Prague-Amsterdam-Prague, accommodation in a hotel*** with half board (2 nights) and guide services, in the term May, 06-09: €289 per person
- number of paying customers: 41 (the capacity of the bus is 49)

- Total expenses for the group: bus transport and parking €2.450, accommodation with HB €5.510, guide €280, another expenses €199.
- Tourist tax in Paris pay each customer himself at the hotel reception during check-out.

Solution:

Tour operators´ margin = (41 x 289) – (2.450 + 5.510 + 280 + 199)
= 11.849 – 8.439 = 3.410 euros
(before taxation and overhead costs covering)

Interview questions:

1. Discuss the possibilities of financing tour operators´ operations.
2. Why is cash flow monitoring and planning important for the owner or director of TO?
3. What do you see as advantages of the work in tourism industry?

Case study

Cash flow management in the Jadran Express travel agency

The company Jadran Express Ltd has been operating as a tour operator for 12 years. It organizes tours to Italy and Croatia for customers with their own car or by company buses, especially in the summer months from June to September. From the beginning of its existence, the company was managed by the owner himself. However, after years of managing the company, he decided to pursue professional management and chose Mrs. Monika, a skilled HR manager who had no economic education, as the new director.

Company Jadran Express Ltd has been profitable for a long time, with the exception of the year 2018. Since the loss represents a partial reduction in the book value of the firm's wealth (equity), from the point of view of financial health, it could only mean a "flu", which the firm will withstand thanks to the long-term wealth created.

Equity should be positive. It includes the resources provided by the owner and the economic results for the entire period of the company's existence. In 2017, the company's equity amounted to almost €400.000, and thus a loss of €8.500 did not worry the director too much.

Analysis of sales in relation to individual categories of costs showed the need for more precise calculations. Although the company devoted itself to the travel package calculation, the overall sales results did not correspond to the expected margins. This was manifested most sensitively in the difference between cash income and expenses from the company's operating activities. While in 2016 Jadran Express Ltd generated income net of expenses €232.000, in 2017 it was less than €120.000 and in 2018 -€60.000.

As in many other companies focused on economic results, even in the Jadran Express Ltd paid almost no attention to healthy cash flows.

However, it was clear that with increasing capacity abroad, investment in the bus fleet and also the employment of additional driver and sales officer, the increasing pressure to raise wages was widening the gap between expenses and income. The tour operator's customers were mainly families with children and groups (schools, sport clubs). Due to the increasing competition, they pushed the deposits collected for the agreed travel package to the lowest possible level, often only 20% of the sales price of the package. Although travel package dates (especially for groups) were often negotiated 6-9 months in advance of the departure, efforts to get higher pre-payments were not accepted and, in order not to lose valuable group customers, an additional

payment was collected up to 30 days before departure (tours departing in June were thus paid (80%) not earlier than in May).
On the contrary, with the increasing pan-European demand, foreign accommodation providers required advance payments from the tour operator earlier. In order to block the requested capacities to their partner Jadran Express Ltd, they claimed advance payment when signing the business contract in the autumn of the previous year (15%) and then in four subsequent payments: 20% (January), 25% (April), 25% (June) and an additional payment of 15% after the end of the summer season (September).
Mrs. Monika assumed that higher capacities in hotels and guesthouses by the sea and receivables from customers will turn into money in the future, and with the expected higher volume of sales, TO's financial situation will stabilize. Mrs. Monika did not perceive the company's tendency to deteriorate liquidity at a relatively low level of profitability as a significant risk for the company's operation.

Case study - Questions:

1. Let´s remember an important fact from practice that the necessity of financial management in current market conditions should be the monitoring not only of costs and revenues, but above all of incomes and expenses. What would you recommend to the director Monika in such a situation?

2. What measures would you introduce in relation to customers (CC customers) and suppliers (accommodation abroad) in connection with cash flow management? What factors play an important role?

3. What else does the director of a travel agency have to consider in connection with the payment of value added tax and at what stage does this legal obligation interfere with cash flow?

Despite the critical importance of financial management, in reality, economic efficiency is determined by the people´s behaviour, not numbers. Mismanaged or completely unmanaged cash flow caught the attention of the director and the owner only during the crisis that started in the spring of 2018. The sales plan was growing, the vehicle fleet was increased by a new bus, and at the same time a higher accommodation capacity abroad was negotiated. Without a cash flow outlook, there was no indication of a crisis, although it would have been relatively easy to predict. Collecting low pre-payments from customers contrasted sharply with the maturity of liabilities to accommodation providers and leasing companies. During March, it was already clear that if the acute cash flow crisis is not resolved, the company will not have enough money to pay its employees and lease payments for the new bus.
Although there was finally in the company Jadran Express Ltd an action plan set up for solving the liquidity crisis, there was not enough time for most of the measures leading to the improvement of the tour operators' cash flow, nor was there enough space for negotiation with accommodation providers. The administrative burden of the company's employees increased by jumping. On a daily basis, it was necessary to update the overview of expected payments, to call group customers with requests for earlier payments or higher advances, temporarily to postpone lease payments for a new bus, to ask the bank for a bridge loan, suspend all purchases of small property that were not necessary, limit expenditure on repairs buses, but also to inform employees about the real time of salary payment.

4. What were the consequences of the absence of cash flow management in the tour operator, until then a healthy and profitable company? Consider relationships with customers, suppliers and employees, as well as competitiveness and economics.

Case study – Answers:

1. ...Create a cash flow plan in addition to the results and use it to stabilize financial management. An overview of the cash flows in the areas of the company's operating, investment and business activities will answer questions such as when the company can invest in order to be able to repay loans and leases and, in particular, whether and how much money resulted from the company's business activities. By monitoring income and expenses, the management controls and ensures the financial health of the company, its liquidity and solvency.

2. ...it is possible to recommend a change in business terms and conditions in relation to customers to increase the collected advance payments for travel packages. In the case of suppliers (hotels and guesthouses), the company should try to negotiate milder conditions, e.g. with regard to solid long-term cooperation.

3. …Tour operators are subject to the Tour Operators´ Margin Scheme (TOMS) and are required to pay VAT advances from pre-payments received and from additional payments after the realization of travel packages.

4. ...The shortfall in income for several months has started at Jadran Express Ltd long-term economic problems due to lack of funds. The company proceeded to tighten business terms and conditions in relation to customers, which reduced its competitiveness and lost some of its customers. The company terminated cooperation with one of the requested accommodation providers because it was not able to meet its contractual obligations, and the business confidence of the others was weakened. Maintaining quality employees is also a big problem for Mrs. Monika, as the company cannot financially manage to raise wages to a competitive level. A tour operator cannot develop and invest in a bus fleet for a long time because it does not have sufficient own resources to co-finance investments. Expenditure on repairs and maintenance of the vehicle fleet, which could cause a number of serious operational problems in the future, was also reduced.

CHAPTER QUIZ

Q.1 Which one of following sentences is right:

a) **The package travel organizer, for example the tour operator, has to provide to consumers a guarantee in the case of its bankruptcy, such as insurance against insolvency, bank guarantee or travel guarantee fund.**

b) The obligation to provide sufficient evidence of security for the refund of payments and the repatriation of travellers in the event of insolvency should apply to travel packages, but not to linked travel arrangements.

c) EU Member States shall ensure that organisers established in their territory provide security for the refund of some payments (minimum 50 %), made by or on behalf of travellers insofar as the relevant services are not performed as a consequence of the organiser's insolvency.

Q.2 When using internal financing or equity finance, the TO/TA obtains financial capital from:

a) loans by bank institutions
b) leasing company
c) **its own resources resulting from the company's economic activity**

Q.3 Other sources of financing for the operation of the TO/TA company are factoring, which means:

a) exchanges on international markets
b) **the repurchase of receivables by a factor company that bears the risk of irrecoverability**
c) right or obligation to buy foreign currency

Q.4 Why is cash-flow planning important for tour operator?

a) **By monitoring income and expenses, the management controls and ensures the financial health of the company, its liquidity and solvency.**
b) It communicates the so-called "book value" of an organization, as calculated by subtracting all of the company's liabilities and shareholder equity from its total assets.
c) It represents a recapitulation of revenues, costs and results of operations.

Q.5 Tour operators and travel agents enter the tourism business chain mostly as

a) suppliers
b) **intermediaries**
c) consumers

Q.6 Which one of following sentences is false:

a) Businesses in tourism must be prepared to respond flexibly to all changes at home and abroad and to seek to reduce the negative impact of foreseeable risks on their business.
b) With the choice of business partners, especially suppliers and providers of travel services, as well as sellers of TO´s products, tour operators deal with commercial risks.
c) **European tour operators do not have to hedge against changes in the exchange rate, because all of them operates in euros.**

Q.7 When value added taxation in the EU, tour operators and travel agents operate under the scope of:

a) **the special scheme for travel services, so called Tour Operators Margin Scheme,**
b) VAT-free scheme, because the price of holidays realized in the EU destinations is VAT-free,
c) Tour operators flat rate scheme, because TOs pay a fixed rate of VAT.

Q.8 In addition to regular financing, the tour operator also encounters extraordinary financing, which occurs for example during:

a) invoice financing,
b) **its expansion and the purchase of extraordinary investments,**
c) renting a car in the form of operating leasing.

Q.9 The difference between operating and financial leasing is:

a) through operating leasing the car is transferred to the lessee after the end of the rental period,
b) there is no difference, because both of them enable to lease production equipment or cars,
c) **through operating leasing the leased asset remains the property of the leasing company at the end of the lease term**.

Q.10 The statement of cash flow of a tour operator gives information about the cash that has been generated and spent during a determined time period. It consists of three main sections:

a) **cash flow from operating activities, investment and financing activities**,
b) cash flow from investment, economic and marketing activities,
c) cash flow from financing activities, short and long term loans and investment.

7. Resources

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CHAPTER 8: DESTINATION MANAGEMENT ORGANIZATION

Introductory video:
https://video.th-deg.de/paella/ui/watch.html?id=a8f46820-3185-494e-8b1f-11a94c224388

1. Recommended Timetable for the Chapter

PARTS	Time in Minutes
8.1 A quick look on DMO	60
8.2 Financing in decision making of DMO	60
8.3 Financial statements	60
8.4 Evaluation of DMO financing	60
Video interview with an expert	60
TOTAL TIME IN MINUTES	**300**

2. Chapter Summary

The chapter introduces what is Destination Management Organisation (DMO) and what are its main tasks and goals of DMO activities. It summarizes categories of DMOs according to level of competence and main principles of DMO´ financing – types of finance sources and multi-source financing. This chapter also deals with legal formula which is connected with different types of financing and most important principles of strategy creating in DMO. It shows typical DMO´ financial statements as balance sheet and income statement, with the accent on the calculation of Net working capital. For the comprehensive view the chapter indicates how can be DMO financing and projects evaluated and what is benchmarking.

3. Importance of the Chapter for Tourism Students

Students will get clear and specific content about financing in tourism by an attractive and businesslike way, so they can use these knowledges in practice of destination management, organisation and financing. Upon completing the chapter, students will be familiar with the specifics of DMO´s activities and multi-source financing.

4. Video-Interview

The interview is recorded with Mr. Jan Herget, director of Czech Tourism Authority.

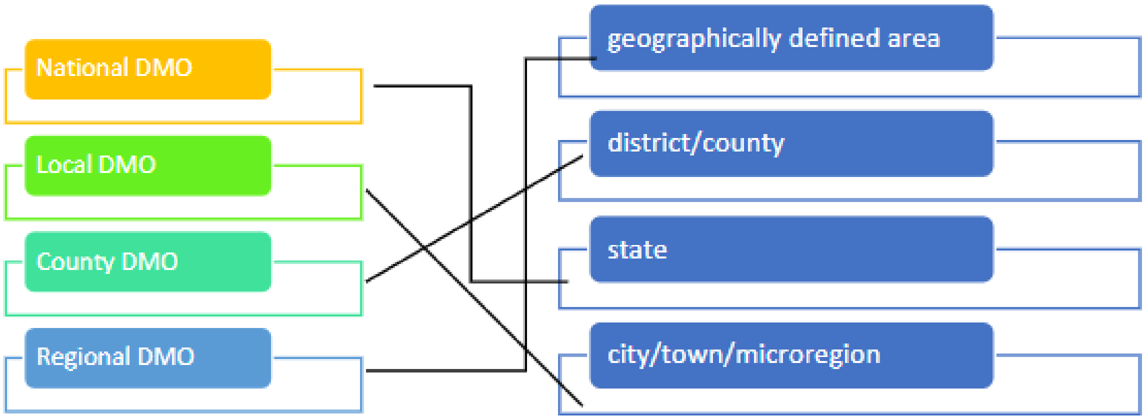
5. **Number and Types of Exercises**

PARTS	Type of exercise
8.1 A quick look on DMO	1x quiz 1
8.2 Financing in decision making of DMO	x gap text
8.3 Financial statements	1x exercise with solution
8.4 Evaluation of DMO financing	1x quiz 2 1x case study
Video interview with an expert	3x questions to the interview
Chapter Quiz	Multiple-choice test (10 questions)
TOTAL EXERCISES	7

6. **Exercises and Solutions**

8.1 - Quiz 1

Try to connect the **category of DMO** with its **level of competence**:



8.2 – Quiz 2:

When establishing Destination management organisation, **founder** considers a **legal form** of DMO (e.g. private non-profit organisation or public-private non-profit organisation), how many founders will be involved in DMO, **statutes** of the organization (basic rules), bodies of the organization (management, control, strategic), **approval** process, financing principles and future **development** of DMO.

The current studies show that main sources of DMO´ funding in Europe are **subsidies** and self-generated **revenue**. Financial resources and their **variability/diversification** are the most important part of the financial **self-sufficiency** of DMO.

8.3 - Exercise with the solution

Calculating Net Working Capital and NWC ratio in DMO

For current assets, DMO X has: €150,000 in cash and cash equivalents, €10,500 in receivable balance, inventory (stocks) worth €130,000

On the other side of the balance sheet, DMO X has:

- a short-term loan for €100,000

- liabilities to suppliers €80,000
- liabilities to local government institutions of €60,200

Solution:

150,000 + 10,500 + 130,000 = 290,500 in total current assets
100,000 + 80,000 + 60,200 = 240,200 in total current liabilities
NWC: 290,500 – 240,200 = 50,300
NWC ratio: 290,500 ÷ 240,200 = 1,21
The result means, that DMO X has 1.21 times as many current assets as it does short-term liabilities. For the DMO the ratio seems to be sufficient.

Quiz 2

Following sentences are right or false:

- DMOs regard public-private management of the destinations not important. **FALSE**
- DMOs are mostly financially dependent on the public sector and the contribution from the state/city/region. **RIGHT**
- The rest of the DMO´ financing is mostly the combination of private financing and self-generated resources as a complimentary. **RIGHT**
- Tourism taxes are a type of private financing source. **FALSE**
- Each DMO has to (by the international law) return the collected tourism taxes into the tourism development in destination. **FALSE**
- Benchmarking means a functional system measuring efficiency and effectiveness of DMOs expenses, in which processes, products and services of a DMO are comparing with the best competitors or recognized market leaders. **RIGHT**

Interview questions

1. What do you see as a most important next step for the Czech Republic in tourism sector, what is your recommendation?
2. What are the significant tasks in DMO financing, what to monitor, how often and with which tools?
3. When characterizing the DMO activities, what do you see as a most demanding and also positive in the sector?

Case study

Benchmarking of Czech Republic DMO and DMO of Lower Austria

Since foreign experience is rich, the Czech Republic and its regions can be inspired by the management and organization of tourism in Austria. For the purposes of this case study, the tourist destination of Lower Austria was chosen. The reason for inclusion is the close location to the Czech Republic and the relatively similar character of the territory compared to destinations in the Czech Republic (Holešinská, 2007, Jahresbericht, 2018).

Lower Austria

Organizational setup

In the field of tourism, the entire territory of Lower Austria is managed by Niederösterreich Werbung GmbH ("Lower Austria"), founded in 1995, whose shareholders are the Federal Government of Lower Austria with a 95% share and the Chamber of Commerce of Lower Austria with a 5% share. In addition to the financial capital of the federal government and the Chamber of Commerce, other resources are also used in the form of sponsorships and subsidies.

In these cases, however, it is always a matter of co-financing a specific regional tourist event or attraction. The company employs approx. 41 full-time workers (2018).
A total of 7 tourist regions were constituted in Lower Austria:

1. Waldviertel
2. Weinviertel
3. Mostviertel
4. March-Donnau
5. Wachau-Nibelungen Tal
6. Wien Wald
7. Sudalpen Region

Regional tourist offices in Lower Austria are constituted and financed by sub-regional tourist associations, which are financed by local tourist associations. The subsidy from the federal government enables, in particular, quality promotion and development of these offices. Regional tourist offices are responsible for the development of tourist infrastructure and are also responsible for finding other sources for co-financing investment-intensive infrastructure development.

Financing and the budget
Lower Austria is covered as follows:

- 33% sub-regional tourist associations,
- 34% federal government,
- 33% tourism industry, i.e. private sector - entrepreneurs.

Associate members of regional DMOs are the federal government, regional, sub-regional and local tourist associations, construction and transport companies and various economic interest groups. The main reason for membership is the need for concentration of financial resources and the need to involve other than purely touristic institutions in promotional activities.
In 2018, the revenues of the DMO of Lower Austria totalled EUR 12.7 million.

<u>Most important costs of Lower Austria (2018):</u>

- Personnel costs (including social security and insurance) – 3 mil. EUR
- Marketing and representation costs, PR – 2,6 mil. EUR
- Costs of marketing promotions, presentations, campaigns – 5,6 mil. EUR
- Costs of consultancy – 0,2 mil. EUR
- Travel costs – 0,2 mil. EUR
- Production – 0,3 mil. EUR
- and others.
- Income from operations for 2018 is a profit of 189.148 EUR.

The annual budgets of regional tourist offices vary widely. Most of the cost items are associated with personnel and operational aspects of running the office. Additional resources are provided by the federal government (production of promotional materials) and private sponsors (support of specific events in a specific location). Tourism infrastructure projects are approved and monitored by the federal government. Additional funding from EU sources is sought wherever possible and appropriate. Monitoring of tourism projects in Lower Austria is carried out by a special department of the federal government.

Legislative framework

The institutional provision of the development of tourism must be assessed in the context of legislative standards valid in the territory of Lower Austria. This is mainly the Lower Austrian Tourism Act from 1991 (NŐ Tourismusgesetz), which contains some legal provisions, especially regarding the issue of the tourist organizational structure, with the clear aim of supporting the development of tourism at the local, regional and state level.

In this way, not only the basic terms from the field of tourism are clearly defined, but above all the organizational structure and other necessary things such as defining the activities of organizations, the method of collecting contributions and fees or, last but not least, identifying the tourist importance of individual municipalities, which is key to determining their position in the whole structure. This law thus becomes a significant support for all actors of the tourism industry who are interested in establishing a destination company, or in participating in its activities, because it determines their role in advance.

Czech Republic

Organizational setup

In the Czech Republic, the Czech Tourism Center - CzechTourism, which was established by the Ministry of Regional Development in 1993 as a contributory non-profit organization, began to deal specifically with the management and organization of tourism at the national level. Regional DMOs deal with the development of tourism in the regions, mainly only after 2000, when regional organizations began to emerge (e.g. Vysočina Tourism in 2007, South Moravia in 2005, South Bohemia Tourism Centre in 2018, DMO Královéhradecká krajská centrála cestovního ruchu 2021, etc.). Although Prague City Tourism was founded as early as 1958, the other regions completely lack the tradition of tourism management and related experience. The organization and conceptual management of tourism in tourist regions is thus still one of the basic development problems of the tourism industry in the Czech Republic.

From the point of view of tourism, the Czech Republic is divided into 15 tourist regions. These are defined as territories for which a certain type of tourism is typical, which connects and unifies the individual elements of the given area, but at the same time distinguishes it from other regions.

1. Praha
2. Okolí Prahy
3. Jižní Čechy
4. Šumava
5. Plzeňsko
6. Západočeské lázně
7. Severozápadní Čechy
8. Český sever
9. Český ráj
10. Východní Čechy
11. Vysočina
12. Jižní Morava
13. Střední Morava
14. Severní Morava a Slezsko
15. Krkonoše

Regional DMOs are non-profit organizations, financed by the region/county. Other incomes are obtained through subsidies for specific projects. So, the state is participated through regions. In the Czech Republic there is no Act about the organization, structure and financing the tourism sector. Budgets of regional DMOs are specified on yearly basis, without a log-term financial strategy.

Financing and the budget

The Czech Tourism Authority is a state-subsidized organization established by the Ministry of Regional Development of the Czech Republic from whose budget it is also mainly financed. It obtains other funds from other budget chapters (CzechTourism, 2021).

The largest part of revenues consists of the founder's contribution (Ministry of Regional Development) to the operation (97 %). In the budget, there are other contributions and subsidies. Revenues from the sale of services also have a share in revenues, where cooperating entities are charged mainly fees for participating in roadshows, workshops or trade fairs. Financial income consists of foreign exchange gains and interest. The activities of CzechTourism are provided by 65 employees at the table positions (December 2018). Total incomes of the agency CzechTourism in 2018 counted 19,5 mil. EUR.

In 2020, CzechTourism had one building in use in Prague, an information centre on Old Town Square and 17 foreign representations in the world. This is associated with a number of operating costs providing a suitable background for marketing activities.

<u>Most important costs of CzechTourism (2018):</u>

- Operating costs – 0,4 mil EUR
- Personnel costs (2018, including social security and insurance) – 2,2 mil. EUR
- Personnel costs at foreign offices – 1,2 mil. EUR
- Marketing and representation costs – 0,9 mil. EUR
- Costs of marketing promotions, presentations, campaigns – 6,1 mil. EUR
- Costs of trade fairs, workshops and seminars – 2,2 mil. EUR
- and others.
- Income from operations for 2018 is a profit of 1.581 EUR.

Legislative framework

In the Czech Republic, there is no Act regulating the organization, structure and financing of the tourism sector. In the year 2022 the government, namely the Ministry of Regional development) started preparing the concept of this Act. The agency CzechTourism and regional DMOs are compiling the annual budget year by year.

Case study - Questions:

1. Which subjects and institutions profit from the development of tourism in a region and how?

2. Compare these two DMOs and discuss differences according to level of competence, legal form and structure of the annual budget.

3. Try to calculate some indicators of benchmarking and compare these two DMOs

Case study – Answers:

1.

All of organizations and companies influenced by tourism sector – accommodation providers, restaurants, tourist information services, travel agencies, public administration, transport companies, local community thank to higher employment, …

2.

	Czech Tourism Authority	Niederösterreich Werbung
Level of competence	National/state	Regional/county
Legal form	Contributory, state non-profit organization	GMBH
	Founder - Ministry of Regional Development	shareholders - Federal Government of Lower Austria (95 % share) + Chamber of Commerce of Lower Austria (5 % share)
Structure of the yearly budget	The largest part of revenues consists of the founder's contribution (Ministry of Regional Development) to the operation (97 %). In the budget, there are other contributions and subsidies. Revenues from the sale of services also have a share in revenues, where cooperating entities are charged mainly fees for participating in roadshows, workshops or trade fairs.	Most of the cost items are associated with personnel and operational aspects of running the office. Additional resources are provided by the federal government (production of promotional materials) and private sponsors (support of specific events in a specific location). Tourism infrastructure projects are approved and monitored by the federal government. Additional funding from EU sources is sought wherever possible and appropriate.

3.

Year 2018	Lower Austria	Czech Republic
Arrivals	3 012 260	21 247 150
Overnight stays	7 418 528	55 513 922

Source: CZSO, 2022; STATISTIK AUSTRIA, 2022.

- **Total DMO expenditure per overnight stay generated, per year 2018**

Lower Austria: In 2018, the revenues of the DMO of Lower Austria totalled EUR 12.7 million. Income from operations for 2018 is a profit of 189.148 EUR.

12 700 000 – 189 148 = 12 510 852 EUR / 7 418 528 (overnight stays) = 1,686 EUR

Czech Republic: Total incomes of the agency CzechTourism in 2018 counted 19,5 mil. EUR. Income from operations for 2018 is a profit of 1.581 EUR.

19 500 000 – 1 581 = 19 498 419 / 55 513 922 (overnight stays) = <u>0,351 EUR</u>

- **Efficiency of the marketing/promotion costs**

<u>Lower Austria</u>: for example: marketing costs (campaigns) / arrivals = 5,6 mil. EUR / 3,012 mil. Arrivals = <u>1,859 EUR per arrival</u>
<u>Czech Republic</u>: for example: marketing costs (campaigns) / arrivals = 6,1 mil. EUR / 21,247 mil. Arrivals = <u>0,287 EUR per arrival</u>

- **Average length of stay**

<u>Lower Austria</u>: Overnight stays / arrivals = 7 418 528 / 3 012 260 = <u>2,373</u>
<u>Czech Republic</u>: Overnight stays / arrivals = 55 513 922 / 21 247 150 = <u>2,613</u>

Case study - Conclusions:

Final results table to compare and discuss:

	Czech Republic	Lower Austria
DMO expenditure per overnight stay	0,351 EUR	1,686 EUR
Efficiency of the marketing/promotion costs	1,859 EUR per arrival	0,287 EUR per arrival
Average length of stay	2,613 nights	2,373 nights

- **Can you name examples of revenues/incomes from DMO´s own activities?**

…marketing cooperation (eg cost sharing), intermediation of trade or services (commission) consulting, education, professional activities, operation of tourism infrastructure

- **Do you think that the absence of tourism act in the country is significant?**

…Yes, I do. As we can see on the sample of Lower Austria, it is very important for tourism actors to know the tourism organizational structure, with the clear aim of supporting the development of tourism at the local, regional and state level.

In this way, not only the basic terms from the field of tourism are clearly defined, but above all the organizational structure and other necessary things such as defining the activities of organizations, the method of collecting contributions and fees or, last but not least, identifying the tourist importance of individual municipalities, which is key to determining their position in the whole structure. This law thus becomes a significant support for all actors of the tourism industry who are interested in establishing a destination company, or in participating in its activities.

- **How could CzechTourism use the information obtained from the DMO Lower Austria to improve its own activity? What would you recommend?**

…see answer above. The recommendation should be to create a legislative framework to define the role of each actor in tourism and methods of financing on annual basis in advance.

CHAPTER QUIZ

Q.1 Which one of following sentences is right:

a) The European DMOs are most commonly funded by short-term and long-term loans. Partnerships or municipal/provincial government funding creates a minimal part of dmos funding.
b) The successful and long-term sustainable operation of the destination management organization is based on one-source financing.
c) **The DMO budget is compiled on yearly basis, it may consist of a statement of profit and loss, an investment plan in conjunction with a depreciation plan and if necessary, a liquidity plan**.

Q.2 What is Destination Management Organisation (DMO):

a) An approach, where many aspects of a destination are managed via a coordinated process - it can include managing marketing, local accommodation, tours, events, activities, attractions, and transportation,
b) **An organization, which coordinates, cooperates and communicates with travel service providers in a destination, to effectively manage the tourism processes**,
c) A place or region with some specific tourism offer and potential for development in the future.

Q.3 Which one of following sentences is false:

a) **DMO manages mostly private property, therefore its financial activities have to comply with the principles of generating financial profit.**
b) The DMO manages its funds primarily in accordance with the budgetary rules and is entitled to draw them in the manner determined by the founder.
c) All types of DMO and their activities are bound by the valid legal regulations of the country and the internal regulations and instructions of the founder (ministry, region, municipality).

Q.4 Destination management is a set of techniques, tools and measures used:

a) **In cooperation and communication in the public, private and non-profit sector and destination development**,
b) In demographic development of destination and educational infrastructure.
c) In private sector with the only goal to generate a financial profit.

Q.5 To the categories of DMOs according to level of competence does not belong:

a) Local, regional, county and national DMO,
b) Local DMO to competence for a city, town, village or microregion,
c) **Natural, cultural and financial DMO**.

Q.6 For the main principles of DMO´s strategy creating it applies:

a) **Strategy must include the particular steps (activities) and their objectives, the responsibility for achieving them, and the means of demonstrating that the objectives have been achieved**.
b) Financial requirements are not a part of the strategy, they are solved according to the current situation.

c) Strategic management is a yearly or monthly process.

Q.7 What kind of sources of DMO´ financing are not available?
a) Subsidies or grants,
b) Membership fees,
c) **Value added tax on accommodation in destination**.

Q.8 To prepare the correct DMO´s strategy, it is primarily needed:
a) To know the weaknesses and threats of the destination,
b) **Time, a responsible person and sufficient quality information**,
c) The financing sources of each activity included in the strategy.

Q.9 Which of the following dmos financing sources are usually absent from external sources?
a) **Long-term loans**,
b) Government grants,
c) Short-term liabilities.

Q.10 Net working capital is a financial indicator which describes:
a) The difference between an organization´s fixed assets and equity,
b) The difference between an organization´s tangible assets and net income,
c) **The difference between an organization's current assets and current liabilities**.

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CHAPTER 9: TOUR GUIDE COMPANIES

Introductory video:
https://video.th-deg.de/paella/ui/watch.html?id=a6f410d9-5a16-453a-a04b-a31052263f31

1. Recommended Timetable for the Chapter

PARTS	Time in Minutes
9.1 Tour guide companies: Activity and regulation	60
9.2 Role and function of the tour guide	30
9.3 Tour guide associations. Examples of associations and companies	30
9.4 Expectations and threats	30
9.5 Operative of charges and prices	30
9.6 Importance of financial information and main indicators and example of a financial plan with solutions	90
9.7 Case study and Interview	90
Chapter Quiz	60
TOTAL	420

2. Chapter Summary

The chapter presents and analyses the main aspects related to the activity of tour guide companies, considering that their function is very important as they have the mission of informing, directing and orienting tourists during their stay in an area or locality, promoting its cultural and natural heritage.
It sets out the most obvious expectations and threats and outlines the key issues relating to the financial management of this type of business, also the financial methods and indicators to be used. This chapter combines recent information on tour guiding with interactive exercises and practical examples to facilitate student comprehension.

3. Importance of the Chapter for Tourism Students

It is important to know the characteristics of this sub-sector, considering that professional tour guides play a very important role in promoting a destination, being a key profession for promoting tourism and the brand image of each country. It is a sub-sector that is usually highly regulated by the different administrations, with the aim of avoiding intrusions, safeguarding the interests of visitors and tourists, and protecting historical and geographical heritage. For this reason, it is of interest to tourism students and future professionals to learn about the main aspects of this activity, as well as the financial management that must be carried out to control the performance and determine the profitability of the business.

4. **Video -Interview**

The interview is recorded with Frederic Ebrard. Consultant in the areas of business strategy and corporate finance. Expert in creating experiences for clients in the area of tourism and digital marketing.

5. **Number and Types of Exercises**

PARTS	Exercices
9.1 Tour guide companies: Activity and regulation	-
9.2 Role and function of the tour guide	2 Questions
9.3 Tour guide associations. Examples of associations and companies	-
9.4 Expectations and threats	-
9.5 Operative of charges and prices	-
9.6 Importance of financial information and main indicators and example of a financial plan	Financial plan example with solution
9.7 Case study and Interview	7 case study questions and 3 Interview Questions
Chapter Quiz	10 Questions
TOTAL	22 Questions

6. **Exercises and solutions**

9.2 – Quiz 1:

Which of the following sentences are true or false:

- A tourist guide is a person who provides tourist information to municipalities with a population of more than 500 inhabitants. **FALSE**
- Tour guides are key to boosting tourism and the brand image of each country. **TRUE**

Case study

A group of 4 people who have extensive professional experience in the tourism sector and have the official accreditation of guides, decide to associate and start up a company whose main activity will be the provision of tourist guide services, as well as management events and other related matters. The company is going to establish and operate initially in a major European tourist city (it is possible to resolve the case, assume a specific city or region of free choice).
To do this, they want to set up a Web platform to offer their services, capture their clients, make reservations and manage the collection. Due to their experience in the sector, they have contacts with different tour operators, tourism agencies and hotels with whom they are going to establish collaboration agreements to attract clients, in addition to investing financial resources for an advertising campaign.
They have calculated that the initial money they need to start the business is 120,000€.
Each partner will contribute 20,000€ and for the rest they will resort to attracting external financing from various sources.

Case Study - Questions

1. Based on the contents of the topic, determine the possible threats that this company may encounter in order to establish itself and succeed, and what opportunities it could exploit.

2. Point out some possible strengths and weaknesses that the business may have, and propose some strategic recommendation to differentiate itself.

3. Indicate types of external financial sources to which they could resort to obtain the intended money.

4. Present an approximate table of investment and initial financing for the business project, similar to the example of the topic.

5. Calculate the ratios 1 and 2 of indebtedness (see example of the topic) for the initial moment of the business project. Discuss the results of both ratios and what they mean.

6. Assuming that the expected annual income is 310,000€ and the net profit for the first year is 64,000€, calculate the profit ratio and the financial return ratio (ROE), using as equity, the initial capital contributed by the partners. Discuss the results of both ratios and what they mean.

7. Reflect the specific indicators of the activity shown in the following table, taking into account that the total annual service hours are 19,375, the average number of people per visit or service offered is 6, the number of contracted tour guides is 10, the expected customer satisfaction levels are 4.3, and that 82% of the services contracted by customers are through the web. The specific indicators are in the following table, please fill in the results with figures.

Case study - Answers

1. It is an activity that is very sensitive and vulnerable to any adverse effects that produce a reduction in external and internal tourism, whether global or more localized, such as geopolitical conflicts, terrorism, natural and climatological disasters, economic and social crises, or the recent pandemic. Normal conditions are necessary for tourists and visitors to be encouraged to travel and get to know the attractions of each area in question, and to hire the services of tour guides. In recession economic times, the number of tourist visits decreases and so does the expenditure per visitor, and the consumption of excursions and guided tours is seen as something that can be dispensed with or is not a priority.
   In addition to the high level of competition in the sector, various competitive substitutes can be identified: Among the competitive substitutes are: self-guided tours or QR codes, in-house staff, freetours, intrusiveness of companies from other tourism sub-sectors, virtual tours, tourism blogs and written guides.
   In terms of opportunities, the trend in tourism for the coming years favors the scenario for the activity of tourist guides, as there is an increasing taste for: Slow-travel, urban tourism (short breaks), cultural tourism, family tourism, event and business tourism, rural and nature tourism (agrotourism, eco-tourism, adventure), medical tourism, health and wellness, educational tourism, sports tourism.

These are activities in demand and in full growth, in all cases in need of guided services, support and advice, which is why they are a field to be strengthened and exploited by this new business. New technologies and innovations related to tourism, such as virtual tours, must also be taken advantage of and considered not as threats but as additional opportunities for which it is necessary to know how to adapt.
To this must be added the gradual recovery in the level of visits expected in the coming years in the various traditional European tourist destinations, although restoring the volume of traffic of the years prior to the pandemic still seems far from being possible, especially if markets such as the Asian tourist market cannot be revitalized in the medium term.

2. Strengths: extensive professional experience of the partners; they have official accreditation as guides; they offer additional services such as event management and other related activities; they have an operational web platform; they are located in a major European tourist city; they have contacts with different tour operators, tourist agencies and hotels with whom they will establish collaboration agreements to attract customers.
Weaknesses: lack of initial notoriety and need to generate a client portfolio; no physical points of sale; need to invest resources to publicize their services.
Strategic recommendation to differentiate themselves: invest in advertising and social networks to publicize their services and gain notoriety, technologically enhance the web platform to offer a quality service and gain prestige and recognition, strengthen relations with the channel and collaboration agreements (tour operators, tourism agencies, intermediaries and hotels).

3. Lines of bank loans for entrepreneurship projects and new businesses.
EU and state subsidies for aid for the creation of companies and their digitalization.
Presenting the project and approaching potential investors, business angels or sponsors.
To carry out leasing and renting operations to acquire technological equipment.

4. Initial investment and financing (First year start-up)

INITIAL INVESTMENT		INITIAL FINANCING	
PROPERTY, PLANT AND EQUIPMENT	30.000	SHARE CAPITAL	80.000
INTANGIBLE ASSETS	2.000	LONG TERM LOAN	36.000
ASSETS VAT	6.720	SHORT TERM LOAN	4.000
CASH AND EQUIVALENTS	81.280		
TOTAL	120.000	TOTAL	120.000

The initial cash (81.280) is partly for initial advertising investments and will also be used to cover initial start-up and start-up costs, and as a safety fund to cover other expenses and unforeseen payments. In financing, the part of short-term loans is what has to be paid or repaid during the first year of business.

5.

INDEBTEDNESS RATIOS		
Debt ratio (1)	Total liabilities / (Total liabilities + Net Assets) = 40.000 / 120.000	0,33
Debt ratio (2)	Total liabilities / Net worth = 40.000 / 80.000	0,5

The results are less than one, which indicates that there is a higher proportion of own financing than borrowing. The debt ratio 2 is recommended to be between 0.4 and 0.6, so in this case the level of indebtedness proposed for this project is considered acceptable.

6.
An acceptable profit ratio is obtained, with a profitability of over 20%, and a very good ROE figure, obtaining a return of equity of 80% in the first year of the business on the money contributed by the partners, without taking into account external financing.

PROFITABILITY RATIOS		
Profit ratio	Net profit x 100 / Annual sales = (64.000 x 100) / 310.000	20,64%
ROE (Return of equity)	Net Profit x 100 / Total Average Net Assets* = (64.000 x 100) / 80.000	80%

7. The specific indicators are reflected in the following table:

TYPE OF RATIO OR INDICATOR		
PROFITABILITY		
Average revenue per visit hour or service	Total revenue / Total visit hours	16 €
Profit per hour of visit or service	Net profit / Total hours of visits	3,30 €
Average number of people per visit or service	Total number of people / Total number of visiting hours	6
Average revenue for each guide service	Total revenue / Total visits or guide services	96 €
Average profit for each guide service	Net profit / Total visits or guide services	19,8 €
PRODUCTIVITY AND WORKER PERFORMANCE		
Average number of services per guide	Total hours of services / Total number of guides on staff	1.937,50 hours/year
Average annual income per guide	Total income / Total guides	31.000 €
Average annual profit per guide **Level of satisfaction with guides**	Net profit / Total guides Survey (scale 1 to 5)	6.400 € (4,3)
CUSTOMER ACQUISITION		
Level of satisfaction with the service: Survey (scale 1 to 5)	Survey (scale 1 to 5)	(4,3)
% Customer acquisition online	Total services contracted by the website x 100 / Total services contracted	82%

Interview Questions

1. When hiring a tourist guide, what should you mainly take into account?
2. What can be the positive or favorable expectations of the activity of tourist guides?
3. How can the financial plan for a tour guide business plan be initially set out?

CHAPTER QUIZ

Q.1 The activity of tour guide is based on:

a) Performing transportation and transfer of tourists
b) Acting as entertainer and in shows for tourists
c) Providing tourist information and orientation services

Q.2 For a person to be able to legally exercise as a tour guide:

a) He/she must have a qualification related to the field of tourism
b) It is not necessary to have any specific requirement, only in some concrete countries
c) They must obtain a previous official qualification for it

Q.3 Among the missions of the tour guide there are:

a) To promote the destination
b) To avoid the massive tourism
c) To mediate with the salesmen to whom the tourists buy

Q.4 The tour guide, when acceding to public services and museums:

a) They must negotiate prices for the places to visit
b) They will be able to have free accesses in certain cases
c) They cannot take advantage of their condition of guide and must pay their entrance fee like the others

Q.5 The tour guides:

a) They must always work on their own account as independent professionals
b) They must always work for others and belong to a company or entity
c) They can offer their services through cooperative platforms and official associations

Q.6 Associations and federations of tour guides:

a) They exist only of local type or of zone of a country
b) There are local, national and international ones
c) There are local and national ones

Q.7 The activity sector of tour guides is characterized by:

a) Being particularly sensitive and vulnerable to different threats
b) Being a very stable, regulated and growing sector
c) Not being particularly affected by external factors

Q.8 Indicate which would not be considered a competitive form for official tour guides:
a) Opening of amusement parks
b) Use of QR codes to guide tours
c) Free-tours

Q.9 In the activity of tour guides, regarding financial management:
a) Payment and collection cycles and maturity periods are usually long or dilated
b) It is convenient to use methods such as the balanced scorecard and to calculate different ratios and financial indicators
c) It is important to determine the KPIs (key performance indicators) since they are values that indicate the money or cash available.

Q.10 To carry out the financial plan within a business plan for the creation of a tour guide company:
a) It is convenient to begin the plan determining the income statement.
b) It is convenient to begin the plan calculating the financial ratios of profitability.
c) It is convenient to start the plan by determining the investments to be made, the financing needs of the business and the sources of financing

7. Resources

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Spanish Confederation of Federations and Professional Associations of Tourist Guides (Cefapit) https://www.cefapit.com

European Federation of Tourist Guide Associations: FEG https://www.feg-touristguides.com

CHAPTER 10: TRANSPORT COMPANIES

Introductory video:
https://video.th-deg.de/paella/ui/watch.html?id=fba04a81-748a-45f6-9b10-2e3829d8eca5

1. Recommended Timetable for the Chapter

PARTS	Time in Minutes
10.1 Airlines companies	90
10.2 Rail companies	90
10.3 Quiz: the Income Statement	30
10.4 Quiz: The statement of Cash Flow	30
Case study: Financial Statement elaboration	180
TOTAL TIME IN MINUTES	300

2. Chapter Summary

This chapter allowed to student to undertand the financial differences in tourism companies particularly, in transport companies (travel and rail industry suppliers). The main differences in the preparation of the financial statements are reviewed, which allows a better financial management.

3. Importance of the Chapter for Tourism Students

We studied the main financial statements considering the specificities in airline and rails companies and then, we will review some accounting items for this specific sector, and in which items we have to pay more attention in the financial management. This chapter allows to student to understand the financial differences in tourism companies particularly, in transport companies (travel and rail industry suppliers). The main differences in the preparation of the financial statements are reviewed, which allows a better financial management.

4. Video-Interview

The interview is recorded with Mr. Federico Soto. Professional with more than ten years of experience in the aviation sector performing functions in the areas of strategic consulting, alliances and business development.

5. Number and Types of Exercises

PARTS	Type of exercise
Quiz I	True or false activity
Quiz II	Different questions in a table
Case Study	Elaboration of financial statements 2 x Case study
Video interview with an expert: Quiz based on the video	3x questions to the interview
TOTAL EXERCISES	5

6. Exercises and Solutions

10.3 - Quiz 1

The next sentences are true or false.

1. In the income statement of an airline company the most important item in total revenue is income per passenger. **TRUE**
2. In the income statement of an airline company the most important item in total expenditure is canons. **FALSE**
3. Fuel, oil costs and emissions charges is an important item of the total revenue of rail company. **FALSE**
4. Airline non - fuel costs per Ask is a very important ratio to analyze activity of an airline company. **TRUE**
5. The item canons in the total expenses refer to use the infrastructure and stations. **TRUE**

10.4 - Quiz 2

Which statements about the Statement of Cash Flows are true or false in the transport companies?

- Computing the increase/decrease in trade and other payables and deferred revenue on ticketsales. **TRUE**
- Computing realized/unrealized net loss on discontinuance of traction energy and foreign Exchange hedge accounting. **TRUE**
- Computing the realized/unrealized net loss on foreign Exchange hedge accounting. **TRUE**
- Liabilities are listed on the left-hand-side. **FALSE**
- Computing the increase/decrease in trade and other payables and deferred revenue on tisketsales. **TRUE**
- Net cash flow from investing activities has to be equal to financing activities. **FALSE**
- Computing the realized/unrealized net loss of foreign Exchange hedge accounting. **TRUE**
- Operating profit have to equal to operating loss time. **FALSE**
- Operating profit must equal to financing activities. **FALSE**
- The increase/decrease in trade and other payables and deferred revenue on ticket sales are included in operating profit. **FALSE**
- Operating profit have to be equal to financing actvities. **FALSE**
- Computing realized/unrealized net loss on discontinuance of traction energy and foreign Exchange hedge accounting. **TRUE**

Financial Statement elaboration:

Case No. 1.

According to next information make the income statement of the company Soon Tren S.A. Taxes 25,00%:

	€ million
Passenger revenue	900
Compensation of services	1.600
Employee costs	700
Traction energy	200
Canons	900
Finance costs	60
Finance income	10

Solution: Soon Tren S.A.

€ million	Year to 20XX
Passenger revenue	900
Public service	0
Commercial service	0
Agreements	0
Compensation of services	1.600
Other revenue	0
Total revenue	2.500
Employee costs	700
Traction energy	200
Canons	900
Adif Services	0
Intra-groupservices	0
Material maintenance (without intra-group)	0
On board services	0
Other services	0
Total expenditure on operations	1.800
Operating profit (loss)	700
Depreciation, amortisation and impairment	0
Finance costs	60
Finance income	10
Loss after tax exceptional items	0
Total net non operating costs	50
Profit (Loss) before tax	650
Tax	163
Profti (Loss) after tax	488

Case No. 2.

According to next information make the income statement of the company Flight Away S.A. Taxes 25,00%:

	€ million
Passenger revenue	9.000
Employee costs	2.500
Fuel, oil costs and emissions charges	1.500
Handling, catering and other operatins costs	1.300
Landing fees and en-route charges	700
Engineering and other aircraft costs	900
Depreciation, amortisation and impairment	1.900
Finance costs	100
Finance income	200

<u>Solution: Flight Away S.A.</u>

€ million	Year to 20XX	
Passenger revenue	9.000,0	
Cargo revenue	0,0	
Other revenue	0,0	
Total revenue		9.000,0
Employee costs	2.500,0	
Fuel, oil costs and emissions charges	1.500,0	
Handling, catering and other operatins costs	1.300,0	
Landing fees and en-route charges	700,0	
Engineering and other aircraft costs	900,0	
Property, it and other costs	0,0	
Selling costs	0,0	
Depreciation, amortisation and impairment	1.900,0	
Currency differences	0,0	
Total expenditure on operations		8.800,0
Operating profit (loss)		200,0
Finance costs	-100,0	
Finance income	200,0	
Net change in fair value of convertible bond	0,0	
Net financing (charge)/credit relating to pensions	0,0	
Net currency retranslation (charges)/credits	0,0	
Other non-operating (charges)/credits	0,0	
Total net non operating costs		100,0
Profit (loss) before tax		300,0
Tax		75,0
Profit (loss) after tax		225,0

Interview Questions

1. Which are the main particularities of the sector?
2. How can transport companies face political, economical or health changes?
3. How have airlines´s strategic changed?

CHAPTER QUIZ

Q.1 How do you estate the indicator: airline non-fuel units cost per ASK?

a) (Total Financial Expenditure – Fuel, oil costs and emissions charges) ÷ ASK
b) (Total Marketing Expenditure – Fuel, oil costs and emissions charges) ÷ ASK
c) **(Total Expenditure on operations – Fuel, oil costs and emissions charges) ÷ ASK**

Q.2 Liquidity ratios in airlines companies are?

a) **High**
b) Low
c) Mean

Q.3 What does the term canons refer to in rail companies?

a) Traction energy
b) Subtracting the taxes
c) **Using infrastructure and stations.**

Q.4 Has deregulation had a dual effect in airlines companies?

a) **Increasing competition and reducing fares**
b) Decreasing competition and reducing fares
c) Increasing competition and increasing fares.

Q.5 A key item in the profit and loss statement in airline company is?

a) **Total revenue for passengers and the cargo revenue**
b) Total revenue for passengers and the employee revenue
c) Total revenue for passengers and fuel and oil revenue

Q.6 An important ratio in airlines companies, as facing seasonal demand, is?

a) **Liquidity**
b) APP per passenger
c) Cargo AK passenger

Q.7 In the total operating expenses in rail companies a sector-specific item is_________________.

a) **Canons**
b) Revenue per kilometre.
c) Revenue per passengers.

Q.8 When doing financial management in rail companies you have to pay attention to: ___________________,

a) **Employees' costs and canons**
b) Employees' costs and spa costs
c) Canons and guide costs

Q.9 How have airlines ´strategic changed?

a) **Merge companies**
b) Diversification of companies
c) Other business

Q.10 Transport companies we must pay attention over items like:

a) Increase/decrease in trade and other non-payables and deferred revenue on ticket sales.
b) **Increase/decrease in trade and other payables and deferred revenue on ticket sales.**
c) Increase/decrease in trade and other payables and unreferred revenue on ticket sales.

7. Resources

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CHAPTER 11: EVENTS COMPANIES

Introductory video: https://video.th-deg.de/paella/ui/watch.html?id=7688bc5a-787e-4dc2-90a0-c5d497aec700

1. Recommended Timetable for the Chapter

PARTS	Time in Minutes
11.1 Events companies: Activity and regulation	30
11.2 A very complex and heterogeneous industry	30
11.3 Latest trends in the industry Financing sources	60
11.4 Forecasting charges and prices	90
11.5 Operative of charges and prices. Example of a financial plan for a events company VAT	30
Video interview with an expert	60
TOTAL TIME IN MINUTES	300

2. Chapter Summary

The meaning of MICE activities is explained. Some definitions of the different event options that can be developed are provided. In this chapter, the impact that COVID has had on the industry is discussed, as well as the trends that may change the business model in the future. It is explained by the fact that it is considered a complicated and very heterogeneous industry, due to all the options that can be mentioned in relation to this activity.

A case study is offered to consolidate the concepts learned, in which important ratios must be calculated, and a profit and loss account. In addition, an example is offered of how companies can try to predict their sales, to evaluate their future performance, differentiating between the different types of expenses.

At the end of the chapter, an interview is conducted with a professional from the events industry.

3. Importance of the Chapter for Tourism Students

Events are a very attractive activity within the framework of tourism. The companies that are dedicated to providing this service can be a good place for students to develop their future professional activity. It is a complex industry, and one that offers a new adventure almost every day, since the activities and the clients are very diverse.

4. Video-Interview

The interview is recorded with Mrs. Marta Higuera. Marta is currently the marketing director of the Dihme Group, a Spanish restaurant chain with more than 50 franchises in Spain. She has previously worked for brands such as Colgate, Wonder Bra, Dim, and for the multinational Procter and Gamble, always developing marketing and communication activities.

5. Number and Types of Exercises

PARTS	Type of exercise
Introduction: Quiz	True or false activity
Case study Quiz	Different questions in a table
Forecasting: Quiz	Different questions in a table 1 x Case study
Video interview with an expert: Quiz based on the video	3x questions to the interview
TOTAL EXERCISES	5

6. Exercises and Solutions

11.2 - Quiz 1

Which statements are true or false?

- Event companies are easy to run because the activities they manage are usually very similar. **FALSE**
- The combination between business and leisure activities, is a current trend that is called *bleisure*. **TRUE**

11.3 - Case study Quiz

	ROE	ROA	EBITDA
Represents the capacity of managers to get profits with the assets they manage		x	
Doesn´t consider amortizations			x
The % of the investment that the owner gets in profit	x		

Case study Solution

P&L	Before COVID	P&L AFTER COVID	P&L with Technology
Revenue	185.000	18.500	150.000
Cost of sales	-132.000	-52.800	-92.800
Gross Margin	53.000	-34.300	57.200
Fix Costs	-18.500	-18.500	-18.500
Amortizations	-15.000	-15.000	-15.000
EBIT	19.500	-67.800	23.700
EBITDA	34.500	-52.800	38.700
Interest	-2.400	0	0
EBT	17.100	-67.800	23.700
Taxes	4.275	0	5.925

Net Profit	12.825	-67.800	17.775
Ratios		**Ratios**	**Ratios**
ROE	12,83%	-67,80%	17,78%
ROA	12,19%	-42,38%	14,81%

11.4 – Quiz 2

	Variable cost	Contingency	Fixed cost
Cleaning staff cost	x		
Investment to promote the event			x
Higher number of assistances to the event than expected		x	

Interview questions

1. What are the main requirements of the customers when they decide to contract events services?
2. What are some typical difficulties of this kind of services?
3. How do you usually charge for this type of service?

CHAPTER QUIZ

Q.1 Which of the following is not a traditional block of activities developed by an event company?

a) Corporate events
b) Social events for individuals
c) **Guide service to the employees of a company**

Q.2 When referring to events, the activities of the acronym __________ are included.

a) **MICE**
b) FIT
c) NGO

Q.3 Which of the following statements is more accurate in relation to the MICE activity?

a) **Has been one of the sectors that has grown the most lately**
b) It is an activity that is losing importance in tourism
c) The MICE business is not regulated

Q.4 A type of meeting for educational purposes, in which attendees learn while doing activities is called:

a) Forum
b) Seminar
c) **Clinic**

Q.5 The financial analysis of an event company is complicated because…

a) **The activities carried out can be very heterogeneous**
b) Very high budgets are usually handled
c) The reservation of the venue to carry out the event always requires special analysis

Q.6 In relation to the following statement: "Sustainability is a factor that is taken into account in the events sector", which of the following statements is correct?

a) This factor is not being considered in the industry
b) This factor has been valued for many years in the industry
c) **It is a factor that is beginning to be considered recently**

Q.7 When a company is commissioned to organize an event, one of the advantages is:

a) **They are usually ordered with some anticipation, which simplifies the tasks**
b) It is relatively easy to predict the future figures of expenses and income
c) The contract is not a relevant factor w

Q.8 The expenses that are present to a greater or lesser extent in all kinds of events and that cannot be dispensed with, are called:

a) **Common expenses**
b) Fixed costs
c) Variable costs

Q.9 The software to manage an event like Meetmaps could be considered a:

a) Common expense
b) **Fixed cost**
c) Variable cost

Q.10 The catering service cost is considered a:

a) Common expense
b) Fixed cost
c) **Variable cost**

7. Resources

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CHAPTER 12: SPA FACILITIES

Introductory video:
https://video.th-deg.de/paella/ui/watch.html?id=3ec54201-5bf3-4165-8a80-884f948992cf

1. Recommended Timetable for the Chapter

Chapter	Time in minutes
12.1 Spa Facilities: Introduction	15
12.2 Description of the Spa Facilities	20
12.3 Some Legal aspects to be concerned about	15
12. 4 The Financial management of Spa Facilities	30
12.5 Interview	30
12. 6 Financial performance management	120
12.7 Measuring Business Income	60
12.8 Example of a Financial Statements Analysis of a Spa Company	120
Chapter Quiz	30
TOTAL	440

2. Chapter Summary

The chapter illustrates the paper a Spa facilities business inside the tourism sector. Details about the necessary resources, focusing on human talent and personal skills of workers, as well as regulations covering aspects related to accidents, etc. are settled. A special item is created to highlight the financial management of a Spa business, improving it with a complete case study. Additionally, an item refers to the characteristics of measuring business income, describing the process, beginning from gross revenues, going through operating or financial revenues or expenses, to finish win income before tax and net income. Finally, an example of the main financial statements of a company dedicated to Spa facilities: Income statement and Balance sheet, being used for a comprehensive financial analysis: key relationship, operating performance (vertical and horizontal analysis) and other common ratios.

3. Importance of the Chapter for Tourism Students

As a Spa facilities business is growing inside the tourism sector, any student of this area must have at least a general idea of its potential as an alternative option. Other than specific characteristics of Spa facilities, any student may have some knowledge about management and legal rules, financial management, the importance of financial reporting as well as the main financial indicators of the activity.

4. Video-Interview

The interview is recorded with Prof. Ph.D in Economy and Business Luis Fernando Gracia Sarubbi from Universidad Europea who teaches finance and accounting courses for international business students.

The entrepreneur interviewed has a long experience inside the tourism and leisure running Spas business in Madrid, Spain, for more than forty years.

5. Number and Types of Exercises

PARTS	Exercises
12.2 Description of the Spa Facilities	1 x Quiz
12.5 Interview	3 Interview Questions
12.6 Financial Performance Management	Case Study with 4 Questions
12.7 Measuring Business Income	1x Quiz
12.8 Example of a Financial Statements Analysis of a Spa Company	Exercise with answers
Chapter Quiz	10 Multiple Choice Questions

6. Exercises and Solutions

12.2 - Quiz 1

Which statements are true or false?

- Considering suppliers of spa services, the great majority are day spas, followed distantly by hotels and resorts, and medical spas in third place. **FALSE**
- Request of spa services is driven by people's resources, wellness tourism and demographic trends. **FALSE**

Interview Questions

1. Which are the legal aspects that must be taken into account when thinking of running this type of business?
2. What are the aspects that make a Spa business different from other types of companies inside the tourism sector?
3. Thinking of optimizing income, which are the main operating expenses to be specially considered?

Case study

Two entrepreneurs with some experience in the wellness area are thinking to create their own small company dedicated to offer spa services. To begin with, they are considering the possibility to set up the company in Madrid, Spain, with the idea to expand it into other European cities in the future.

Firstly, and after deliberating about the best way to do it, they decided to create a website to promote their services, describing facilities, services offered, prices, and a special section for reservations.

Secondly, a marketing plan will be delivered, focused on potential clients such as companies, groups, couples or individuals.

For the initial investment they decided to contribute 50,000€ each, totalizing a capital of 100,000€. They studied the idea of some bank finance but they decided at last to leave it for later, hoping it will not be necessary.

Case study - Questions:

1. After reading the contents of the chapter, imagine the problems they can find as well as some opportunities when creating the company.
2. Think about some possible strengths and weaknesses these partners could have. Go on offering some strategies to make the upcoming business a different one.
3. Indicate the uses of those initial 100,000€ to create the company.
4. Assuming that the expected annual income is 210,000€ and the net profit for the first year is 56,000€, calculate the profit ratio and the financial return ratio (ROE), consideering the partners' initial investment as the only item inside equity. Explain the figures obtanined from those ratios.

Case study – Answers:

1. Considering problems we can mention as an example the difficulties to tind employees experts in the area, willing to work in weekends. As opportunities, Madrid is a city full of tourists. It offers great opportunities to work not only with local clientes but also from outside Madrid.
2. Among the weaknesses, market competition could be a problem. For that reason, offering somwthing different is basic. Considering the strengths, Spa facilities are well considered by people, specially in holidays. As a strategy, the company could find a way to associate its services to the frequent flyer programs of some airlines like Iberia, Lufthansa, Czec Airlines, etc.
3. Obviously, mostly of those resources must be dedicated to facilities, offering an image of relaxation, well-being and pleasure.
4. <u>Profit ratio</u>: Net Profit / Annual Sales

56000 / 210000 = 0,27. For each euro obtained from Sales, 0,27 cents correspond to net profit.

Financial return ratio (ROE): Net Profit / Total Assets

56000 / 100000 =) 0,56. For each euro invested, 0,56 cents are obtained as profit.

12.6 - Quiz 2

True or false?

Although a Spa business is a service company, the structure of an Income Statement should not be different from a trade business. **FALSE**

CHAPTER QUIZ

Q.1 Spas correspond to a very important part of tourism economic sector because:

a) Nowadays, it is appreciated as a way of life;

b) **They are essential for the market expectations for resort areas;**

c) It is basic to have well-trained human talent and personal abilities to take on such a challenge.

Q.2 Day spas:

a) Focus on services provided by health experts authorities;

b) **They represent the vast majority inside the its sector;**

c) None of the above are right.

Q.3 A Spa requires some assets to provide their services. Among the tangible assets, …. could be found:

a) **Buildings, vehicles and computers;**

b) Buildings, furniture and patents;

c) Buildings, computers and softwares;

Q.4 A Spa requires some assets to provide their services. Among the intangible assets, …. could be found:

a) Buildings, vehicles and computers;

b) Buildings, furniture and patents;

c) **Know-how, trademarks and patents;**

Q.5 Point out the right sentence:

a) A business needs resources coming from owner's equity;

b) A business needs resources coming from borrowings;

c) **Both, a and b are right.**

Q.6 Capital structure is:

a) **The way of combining own or third parties' funds;**

b) The returns on investment;

c) None of the above.

Q.7 A Spa service business suggests some distinctive attributes such as:

a) Revenues coming from different sources;

b) Services offered are perishable;

c) **Both, a and b are right.**

Q.8 Which of the following ideas is not a particular attribute of the Spa sector?

a) **An Optimus debt level is one that does not exceed half the necesary investment.**

b) In the income structure, the most main cost components are the operating expenses;

c) Salaries, depreciation and amortization are the most important operating expenses;

Q.9 A Spa business is in the presence of profit when:

a) Revenues coming from Spa activities are lower than expenses incurred when developing those services;

b) **Revenues coming from Spa services are higher than expenses incurred when developing those services;**

c) Expenses are higher than revenues;

Q.10 To get the Income before tax, we must:

a) Calculate the difference between revenues and operating expenses;

b) **Add or subtract to the income from operations other revenues or expenses;**

c) Calculate the difference between the net income and the Income tax.

7. Resources

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