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Bachelor thesis

Investment analysis of a business plan

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!!!

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(Do jedné vazby originál a do druhé kopii)**

!!!

Declaration

I declare that I have worked on my diploma thesis titled “Investment analysis of a business plan” by myself and I have used only the sources mentioned at the end of the thesis.

In Prague on _____

Signature _____

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I would like to thank Ing. Lőrinczová Enikő Ph.D., the supervisor of my bachelor thesis, for the consultations and rich advices during the work on my bachelor thesis. I also have to thank the owner of business which I was able to use as a case study, and all other persons, for their advice and support during my work on this Thesis.

Investiční analýza podnikatelského záměru

Investment analysis of a business plan

Souhrn

Cílem této bakalářské práce je zhodnotit vybraný investiční projekt, po roce jeho provozu. Bakalářská práce je rozdělena na více částí, z nichž hlavní je teoretická část a dále praktická část. V teoretické části jsou rozebírány jednotlivé fáze života investičního projektu, jeho hodnocení a různé externí a interní analýzy. Jako součást před-investiční fáze jsou zde také uvedeny studie příležitostí a proveditelnosti. Vedle samozřejmých PEST a SWOT analýz, sloužícím na zjištění vnějších makro faktorů a hodnocení vnějšího a vnitřního prostředí, jsem použila také investiční analýzu, ve které se objevují různé metody jako například výpočet Čisté současné hodnoty, nebo doba návratnosti investice. V praktické části je nejprve charakterizován vybraný podnikatelský subjekt, jehož majitel si přál, aby podnik zůstal inkognito a proto je v práci používán smyšlený název Bedřichov Point. Dále jsou pak v praktické části provedeny všechny kroky podle postupu popsání v části teoretické. Jsou zde také analýzy návštěvnosti a míry využití. V závěru je celkové zhodnocení investičního projektu Bedřichov Point, ve kterém jsem dospěla k tomu, že za první rok provozu nebyly finanční výsledky natolik pozitivní, jak se očekávalo. Když se vezmou v potaz veškeré relevantní faktory, pak z daných výsledků lze soudit tento investiční projekt za ziskový.

Summary

The aim of this bachelor thesis is to evaluate the chosen investment project, after the first year of its trial operation. This work is divided into several parts, from which the major parts are the theoretical and practical parts. The theoretical part discusses the individual phases of an investment project, its evaluation and various external and internal analyses. As part of pre-investment phase there are also identified opportunity and feasibility studies. Besides the PEST and SWOT analysis, presenting the findings of the external macro factors and evaluation of external and internal environment of the business, I used the investment analysis, in which there are various methods such as calculating the net present value or payback period. In the practical part is initially characterized the case study business, whose owner wished for the business to remain incognito and therefore I have used the fictional name of Bedrichov Point in the thesis. Further, the practical part follows all the steps as described in the theoretical part. There are also capacity and apartments utilization analysis. In conclusion, there is overall evaluation of the project Bedrichov Point. I come to the conclusion, that for the first year of operating, financial results were not as positive, as expected. However, taking into account all relevant factors, the results suggest that the investment project is profitable after all.

Klíčová slova: investiční analýza, investiční project, ubytovací zařízení, studie proveditelnosti, doba návratnosti, čistá současná hodnota, vnitřní výnosové procento, zhodnocení, ziskovost

Key words: Investment analysis, investment project, accommodation facility, feasibility study, payback period, net present value, internal rate of return, evaluation, profitability

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1 Introduction

This bachelor thesis is focused on investment project, its phases and evaluation. To analyze and study the process I have chosen a business as a case study. This business required to stay incognito, so during the thesis I am using alias name “Bedřichov Point”. The process of an investment project Bedřichov Point realization started in March 2006 and was officially opened on 25.9.2008. Thanks to its short operating period, I am able to study just the first year of its operating, so called trial operating. Bedřichov Point is a small accommodation facility in Jizerské Mountains, in Northern Bohemia.

Sources, based on which the theoretical part of the thesis is written, are mainly two books, the first is written by H. Sůvová and her collective with title “Finanční analýza v řízení podniku, v bance a na počítači”, and the second one was written by J. Fotr and I. Souček with title “Podnikatelský záměr a investiční rozhodování”. The theoretical part covers in detail the process of the investment project with all its necessary parts right from the pre-investment phase, where is paid closer attention to feasibility study, all the way till the end of operating phase. Evaluation and financial analysis, which can be considered as a part of a feasibility study, are also mentioned in the theoretical part, because they have very important role in project decision making. Another chapter is dedicated to accommodation facilities division and specification, from where it is clear which category does Bedřichov Point belongs to. PEST and SWOT analyses are also mentioned, because they are very helpful tool for any business project, at any phase of its life. In the practical part all the steps which are mentioned in the theoretical part are applied on the case study of Bedřichov Point.

The reason why I have chosen this topic for my bachelor thesis is that I come from the same mountain village, where this small accommodation facility was opened. I am very interested in development of the area and any activity related to tourism. Together with the owner/operator of Bedřichov Point we have established the objectives of this thesis so it would be to the owner’s use, once it is finished.

2 Objectives

Goals of this bachelor thesis are to determine whether the project will be profitable or not and how long would be the payback period. Inherent part of objectives is to propose suggestions how to increase profitability in future years, how to shorten the payback period. And finally determining whether my findings prove or disapprove the hypotheses estimated by owner (next paragraph).

2.1 Hypotheses

Following hypotheses were estimated by the owner, of given project, after outlining the business plan and before investment. There are four main points:

- Payback period approximately 13 years from opening.
- Incomes after one year of trial operating 500 000CZK (increasing for 2-3 years)
- Reconstruction and all items permanently attached to building costs 3 800 000CZK
- Operating costs in the first year of operating 265 000CZK

2.2 Methodology

Theoretical part of the thesis, in which the methods are identified, is based on the resources, mainly two books, the first is written by H. Šůvová and her collective with title “Finanční analýza v řízení podniku, v bance a na počítači”, and the second one was written by J. Fotr and I. Souček with title “Podnikatelský záměr a investiční rozhodování”. In my thesis I am analyzed the process of investment project on case study and its successfulness after one year of trail operating. For case study I have chosen young business which would like to stay incognito, so I will be using an alias name “Bedřichov Point”. Bedřichov Point is located in Bedřichov, Jizerské Mountains in northern Bohemia. The facility officially opened on 29.9.2008. In the theoretical part is closely described the process of project stages and its evaluation, which are closely elaborated and applied to the case study in the practical part of the thesis. As a part of the pre-investment phase is a feasibility study, which closely analyze the market, marketing strategy, location and other necessary parts of this study. Important part is also the evaluation and financial analysis of the investment project. I am using several methods of investment analysis, like payback period or cash on cash return.

3 Literature review

This chapter of my bachelor thesis is the theoretical part, which will cover phases of investment project life and its evaluation, by financial, investment, SWOT and PEST analyses.

3.1 Definitions

Project: “Project is an extensive operation involving the planning and management. The main features of the project are its goals to be achieved with limited resources (time, material, labour, etc.), with many links, the diversity of tasks and uniqueness of the project. Therefore, the project is associated with high levels of uncertainty and its resulting risks.”¹

Business project: “Business project is a special case of the project, which has business objectives (sales increase, costs decrease, business revitalization, etc.). Subject of business projects are often investments, and then we talk about investment business project (or investment project). Business projects can be sorted by a number of aspects.”²

Investment: “Investment generally means some sacrifice of today's (current) value (consumption) for the uncertain future value (consumption). Subject of business projects is mainly so-called real investment in the form of tangible (for example creation or expansion of production capacity) and intangible (research, education, etc.)”³

Business plan: “The Business Plan is a written summary of what you hope to accomplish by being in business and how you intend to organize your resources to meet your goals. In it, you define your basic product, your income objectives, your management team, your competition, and your specific operating procedures. It details the what, when, where, why, and how of your business. It explains what your objectives are, why your

¹ SŮVOVÁ H a kolektiv, Finanční analýza v řízení podniku, v bance a na počítači

² SŮVOVÁ H a kolektiv, Finanční analýza v řízení podniku, v bance a na počítači

³ SŮVOVÁ H a kolektiv, Finanční analýza v řízení podniku, v bance a na počítači

business will be unique, and the steps you will take to achieve those objectives. In essence, it is the road map for operating your business and measuring progress along the way.”⁴

Investment analysis: “Investment analysis is a study of the likely return from a proposed investment with the objective of evaluating the amount an investor may pay for it, the investment's suitability to that investor, or the feasibility of a proposed development. Appraised value is based on a synthesis of people in the market whereas investment analysis is based on the value to a specific investor.”⁵

Greenfield project: “Greenfield project is a new company or activity allocated from the parent company into a separate organization, so it doesn't directly influence other activities of the business. The Greenfield project is formed without assets or capital in order to take part in a new area of activity.”⁶

3.2 Typology of investment business projects

The division of investment business project can be done by several different aspects, which may also be important for their further assessment. Here are the basic division aspects:⁷

- **Relationship to the business development** (developing, innovative, mandatory)
- **Substantive content of the project** (introduction of new products, research and development of new products, innovation of information systems)
- **Mutual influence of projects** (substitution, independent, complementary)
- **Form of project realisation** (Greenfield, in established businesses)
- **Nature of cash flows from project** (conventional cash f., nonconventional cash f.)
- **Size of project** (large, middle range, small)

⁴ STRAUSS STEVEN D., *The Business Start-Up Kit*

⁵ DICTIONARY OF BUSINESS TERM, www.allbusiness.com

⁶ SŮVOVÁ H a kolektiv, Finanční analýza v řízení podniku, v bance a na počítači

⁷ FOTR J. /SOUČEK I., Podnikatelský záměr a investiční rozhodování

3.3 Preparation and phases of investment Project

Quality and careful preparation of the investment project is one of the fundamental requirements for success. There are four main phases of project:⁸

1. Pre-investment phase (opportunity study, feasibility study, appraisal report)
2. Investment phase (project documentation submitted to municipalities)
3. Operating phase (short-term, long-term)
4. End of operating/liquidation phase.

3.3.1 *Pre-investment phase*

Each of these phases is important to the project but still we have to pay special attention to the first pre-investment phase because success of given project will after all depend on information and data collected to prepare a feasibility study or a business plan. Pre-investment phase is generally divided into three periods:⁹

- Opportunity study
- Feasibility study
- Appraisal report

Opportunity study

Purpose of these studies is to process available information and data about given opportunities, so investor could at least roughly be able to assess effects and hopefulness of projects based on these opportunities. Opportunity studies are brief, not very costly and are using more likely large scale information and assumptions than detailed analyses, and should point out important aspects of these opportunities. Evaluation of opportunities studies is always based on comparison with not investing option, which is base of the evaluation. The result from evaluating these studies is selection of potential project and elimination of these project opportunities which had for example low economic efficiency, high risk or high investment and financial needs.

⁸ FOTR J. /SOUČEK I., Podnikatelský záměr a investiční rozhodování

⁹ FOTR J. /SOUČEK I., Podnikatelský záměr a investiční rozhodování

Feasibility study

Before explaining in detail the feasibility study I will mention the Pre-feasibility study, which is an extra step, in-between opportunity study and feasibility study. Elaboration of feasibility study is very time consuming and expensive process and that is the reason why it is necessary to prepare the pre-feasibility study mainly for considerably large projects. The aim of this study is to make clear, whether the project is to be continued or be rejected before spending time and finance on feasibility study.

All the information and data available in the feasibility study should cover all necessary information that investor needs for final investment decision. This study should necessarily formulate and critically evaluate basic commercial, technical, financial and economical requirements. Important aspect of this study is its alternativeness. There might be found some weak points, even in this phase, but there should be ways how to solve such problems. In case it would be impossible to eliminate these weak points, it is highly recommended to reject the project and avoid any possible expensive complications. Feasibility study should include:

- Market analysis and marketing strategy
- Technology description and capacity
- Location and realization plan
- Labor amount and hierarchy
- Organization and management
- Financial analysis and evaluation
- Risk analysis

Appraisal report

Evaluation of financial health of the company which is planning on the project realization, expected pay-off for stock-holders and securities of the institutions taking part in financing the project, together with feasibility study, are usually basic documents for project evaluation by different investment and financial institution, which might be taking part in financing the project. Appraisal report is written evaluating report, summing the

higher mentioned aspects together with project evaluation from technical, commercial, market, managerial, organizational, economical and financial criteria and aspects.

3.3.2 *Investment phase*

Investment phase covers large amount of activities, which all together form the realisation of the project. Formation of legal, financial and organisational framework is the fundamental for project realization. According to Fotr and Souček we can divide this phase into following periods:¹⁰

- Processing of “task of the construction”
- Initial project documentation processing (including Environmental Impact Assessment) of the project for “territory ground plan decision”
- Processing of implementation project documentation
- Realization of construction
- Preparation for opening, opening and trial operating
- Documentation and system actualization

3.3.3 *Operating phase*

It is necessary to look at problems of operating phase from both short and long term. Short term point of view is looking at starting the project with opening and trial operating. In this period there might be some problems resulting from incorrect technical processes, insufficient qualification of employees and so on. Most of these problems originate in realization phase of the project. Than we have a long term point of view, which is looking at the whole strategy of the project and from there emerging on one side revenues and costs on the other. These costs and revenues have a close relation to presumptions from which the feasibility study was made. If the chosen strategy and presumptions were different to reality than the correction process to solve these problems might not be just very difficult but also very expensive, for some project there might not be a way how to solve such a situation which would result in failure.¹¹

¹⁰ FOTR J. /SOUČEK I., Podnikatelský záměr a investiční rozhodování

¹¹ FOTR J. /SOUČEK I., Podnikatelský záměr a investiční rozhodování

3.3.4 End of operating/liquidation phase

This is the last phase of the project life. It is connected both with profit from liquidated assets and also costs related to its liquidation. It is clear that while performing profitability analysis of the project it is inevitable to take in consideration also the costs related to its end of operating. These costs and revenues might differ dramatically depending on the sphere of business in which the project belongs.¹²

3.4 Evaluation and financial analysis of investment project

Financial analysis and evaluation of the project represent pivotal role in the feasibility study of the project, because they provide essential information for the decision making about acceptance or rejection of the investment project. The evaluation and choice of the projects leads to two serious decisions. The first one is investment decision and the second one is financial decision.

Investment decision is considering whether to invest into the project or not, whether the evaluated project is effective enough or not. Once the decision is to accept the project another role of investment decision is to come and it is the decision about the amount of funds spend on realisation of the project, how much and into what to invest.

Financial decision is applied once the project is accepted and decision about investing into this project is final. Financial decision gives solutions how to finance the project so it would be financially passable, stable and optimal regarding to costs of funding sources. Chosen structure of finance determines how the incomes from the project will be divided in between the investors.¹³

3.4.1 Decision making

Everyone who is somehow involved in the project realization can utilize the evaluation of the project through the financial analysis. But not everyone has the chance to be involved in decision making about the project. Those who may review or influence the decision related to the project are mainly owners and managers of the business (who are

¹² FOTR J. /SOUČEK I., Podnikatelský záměr a investiční rozhodování

¹³ SŮVOVÁ H a kolektiv, Finanční analýza v řízení podniku, v bance a na počítači

considering realization of the project and are making the investment a financial decisions), all potential investors (they are basing their decision, about providing their sources for the project, on checking the effectiveness of the project and return on inserted sources, their decision then changes the structure of project financing) and institutions (depending on subject of project they are competent to authorise or regulate its realization, most of the decisions are based on nonfinancial parameters).

3.4.2 Evaluation and financial analysis of Greenfield investment project

As all ready mentioned in definitions the Greenfield project is a project that lacks any constraints imposed by prior work or activity of the company. Basic steps of investment project evaluation are:

1. determining the incomes and costs during project life
2. structural proposal of project financing
3. determining relevant cash flows during project life
4. economic effectiveness evaluation of project and investment decision
5. verification of financial throughput of project and financial decision

It is not necessary to perform individual steps of evaluation in given order, because they are mutually conditional especially first with second step and fourth with fifth.

Investment and financial decisions can be performed stepwise. First of all decision is made without considering financing sources if and how much to invest. The calculations for investment decision are in this case done assuming the funding would be from own sources, and then the structure of funds is implemented into the calculation. This procedure is necessary if at the start there are no data available about financial resources, and project needs to be chosen from several possible options.

Determining the incomes and costs during project life

Regarding to accounting standards this step can be also called cash flow of operating and investing activities. This step of evaluation is about list of incomes and costs of the project. The aim is to state positive and negative cash flows, which arise from the project realization irrespective of financial resources, which we will consider in next step

of evaluation. Choice of individual income and cost items should be done already in financial planning. From operating and investment activities are resulting following cash flows, which are calculated in this step:

- | | |
|-------------------------------|-------------------------------|
| A. Investment costs | E. Income tax |
| B. Sales | F. Changes in working capital |
| C. Other revenues | G. Revenues or costs from the |
| D. Costs related to operating | project liquidation |

Structural proposal of project financing

In this step of project the financing structure is formed with aim of gathering necessary amount of financial resources to cover the project realization in given time. It is very important to make sure that during the project's life doesn't occur financial deficit which would result in temporary or permanent closure followed with liquidation of a business as a result of unfulfilled liabilities. Proposed structure of financing should be also optimized regarding to expenses for financing sources and also safety aspects. From proposed structure of financing results following project cash flows:

- | | |
|--------------------------------------|-------------------------------------|
| H. Registered capital, grants, gifts | K. Division of profit |
| I. Drawdown and payment of loan | L. Development of other liabilities |
| J. Costs interest | not mentioned higher |

Determining relevant cash flows during project life

The project is realized in with expectation of future effects which are money cash inflows. Thanks to these inflows it is possible to pay for several needs of the project operating and to pay dividends to the owners. Evaluation of economic effectiveness and financial throughput of the project, which are mentioned in following steps four and five are based mainly on cash flows. So the fundamental task of this step is to determine the cash flows of the project, which are relevant for the investment and financial decision of given project. These relevant cash flows are only those, which as a result of project realization change its

amount, which wouldn't happen if the project would not be realized. This so called approach of amendments of setting the relevant cash flow is taking all the other incomes and costs, which are not changed by influence of the project, as irrelevant for decision making. This approach has a general rule of always considering difference of two states: state as a result of project realization and state as a reference.

Economic effectiveness evaluation of project and investment decision

Realization of project is based on cash inflows expectation, so the economic effectiveness evaluation is mostly based on cash flows. These cash flows which are fundamentals for economic effectiveness evaluation are different cash flows than those used for financial throughput verification and for financial decision. In this step the cash flows considered are those “without considering the financial resources”, the ones used for investment decision, so from incomes and costs which are coming from financial activity of the business. From the list of cash flows in step one are considered into this cash flows item A.-G. So it is a choice of relevant cash flows defined in step three. Into costs are in this case not considered interest expenses from other capitals. Examples of economic effectiveness indicators are payback period, internal rate of return or net present value which is further in these theses explained in more detail.

Verification of financial throughput of project and financial decision

Financial throughput and financial decision of the project are also based on cash flows. Cash flows for financial planning, which contain all incomes and costs during the project life (they are incomes and costs from investment, operating and financial actions of the business). So we can consider all the items A.-L. from step one and two, so there are considered all items of relevant cash flows defined in step three, but this time in purpose of financial decision.

3.5 Investment analysis ¹⁴

It is a study of potential return on investment to the investor or owner, done with purpose to determine whether the business is healthy or not. This analysis is based strictly on earnings and investment returns on the property, but not on potential sales and its prices.

¹⁴ FINANCIAL DICTIONARY, Investment analysis, www.financial-dictionary.thefreedictionary.com

Depending on kind of investment, or what suites investor/owner better, one can choose from several different methods of analysis. Because it is usually an analysis for internal use, it is everyone's choice how will the analysis be structured.

3.5.1 *Methods of investment analysis*

The most commonly used methods of investment analysis are cash on cash return, Payback period, Internal rate of return and Net present value. Each of these methods provides some extent of the estimated return on an investment, based on several presumptions and investment horizons.

Cash on cash return¹⁵

This method (CCR) is usually used in real estate investments. It is a percentage that measures a return on cash invested into profitable property. We calculate this percentage by dividing cash-flow before tax by amount of cash invested time one hundred to get the percentage.

$$\text{CCR \%} = \frac{\text{cash flow before tax}}{\text{cash invested (cash down)}} \times 100$$

It is very important and useful tool for investors. However this method also has its limitations. One of them is the fact that it is before tax ratio, so it does not include the impact of tax returns. Other point is that this calculation does not consider appreciation, so investor should also take into consideration the potential for appreciation beside the cash on cash return.

Payback period¹⁶

Payback period (PP) is the length of time needed to recover the initial investment. So it tells the investor how long the project will take to recover the cost of an investment. It is probably one of the simplest and easiest calculations, unfortunately it has many flaws. There are two main problems with this method. First of all it does not consider any benefits after the end of payback period and therefore does not measure profitability. Second of all the time

¹⁵ REAL ESTATE INVESTMENT SOFTWARE, Cash on cash return, www.invest-2win.com

¹⁶ MONEY TERMS, Payback period, www.moneyterms.co.uk

value of money is completely overlooked in this method and there are some more flaws like no adjustment for risks.

$$PP = \frac{\text{cost of investment}}{\text{mean annual cash flow}}$$

Internal rate of return¹⁷

Internal rate of return (IRR) is the total return on investment calculated when having investment which creates differing amounts of annual cash flows. It is very accurate calculation thanks to taking into account depreciation, appreciation and equity gained from paying down debt. Calculation by this method is much harder than some other calculations, as items like depreciation depend on taxable income, some assumptions also have to be made referring to appreciation until the property is actually sold. Calculation of IRR comes out of Net present value (NPV) calculation, where NPV equals zero. Where C_i are cash flows, C_0 is investment and r – internal rate of return.

$$NPV = \sum_{i=1}^n \frac{C_i}{(1+r)^i} - C_0 = 0$$

Net present value¹⁸

The net present value (NPV) is a difference between present value of all future cash inflows of the project and the present value of all cash outflows of the project. In other words we can define the net present value as sum of discounted net cash flow throughout the project including the period of development and also the period of operation. It is used in capital budgeting to analyze the profitability of an investment or project. NPV method is sensitive to the reliability of future cash inflows that an investment or project will yield. Investor should invest into project with positive net present value, but should not invest into projects with negative net present value. The calculation figure remains the same as with IRR, where C_i are cash flows, C_0 is investment and r – internal rate of return.

¹⁷ REAL ESTATE INVESTMENT SOFTWARE, Internal rate of return www.rentalsoftware.com

¹⁸ REAL ESTATE GO ZONE, CCR versus IRR www.realestategozone.wordpress.com

3.6 Business plan

Management makes a business plan to look ahead in its operating, allocate its resources, to concentrate on its key points and to prepare for possible threats or opportunities.

Business plans are mostly used for starting new businesses or while applying for business loans. They are also very useful tool for already running business and not just if another loan or investment is needed but also to optimize growth and development according to current needs.¹⁹

3.7 Accommodation facilities and its division²⁰

Accommodation facilities, whether it is newly build, or reconstructed needs to meet several law's requirements. First requirements stated by The Trades Licensing Act from the 9. 12. 1999 in §17 in paragraph 8, obligations of accommodation facility operator.

Business intended to sale goods or offer services to customers must be permanently and from outside visibly also marked with:

- First and last name of the person responsible for activity of the business
- Opening or operating hours stated for contact with customers
- Category and class of accommodation facility* offering temporary accommodation

*Decree No. 137/1998 about general technical requirements on construction.

Further requirements stated in Decree on technical requirements for construction No. 268/2009 with effect from 26.8.2009 by Ministry for Regional Development are related to construction and amenities of an accommodation facility. These requirements are valid for newly constructed, accepted and reaccepted (after 1.7.1998) accommodation facilities. In §3 for purposes of this decree is understood paragraph g) construction of accommodation facility is a construction or its part, where is offered temporary accommodation and services related to it. Accommodation facilities are classified by kind into categories and by requirements on area and amenities into classes which are marked with star.

¹⁹ BERRY TIM, What is a business plan? <http://articles.bplans.com/>

²⁰OFICIÁLNÍ JEDNOTNÁ KLASIFIKACEBYTOVACÍCH ZAŘÍZENÍ ČESKÉ REPUBLIKY 2006-2009

- **Hotel** is an accommodation facility with at least ten rooms for guest equipped to facilitate temporary accommodation and related services (mainly meals), hotels are divided into five classes, hotel garni has amenities only for limited range of meals (at least breakfast).
- **Motel** is an accommodation facility with at least ten rooms for guest equipped to facilitate temporary accommodation and related services for motorists and is divided into four classes.
- **Pension** is an accommodation facility with at least five rooms with limited range of corporate and additional services, but with comparable accommodation services to hotels and is divided into four classes.
- **Other accommodation facilities** are tourist hostels, campsites and group of bungalows, or cultural or historical property used for temporary accommodation.

These are the categories of accommodation facilities in the Czech Republic. They are divided into classes – amount of stars, depending on level of amenities from which derives the price. Categories hotel garni, pension and motel of Accommodation facilities can be given maximum of four stars.

- * **Tourist**
- ** **Economy**
- *** **Standard**
- **** **First Class**
- ***** **Luxury**

3.8 PEST Analysis

PEST analysis is one of the first steps while planning and starting a business; it scans external macro-environment in which the business operates. It is expressed in four following factors:²¹

²¹ MARKETING TEACHR, Lessons, PEST and SWOT analysis concept and explanation: www.marketingteacher.com/Lessonstore.htm

- **Political** - factors which include government regulations, legal issues and define rules under which the business must operate.
- **Economic** - factors which affect interest, in our business, of potential customers and the business's cost of capital
- **Social** - factors which are demographical and cultural aspects of the external macro-environment. These factors are influencing customer's needs and the size of potential markets.
- **Technological** - factors are important for competitive advantage, they can lower expenses and higher the quality of services provided

3.9 SWOT Analysis

SWOT analysis is not any less important while planning and starting a business, it also scans environment but internal. This analysis provides business with information that helps to audit its organization and environment. Strength and Weaknesses are internal factors which can be measured to their competitors. External factors are Opportunities and Threats which can't be influenced by the business and they derive from external environment (PEST analysis)²².

- **Strength** - are business's capabilities and resources that are better than competitor's, which results in higher customer interest
- **Weaknesses** - can be either absent strength or the other side of strength
- **Opportunities** - external environment analysis may reveal some new opportunities for growth or profit, or there might be a gap in the market
- **Threats** - external environment may also reveal that customers interest and criteria has changed or that there are competitors who offer better services

²² QUICK MBA, Strategies, PEST and SWOT analysis concept, www.quickmba.com/strategy/

4 Practical part – Case study

4.1 Characteristics of chosen investment project

Case study is about investment project of small accommodation facility which would like to stay incognito so I will be using alias name “Bedřichov Point”. This investment project is fully funded by the owner from their own resources, so there is no need to consider any dividends to share holders, or loan payments. The project is also not connected to any of their business activities, which means it is a Greenfield project. This specification is based on one type of project classification which is Form of project realization.

Native son of Rožnov built Bedřichov Point building, and that gave to it typical features and shapes of Wallachian cottage. Bedřichov Point offers modern accommodation suitable for family vacation, social events or even business events. This facility has the standards of pension with three to four stars, but it doesn't meet the requirement of the minimum of five rooms (it has only four), so it falls into category of other accommodation facility – touristic hostels/mountain cottage.

Bedřichov Point is located in northern Bohemia in Jizerské Mountain in small mountain village Bedřichov. This village is easily accessible from nearby cities of Liberec (9km) and Jablonec nad Nisou (7km). Both of these cities are connected to highway from capital city Prague (104km Prague – Bedřichov). Bedřichov Point is situated in quiet area, hidden from busy main street but easily accessible by car or by foot. Destination to the village centre is about 5-10 minutes by foot and the closest ski-tow is just about 300 meters so the Bedřichov Point is very well strategically situated in the area.

Bedřichov Point has four apartments with capacity of two to eight beds (1.apartment – 2 beds, 2.apartment – 2+2 beds, 3.apartment – 2+3+2 beds, 4.apartment – 4+4 beds) so the total capacity is 21 beds, from which 10 are main beds in the living areas, 9 beds are located in attics of the apartments and 2 extra beds, which is an unroll double-couch in apartment 3. Each apartment has its own kitchen and sanitary facility with shower. The kitchen is provided with stove, fridge and freezer, microwave, sink, kettle and all necessary dishes and tools. In the apartments there are also TV sets with satellite and guests are provided with beddings and towels. Because Bedřichov Point is situated in hart of Jizerské Mountains, most of the guests come for sport, so the building is duly adjusted to it. There are rooms like bike storage room,

ski room, drying room and room for reapers and ski preparation, and for the relaxation there is a sauna with rest room and own fridge for drinks. There is also a social meeting room with kids-like area, tables and Dutch-stove, and beside this room there is large kitchen for groups which are cooking together. Bedřichov Point is surrounded with garden and forest and has playground, open fireplace, grill and sundeck with tables. Parking for guests is right besides the building and for those who come for cross-country skiing, there are provided parking spots right at the start of trails. In case that guests would like to have meals provided it is possible and there are two different price options for them.

4.2 Phases of given investment project

There are four phases of project life from pre-investment phase to end of operating phase. The last phase is, by the owner, hoped to come in far future. Bedřichov Point has just started in this business and it wasn't the best start, but it is nowhere close to failure. Incomes are increasing by each month in the second year of operating, so the progress is positive. Now the three phases, which Bedřichov Point has already been in:

4.2.1 Pre-investment phase

As already mentioned in the theoretical part of this thesis, pre-investment phase is one of the most important parts of the projects because the success of given project will mainly depend on its preparation. Pre-investment phase is divided into three parts opportunity study, feasibility study and appraisal study. The pre-investment phase was not as difficult in case of Bedřichov Point as for larger corporations or projects. The idea was not based on any connection to already existing business or to an investment into any project which would be economically the most efficient. At the beginning of year 2006 the future owner (investor) living in given area, got a good price offer to buy well located real estate. They saw an investment opportunity in it, so the future owner bought this real estate in March 2006. The future owner had funds available and was interested in starting a new business connected to tourism in the area she lived in. The pre-investment phase took proximately two years from March 2006 to January 2008, when the investment phase started. After considering available usage opportunities of this object it was clear the accommodation facility with possibility of training centre (for company or team events) would be the most efficient investment. Once it was clear what was the purpose of chosen project the feasibility study was performed,

however it was not necessary to make such a large scale study, because the project was funded from own resources and only by the owner.

Feasibility study:

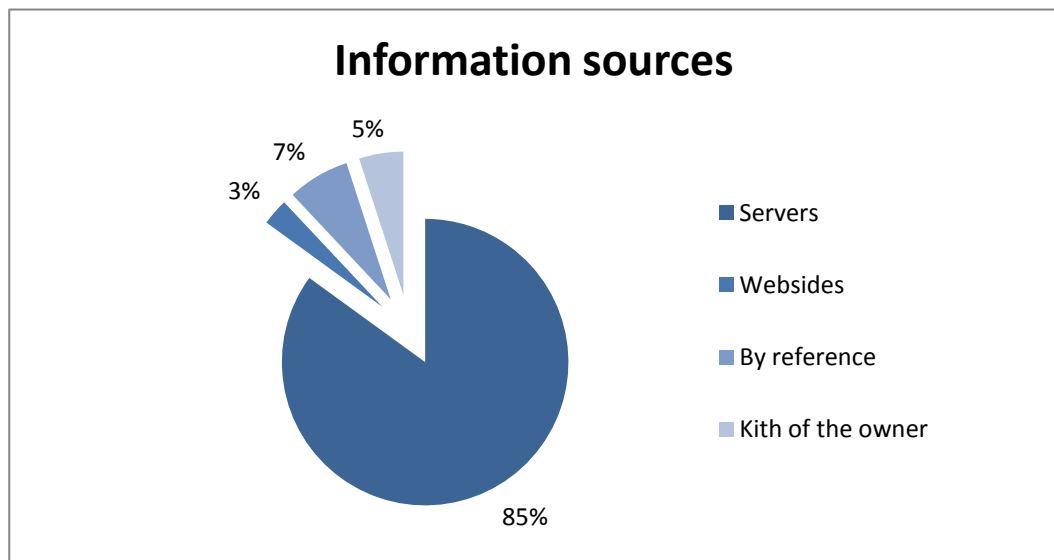
Market analysis: All accommodation facilities in the area of Bedřichov are to form a market on which Bedřichov Point is competing. In following table we can see development, in numbers, of accommodation facilities in the Bedřichov area from year 2000 to 2008. From the total numbers of accommodations it can be seen that from the year 2005 the number of accommodation facilities was declining and so was the competition. The highest demand in given area is for pensions, which is also visible from the table below. The marketing strategy of Bedřichov Point was to open facility with standards of three stars hotel or pension with the apartment style. To differ itself from other pensions and hotels Bedřichov Point would not only have the old historical building spirit but also the luxury of modern accommodation with sauna, large gathering room with appropriate kitchen and all necessary fittings to hospitalized groups with event program. Marketing of APB is not as extended as it could be. This fact is linked to the owner who should be taking action in extending marketing; however there are two reasons which restrain that. The first is that the owner is running another business as a main focus and the second is related to the language skills, which are not as developed as marketing would require. That leaves Bedřichov Point on second trail with not as much attention, which has strong effect on the business performance.

Table No.1 - Amount of collective accommodation facilities in Bedřichov area by category of accommodation facility²³

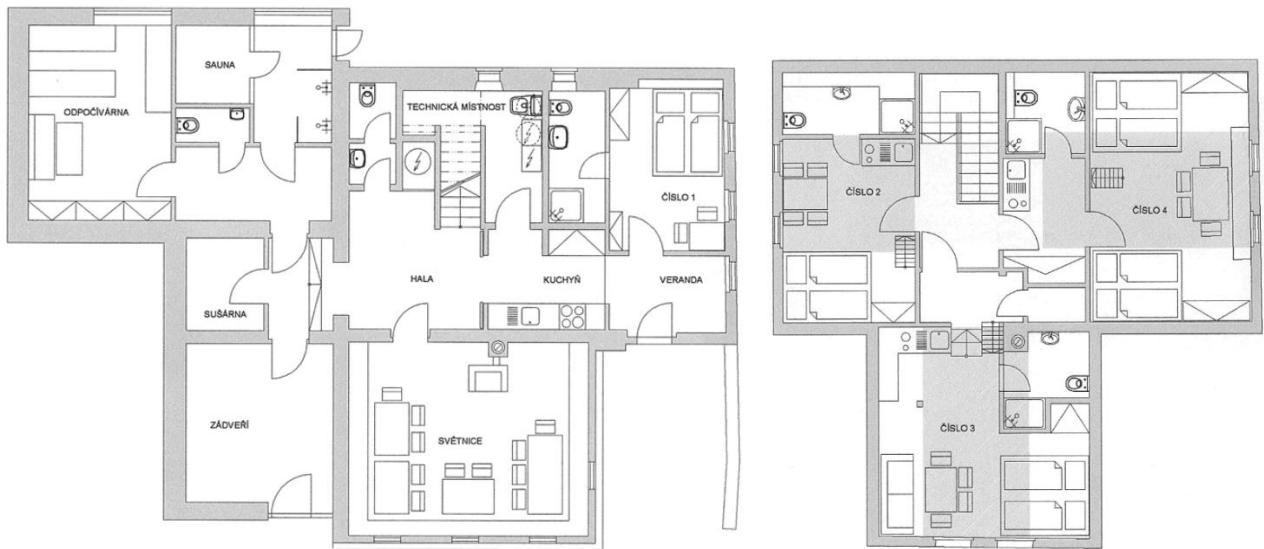
	Total	Categories										
		hotels *****	hotels ****	hotels ***	hotels **	hotels *	hotels garni	pensions	camp-sides	group of bungalows	touristic huts	other accommodation facilities
		Number of facilities										
2008	22	-	-	3	-	-	-	11	-	-	1	7
2007	24	-	-	3	-	-	-	14	-	-	1	6
2006	26	-	-	2	-	-	-	15	-	-	1	8
2005	26	-	-	2	-	-	-	15	-	-	1	8
2004	26	-	-	2	-	-	-	15	-	-	1	8
2003	30	-	-	2	-	-	-	17	-	-	1	10
2002	29	-	-	2	-	-	-	16	-	-	1	10
2001	24	-	-	-	-	-	-	13	-	-	1	10
2000	22	-	-	-	-	-	-	13	-	-	1	8

²³ SCHOLZEOVA Dagmar, Kapacita hromadných ubytovacích zařízení v obci Bedřichov podle kategorie ubytovacího zařízení CZECH STATISTICAL OFFICE LIBEREC

Marketing strategy: The first necessary step of marketing was to create a domain on the internet and to make business cards, to be able to give a contact or to refer potential guests on some information. In these days of internet, most of the people search the net for information or anything they need to know. There are several servers (www.nasehory.cz, ceskehory.cz...) where accommodation is advertised, it is quick and easy for the users, who cannot just look for available accommodation, but also to leave message with demand, so they can receive offers from accommodators. Bedřichov Point has registered to several servers, whit different results. Several bookings are based on owner's personal connections with people who are interested in active holidays. New brochures are getting ready for printing at the moment, to be distributed into info centres in the region, travel agencies and to trade fares and expos.



Capacity: The capacity was given by the size of building. The size of ground plan is 130 m² and there is a ground and first floor. In the ground floor there is a first apartment (capacity 2pax), launch, large kitchen, sauna, rest room, hall, ski and bike storage, drying room and supplies storage. In the first floor there are another three larger apartments, each with access to attics with extra beds (capacity 2+2, 2+2+3, 4+4pax). Now are following the ground plans, the one on left is the ground floor and the one on right is the first floor.



Location: With location it is the same as with capacity, thanks to already bought property. As already mentioned in characteristics of this investment project, location of the property is very strategic. It is in quiet area, aside from busy main road, but still, by foot, reachable from the centre of village or ski lifts.

Realization plan: All individual activities and necessary obligations, which are mainly related to administration need to be listed in this part of feasibility study. There were three main features to this point in case of Bedřichov Point. The first is related to the object of accommodation facility. The building itself must be permanently and from outside visibly marked with:

- First and last name of the person responsible for activity of the business
- Opening or operating hours stated for contact with customers
- Category and class of accommodation facility* offering temporary accommodation

*Decree No. 137/1998 about general technical requirements on construction.

The second obligation is on the owner to arrange a Trade certificate with specification for accommodation services, there is no need of any specific qualification for that. The last step before start of operating is to report to the municipal office, where the business comes under, date of opening and to agree on “charge of the accommodation capacity”. Every municipal office is setting their rates of this charge. There are two ways of paying this charge, either fixed annual payment tariff (800CZK per bed), or per person (adult: 19CZK per night, child: 4CZK per night).

Labour amount and hierarchy: Thanks to low capacity it would be inefficient to have a full-time receptionist, but it is necessary to have someone who would be “on-call” at all times to check-in or check-out the guests. There should be no need of any assistance to the guests (for example if the guest would like to order an hour of sauna it can be solved and operated over the phone), but in case there would be any problem, there is always the owner or the employee on the phone and in the area for any assistance. The best option from all possibilities comes out to be having one part-time employee, together with owner and externals for maintenance. The owner is taking care of customer communication, enquiries, reservations and any other responsibilities related to running the business. There is one part-time employee taking care of cleaning and checking in and out the guests, who gets paid by hour. With this employee there is a contract of services. For any maintenance issues, which can't be solved by the owner or employee, an external help is usually ordered and paid by invoice.

Organization and management: Thanks to simplicity of Bedřichov Point project, organization and management is almost absent. The owner is taking care of all the agenda related to the project and is giving direct orders to one employee.

Financial analysis and evaluation: This part of feasibility study is very important for the investment analysis and there for it is deeply analyzed in its own chapter.

Risk analysis: the risks which may accrue in future are listed in the threats in SWOT analysis in chapter PEST and SWOT analysis.

Appraisal report is evaluating the financial health of the company realizing the project. It is usually done for security of the institutions taking part in financing the project or to show pay-off for stock-holders. It is not really necessary in case of this investment project, regarding to self-funding by the owner.

4.2.2 *Investment phase*

In this phase there are several steps that all together form the realization of the project. Usually it starts with the “task of the construction”, followed by the project documentation. Based on the project documentation the building authority for given region issues the Building license for given construction. Project Bedřichov Point was realized in already existing object, which was bought with project documentation and prepared all necessary

engineered nets for waste, plumbing and power. Based on that there was no need of new project and building license. The investment phase started in January 2008. The building structure of Bedřichov Point had to be only adjusted, finished-up or renewed like a roof and windows. The interior was redone, but only with new fittings which were exchanged for the old ones (e.g. stairs, doors, kitchens, bathrooms, and such). Once all the permanently attached fittings were placed the final touch was done by furnishing and adding all necessary fittings and equipment. Reconstruction and adjustments of Bedřichov Point object were finished at the end of August 2008. The owner decided to try to stay before any official guests and had discovered that the water was not running. An expert came to see the problem and found that there must have been a cut into a cable somewhere along the way, so new cable must have been dig into the ground, which solved the problem.

4.2.3 Operating phase

Bedřichov Point facility was officially opened on 25.9.2008, when the first group of guests arrived. In this thesis is operating phase evaluated only short term, thanks to its short operating period. The first year of operating is considered as a trial operating. This trial operating allows all eventual problems to arise and be solved. Approximately one month from opening a problem with heating appeared. There was a low pressure in heaters, so it didn't work. It was easily fixed the specialist, but since then it requires a checks every month. After several guests requested sauna, it was clear that it would be lot more efficient if nobody had to come in person to start up and regulate the sauna. To solve this problem, a new system was implied so the sauna could be operated by call-phone from distance. Four months from opening one guest complained about broken door to a build-in-wardrobe. It came out that all door to build-in-wardrobes made by one specific supplier, were of a poor quality. They all were exchanged for new and better quality ones. And the last problem which appeared during the first year of operating was with the humidity in sauna restroom. Walls of this room are the outside walls which are partly under the ground, because the temperature difference water condensate on the inside which results in high humidity followed by mould. Several steps were taken to avoid it. Starting with moisture trapper machine, followed by air-circulation holes, but even that didn't quiet solve the problem. It became necessary to build in a moisture ventilating fan, which eliminated most of the humidity from the room. Since then there were not as many difficulties accept stealing guests. It is becoming quiet an issue, because the

whole sets of cutlery have been stolen, together with any parts of the kitchen wear or towels. Deeper checks while guests checking-out must be applied.

4.3 Investment project evaluation and financial analysis

Financial analysis and evaluation of the investment project represent pivotal role in the feasibility study, so it is analysed deeper than the other parts of the feasibility study. They provide essential information for the decision making about acceptance or rejection of the investment project. In case of Bedřichov Point the project is already chosen, but it still needs this analysis to determine whether it is positive or negative investment. The evaluation of the projects leads to two serious decision, investment and financial decisions. There are five basic steps of investment project evaluation, as said in the theoretical part of the thesis. Now follows their application on Bedřichov Point case study. It is necessary to mention that all the calculations are done just for five years of operating. The expected length of the project life is to be longer than twenty years, which is very hard to predict, so for the calculations are used data as if the project life would be only five years and then would be sold for its minimal book value.

4.3.1 Determining the incomes and costs during project life

In this step are determined cash flows of operating and investing activities and its evaluation. The aim is to state positive and negative cash flows, which arise from the project realization irrespective of financial resources, which will be considered in next step of evaluation. In this step, there are calculated following cash flows (not all cash flows, mentioned in the theoretical part, apply to Bedřichov Point, so they will not be mentioned here in the practical part):

A. Investment costs – these are costs which are necessary for project realization and are bound to the project in long-term.

- | | | |
|----------------------|-------------|---------------------------|
| - House | - Stairs | - Chimney |
| - Land | - Carpenter | - Heating |
| - Construction works | - Plumbing | - Fitter |
| - Stonework | - Wiring | - Roofing |
| - Windows | - Material | - Sauna |
| - Doors | - Kitchens | - Accommodation equipment |

B. Sales – services sold, which make incomes. These incomes are from both accommodation and sauna.

C. Costs related to operating:

- Wages
- Material
- Advertisement
- Insurance – house
- Insurance - business
- Laundry
- Internet
- Phone
- Electricity
- Waste
- Water
- Charge of the accommodation capacity

D. Income tax – The owner as a “Natural person” has the obligation to pay the income tax from the tax base, with the rate of 15%. The owner was the right to apply the taxpayer allowance which is 24 840 CZK. In following table is the calculation of income tax for five years, where from the second year of operating the data are based on predicted results.

Year	1.	2.	3.	4.	5.
incomes	457 468	636 900	732 435	842 300	968 645
operating costs	-268 263	-350 295	-402 840	-463 265	-532 755
building depreciation	-59 386	-117 607	-117 607	-117 607	-117 607
equipment depreciation	-37 973	-35 713	-35 713	-35 713	-35 711
tax base	91 847	133 286	176 275	225 715	282 572
round tax base	90 600	130 900	173 900	223 300	280 200
tax 15%	13 590	19 635	26 085	33 495	42 030
taxpayer allowance	24 840	24 840	24 840	24 840	24 840
income tax	0	0	1 245	8 655	17 190

4.3.2 Structural proposal of project financing

Bedřichov Point project was fully funded by the owner so there is no share of foreign capital. It was so called own-external source. It is called own because it wasn't from any other financial institution or loan but it was all from the owner resources and external, because the resources, which the owner used were not from any project profits.

4.3.3 Determining relevant cash flows during project life

Greenfield project is a special case, where opening balance is zero, so as relevant cash flows are all incomes and costs of the project. In following table are the relevant expected cash flows in five years of project life. The Bedřichov Point project's life is expected to be longer than 20 years, so the calculations are done only for the first five years as an example. The predicted data for second to fifth year were calculated by assuming that second year incomes will increase by 40% and then by 15% every following year up to the fifth year where it stabilizes. The operating costs for 2.-5. years were calculated as a 55% of given incomes.

Year	0.	1.	2.	3.	4.	5.
own capital	6 175 000					
incomes		457 468	636 900	732 435	842 300	968 645
investment costs	-6 123 145					
operating costs		-268 263	-350 295	-402 840	-463 265	-532 755
building depreciation		-194 071	-194 071	-194 071	-194 071	-194 071
equipment depreciation		-36 165	-36 165	-36 165	-36 165	-36 163
profit before tax		-41 031	56 369	99 359	148 799	205 656
income tax		0	0	-1 245	-8 655	-17 190
year balance of CF	51 854	-41 031	56 369	98 114	140 144	188 466
Accrued CF	51 854	10 823	67 192	165 307	305 451	493 917

4.3.4 Economic effectiveness evaluation of project and investment decision

Realization of project is based on cash inflows expectation, so the economic effectiveness evaluation is mostly based on cash flows. These cash flows are fundamentals for economic effectiveness evaluation. In this step the cash flows considered are those “without considering the financial resources”, the ones used for investment decision, so from incomes and costs which are coming from financial activity of the business.

Year	0.	1.	2.	3.	4.	5.
incomes		457 468	636 900	732 435	842 300	968 645
investment costs	-6 123 145					
operating costs		-268 263	-350 295	-402 840	-463 265	-532 755
building depreciation		-194 071	-194 071	-194 071	-194 071	-194 071
equipment depreciation		-36 165	-36 165	-36 165	-36 165	-36 163
profit before tax		-41 031	56 369	99 359	148 799	205 656
income tax		0	0	-1 245	-8 655	-17 190
net profit	-6 123 145	-41 031	56 369	98 114	140 144	188 466
accrued CF	-6 123 145	-6 164 176	-6 107 807	-6 009 693	-5 869 549	-5 681 082

4.3.5 Verification of financial throughput of project and financial decision

Financial throughput and financial decision of the project are also based on cash flows. Cash flows for financial planning, which contain all incomes and costs during the project life (they are incomes and costs from investment, operating and financial actions of the business). The calculations, for the financial throughput of the project assessment, are in the step three. They are based on relevant cash flows and are in this step only assets. Bedřichov Point project is based on relevant cash flows, financial throughputing. From the last row of the table, named accrued CF (in step No. 3, Determining relevant cash flows during project life), it is clear that there is no financial deficit during the project life. From the financial stability point of view the project also satisfy general recommendations of less than 50% of foreign capital from the total capital. As already mentioned the second step Bedřichov Point is fully funded from own resources.

4.4 Investment analysis

The purpose of investment analysis in case of Bedřichov Point is to determine whether the business is healthy or not and is done only for the owner use. As already mentioned in the theoretical part of the thesis there are several methods of analysing the investment project. Depreciations were used for elaboration of some methods, which follows; these depreciations are calculated in tables which are in supplements.

4.4.1 Cash on cash return (CCR)

The calculation is done by dividing cash-flow before tax by amount of cash invested time one hundred to get the percentage.

$$\text{CCR \%} = \frac{\text{cash flow before tax}}{\text{cash invested (cash down)}} \times 100$$

$$\text{CCR \%} = \frac{189\,205,04}{6123145,57} \times 100$$

$$\text{CCR \%} = 3\%$$

The cash on cash ratio for Bedřichov Point project is 3% which is not as high as the investor would like it to be, but we still have to consider that it is ratio for the first trial year of operating and with that consideration it is not as bad result.

4.4.2 Payback period (PP)

In the practical part is defined that PP is the length of time needed to recover the initial investment. It is generally known that the longer is the payback period, the higher risk is seen in the project. In the calculation is, as a annual cash inflow, used the mean cash inflows from expected scenario.

$$\text{PP} = \frac{\text{cost of investment}}{\text{mean annual cash flow}}$$

$$\text{PP} = \frac{6123145,57}{321708}$$

$$\text{PP} = 19,033$$

The payback period for Bedřichov Point investment to be recovered is nineteen years, which is quite a long period of time. Once again I have to mention that the calculation is based on data from only the first year of operating. The profits are expected to rise in proximately next five years, which would result in shortening of the payback period of the project. If the Bedřichov Point project would be funded from

other than own sources it might be a problem as it might seem to be a high risk project, but Bedřichov Point is fully funded from owner resources, so it is only up to the owner to decide whether it is a risk or not to continue with the project operating. The investment project is said to be convenient if the payback period is shorter than expected length of the project life, which in case of Bedřichov Point is more than 20 years.

4.4.3 Internal rate of return (IRR)

Internal rate of return is the total return on investment calculated when having investment which creates differing amounts of annual cash flows. This calculation is very accurate, but much harder than some other calculations like already mentioned cash on cash return or payback period. Calculation of IRR comes out of Net present value (NPV) calculation, where NPV equals zero. The discount rate for IRR calculation for Bedřichov Point is chosen randomly, but higher than 10%, so 15%. The

Total investment expenditure	6 123 146				
- reconstructed building	5 822 123				
- equipment	180 823				
- land	120 200,00				
years	net profit	depreciation	CF	discount rate15 %	discounted CF
1	-41 031	234 061	193 030	0,870	167 936
2	56 369	234 061	290 430	0,756	219 565
3	98 114	234 061	332 175	0,658	218 571
4	136 319	234 061	370 380	0,572	211 857
5	184 641	234 059	418 700	0,497	208 094
Total					1 026 024
depreciated price					4 847 944
expected sale price of land					120 200

NPV with 15% = 1 026 024 – (6 123 146 - 4 847 944 - 120 200)

NPV = - 128 977

IRR: 10% + NPV with 10% / (NPV with 10% + positive NPV with 15%) * (15-10)

IRR: 10 + 25 180 / (25 180 + 128 977) * 5

IRR: 10 + 0,81669

IRR: **10,81669 %**

If IRR is 10,81669 then NPV is equal zero, if a higher discount rate percentage would be used, the NPV would result to be negative. IRR is not much higher than discount rate, the difference is only about 0,82. It is important to mentioned that the rate of IRR is very sensitive to discount rate choice.

4.4.4 Net present value (NPV)

This calculation is used to analyze the profitability of an investment or project and it is a difference between present value of all future cash inflows of the project and the present value of all cash outflows of the project.

Total investment expenditure	6 123 146				
- reconstructed building	5 822 123				
- equipment	180 823				
- land	120 200				
years	net profit	depreciation	CF	discount rate10 %	discounted CF
1	-41 031	234 061	193 030	0,909	175 464
2	56 369	234 061	290 430	0,826	239 895
3	98 114	234 061	332 175	0,751	249 464
4	136 319	234 061	370 380	0,683	252 970
5	188 466	234 059	422 525	0,621	262 388
Total					1 180 181
depreciated price					4 847 944
expected sale price of land					120 200

NPV = discounted CF – (total investment expenditures – expected sale of the building)

NPV = 1 180 181– (6 123 146 - 4 847 944 - 120 200)

NPV = **25 180**

The NPV of Bedřichov Point is 25 180 CZK at the moment, but it is substantial to keep in mind that the value of money is decreasing over the time, so we can't rely on calculated NPV in future.

4.5 PEST analysis

PEST analysis is an analysis of the external business Macro-Environment.

Political factors: Bedřichov Point is operating in the Czech Republic and its products are services in accommodation sector. The accommodation tax was 9% in years 2008 and 2009; however it has changed for the year 2010, by rising onto 10%. Lows, covering the operating of the business, the environmental affect of the business and other, are the main external factors influencing the running of the business. Here are the specific laws which Bedřichov Point must respect:

No.	Subject of Act
258/2000	Protection of public health
17/1992	Environmental
114/1992	Protection of landscape and nature
185/2001	Waste
254/2001	Water
274/2001	Water supply and sewerage
86/2002	Air Protection
40/1964	Civil Code
133/1985	Fire Protection

No.	Subject of Act
455/1991	Trade
513/1991	Commercial Code
563/1991	Accounting
338/1992	Real Estate Tax
586/1992	Income Tax
592/1992	General health insurance
634/1992	Consumer Protection
16/1993	Road Tax
262/2006	Labour Code

Economical factors: The Czech Republic possesses a developed, high-income economy with a GDP per capita of 82% of the European Union average. One of the most stable and prosperous of the post-Communist states, the Czech Republic has seen a growth of over 6% annually in the last three years. The result of last worldwide economic crisis was a decrease in Czech Gross domestic product. GDP in 2009, adjusted for price, seasonal and calendar effects, decreased in comparison with 2008 by 4.2%.

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Employment rate	55,1%	55,1%	55,4%	54,8%	54,3%	54,7%	55,0%	55,6%	56,0%	54,8%
Unemployment rate	8,8%	8,1%	7,3%	7,8%	8,3%	7,9%	7,1%	5,3%	4,4%	6,7%
Inflation rate	3,9%	4,7%	1,8%	0,1%	2,8%	1,9%	2,5%	2,8%	6,3%	1,0%
GDP	3,6%	2,5%	1,9%	3,6%	4,5%	6,3%	6,8%	6,1%	2,5%	-4,2%
CZK/EUR	35,610	34,083	30,812	31,844	31,904	29,784	28,343	27,762	24,942	26,445
Accommodation occupancy	10.8 mil	11.3mil	10.4mil	11.3mil	12.2mil	12.4mil	12.7mil	13.0mil	12.8mil	12,1mil

Social factors: After the revolution, Czech people were mainly interested in travelling abroad, once they finally could, so the demand for Czech travel destinations decrease rapidly. Starting from year 2003 the demand of Czech citizens increased once again. Since then Czech citizens started to utilize Czech destinations for weekends and family holidays as much as other European nationalities started to be interested in what had Czech Republic to offer. The language skill of Czech operators had improved and got into wider scale of languages, which also increased the interest of foreign customers. Thanks to the low prices and great adventures into relatively unknown country, for minds of the western nationalities the Czech Republic become very stillly country to visit.

Technological factors: The Czech Republic is a developed country, so it can offer high standard of accommodation with appropriate technologies applied. The infrastructure in the country is very well organised so it is not a problem to access any part of the country either by own or public transportation. The total area is 78 867 km² with more than 55 thousands kilometres of roads and highways. In the capital city Prague there is the main international airport Ruzyně, where over 12.5 millions of passengers get checked over the year.

4.6 SWOT analysis

Is an analysis of the external environment for opportunities and threats, and the internal environment for strengths and weaknesses of Bedřichov Point

Strengths	Weaknesses
<ul style="list-style-type: none"> ▪ Location is highly suitable ▪ Accessibility is without complications ▪ Parking possibility by the Bedřichov Point and at the start of cross-country skiing trails ▪ Large gathering room with kitchen ▪ Sauna directly in the object ▪ Large garden with BBQ and sundeck ▪ Web-sites for Bedřichov Point 	<ul style="list-style-type: none"> ▪ Not the main focus of the owner/operator ▪ Marketing bellow average ▪ Not as high level of foreign languages knowledge ▪ Low expansion on foreign servers ▪ No full-day services onsite ▪ Obsolete look of web-sites ▪ Inefficient check-out policy

<ul style="list-style-type: none"> presentation ▪ Long experience with customer services ▪ High standard for midrange price ▪ Great knowledge about the area 	<ul style="list-style-type: none"> ▪ No disabled access
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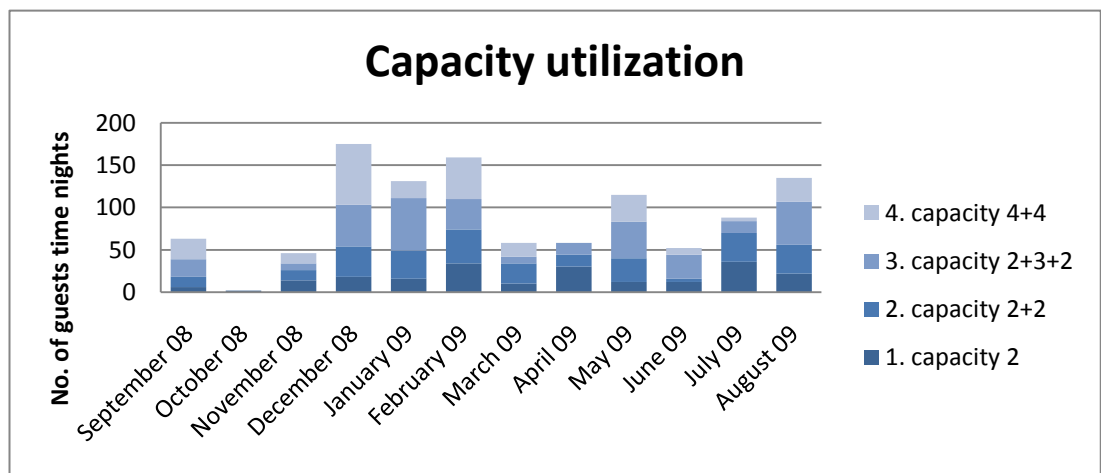
Opportunities	Threats
<ul style="list-style-type: none"> ▪ Expansion of the marketing to foreign servers ▪ Address possible guests, for instance school groups, sport clubs, ... ▪ Advertise in capital city ▪ Encouraging staff for better performance ▪ Improvement of the language skills ▪ Web-sites upgrade ▪ Offering free time programs and activities in the area ▪ Special treatment of the return guests 	<ul style="list-style-type: none"> ▪ Economic crises might reduce demand ▪ Increase of competition in the area ▪ Market may become price sensitive ▪ Tax increase ▪ Decrease in ski fields and cross-country skiing tracks quality or an enclosure ▪ Increasing unemployment ▪ Poor weather conditions

4.7 Utilization analysis

As already mentioned in characterization of chosen investment project the capacity of Bedřichov Point accommodation is 21 beds altogether. We can divide them into three categories, where 10 beds are the main beds (from now on MB), 9 beds are located in attics (from now on EB), where no more space than just for beds is and the last is extra out-folding double couch in apartment No. three (from now on CB). It is clear and visible from the floor plan in feasibility study – capacity chapter.

4.7.1 Capacity utilization

Thanks to the location of Bedřichov Point in mountain village, where guests come for the nature and sport activities, the number of visitors varies by season. Here is analysis of number of guests which already in the first trial year of operating clearly shows the seasonal trends.



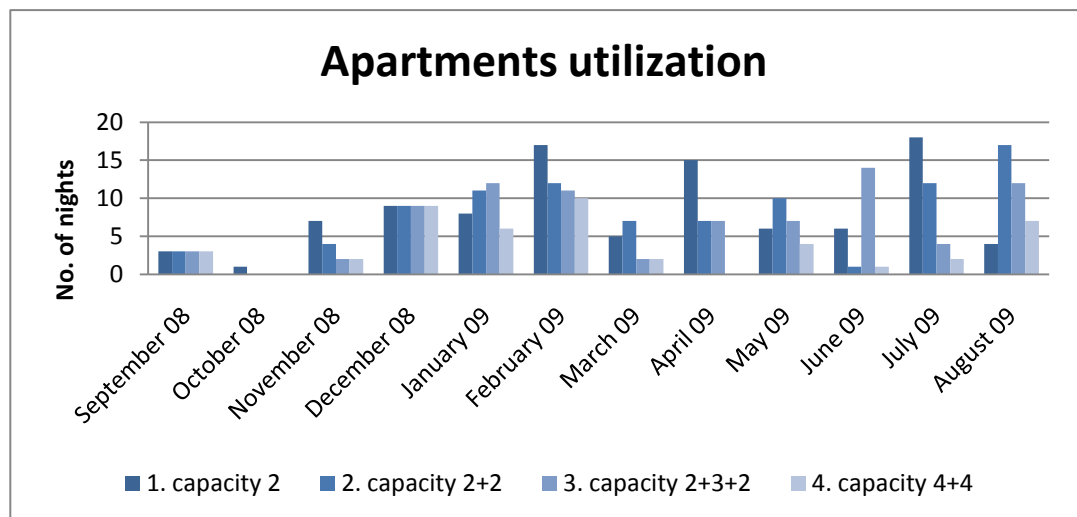
This graph shows the number of guests in months during the first year of operating. Maximal capacity per month (counting with 30days) is $300MB + 270EB + 60CB$, counted by dividing number of nights in month time number of beds. From this graph it is clear that the first year was not as successful, but once again Bedřichov Point is not the main business focus of the owner, so the marketing was not as wide as it could be while starting the business. Still we can see that the winter season, December to February, was most successful from the year round.

4.7.2 Apartments utilization

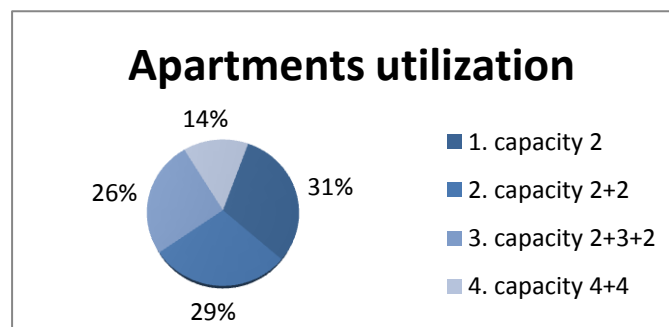
In Bedřichov Point, there are four apartments with different capacities, as already mentioned in chapter “characteristics of chosen investment project”. In case of apartments 2 and 4 the attic area where extra beds are can be closed from the main room by small doors at the end of the stairs. In case of apartment number 3, the attic bed area is opened into the main living area. (via pictures in supplements). From the total number

of guests groups, staying in Bedřichov Point during the first year of operating, 54.5% were couples and 17.8% were groups of four. During that period, apartments were occupied as follows:

- Apartment 1.: 35 times, 99 nights
- Apartment 2.: 28 times, 93 nights
- Apartment 3.: 18 times, 83 nights
- Apartment 4.: 17 times, 46 nights

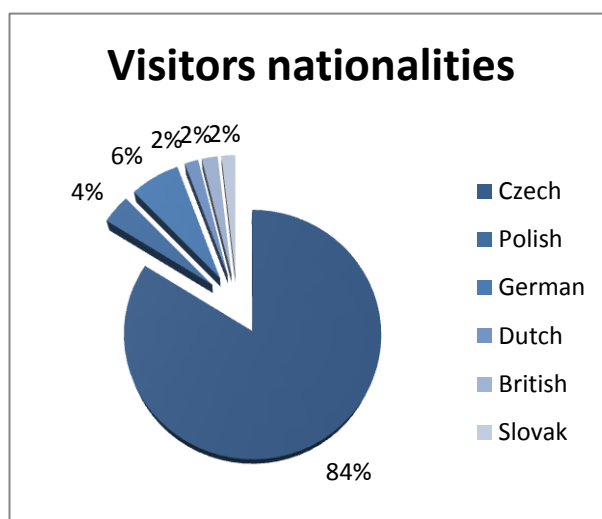


From the results of the first trial year it is clear, that the highest demand is four double rooms, followed by four-bed rooms. It explains the highest utilization of apartment number 1., followed by apartment number 2., which is considered to be 2+2 beds. The largest apartment number 4, with capacity 4+4 was utilized the least.



4.7.3 Nationalities

In the chepter „Phases of given investment project” is elaborated the feasibility study for Bedřichov Point. One part of this study is a marketing strategy, where is mentioned that the owner/operator is not focusing full time on Bedřichov Point and doesn't have required level of language knowledge. Combination of these two aspects results in lack of foreign guests. There is an advertisement on the Czech servers like www.ceskehory.cz, which can also be opened in German or English languages, where Bedřichov Point has its offers translated into these languages. Demand for the area, where Bedřichov Point operates, is high thanks to the location in the mountains and close to the northern border with Germany, so there is a potential of high numbers of foreign guests. However as it is visible from the graph, only 16% of guests in the trial operating were foreigners and Czech guests formed 84%.



5 Conclusion

Goals of this bachelor thesis were to determine whether the project will be profitable or not and how long would be the payback period. Inherent part of objectives was to propose suggestions how to increase profitability in future years and how to shorten the payback period. And finally determining whether my findings prove or disapprove the hypotheses estimated by owner.

Financial results of investment project Bedřichov Point are, after one year of operating, not as satisfactory as expected. One could say that, based on the analyses results, the project is not very profitable, but taking into consideration all the specific aspects of Bedřichov Point project it can be considered as a profitable. It is necessary to mention that all the calculations were based on data just for five years of operating. The data were predicted from the first trial year of operating and are based only on my assumption of project's future development. The expected length of the project life is to be longer than twenty years, which is very hard to predict, so for the calculations are used data as if the project life would be only five years and then would be sold for its minimal book value.

Based on predicted data the payback period was calculated to be over nineteen years. The owner's hypotheses estimated the payback period to be thirteen years, which means that this point of hypotheses was not proven. The payback period of nineteen years is higher than would be ideal, but once the facts, that the project life is expected to be longer than twenty years and that there are no other financial subject involved in financing this project, are considered the high payback period should not be a reason to end the project operating.

Other points of hypotheses were related to cash flows. The first of them was the prediction of incomes from the first year of operating to be 500 000 CZK. The calculations have shown that the incomes were almost 460 000 CZK. This result wasn't as far from the hypothesis done by the owner. Another point was that the cost of reconstruction and all items permanently attached to the building will be 3 800 000 CZK, but the actual price of all that was almost 4 350 000 CZK. Even the

estimation was based on very detailed investment plan; the actual range of reconstruction needed was greater than expected. Prediction of operating costs for the first year of operating was the third point of hypotheses related to cash flows. The third and final point of hypotheses related to cash flows was the operating costs of operating for the first year of operating which was estimated to be 265 000 CZK and in reality it was 268 000 CZK which is almost equal to the hypothesis.

From the results of my calculations it is clear that Bedřichov Point needs to increase its profits rapidly to shorten the payback period and to have better financial results. To increase the profits there needs to be high increase in sales and decrease in operating costs.

To achieve significant increase in sales the owner needs to first of all to focus on improving the marketing by for example advertising in the capital city, where many potential customers are. Addressing possible guests, for instance school groups, sport clubs, companies or cooperation with companies organizing group programs and events. Offering free-time programs and activities in the area, or special treatment of the return guests, might also get the attention of potential guests. In the visitors nationalities analysis, can be seen that the majority of guests were Czech citizens, so it is obvious that it is necessary to attract more of foreign guests. The cause of that is probably linked to the fact that the operator/owner is not as fluent in foreign languages, so does not advertise on any foreign servers. The suggestion how to solve this problem is to either improve in the languages, to be able to communicate better with the guests and to be able to use foreign browsers and servers, or to hire a person for international agenda. From the apartment utilization analysis a very interesting fact accrued, that over 50% of guests staying in Bedřichov Point were couples, but unfortunately there is only one double room out of four. There have been several couples which were accommodated in some of the larger rooms, but it makes the rooms not very utilized. To solve this problem I would suggest taking advantage of the attics disposition (in apartments 2. and 4. The attics can be closed off from the main living area) by closing the attics off from the main living areas in apartments 2. and 4.. It would change the apartments from 4beds to double in case of app. No. 2. and from 8beds to 4beds in case of app. No.4.

Like that those apartments would be more utilized and could be sold for higher price of more private-lower capacity rooms.

It is clear that the operating costs will rise together with sales, but some reductions can still be done even they will not make a significant change. For example change all the light bulbs for energy efficient light bulbs and to install sensors on lights in hallways so they are not turned on at all times.

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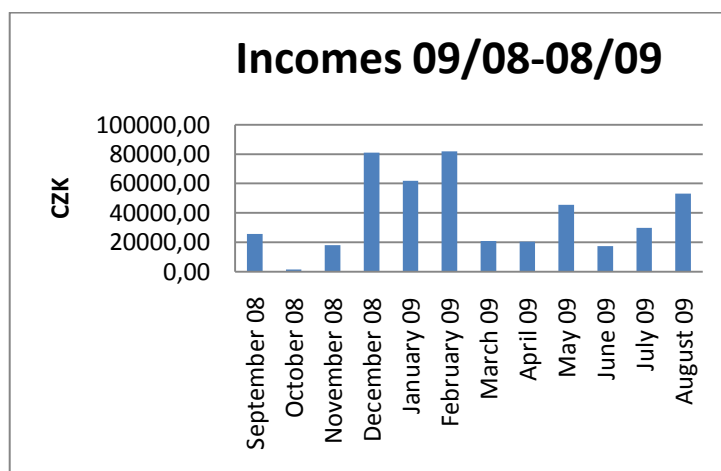
7 Supplements

Investment costs:

Item	Price
House	-1 657 913,00
Land	-120 200,00
Construction works	-738 020,00
Material	-343 144,00
Kitchens	-39 788,00
Chimney	-35 816,00
Heating	-331 861,17
Stonework	-26 283,00
Windows	-88 864,40
Doors	-275 697,60
Stairs	-58 616,00
Carpenter	-627 369,10
Plumbing	-459 265,30
Wiring	-446 184,00
Fitter	-7 170,00
Roofing	-612 604,00
Sauna	-248 400,00
Cleaning	-5950
TOTAL	-6 123145,56

Monthly incomes in first trial year of operating:

Month	Income
September 08	25679,00
October 08	1638,00
November 08	17994,00
December 08	81011,00
January 09	61776,00
February 09	81793,54
March 09	20973,00
April 09	20501,00
May 09	45614,00
June 09	17536,00
July 09	29877,00
August 09	53075,00
TOTAL	457467,54



Operating costs in the first trial year of operating:

Item	Price
Wages	-22 420,00
Material	-16 000,00
Advertisement	-11 330,00
Insurance -house	-14 197,00
Charge of the accommodation capacity	-12 000,00
Laundry	-12 533,00
Insurance -business	-17 472,00
Internet	-17 984,50
Phone	-36 727,50
Electricity	-84 928,50
Waste	-6 155,00
Water	-16 515,00
TOTAL	-268 62,50

Accounting depreciation calculation – reconstructed building:

Years	reconstructed building	calculation	depreciation	accumulated depreciation	book value
1	5 822 123	5822123 : 30	194 071	197 896	5 624 227
2	5 822 123	5822123 : 30	194 071	391 967	5 430 156
3	5 822 123	5822123 : 30	194 071	586 038	5 236 085
4	5 822 123	5822123 : 30	194 071	780 108	5 042 015
5	5 822 123	5822123 : 30	194 071	974 179	4 847 944

Accounting depreciation calculation – equipment:

Years	reconstructed building	calculation	depreciation	accumulated depreciation	book value
1	180 823	180 823 : 5	36 165	36 165	144 658
2	180 823	180 823 : 5	36 165	72 330	108 493
3	180 823	180 823 : 5	36 165	108 494	72 329
4	180 823	180 823 : 5	36 165	144 659	36 164
5	180 823	180 823 : 5	36 165	180 823	0

Tax depreciation calculation – reconstructed building:

Years	reconstructed building	calculation	depreciation	accumulated depreciation	book value
1	5 822 123	0,0102	59 386	59 386	5 762 737
2	5 822 123	0,0202	117 607	176 993	5 645 130
3	5 822 123	0,0202	117 607	294 599	5 527 524
4	5 822 123	0,0202	117 607	412 206	5 409 917
5	5 822 123	0,0202	117 607	529 813	5 292 310

Tax depreciation calculation – equipment:

Years	reconstructed building	calculation	depreciation	accumulated depreciation	book value
1	180 823	0,21	37 973	37 973	142 850
2	180 823	0,1975	35 713	73 685	107 138
3	180 823	0,1975	35 713	109 398	71 425
4	180 823	0,1975	35 713	145 110	35 713
5	180 823	0,1975	35 713	180 823	0

Calculation of the present value of a future cost or benefit in n year:

Year	1%	3%	5%	6%	8%	10%	12%	15%	20%
1	.990	.971	.952	.943	.926	.909	.893	.870	.833
2	.980	.943	.907	.890	.857	.826	.797	.756	.694
3	.971	.915	.864	.840	.794	.751	.712	.658	.579
4	.916	.888	.823	.763	.735	.683	.636	.572	.482
5	.951	.863	.784	.747	.681	.621	.567	.497	.402
6	.942	.837	.746	.705	.630	.564	.507	.432	.335
7	.933	.813	.711	.665	.583	.513	.452	.376	.279
8	.923	.789	.677	.627	.540	.467	.404	.327	.233
9	.914	.766	.645	.592	.500	.424	.361	.284	.194
10	.905	.744	.614	.558	.463	.386	.322	.247	.162
11	.896	.722	.585	.527	.429	.350	.287	.215	.135
12	.887	.701	.557	.497	.397	.319	.257	.187	.112
13	.879	.681	.530	.469	.368	.290	.229	.163	.093
14	.870	.661	.505	.442	.340	.263	.205	.141	.078
15	.861	.642	.481	.417	.315	.239	.183	.123	.065
20	.820	.554	.377	.312	.215	.149	.104	.061	.026
30	.742	.412	.231	.174	.099	.057	.033	.015	.004
40	.672	.307	.142	.097	.046	.022	.011	.004	.001
50	.608	.228	.087	.054	.021	.009	.003	.001	.000

Occupancy in collective accommodation establishments in the Czech Republic:

Year		Number of Guests	Number of Overnight stays
2000	Q1	2 082 827	8 644 392
	Q2	2 915 857	11 182 314
	Q3	3 903 838	16 634 299
	Q4	1 961 250	7 738 611
2000		10 863 772	44 199 616
2001	Q1	2 089 561	7 552 071
	Q2	3 081 402	9 898 078
	Q3	3 963 317	14 925 938
	Q4	2 148 905	6 746 100
2001		11 283 185	39 122 187
2002	Q1	2 183 879	8 078 717
	Q2	2 899 998	9 486 371
	Q3	3 268 124	12 953 563
	Q4	2 063 254	6 591 184
2002		10 415 255	37 109 835
2003	Q1	2 049 881	7 470 509
	Q2	2 938 535	9 438 602
	Q3	4 111 194	15 475 598
	Q4	2 246 872	6 958 541
2003		11 346 482	39 343 250
2004	Q1	2 221 499	7 886 059
	Q2	3 122 195	9 787 948
	Q3	4 517 793	16 061 193
	Q4	2 358 202	7 045 508
2004		12 219 689	40 780 708

Year		Number of Guests	Number of Overnight stays
2005	Q1	2 277 892	7 902 901
	Q2	3 165 389	9 476 658
	Q3	4 423 690	15 683 920
	Q4	2 494 822	7 256 998
2005		12 361 793	40 320 477
2006	Q1	2 307 920	7 769 429
	Q2	3 314 945	10 029 047
	Q3	4 579 303	16 336 044
	Q4	2 522 758	7 313 277
2006		12 724 926	41 447 797
2007	Q1	2 327 662	7 670 841
	Q2	3 383 329	10 078 313
	Q3	4 511 866	15 180 826
	Q4	2 738 064	7 901 092
2007		12 960 921	40 831 072
2008	Q1	2 500 400	7 997 196
	Q2	3 371 345	9 659 442
	Q3	4 360 581	14 332 060
	Q4	2 603 560	7 294 776
2008		12 835 886	39 283 474
2009	Q1	2 290 503	7 303 496
	Q2	3 079 866	8 827 689
	Q3	4 287 269	14 047 208
	Q4	2 447 649	6 756 165
2009		12 105 287	36 934 558

Exterior



Interior



Attics



Apartment



Apartment



Apartment

