

**CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE**

**Faculty of Economics and Management**

**Department of Economics**



**DIPLOMA THESIS**

**Economic Analysis of E-business project  
in Tourism Sector**

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Supervisor: Ing. Petr Procházka, MSc, Ph.D.

Department of Economics

Prague 2013 ©

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**CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE**

Department of Economics  
Faculty of Economics and Management

# **DIPLOMA THESIS ASSIGNMENT**

Jelínek Jan

Economics and Management

Thesis title

**Economic Analysis of E-business Project in Tourism Sector**

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### **Objectives of thesis**

The aim of this diploma thesis is to design a model of functioning website, based on already existing e-Business projects in tourism sector, which will be used for mediation of luxury accommodation in holiday destinations all around the world for middle class of population, which would normally not be able to pay for an expensive vacation and based on a feasibility study to demonstrate whether this project from an economic point of view could be feasible.

### **Methodology**

Literature review will be conducted using method of synthesis, induction, deduction and extraction. Analytical part of the thesis will be done using methods of both qualitative as well as quantitative analysis. In this section will be also used method of feasibility study and economic analysis.

### **Schedule for processing**

08/2012 - Literature review

12/2012 - Analysis

03/2012 - Finalization

**The proposed extent of the thesis**

50 - 60 pages

**Keywords**

e-Business, Internet, Tourism, Feasibility Study, Economic Analysis, Leisure, Marketing, Sales

**Recommended information sources**

CHAFFEY, Dave. E-Business and E-Commerce Management. Essex, UK: Pearson Education Limited, 2007. 3rd edition. ISBN 978-0-273-70752-3.

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Prague March 8. 2013

## **Statutory Declaration**

I hereby confirm that I wrote my diploma thesis “Economic Analysis of E-business Project in Tourism Sector” on my own with help of the listed bibliography.

In Prague 31.3.2013

.....

Signature of author

## **Acknowledgment**

I would like to express my special thanks to Ing. Petr Procházka, MSc, Ph.D. for his professional guidance, patience and for giving me valuable advice and recommendations while working on my diploma thesis.

# **Economic Analysis of E-business Project in Tourism Sector**

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## **SUMMARY**

Diploma thesis deals with the economic analysis of E-business project in tourism sector. Specifically, it is about the implementation of the new internet portal focused on mediation and sale of luxury accommodation in holiday destinations all around the world for the lowest possible price. The aim of the thesis is to build a business plan in order to identify the relevant data for its feasibility and profitability.

This thesis consists of two parts. The first part provides a summary of today's trends in the field of tourism and e-business activities in this sector. In addition, it includes the theoretical definition of the business plan and a description of its specific content. The theoretical part is followed by the second, practical part, in which are initially defined the specifics relating to tourism and the economic analysis of this sector. Afterwards, the work focuses on the description of the product itself and its competitiveness in the market. Further, the work also paid attention to analysis of suppliers, consumers, existing competition and marketing campaign. The financial part transforms the previous text into a numeric form, which also expresses the need for funds and the overall project profitability.

## **KEYWORDS**

E-business, Internet, Tourism, Feasibility Study, Economic Analysis,  
Leisure, Marketing, Sales

# **Ekonomická analýza e-business projektu v oblasti turismu**

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## **SOUHRN**

Diplomová práce se zabývá ekonomickou analýzou e-business projektu v oblasti turismu. Konkrétně se jedná o realizaci nového internetového portálu zaměřeného na zprostředkování a prodej luxusního ubytování v prázdninových destinacích po celém světě za nejnižší možnou cenu. Cílem diplomové práce je sestavení podnikatelského plánu za účelem zjištění relevantních údajů pro jeho realizovatelnost, proveditelnost a rentabilitnost.

Samotná práce se skládá ze dvou částí. První část obsahuje shrnutí dnešních trendů v oblasti cestovního ruchu a elektronického podnikání v tomto sektoru. Dále zahrnuje teoretická vymezení podnikatelského plánu a popis jeho konkrétního obsahu. Na teoretickou část navazuje druhá, praktická část, ve které jsou zprvu vymezena specifika vztahující se k cestovnímu ruchu a je provedena ekonomická analýza tohoto odvětví. Poté se již práce zaměřuje na popis vlastního produktu a jeho konkurenceschopnosti na trhu. Dále je v práci věnována pozornost analýze dodavatelů, spotřebitelů, stávající konkurenci a marketingových kampaní. Finanční část tak transformuje předchozí text do číselné podoby, který mimo jiné vyjadřuje potřebu finančních prostředků a celkovou rentabilitnost projektu.

## **KLÍČOVÁ SLOVA**

E-podnikání, Internet, Cestovní ruch, Studie proveditelnosti, Ekonomická analýza,  
Volný čas, Marketing, Prodej

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## ***1. Introduction***

Today and every day are the airports, train or bus stations full of people who travel somewhere. Travel has become an inseparable part of our lives and travel for relaxation, adventure or discovery is the period for which each of us constantly looking forward. Indeed, many people have planned their holidays even a year in advance and spent a lot of time searching for offers that would meet wishes and requirements for the best vacation. However, it is necessary to admit that our time is expensive and long hours spent searching on internet or browsing many pages of catalogs is nowadays not the best way to search for holidays that we would like to have. Imagine, that there is a website where you enter into the advanced form your holiday requirements and then you will see only three offers that perfectly meet all your wishes and in addition you will be guaranteed by the highest quality at the lowest price. The main advantage is that you don't have to go through infinite bids, but you've got only three and you can be sure that they satisfy your needs, so you can no longer just select. With this idea, to relieve people choose their vacation, the time which they are looking for whole year and the vision of a lengthy selection of their dreamed holiday scares them in advance, was decided to start new internet portal CheapHoliday.cz.

With the idea of entrepreneurship trifle a lot of people, but only the bravest can firmly decide and invest money into their business idea. However, to start a business nowadays is not a simply matter. Today's markets are mostly oversaturated and prevails supply over demand. Even though it can be always discovered something on the market, with what is possible to meet wishes and needs of customers better than the competition or even discover the wishes of consumers, which are not yet satisfied. At this time, when the person has an interesting idea, which has a chance to succeed in the market and in addition, has in itself the “entrepreneurial spirit” should take the risks and go ahead in order to create its own company and start a business.

On the basis of the above mentioned facts the author decided for elaboration of this diploma thesis. The business plan is an essential document, without which should not any entrepreneur start a business, because it allows a clear and comprehensive view of the progress of the business and can often reveal shortcomings already in the very beginning.

## ***2. Aim, goals and methodology***

The aim of this diploma thesis is preparation of the business plan in order to determine whether the entrepreneurial intention – new internet portal CheapHoliday.cz is viable, feasible and last but not least, from an economic point of view profitable.

The work is divided into two parts. The first part provides a summary of today's trends in the field of tourism and e-business activities in this sector. In addition, it includes the theoretical definition of the business plan and a description of its specific content. There are in details described individual components which mainly include, inter alia, the purpose of the document, a description of the business opportunity, the specification of the business idea and its owners, market analysis, competition and consumers analysis, including marketing and sales strategy. The theoretical part ends with theoretical overview of the financial plan and the main prerequisites for the success of the business project.

The second part consists of practical preparation of the business plan relating to specific business project. In this section are initially defined the specifics related to tourism and is performed the economic analysis of this sector. Further, there is presented the business plan with a specific defining all of its components. The key element there is in addition to the performance of the business idea and its benefits also preparation of the financial plan, which allows the preview of expected development of the project for several years forward. The entire work is ended by evaluation of the business plan and by conclusion. Last but not least, there is also included the recommendation, whether is at all appropriate to start business in the tourism sector with such product.

The author of this project believes that the elaboration of this diploma thesis will bring new knowledge in the field of entrepreneurship and, above all, will make easier the decision, whether this business idea implement or not. At the same time, the author hopes that even if this project would not be considered as beneficial, he will get an idea what all is in practice necessary to do in order to start a new business and what cannot to miss out. The practical part of the thesis will be done by using methods of qualitative as well as quantitative analysis and there will be also used feasibility study and economic analysis.

### ***3. Internet, Tourism, E-business***

#### **3.1 Internet**

The Internet has revolutionized societies' lives and their perception on information evolution around the Earth. During the last decades exchange of different data between participants of global network became invaluable important. Thus it ensured rapid development of national economy. Nowadays each society can find information about anything using the global network system. It allows communicate with other societies, learn new knowledge, and develop personality. The internet became a critical component of the world community life.

Different definitions of the term "Internet":

- "The large system of connected computers around the world which allows people to share information and communicate with each other using email." [1]
- "A global computer network providing a variety of information and communication facilities, consisting of interconnected networks using standardized communication protocols." [2]
- "Provides the facility to link computers worldwide, usually using telecommunications systems such as telephone lines. It allows fast communication between people, the transfer data of data between computers and the distribution of information. Messages and data are passed from the source computer, through other computers, until the destination computer is reached." [3, p. 100]

The author define the term "Internet" as a global computer network and a system of data transfer which includes and connects local, regional, nation and international networks.

The Internet began life in the 1960s as an experiment designed to link together United States (US) military computers. The internet traces its origins to the Advanced Research Projects Agency Network (ARPAnet), created by the US Defense Department. [5, p. 4] During the time many other networks were developed by commercial companies, some in different countries, however the networks could not interact between them. In the 1970s developed network protocols – Transmission Control Protocol (TCP) and the Internet Protocol (IP) by Vint Cerf and Bob Kahn [4, p. 11, 94] - thereby established connection and communication across the world. The term “Internet” entered in the use of language. In 1984 was created Domain Name System (DNS) [5, p. 4]. The DNS gives each other computer an Internet address or domain name using easily recognizable letters and words instead of numbers.

Common domains’ endings [6, p. 17]:

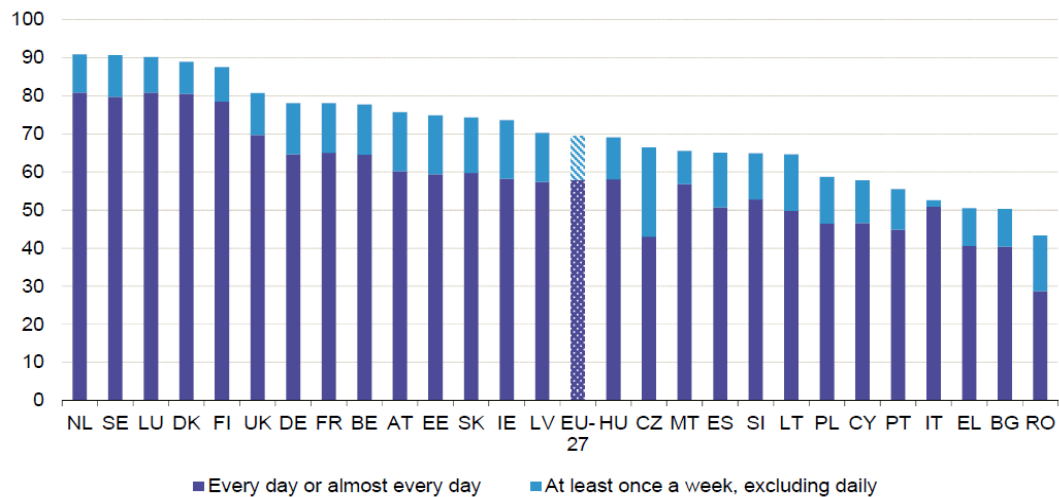
- *.com* - for commercial organizations;
- *.edu* - for educational institutions;
- *.gov* - for government agencies;
- *.mil* - for military installations;
- *.net* - for network access provider;
- *.org* - for non-profit organizations.

Technological progress and deregulation have stimulated the growth of the Internet. It expands daily as more networks and computers connect to it. The Internet has no centralized governance in either technological implementation or policies for access and usage; each constituent network sets its own policies. No single, person, group or organization runs the Internet. The bill for the Internet does not go to the single government private entity. Organizations and households pay for the connections, based on the volume and type of access they require. Local providers access the Internet by buying a connection from a national provider or paying for access to backbone node.

Almost 60% of European Union (EU) individuals used the Internet daily in 2012. (see Graph 1) Individuals of the Czech Republic were around 42% who used the Internet

every day or almost every day. It was second lowest indicator between EU countries after Romanian individuals. However the Czech Republic individuals who used the Internet at least once a week (excluding daily) was almost the same as average in EU.

**Graph 1: Individuals who used the Internet at least once a week, 2012, (% of individuals)**



Note: 2011 data for UK, EU27 with 2011 data for UK

Source: Eurostat (online data codes: isoc\_ci\_ifp\_iu, isoc\_cimobi\_dev)

It is important to note that the leaders of daily Internet users in 2012 were countries as the Netherlands, Sweden, Luxemburg, Denmark and Finland. The author interprets it with high economic and information technology (IT) development in those countries. Mentioned countries had the highest gross domestic product (GDP) per capita index between other EU countries. (see Appendices 2, p. 80)

The Internet rapid development was supported by relatively cheap personal computers and the benefits of broadband. Now the Internet access is becoming popular on mobile phones. Thus the Internet becomes more accessible and it will rise of amount of individuals who use the Internet daily.

The Internet is used by many different organizations, institutions and individuals for wide variety of purpose and in process has created a number of new jobs and business opportunities in tourism and e-commerce.

### 3.2 Tourism & Economics of Tourism

Since the beginning of time humans have travelled. The early travel motivations were food, water, safety or acquisition and trade of resources. Nowadays tourism became as leisure, entertainment and business industry. Tourism is a dynamic and competitive industry that requires the ability to constantly adapt changing needs and desires of customers and focus on the clients' collection of activities and services that delivers a travel experience, including transportation, accommodations, eating and drinking establishments, retail shops, entertainment businesses, activity facilities and other hospitality services provided for individuals or groups traveling away from home. Wall and Mathieson (2006) describe tourism as “composite phenomenon that incorporates the diversity of variables and relationships to be found in the tourism travel process”. [8, p. 19]

Travel has always depended upon technology to provide the means or mode of travel. The Internet accessibility allowed to reach any information about desired travel destinations and gave possibility to design travel plan with complete details (transportation, accommodation, entertainments etc.). People take longer holidays, travel more frequently and travel to destinations further away. There are a number of reasons for this like increase in income, development in transport system, more holiday time from work, cheap flights from budget airlines, changes in the lifestyle (more exotic and unusual destinations).

The typology of the tourism helps to estimate tourism nature and to analyze economic indicators related with the tourism industry. (*see Table 1*)

**Table 1: Typology of the Tourism**

<b>1.</b>	<b>Direction of traffic flow</b>	- inbound - outbound
<b>2.</b>	<b>Geographic distribution</b>	- international - intraregional - domestic
<b>3.</b>	<b>Number of tourists</b>	- mass - selective
<b>4.</b>	<b>Economic class of tourist</b>	- affluent - budget

5.	<b>Tourists motivation</b>	- pleasure - leisure - recreation - business - adventure - nature - health - sport - study	- pilgrimage - spiritual - ethnics - sociological - cultural - park - wildlife - conference - shopping
6.	<b>Intensity of impact</b>	- hard - soft	
7.	<b>Type of tourist destinations</b>	- mountain - desert - urban	- rural - beach/coastal - island
8.	<b>Planning strategy</b>	- sustainable - responsible - alternate	- selective - appropriate
9.	<b>Planning thrust</b>	- eco - rural - urban	- heritage - community - involvement
10.	<b>Tourist activity perception</b>	- white - blue	- green
11.	<b>Tourist demographics</b>		
	<i>age</i>	- youth - mainstream	- old-age
	<i>number of tourists visiting a given destination</i>	- mass - selective	
12.	<b>Season</b>	- summer - monsoon	- winter
13.	<b>Seasonality</b>	- peak - lean	- off
14.	<b>Miscellaneous</b>	- elite - incentive - social	- agro - farm - ranch

Source: [9, p. 14]

The rise in tourism and its growth potentials have attracted increasing attention from development agencies, particularly in lagging regions and in the developing world.



The tourism is frequently considered as an important expedient for an accelerated endogenous regional or national growth, since it provides a developing economy with foreign exchange needed of financing other economic sectors. The existence and attractiveness of tourist areas in combination with good investments will generate tourist flows. [10, p. 2] However, the tourism development poses serious ecological problems owing to damage to interesting places, generates an increased claim on land for use and enjoyment, and leads to air pollution, noise and congestion owing to increased traffic. [10, p. 3]

The mobility of individuals is dealt with series of bilateral and multilateral agreements between countries. [11, p. 39] The agreements develop the economics of tourism.

The emergence of new integrated management information systems has increased efficiency, reduced costs, improved flexibility and interactivity and set the grounds for the beginning of new and modern e-business type organizations. Advanced online yield management systems that adjust pricing to demand changes have significantly improved profitability in all tourism sectors. [12, p. 155]

### **3.3 E-business & E-business in Tourism**

The terms e-commerce and e-business are distinct concepts. E-commerce in term used to describe the process of transacting business over the Internet. E-business involves the fundamental reengineering of the business model into an Internet based networked enterprise. The difference in two terms is the degree to which an organization transforms in business operations and practices thorough the use of the Internet. E-business can include any process that a business organization conducts using Internet including internal processes such as employee services and training. [13, p. 2]

Creating successful e-business in tourism important to evaluate possible advantages and disadvantages thereby preventing own business from unexpected entrepreneurial shocks. (*see Table 2*)

**Table 2: Advantages and disadvantages of E-business practice**

<b>Advantages</b>		<b>Disadvantages</b>	
*	Increase productivity for both customers and employees by saving time and money	*	Requires specialized knowledge to use
*	Allows for communications at a more convenient place and time through e-mail and other software	*	User must have Internet access
*	Provides access to information anytime, anywhere	*	May be perceived as undesirable means of communications compared to direct contact between people
*	Can be used to transfer some work to the firm's customers, releasing employees for other tasks	*	May result in lost customers or sales if online experience is unsatisfactory
*	Allows firms to profitably serve smaller markets	*	Online promotional effort such as e-mail and pop-up advertising may be annoying and possibly counterproductive
*	Facilitates online shopping to geographically dispersed customers		
*	Inexpensive means to promote the firm and its product to current and potential customers		
*	Can provide potential customers with a trial or sample of product or service		

Source: [15, p. 10]

E-business relations in the electronic market encompass [14, p. 20]

- *Business – to – Business (B2B)*: this category includes all transactions made by a company with its suppliers or any other companies. Business – to – business applications have been well established for several years.
- *Business – to – Consumer (B2C)*: this category is mainly represented by electronic retailing and covers a large range of commercial sites from online retailing to online financial services to online publishing.
- *Consumer – to – Consumer (C2C)*: electronic markets of this category are formed basically by web-page auctions. Collectible items, used cars, and any type of item usually found in classified sections of local newspapers can be negotiated between consumers through auction sites available on web.

- *Government – to – Business (G2B)*: this category covers all transactions between companies and government organizations. It includes government electronic procurements and other government business communications. In addition to public procurement, government organizations may also offer the option of electronic transactions such as payment of corporate taxes.

The Internet dramatically change the way societies live and conduct business. The most important elements needed for a successful e-commerce business in tourism model is having a strong implementation – create awareness via cross marketing, following up on promises made, providing a human interface and finding the right competitive package of goods. [16, p. 75]

E-business is a way to conduct, manage and execute business transactions using computer or telecommunication networks. E-business applications [17, p. 165]:

- electronic markets or e-marketplaces;
- inter-organizational systems that facilitate the flow of inter and intra organizational goods, services, information, communication and collaboration;
- customer services, including help, handling complaints, tacking orders, etc.

E-business contains at least one of the following basic aspects [16, p. 135]:

- exchange of information (for example, product info, price list etc.);
- online trading and payment (for example, financial transactions after having ordered concert's tickets by using internet);
- delivery of news, music, movies or application software are the digital goods that will be shipped directly over the Internet.

Developing e-business in tourism requires extensive research and planning in order to be successful in cyberspace. This planning involves the development of a solid and concise business plan, and a focused marketing plan well before a website is created. An e-business plan must have clearly defined goals as it is difficult for any business organization to stay on track if there are no goals in place for guidance.

## **4. Business Plan**

*A business plan is a written document prepared by entrepreneur, describing all substantial external and internal factors related to the commencement of business or functioning of existing company. [18, p. 97-98]*

If the entrepreneur wants to minimize the risks already in the beginnings of his business activities, he should not forget before start of his business about importance of writing a business plan. Correctly established business plan is for its user like a compass that shows him an appropriate direction. It helps to entrepreneur determine on which position is currently located and shows which direction to go. Thanks to the business plan, the entrepreneur can also better clarify individual steps that must be taken in order to achieve his main objective, but also milestones, that lead to its fulfillment. It is a plan for the future and it is necessary to be very well prepared for potential risk factors that may arise during the implementation, and therefore it is necessary already in the beginnings to try as many of these potential threats eliminate. However, even the most well-prepared business plan does not guarantee success, because also luck and coincidence plays in the live of entrepreneur important role. [19, p. 14]

### **4.1 The purposes of preparation a business plan**

The business plan can be prepared by the beginning entrepreneur, as well as for the purposes of already functioning and established company. No matter the size of the company, it is reflected just in the complexity of processing and the possibilities of its purposes. This document can be prepared for both, internal as well as external purposes. [18, p. 97-98]

#### **4.1.1 Internal purposes**

For internal purposes the business plan is prepared primarily as a planning tool when decisions are made about complex processes within the company. This could include the investment plans, restructuring, sale of certain parts of the company or merger with

another business entity. If the plan is drawn up for a medium or large enterprise, then with his conclusion or at least brief summary should not be familiar only management, but at least some key employees as well. However, it is recommended, that about the fundamental changes resulting from the business plan were informed all workers, including ordinary workers. [18, p. 97-98]

The benefits of processing a business plan for the internal purposes consist mainly in the fact that subsequently allows you to obtain important insights from the analysis, because part of a business plan is also including an analysis of the external environment. This helps to identify surrounding of the company and reveal the threats and business opportunities. External analysis is further divided into macro environment analysis, which includes analysis of technological, social, demographic, political and legislative surrounding. Within external analysis is performed also the analysis of micro environment, analyzing the structure of the particular sector, current trends and then also level of profitability in current sector. For management of the company the preparation of business plan will allow not only display the expected prediction scenarios and objectives in the development of the company, but also forecast the development of financial flows. Last but not least allows better to avoid potential risks that may stand in the way to achieve desired goals. [19, p. 163-165]

#### **4.1.2 External purposes**

However, in most cases, a business plan is prepared mainly for external users, because of the growing competition and crises in the economy is by external entities increasingly required. The external entities are primarily the providers of capital or investors who may, through their capital to participate in the project. The private investors often do not put to the projects only their money, but also their knowledge and experience in certain field. Other entities that provide capital support may be banks, venture capital companies, etc. All these external entities based on entrepreneur submitted business plan evaluate by various factors, whether the project can be advantageous and prosperous for them. It is again worth to put on preparation of business plan great emphasis, because it is just the well-prepared business plan that can bring missing capital into the business. [19, p. 163-165]

## **4.2 The principles of preparation a business plan**

During the preparation of business plan should be respected certain general principles. On this fact is considerable emphasis and in the present even more, because there are plenty of business plans all around and if all of them are submitted to external users, certain general principles help to simplification and transparency of their evaluation. These principles include clarity, logical structure, brevity, truth, reality and respecting of risks. [18, p. 98-99]

Clarity represents a well-known adage "In simplicity is beauty" !6!, when is recommended not to use unnecessary technical terms, express clearly in short sentences, in calculations refer to the method of calculation, or for better explanation use a graph or chart. In writing of business plan is also important to follow the logic. It means that individual steps must themselves engage each other, both temporal and eternal perspective. Individual steps or targets can be shown for better clarity in time line. [18, p. 98-99]

As was already mentioned above, nowadays would like to have business almost everyone and therefore are external entities assailed by many business plans. Their interest is, of course, to choose the best and most attractive to them. In order to be possible go through such amount of documents, it is necessary to have a business plan concise, but not at the expense of important facts. Further, it is essential to respect the principle of truth and reality. If the prepared business plan is presented to investors and is asked financial resources from them, is this aspect necessary to take in even greater account. Finally, it is necessary not to forget the time factor and the possible risks that may arise in the future. [18, p. 98-99]

## **4.3 The structure of a business plan**

It is clear that the structure or points for preparing a business plan, in some cases vary and therefore it is not possible to determine its fixed form. It depends whether the business plan is prepared for new start-up company or already in the market established company and it is also connected with experience of entrepreneur individually or in the case of established company with experiences of all management. Small or start-up companies in the preparation of a business plan often face the problem of availability and

access to the relevant information for them. In contrast, large established companies in most cases already have the necessary information about the market, competition, target segment, etc. Last but not least, these established and profitable companies already have financial resources in order to acquire additional information. Differences in the structure of a business plan will be surely based on the core of business. It means whether the company will deal with performing services or manufacturing. Clear from the foregoing is that following list of points of the business plan is for guidance only and should not be taken as a binding. It depends on the contractor, how he will adjust the structure, usually based on the subject of business and goals, which wants to achieve by writing a document. According to the authors of the book “*Business Plan and Strategy*” can have a business plan the following structure: *cover page, content, introduction, purpose and position of document, executive summary, description of business opportunities, goals of the company and owners, potential markets, competition analysis, marketing and business strategy, project implementation plan, financial plan, the main assumptions of project success, project risks, Annex.* [18, p. 98-99]

#### **4.3.1 Cover page**

On the cover page is usually indicated the name of the business plan, the name of the contractor of this document and eventually any other key figures. If at the time of writing the business plan is company already existing, should be there indicated also the names of the partners, the brand name of the company and its logo. It is also appropriate to state company headquarters, contact details and web address. If author of the business plan wants somehow protect his idea against abuse of other people, it is appropriate to add to the cover page the trade secret formula. Unfortunately, treat the idea by legal protection is not a simple matter from a practical perspective and it is basically impossible. [20]

#### **4.3.2 Content**

Content or the list of chapters plays in the business plan very important role. For example, for a potential investor represents a simplification in orientation in whole document. For clarity, to the content is recommended to indicate maximum three levels headlines. [19, p. 15]

### **4.3.3 Introduction, purpose and position of document**

In the introduction of the business plan is the reader informed about the basic and important facts of the document in order to avoid any possible misunderstandings already in the beginning. The author clarifies the purpose for which the business plan is written and thus it will be clear to whom will be document submitted. The purpose may be an assurance of potential investor about the benefits of participation in the project or plan may be compiled in order of application for financial loan from the bank etc. In case that certain parts of the business plan will be added or refined by important details, is appropriate to indicate what version of the document it is. By the following is highlighted whether the document is yet in its shortened version or if it is already the final form of the business plan. [19, p. 15]

### **4.3.4 Executive summary**

The section "Executive summary" must not be mistaken with the Content. In this section should be clearly and concisely summarized the entire business plan. There describes briefly what is in the following pages analyzed in detail. The aim of the Executive summary is that potential investor would be after reading a few sentences willing to read the entire document. The purpose is to arouse the reader's curiosity and interest to study certain parts of a business plan in more detail. As states the Institute for Development of Entrepreneurship, executive summary should include the following points:

- *Entrepreneurial intention* - a clearly defined scope of business and related characteristics of the product or service, defined target segment of customers and size options of the market.
- *Success Factors* - emphasized benefits of the project, highlighting in what is the product or service better from others or even unique and what is competitive advantage.
- *Business objectives* - defining of the vision, mission and strategy; in other words, it is the mission of the company, where it is "going" and how will get there, then there is set a business goal, but shall not be forgotten to determine its partial objectives. [21]



#### **4.3.5 Description of business opportunities**

In this section of the business plan is described the entrepreneurial intention, respectively, in what entrepreneur sees his business opportunity. Entrepreneur lists there in what is his project the best and that right now is the best time for its implementation. Essentially, it is specification of customer's needs and wishes, which entrepreneur wants by his products or services satisfy. Because nowadays is a big competition in the market and to gain a portfolio of customers is not easy, it is necessary to emphasize the value added for the customer. The value added means something extra that will bring to customer our product or service and what not can be found at other competitors. Based on the value for customer is finally decided between offered products and it is necessary to keep in mind. [22, p. 535-539]

In description of business opportunity is necessary to define:

- Product,
- Competitive advantage of the product,
- Benefits that this product will bring to customer. [19, p. 16-17]

Within the specification of the product is defines appearance, features and functionality of product or service that the entrepreneur plans to bring to the market. It describes whether it is a new or already existing product, to whom the product will be designed and whether to product will be attached certain services. By the service is important to clearly and comprehensively define its main function and the process of delivery. It is about the specification of the core product that will to business entity constitute the main part of turnover and therefore we have to also pay attention to this part, because if the product will not be enough good, it will not find its customer on the market and probability of success of the business plan will be very low. In the description of the product is necessary to pay attention to the expertise of the terms because is necessary that the specification of business opportunities would be understandable also to layman who is not well versed in the field. [19, p. 16-17]

Furthermore, in this part of the business plan has to be set a competitive advantage of new product or service because as stated above, today is in the market big competition and it is necessary to come up with something more attractive than is able to offer to

customer a close competitor. With competitive advantage are also closely related benefits that product will bring to customer. The benefits for customer are the main aspect under which the consumer decides whether to buy our product or product from our competitors. It is again about to give to customer a product that will bring him greater benefits and thus will satisfy his wishes and needs better than product from our competitor. [19, p. 17-19]

#### **4.3.6 Goals of the company and owners**

The success of even the best entrepreneurial intention will not be possible without capable management or in case of small company, its owners. During evaluating of business plans the investors or banks monitor the business experience and expertise of owners, managers, key employees, as well as regular employees. Therefore, the entrepreneur has to before commencement of business set the goals and objectives of the company, owners, management, workers, etc. [19, p. 17-19]

Setting the goals of the company is basis for the beginning of a successful business. Without determining the mission, vision and with no idea about what the entrepreneur wants to do is not possible to “go further”. First of all, in this section is briefly introduced the company itself, its history, legal form, field of activity, ownership structure, etc. Determination of the vision is basically kind of “stepping bridge” in order to determine the objectives of the company. Further, in their definition is necessary to follow the recommendations, which are i.e. that the objectives should be SMART. This acronym is composed from the initial letters of English words:

- *Specific,*
- *Measurable,*
- *Achievable,*
- *Realistic,*
- *Timed.* [23, p. 26-27]

The horizon of stated objectives should be approximately for 5 years. The 1st and 2nd year should be specified in more detail, but it also depends on the subject of business activities, because then these time horizons may differ in some cases. [19, p. 17-19]

The corporate goals should be arranged in a hierarchical structure. On the top of this system is primary goal of the company, which is usually set by senior management, which is responsible for its implementation. Part of this hierarchical structure is also partial objectives that lead to reach the primary objective. All set objectives, partial as well as primary, must be in mutual compliance and all these stated objectives must be communicated to top management as well as to ordinary employees because all activities of all those stakeholders must take direction to these targets. [24, p. 19-20]

After defining the objectives of the company has to be in each company also established the objectives of owners and managers, because at first sight is obvious that *good leadership with an average product is better than average leadership with the first-class product*. For the key persons should be indicated their educational background, practical experience in the field and location in organizational structure of the company. The range of characteristic of each worker is based according to the function and the role he has in the business plan. The full biographies are attached in the Annex. [19, p. 17-19]

#### **4.3.7 Potential markets**

No entrepreneur can succeed with his product, unless there is a market that will be for his product prospective. Therefore, it is necessary before starting a business to find a market that will have an interest in the product. Nowadays, there are many guidelines and recommendations which market to enter and how to find it. One of the modern approaches is so-called *Blue Ocean Strategy*. Blue Ocean Strategy look for new opportunities, both, for existing as well as for new companies and its basic concept is based on dividing of market space into two oceans, red and blue. Red ocean is typical hyper-competitive environment. To get a customer is possible only by providing better services or by offering better products than the competition. Following the struggle, which in this market is, this ocean has been marked as red, or colored by blood. The opposite of them are oceans blue. Blue oceans represent a new market space, which is not entered by competition and where is the opportunity for highly profitable growth. It means that blue oceans are very good option where to place the product for new start-up entrepreneurs. Crossing the borders of existing sector and finding a place where is no competition yet, provides high potential of success for a new product. [25, p. 140]

In the process of defining a potential markets has to entrepreneur based on various analyzes define the market which will be suitable for the product. He specifies its size, profitability, barriers of entering this market, etc. He provides all information about the overall as well as the target market. The overall market is that which includes all the possible ways to use the product or service. The target market is then formed by a group of customers to whom the product will bring the benefit, for which will be available and who will be willing and able to pay for it. At the first sight, it is obvious that the product will not be intended for all consumers and therefore is necessary according to selected criteria to divide them into groups, it means, segmenting the market. From these uncovered segments are then selected one or more customers who are the most perspective for new offered product and on those the entrepreneur focus. [19, p. 17-19]

#### **4.3.8 Competition analysis**

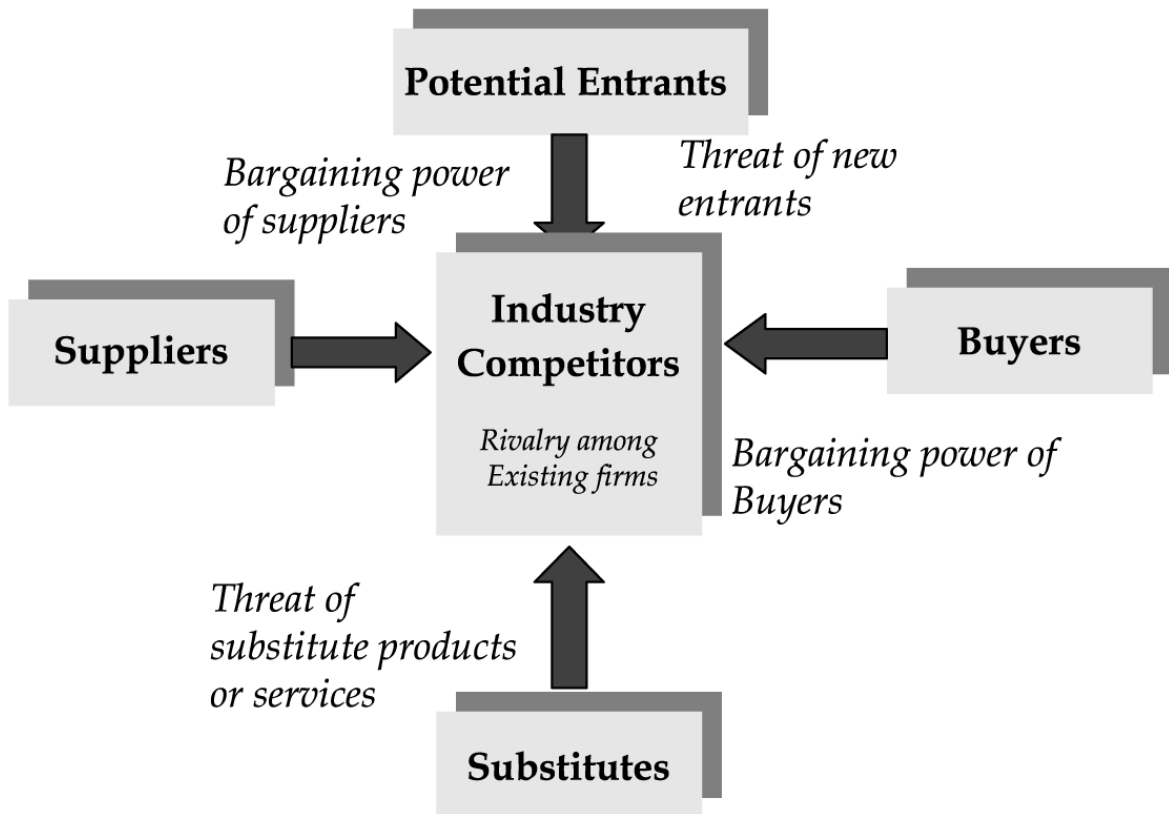
In today's globalized world, no one can confidently say that for his product or offered service is no competition. Rather the contrary, the competition was and always will be, that's for sure. Therefore, it is necessary in preparing a business plan to carry out detailed analysis of the competition. One of the best known and most widely used methods or the analysis of competition is Porter's analysis of the 5 competitive forces. [26, p. 3-32]

Porter defined the forces that have an impact on the company and creating a possible opportunities and threats. These are the factors affecting the sector in which the company wants to operate. There is talked about the following five forces [26, p. 3-32]:

- Threat of new entrants,
- Bargaining power of buyers,
- Threat of substitute products or services,
- Bargaining power of suppliers,
- Rivalry among existing firms.

*(see Picture 1, p. 23)*

**Picture 1: Forces Driving Industry Competition**



Source: [26, p. 4]

The rivalry between existing companies is one of the main competitive forces, which must be taken into account when entrepreneur enters the market with new product. The scope of this competition is determined by the structure of the sector, the number of customers, input barriers and last but not least, it is a rivalry. In the analysis of the competition is necessary to expect also the possibility of entry of new companies to the sector, that will be attract i.e., by profit potential there. One of the variant how to prevent these potential competitors access to the sector are entry barriers, which their overcome is increasing the initial costs. Other threats can be the substitution products. This force causes mainly into price competition, because the price is at that moment the only one competitive factor that is possible to distinguish and in extreme case, exclude the existing competition from the "game". When entering a given market, the company must take into account also the purchasing power of customers and suppliers. Because this is about the entities with which the company will have to cooperate, to form a partnership and mutually beneficial deals. [27, p. 49-52]

#### 4.3.9 Marketing and business strategy

Nowadays, we meet with marketing literally on “every step”. The advertising on billboards, television, radio, promotions in stores and many other forms of promotion are looking for a customer for their product. Therefore, when introducing a new product, there must be created very good marketing and business strategy. In this connection, the entrepreneur must in preparing a business plan deal with three types of questions - what will be its target market, which position will have its product on the market and especially, what kind of marketing mix will choose.

Selection the target market is based on the process of segmentation, which is already described above and which will allow entrepreneur to select the range of customers for which will be product primarily intended. After defining the target group is necessary to establish the market position of the product that would like to be on the market with regard to competition. The main goal of this step is to determine in what is going to be the product different from the competition and how will create a specific perception of consumers. It is about determination of the positioning, or the way how the product should be perceived by the target group. Determination of the positioning can be based on relation of quality and price, or may take advantage of the function attribute, so-called, USP (*uniquesellingproposition*), or emotional attribute, ESP (*emotionalsellingproposition*). USP means utilization of the unique benefits that the target group gets from the product and can't get it anywhere else by the competition. By contrast, with utilization of ESP can get a very positive perception of the product for consumers using the emotional benefit, when the marketing is mainly used just to raise the emotions of the customer, which lead to the purchase decision. [28, p. 17-18]

In the creation of marketing and business strategy must be also decided about the marketing mix that will be most suitable for the target group and established market position. The marketing mix consists of tools that should to bring a given product as close as possible to the wishes and needs of the customer. This is about the devices, which the company uses in order to modify its offer the best for target customers and which serves to influence the demand for this product. Classic marketing mix consists of the so-called, "4P", the abbreviation for the four English words, namely:

- Product,
- Price,
- Place,
- Promotion. [22, p. 70-71]

However, as everything is evolving, also in this "classic" marketing mix occurred many modifications over time. It was, in particular, about its extension for individual sectors and areas of business. One of the following fields is i.e., tourism, for which this "4P" extended to other "3P", which are:

- Packaging,
- People,
- Partnership. [29, p. 60]

Because of this thesis deals with tourism, further are described just the specifics of the marketing mix for tourism.

To the spread of classical marketing has led, in particular, the fact that the product of tourism are mainly services and, therefore, is necessary to based on their specific characteristics, which are namely their immateriality, instability, inseparability and not storability. For services the customers primarily assesses the quality of their provision, therefore, it is necessary to put great importance to the employees, and all staff, which is associated with their production. It is just employees who are acting with the customer, offering the product and all their communication and activities can affect this process. The price has in the marketing mix, primarily, the informational and business role. For tourism is typical that customers pay for the product before, they even start to "consume" it. When setting the price, the basic purpose is to fix such price that customers will be willing to pay and that will bring to entrepreneur the profit as well. In area of distribution the tourism companies often use, so-called, "middle men" in the form of operators, travel agencies, etc., therefore, these bodies may have influence on the final price of the product. However, the basis for distribution in tourism sector is, as well as in all other sectors, to ensure the

availability of the product to the customer and its distribution at the right time and the right place. Furthermore, is necessary to inform customers that the product is on the market and encourage them to try. The communication tools of tourism include advertising in the form of a variety of catalogs, brochures and of course the classic forms of advertising in radio or television. In addition, is use of sales promotion in order to attract customers to bargain offers in the form of competitions, discount vouchers, etc. In this area does not neglect the PR or public relations, because the communication with media, suppliers, sponsors and all the stakeholders is there very important. However, the best communication tool is the so-called, positive word of mouth, because it is just recommendations from friends and acquaintances, which can attract the most customers. [29, p. 60-67]

Packaging is in the marketing mix included due to the fact that the consumer is generally in tourism not demanding only one service, but several and all of them must reflect in one offer. The last key element of the marketing mix is a collaboration or partnership. This is primarily about the cooperation of several subjects, which together provide the service. An example might be the cooperation of travel agencies with carriers, etc. Interesting fact is also that despite a big competition on the tourism market, it is just cooperation, which these entities must be using, because the consumer perceives the purchased service as a complex and not separately. [29, p. 60-67]

#### **4.3.10 Project implementation plan**

In any business plan may not be missing the part concerning the timetable of all the activities related to the establishment of the company, including activities that are required in order to start the business. It is essentially about determining of the timetable and its observance. In each new project arise some problems and obstacles which need to be proactively solved. This usually leads to prolonging of whole project and the date of completion as well. However, even with these complications is necessary to count. For better displaying is possible to use, for example, the graphical representation in the form of diagram, timeline, etc, where are represented individual delays. The following timeline or diagrams are useful especially for financial planning. [19, p. 27-28]



#### **4.3.11 Financial plan**

For better clarity and simplicity from the economic point of view is necessary the previous sections of the business plan to convert into numeric form. Numerical expression refers the reality of whole project. Financial plan and its outputs consist of primarily plans of revenue, costs, cash flow, planned profit and loss statement (income statement) and planned balance sheet. In addition, it is recommended to support the feasibility of project by implementation of brief financial analysis, use the calculation of break-even point and assess the need for the necessary investments and additional funding during the first months of life of the project. The start-up companies will firstly need to calculate the need for financial resources related with the founding of the company. Furthermore, is necessary to include in the calculation the acquisition of necessary long-term and current assets, and last but not least also quantify operating costs incurred to the entity in the first months of activity and whose coverage by revenues will take some time. [19, p. 27-28]

Every starting entrepreneur should be able to work with the costs. At least it is necessary to know the classification of costs generic and targeted. The targeted classification of costs is important in particular for the production and control of the calculations. It is also important for the financial management of company to distinguish the costs, which vary depending on the change in the volume of production and costs, which to a certain extent on the change in the volume of production do not affect. These are variable and fixed costs. This approach to financial management is more known as a management approach, which deals with management accounting. [30, p. 198-200]

Of course, it is necessary for completeness also prepare a financial plan with predictions for the future. It is important that the entrepreneurs while preparing the business plans would keep in mind that if the project will be presented to potential investors or banks, must be the most of the data contained in the document also in numerical form. These bodies, in particular, are considering their decisions in the numerical dimensions. It does not matter how big or small a company will be, but basically always will be from potential providers of funds required the information about expected business turnover, profit and cash flow for the first year. Furthermore, investors require

information and background about how and in what amount will be for the first year paid the first installment of the loan, and last but not least the financial perspective for the next year. [31, p. 11-12]

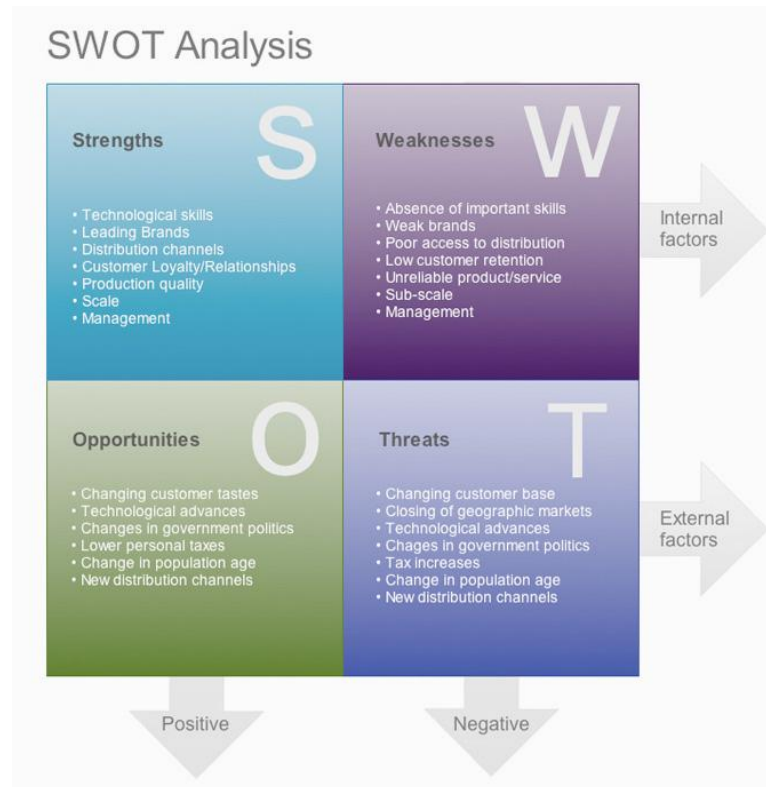
Determine the expected cash flows is not a simple matter, but very necessary. Because of on the basis of expected revenues and expenses related to the activities of the company, the investor can make a prediction how much funding will be needed and whether there will be enough resources for the implementation of the project. For the first year is good to specify cash flow plan in more detail, for example, for each month. Income statement will inform on one side about profit and on the other side about costs of the company. From this statement is possible to subsequently determine the economic outcome, i.e., whether the company is able to at the end of the period (usually 1 calendar year) from its profits to cover the obligations towards the concerned people, installment loan, etc. An overview about the company's assets and resources to its coverage provides a balance sheet. As a general rule, the balance sheet is drawn up once a year, always to 31.12. However, the starting entrepreneur must first draw up so-called, opening balance sheet. From balance sheet is possible to see the structure of changes to assets, resources, assets for the acquisition, the company's payables and receivables, the accumulation of retained earnings and debt of the company and a number of other information relating to the assets and liabilities of the company. [31, p. 11-12]

During the processing of a financial plan is recommended to count with more variations. For clarity, the financial plan shall be submitted in three versions and so, in pessimistic, realistic and optimistic. [19, p. 31]

#### **4.3.12 The main assumptions of project success**

The main assumptions for success of the business plan are focused primarily on the analysis of macro environment. To assess the internal and external environment of the company is suitable to use a simple method called SWOT, which stands for English words beginning with the letters – **S**trengths, **W**eaknesses, **O**pportunities and **T**hreats. [27, p. 15]

**Picture 2: SWOT Analysis**



Source: [32]

The entrepreneur should in his business plan demonstrate that his project dispose certain strengths and highlight them. These strengths can by internet portal Gliffy.com include strong management, quality product, brand, distribution channels and technical abilities. [32] On the other hand, compilation of the document must be processed as much as realistic, and therefore is necessary to communicate to the investor also the weaknesses. However, it is advisable to try for these weaknesses find some solutions that company could these weaknesses somehow eliminate or at least suppress. While exploring the surroundings of the company, he is also focuses on the analysis of opportunities and threats. He focuses on the opportunities and the best way of their use for a given project. It is possible to see an opportunity in changing customer needs, new distribution channels, technological innovation, etc. However, all opportunities for entrepreneur may also pose threats, and therefore they must not be ignored and also with them has to be business entity familiar. For the novice entrepreneur is necessary to be ready for potential barriers and looking for opportunities for their elimination from the very beginning. [19, p. 31-33]

### **4.3.13 Project risks**

The risk of the project in the business plan is a negative condition, most commonly in the form of deviations from the specified objectives. For a company the risk refers a negative impact, and therefore is necessary to try these situations predict and take steps to prevent their occurrence. In the framework of these measures against the risk, must also be laid down the procedures in order to be applied when such situation occur. Risks should be primarily avoided. After identifying the problems can be suggest various preventive measures and establish early warning systems. A common and often mistake is that the managers fix the consequences, but no longer does not fix and seek the cause of the problem. Preventive measures which can reduce the potential impact of possible risk situations are various insurance, management of the project in stages, the transfer of risk to another subject, the division of risks, etc. [19, p. 31-33]

### **4.3.14 Annex**

The annex is an additional part of the business plan and its range is not exactly defined, since it depends on the specific case. The annexes shall contain the facts that are necessary to complete the document, but putting them into the previous chapters is too detailed. There may be various contracts, complete CVs of the key persons, some tender documents, technical documentation, product parameters, price lists, extract from the commercial register, a complete overview of the financial statements, brochures, articles, etc. [19, p. 31-33]

***5. Practical part***

**Cover page**

# CheapHoliday.cz

*“The 5-stars holiday for low-cost price!”*

Author: Bc. Jan Jelínek

## **5.1 Introduction**

This prepared business plan is presented as the first (basic) version. The document is used for familiarization with the project **CheapHoliday.cz**. The aim of preparing this business plan is to find out, based on feasibility study, whether this business idea is realizable, and whether its realization would be from an economic point of view profitable.

## **5.2 Executive summary**

This business idea represents a creation of functioning website which will be used for mediation of luxury accommodation in 5-stars hotel resorts in top holiday destinations all around the world. The website will be operated by the author of this project and his partner, the IT programmer. It is not going to be just simple website which will offer any accommodation in any hotel, which are already many on the market. This website will be functioning as the e-marketplace. The customer, final consumer of this service is coming to this e-marketplace with clear requirements about his holiday destination and wants to demand the quality service, but for as low as possible price and this we can offer to him. The target group of customers is characterized by knowing to which destinations wants to go and by wish that their stay would be as cheap as possible. The bonus for them will be that even so their holiday will be cheap, at the same time in 5-stars quality and this is the main motto of this project. The customer will insert his requirements to the reservation form and on the other side is acting the author who is able to offer him accommodation in one of the more than 4 thousands of 5-stars hotels holiday resorts all around the world. The customer will be offered just 3 the best and cheapest options, which fit the most to his requirements. After that, the customer can already implement the purchase of the service. The important is again to mention the quality of offered service. This project is about to provide the 5-stars accommodation, therefore the portfolio consists of the 5-stars hotels holiday resorts only.

If the project will be successful, there is possibility to extend the service of selling the air tickets and in the future may be add some other additional services. However, it depends on the success of the main product and development of the financial situation.

### **5.3 Description of business opportunities**

I decided to implement my business plan at the tourism market. The fact that people have traveled already in antiquity, points out that tourism here was, is and always will be. (*see Chapter 3.2*) The existence and development of the tourism industry would not be possible if the failure wide range of conditions, such as the economic, environmental, labor, demographic, technological, etc. In the economic field is monitored, for example, the amount of Gross Domestic Product (GDP) or the disposable income of the population. The environmental sphere includes the factors such as climate and environmental attractiveness. But neither without the material-technical base, a sufficient number of qualified personnel or a functioning administration system would development of tourism not be feasible. [33, p. 9]

#### **5.3.1 The tourism market – Economic analysis**

Tourism is an inter-sectorial industry, extending directly into the sectors of economy, industry, trade and services, finance, transport, regional development, culture, health care, education, sport, environmental protection, forest and water management, agriculture, employment, employment creation, and the activities of self-governing authorities. Whereas the activities of most other sectors concern a relatively narrow vertical segment, tourism is typified by a horizontal connection to various sectors. This brings with it several problems which can be addressed only through cooperation at the inter-sectorial level. There is not at present enough of this cooperation.

Tourism development all over the world is strongly affected by the public sector. The success of particular activities depends on better cohesiveness among individual partners, better support from the state, and the ability to adapt to changing conditions. The Czech Republic finds itself in a complicated situation in the international tourism market. On the one hand, it has sufficient potential for tourism development in terms of primary and secondary supply, but, on the other hand, this potential is largely no exploitable as

a product. In such conditions, tourism in the Czech Republic cannot be a sector with a major effect on the strengthening of economic performance, though it may significantly help increase the creation of value, reduce unemployment and equalize inter-regional differences. Additionally, the internal tourism consumption by product in the Czech Republic is decreased on 17% in 2011 comparing 2007. (Appendix2)

As the tourism market is considered place where occurs to buying and selling of products and services, or the place where supply meets demand. The tourism market is characterized by a number of specifics that must be respected by the entrepreneur if he wants to join. These specifics include first of all already above mentioned politic-legal and administrative conditions. This market is also characterized by a distinctive seasonality and thus fluctuating demand. The tourism product cannot be stored and its production is linked to the place of consumption, which is based on the fact that tourism product is largely a services. For this reason the market can be seen as labor intensive. When entering this market, it must not be forgotten that this market is affected by natural and climatic factors, and it is also possible the occurrence of other unforeseen effects. [34, p. 18-19]

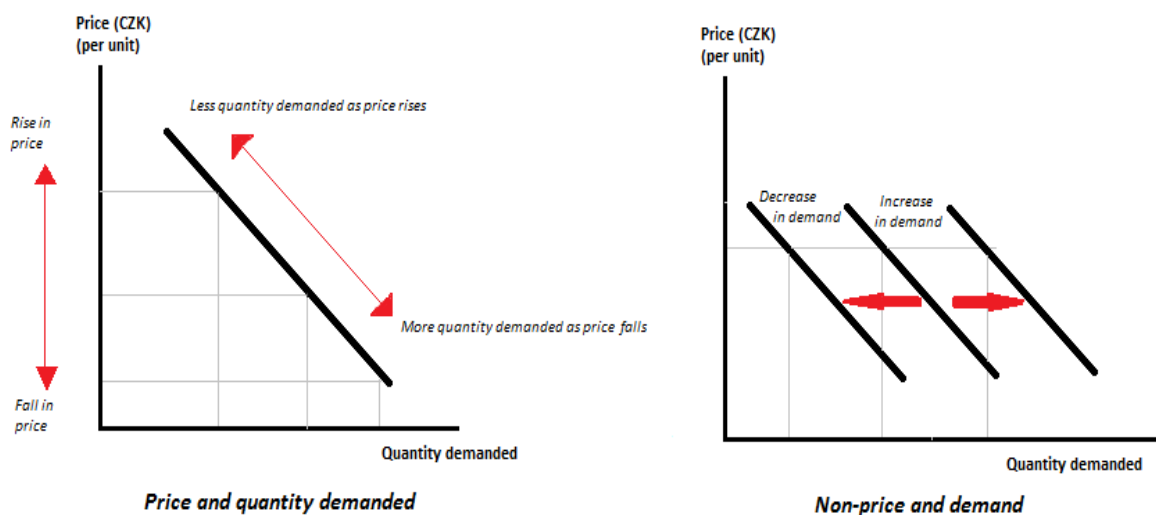
Demand and supply are on the tourism market closely related because, for example, fluctuations in the prices and incomes of the population are immediately reflected in the tourism market. Demand is there highly variable. It is influenced by a variety of factors, such as pension funds, free time, weather, exchange rates, etc. In the area of demand is also necessary to monitor the growing confidence and the experience of clients, who then require higher quality of provided services. Today's trend is virtually packages, literally "tailored" to each client, allowing the wishes and needs of each client satisfy as much as possible. Therefore, the entrepreneur would be successful at the tourism market, he must be very well familiar with the particular motivation of clients to travel and also with social, personal and other variable factors, such as costs, time, image, etc, which may have an impact on travelling. Furthermore, it is necessary to know the characteristics of the destinations, services, environment, information and reservation system, and last but not least the purchase behavior of consumers. [29, p. 52]



Demand for travel to a destination divides in to: [44, p. 47-49]

- **Price factors:** the cost of to the visitor includes the cost of transport services to and from destination and the cost of ground content (accommodation, tour services, shopping, entertainment, etc.). The prices paid by an international tourist who must convert one currency into another will also be influenced by prevailing exchange rates, and prices in the destination as compared to prices in their home country. A change in quantity demanded of a product or service results from a change in its price and can be represented by a shift along the demand curve. (see Graph 2)

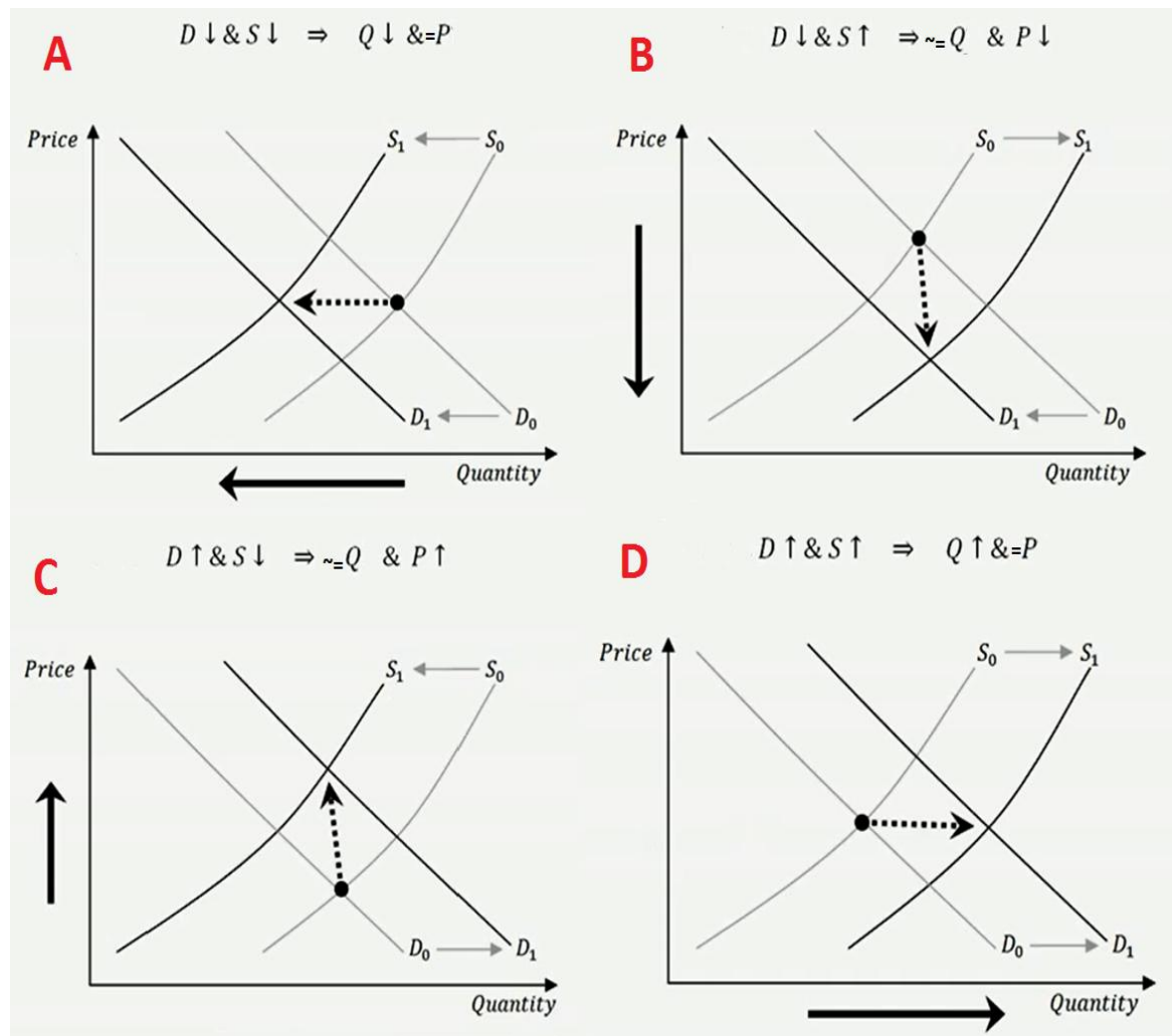
**Graph 2: Changes in demand and changes in quantity demand** [45, slide 7]



- **Non-price factors:** these include socio-economic and demographical factors such as population, income in origin country, education, occupation, availability of leisure time, immigration stock and the like and qualitative factors including consumer tastes, tourist appeal, destination's image, quality of tourist services, tourist preferences, special events, destination marketing and promotion, cultural ties, weather conditions, random shocks etc. A change in demand results from changes in the non-price influences on tourism demand. These factors cause the entire demand curve to shift left or right, indicating a reduction or increase in demand at any given price. (see Graph 2)

International tourists bring additional financial resources into the host country. Tourism expenditures increase the supply of money and bring inflation. The demand of tourism services rises moving from  $D_0$  to  $D_1$  as is indicated in case **C** and **D**, thus break equilibrium of  $S_0D_0$  (see Graph 3). The tourism supply reaction can be different – decrease or increase. If the supply of tourism services cannot adapt the increased demand, the general price rises, leading to inflation as it shown in scenario **C**. In opposite situation - when the tourism supply can approach increased demand, the price stays at the same level, but quantity of tourism services rise up as it is shown in case of **D**. The tourism demand increase production, local employment and salaries (secondary effect). [46, p. 101]

**Graph 3: Changes in tourism demand and supply**



Source: [47]

Due to achieve rising demand of tourism services the author estimates the key-challenges for the project **CheapHoliday.cz**:

- Optimize distribution capabilities across all relevant channels;
- Become visible (efficient marketing) and relevant in an increasingly complex online environment;
- Enrich the travel experience of customers;
- Stay connected to customers from travel planning phase.

If in the Czech Republic will be turned down the successful development of economic, then it can bring reducing of the tourism demand (case **A** and **B** in Graph 3). In scenario **A** it will lead decreasing of tourism supply, searching of new market equilibrium ( $D_1S_1$ ), thus reducing quantity of the tourism services but keeping the price at the same level. In the scenario **B** it will bring expansion of tourism supply, thus guiding price of tourism services down.

As well as demand, supply has in the tourism market also several specifics. It is certainly the development and use of technologies such as internet and modern information systems. High-quality and efficient information technology (IT) is nowadays the basis. Tourist information systems begin to be identified as one possible way to close the gap between service suppliers and the volatile demand side. New information and communication technologies are enhancing recent inter-enterprise collaboration schemes and their appropriate integration might offer new win/win-situations for every actor of the tourism industry. Each element of the tourism industry in fact is involved in a number of significant linkages that can be enhanced through electronic connections today. From a traveller's point of view, access to effective communication systems can provide reliable information on facilities and services. Today, efficient and inexpensive communications already allow travellers to stay in touch with the service provider, and this during their entire decision making. Therefore, even greater emphasis on it is placed in the area of travelling, because it is necessary to ensure maximum availability of the greatest possible amount of information to all clients. However, supply in tourism is also characterized by a high diversity and complexity, bound a large investments and is there necessary a high

degree of readiness to perform. Last but not least has not to be forgotten the fact that tourism is always related to a specific location or region or country and the supply is also affected by the quality of its public administration. [29, p. 54]

According to Bloch, Pigneur and Steiner, there are three critical success factors, which should be kept in mind while designing IT applications in the tourism industry: [48]

- **Integration:** each of the systems should be as integrated as possible and should represent “one-stop” shopping experience. This will require standardization among the different suppliers, in terms of data, functions and organizational procedures;
- **Customization:** a travel mall should not simply be a list of possible travel products; it should take advantage of technology to map as closely as possible the interests of the customer. As such, it should track each customer's profile, and present only the most relevant information. Each customer's interaction with the system should be used to increase the relevance of the relation;
- **Pro-activity:** instead of simply waiting for customers to “drop-in”, these systems should strive to create travel needs. Electronic mail could also be used to regularly update customers on specific offers, close to their tastes or previous purchases.

### 5.3.2 Business in the tourism market

The tourism is, as already stated above, characterized especially for its profitability and high growth potential. This is because, despite the economic crisis and rising unemployment, most inhabitants of the Czech Republic want to spend free time away from their permanent residence and therefore are willing to save and set aside a certain portion of funds from their budget just for travelling. In times of economic recession and dirty political games, when people are hit by depressed mood, it is just relax and pleasantly spent vacation, which is one of the ways to gain strength again. This fact is confirmed by data on the website *ec.europa.eu*, where you can see that in spite of the difficult financial situation are still in the Czech Republic growing expenditures on tourism. Tourism is now undoubtedly one of the most important economic sectors in the world. At European Union level is one of the main pillars of the tertiary sector. The tourism industry is also very

significantly involved in the formation of GDP, when with its growth is falling unemployment in major tourism areas. Last but not least, growth or tendentious changes in tourism have an effect on the sectors of the economy. The importance of tourism to the economy can be measured such as income from tourism per GDP. In the table below can be in the first three columns seen a growing trend of revenues from international tourism in the Czech Republic, European Union Member States and other major tourism countries. The fourth column shows the proportion of revenues from tourism to GDP in percentage. However, significant are the additional columns that represent expenditure on international tourism. The expenditures for the period of 2001-2011 have growing trend in the future is expected their further growth. From the above it can be concluded that business in this area is promising with potential for growth. [35]

**Table 3: Travel receipts and expenditure in balance of payments, 2001-2011**

	Receipts				Expenditure			
	(EUR million)			Relative to GDP, 2011 (%)	(EUR million)			Relative to GDP, 2011 (%)
	2001	2006	2011		2001	2006	2011	
<b>EU-27 (1)</b>	:	71 770	85 016	0.7	:	87 933	89 578	0.7
<b>Belgium</b>	:	8 199	8 127	2.2	:	12 372	16 055	4.3
<b>Bulgaria</b>	1 088	2 064	2 852	7.4	512	1 174	960	2.5
<b>Czech Republic</b>	3 468	4 690	5 484	3.5	1 550	2 194	3 279	2.1
<b>Denmark</b>	4 482	4 434	4 442	1.9	5 435	5 968	7 116	3.0
<b>Germany</b>	20 164	26 124	27 903	1.1	57 985	58 895	60 596	2.3
<b>Estonia</b>	569	811	897	5.6	214	464	554	3.5
<b>Ireland</b>	3 144	4 258	3 336	2.1	3 494	5 446	5 543	3.5
<b>Greece</b>	10 246	11 357	10 505	5.0	4 663	2 383	2 266	1.1
<b>Spain</b>	34 222	40 715	43 026	4.0	7 296	13 266	12 423	1.2
<b>France</b>	33 679	36 912	38 682	1.9	20 055	25 965	29 922	1.5
<b>Italy</b>	28 959	30 335	30 878	2.0	16 539	18 366	20 709	1.3
<b>Cyprus</b>	2 240	1 882	1 809	10.2	478	768	868	4.9
<b>Latvia</b>	134	384	551	2.7	250	563	547	2.7
<b>Lithuania</b>	428	824	966	3.1	244	722	571	1.9
<b>Luxembourg</b>	2 138	2 891	3 258	7.6	1 637	2 493	2 707	6.4
<b>Hungary</b>	4 204	3 393	4 028	4.0	1 624	1 503	1 780	1.8
<b>Malta</b>	628	607	909	14.0	202	253	235	3.6
<b>Netherlands</b>	7 505	9 037	10 378	1.7	13 417	13 560	14 748	2.4
<b>Austria</b>	11 046	13 255	14 267	4.7	7 366	7 641	7 531	2.5
<b>Poland</b>	5 190	5 752	7 647	2.1	3 904	5 751	5 741	1.6
<b>Portugal</b>	6 125	6 672	8 146	4.8	2 363	2 658	2 974	1.7
<b>Romania</b>	404	1 032	1 019	0.7	501	1 032	1 409	1.0
<b>Slovenia</b>	1 102	1 555	1 945	5.4	600	772	828	2.3
<b>Slovakia</b>	1 051	1 208	1 803	2.6	658	842	1 609	2.3
<b>Finland</b>	1 609	1 891	2 768	1.5	2 070	2 723	3 432	1.8
<b>Sweden</b>	4 771	7 251	9 967	2.6	7 736	9 167	11 374	2.9
<b>United Kingdom</b>	21 082	27 581	25 792	1.5	42 414	50 300	36 275	2.1
<b>Iceland</b>	259	381	504	5.0	415	857	528	5.2
<b>Norway (2)</b>	2 157	2 866	2 909	1.1	4 787	9 197	8 871	3.3
<b>Switzerland (3)</b>	:	8 611	11 307	2.7	:	7 347	8 422	2.0
<b>Croatia</b>	:	6 264	6 590	14.7	:	584	632	1.4
<b>Turkey (3)</b>	9 033	13 422	15 695	2.9	1 941	2 185	3 640	0.7
<b>Japan (3)</b>	3 697	6 750	9 967	0.2	29 598	21 424	21 041	0.5
<b>United States (3)</b>	102 638	88 625	101 717	0.9	71 113	62 486	62 379	0.6

(1) Extra EU-27 flows.

(2) 2009 instead of 2011.

(3) 2010 instead of 2011.

Source: Eurostat (online data codes: bop\_its\_deth, bop\_its\_det and nama\_gdp\_c)

## 5.4 The main product – „CheapHoliday.cz“

The main product of this project will be mediation of luxury accommodation in 5-stars hotels holiday resorts all around the world. The potential customer will be offered the service. The accommodation will be provided just in 5-stars + hotels that the customer would be ensured about the highest possible quality of provided service. After certain time of project functioning will be amount of offered services expanded and to the main product will be added other services. The portfolio of offered accommodation will consist of classical way. It means that it is not going to be about specialized offers in certain season or specific destinations. There will be possible to choose any destination in any part of the year with any specifications. The basis will be the wishes and needs of the customers, which will the author of this project try to fulfill in the best way.

For these purposes will be programmed reservation, demand software, where will take place the selling of holiday accommodation. All business will run online at so-called, e-marketplace. E-marketplace represents the virtual place takes place a trade between, on one side – supplier, and on the other side – customer. At this virtual place occurs the communication between single parties and after that to closing the deal or transaction, and in this concrete case, to the providing of service. At the website CheapHoliday.cz will take place business relation between the provider of this service, the author and final consumer of this service, the customer. This relation is called as *Business – to – Consumer (B2C)*. (see Chapter 3.3)

At the website CheapHoliday.cz will final customer submit his requirements and thus create a “picture” of his imagination and wishes. To the preset form will consumers put their requirements and on that basis will be to them submitted concrete offers, which will fit to their requirements the most. After that, the customer will choose the offer which will be the best for him. From all the possible options will customer see just three the best offers which fit to his requirements the most and at the same time are the most price advantageous. It means that customer will be able to choose the highest quality service for the cheapest price.

### **5.4.1 Web application for the customer**

Web application, which will run through the mediation of luxury accommodation, will be programmed according to the requirements of the author of this project, who will be the operator of new internet portal CheapHoliday.cz. Principle of application lies in the fact that the customer (current user) will set up on the webpage his own user account, which will be, of course, free of charge. For creating of his user account, you will need to fill in the name, address, contact e-mail and the phone number. Further, a potential customer enters password for access, confirms the acceptance of the license terms and processing of personal data. After the submitting a request to create new user account will be in a few seconds sent to his email address the new user welcome email with the most important information about web portal with link to it. For the log into the application will be used, as login name the user's email address and chosen password. During programming an internet portal CheapHoliday.cz will be put great emphasis on logic, clarity, pleasant design and especially on the ease of use. The important thing is to make the customer the best and fastest oriented in the portal and that overall approach would be as easy as possible for him. For example, built-in scrolling bounds with selection option, possibility always return one step back or after the final sending of the request with the demand to allow customer back-control of his specified criteria.

### **5.4.2 The by-product**

In addition to the main product, the mediation of luxury holiday accommodation, there is also the possibility to demand separate tickets to the most important destinations in the world. The tickets would be provided by major retailers in the Czech Republic, as are companies Student Agency, Čedok, Asiana etc. The sale could take place also vicariously through other agencies providing online air ticket sales. View to the future years, with vicariously selling of air tickets will depend on the success of the main product and on the development of its profitability. This sale of air tickets would be in the future possible to further develop and start to specialize on the sale of “the last air tickets”, when travel agencies or airline companies are not able to fill in the empty seats in aircraft. It would be about the prize at the level of “last”, thus for the customer low and acceptable, when the provider thanks to selling of air ticket at a low price minimize the loss from unsold space.

That the business in this area may have great potential confirms the report, which was published October 23<sup>rd</sup>, 2012 on the internet portal “iDNES.cz” where it states that: *“according to the distribution of revenues stay the key business of Student Agency air tickets and buses. Just from the selling of air tickets the company together with its subsidiary Orbix got the last year over 180 million CZK. Number two, in the Czech market, company Asiana, got the last year from selling of air tickets 154 million CZK.”* [36]

## **5.5 Goals of the owners**

This project will be implemented by the author of this business idea, who will act as an independent entrepreneur and his partner, the IT programmer. For the financing of this project will the author use his own capital resources and his partner will put into the project intangible capital in the form of creating a new IT application and internet portal CheapHoliday.cz which will be used for the mediation of luxury holiday accommodation all around the world. For such participation on the project will get 10% from each single sold accommodation through this internet portal. This fact will be with partner treated in the contract about cooperation.

### **5.5.1 Mission**

Mission of the author in this project is providing to his customers the highest quality holiday accommodation in destination, which they specify in accordance with their wishes and needs, and for the cheapest possible price.

### **5.5.2 Vision**

As the vision in the field of project CheapHoliday.cz was set: *“We will try to provide the highest quality service for the cheapest price. Always the wishes and needs of customers will be the most important for us, we will carefully listen to them and we will do our best to fulfill it. We will be always friendly and willing to find for our customers the best possible option in the shortest possible time. We want that our portal would be one of the most popular online tools for mediation of holidays in the Czech Republic.”*



The main credo of our business is primarily to keep the advantages of our services which are the highest quality for the lowest price, respectively:

***“The 5-stars holiday for low-cost price!”***

### **5.5.3 Goals**

The aim of the author is successfully penetrate to the Czech market with project CheapHoliday.cz. In the first year, we would like to make online marketing campaigns in order to meet the potential customers, introduce them with our portal and make certain awareness about our project and about the new, exciting way of providing services in the tourism sector. In the next year we would like to penetrate abroad, concretely to the neighboring countries as Slovakia, Poland, Germany and Austria in order to expand the portfolio of our services. In this second year, we want by quality of provided services to maintain a long-term position on the Czech market and further develop that would be maximum satisfaction on the side of our customers. In the third year we would like to establish cooperation with retailers of so called, “the last air tickets” (*see Chapter 5.4.2*) and thus spread our portfolio of provided services and expand on the European Union market. We also wish to achieve stable capital appreciation at the rate of 10% per year.

The long-term aim is in the 4 to 5 years to build up a competitive company that will be capable to annually bring to its owners appreciation of invested capital. After this period, when the CheapHoliday.cz becomes an important and established “player” on the EU tourism market, will expand on the international level. Therefore, the aim is to build the competitive owners mark, although there is also a possibility of selling the company with a profit to the strategic investor in the future.

## **5.6 Analysis of suppliers and consumers**

For the implementation of the project CheapHoliday.cz is necessary to have two types of suppliers. First type is supplier of the main product, the 5-stars hotels and supplier of the web program, IT programmer. On the consumers’ side will be the final customer.

### **5.6.1 Analysis of suppliers**

One out of two the most important suppliers of the project CheapHoliday.cz will be the quality IT programmer, who will program according to all requirements the internet portal. In this case, is not going to be a simple application or e-shop. There will be made up catalogue of requirements for internet application, consequently its precise description of the functioning of entire system, suggested design, other accessories, etc.

#### **5.6.1.1 IT Programmer**

Due to efforts to reduce initial costs to a minimum, the IT programmer who will program the required application will not be some external IT company, but the author's partner in this project himself. His education and practical experience with programming different IT applications are very extensive and thus will be no problem for him to create the best possible application for this purpose needed. Moreover, the communication and overcoming any obstacles which may during the project occur will be much easier between partners, whose interest will be these problems solve in the best way and as soon as possible. The maintenance services of the application will be also provided by the partner.

#### **5.6.1.2 RCI® Company [37]**

RCI is the global leader in vacation exchange. Founded as Resort Condominiums International in 1974 to facilitate exchanges among condominium owners, RCI quickly became a driving force for growth within the industry and has been at the forefront ever since.

RCI's core business is exchange vacations, providing its global community of 3.7 million timeshare owners worldwide with quality vacation experiences at more than 4,000 resorts in 100 countries through week-for-week and points-based timeshare exchange networks. RCI subscribing members are passionate about how they choose to spend their hard earned leisure time. They demand flexibility, quality and freedom of choice. They crave variety and adventure, and that's why they choose RCI to help them get more out of their vacation ownership.

In addition, RCI is known for being a trusted partner to its affiliated resorts. RCI is the largest exchange network in existence - offering a vast selection of high quality choices, a sizeable and established membership base, marketing support and lead-generation capabilities, and extensive rental and distribution channels. RCI strives to make dream vacations a reality for its subscribing members and to help developers grow their business by expanding the benefit and enjoyment of vacation ownership.

The author of the project CheapHoliday.cz is one of the members of this huge global network, which can be called as “RCI's family”. Specifically, he is week-for-week timeshare exchange member and thus can utilize all of the benefits which RCI is offering to its members and which are mentioned above.

For this project the crucial benefit and service which is offered by RCI to its members, of course, for the regular payment of the year members' fees is, so called, the “bonus week”. This bonus means that any member of RCI family can use in addition of their holiday week in their home hotel resort which is provided for, so called, annual maintenance fee, the bonus week in any of more than 4,000 resorts in 100 countries which are in portfolio of RCI for cheaper price than is the same room in the same hotel offered on the official booking website of the hotel resorts and on other websites which are offering the accommodation in the same hotel. The amount of bonus weeks which can the member use per year is unlimited and there is no restrictions that the bonus week must use just owner of the membership. Of course, the weeks has to be booked by the member through his member account in order to get a cheaper price, but for the holiday does not have to go just the member by himself. The member who booked the week through his account will inform the hotel who will come for the holiday and based on this will hotel issue the “holiday certificate” with the concrete names and those people who will come to the hotel.

This is the process on which basis came up this business idea about mediation of luxury accommodation in 5-stars hotel resorts in top holiday destinations worldwide. The author will through internet portal CheapHoliday.cz receive the customers' requests and in his member account will search accommodation in required destination. Then will check prices on other competing websites and will make the cheapest offer, but also with difference for which the room booked and this will be the profit from single sold room.

### **5.6.2 Analysis of consumers**

The owners of the project CheapHoliday.cz are going to be offering their services on the tourism market. It means that the customer will be anyone who likes to travel and like to spend free time outside the place of his residence. The target group will form the final consumers such as tourists and holidaymakers. Due to the nature of the offered service will be this target group specified, as the customers who know to which destination they want to go. The owners of this project will offer their services to those people who can determine the basic requirements of their vacation, will be able to specify to which destination they want to go and which additional services they want to have because then the owners can negotiate with concrete hotel these services such as eating, transport etc. and the customers will get all what they want to. The owners will be able thanks to communication and negotiating with customers' chosen hotel to ensure fulfilling of all their wishes and thus made them with all provided services satisfied.

From the beginning of this project will be focused on the target group of young people as the final consumers of offered service. Particularly, on the university students, young couples and groups of young people who would like to travel to different destinations all around the world, but don't have much money for that. Thus, people who would like to have the best possible holiday for the cheapest possible price and therefore, they would not have big requirements on the quality of transport and would prefer to use low-cost airlines and at the place of their holiday to enjoy high quality accommodation.

### **5.7 Analysis of competitors**

The analysis of competitors is an important part of the strategic planning process. It has several important roles in strategic planning: to help management understand their competitive advantages and disadvantages relative to competitors; to generate understanding of competitors' past, present and future strategies; to provide an informed basis to develop strategies to achieve competitive advantage in the future; to help forecast the returns that may be made from future investments (e.g. How will competitors respond to a new product or pricing strategy?). The author has chosen four famous competitors: *Lowcostholidays.com*, *Booking.com*, *Priceline.com* and *Hostelbookers.com*.

### **5.7.1 Lowcostonholidays.com [38]**

The Lowcostonholidays.com Company of the United Kingdom has been established in 2007. Over 2 million people have travelled using company's offers. The company has been voted as the industries' top provider of hotels and as the best tour operator-agent website in 2009 by Travolution, beating the likes of Thomson, Thomas Cook and STA Travel.

The company offers low-priced flights, cheap accommodations an extensive range of holiday's options including transfers, insurance, airport parking and car hire. The company proposes great value holidays to suit every budget and taste at the lowest prices. The customer services department works every day. The experienced management team runs large holiday companies and buys holidays for customers. The Lowcostonholidays.com Company has a team of over 150 professionals who work night and day to find the highest quality properties and airlines at the best deals. The professionals and unique, sophisticated technology search over 350 airlines and 300,000 hotels to find the lowest flight, hotel, transfer and other holiday extra prices to meet clients' holiday needs. Each one of the company's properties is carefully selected to ensure that services are of a high quality, safe and offer the best value for money. No hidden extras, booking charges or price changes.

The Lowcostonholidays.com Company allows picking any combination clients' choose. The commitment is to get for clients the best possible value for money for the type of holiday clients' desire. The company offer free travel and destination advice along with pre-departure checklists to help for clients plan for their holiday. The company provides flexible booking terms and conditions, with low cancellation and amendment charges to help clients get back on track. It provides 24/7 advice and assistance whilst on clients holiday to help give a peace of mind.

The Lowcostonholidays.com Company offers dedicated customer care and support throughout clients' holiday. The company has experienced representatives on hand to assist clients and make their holiday relaxing and enjoyable. The company aims to answer all telephone calls within 60 seconds and respond to all emails within 24 hours.

### **5.7.2 Booking.com [39]**

Booking.com B.V., part of Priceline.com, owns and operates Booking.com™, one of the world leaders in booking accommodation online. Each day, over 425,000 room nights are reserved on Booking.com, and the website attracts over 30 million unique visitors each month from both the leisure and business sectors worldwide. The company's mission is to help travelers, no matter their budget, easily discover, book, and enjoy the world's best places to stay. Booking.com is an informative, user-friendly website – that guarantees the best available prices. The goal is to provide business and leisure travelers with the most accessible and cost-effective way of discovering and booking the broadest selection of accommodation, in every corner of the world.

Established in 1996, Booking.com B.V. guarantees the best prices for every type of property, from small, family-run bed and breakfasts to executive apartments and five-star luxury suites. Booking.com B.V. is registered with the trade register of the Chamber of Commerce in Amsterdam, the Netherlands. The company's website is available in more than 40 languages, and offers over 287,733 properties in 180 countries and is supported internationally in over 50 countries around the world. Over 4750 people right across the world are dedicated to serving Booking.com's customers and property-owning partners.

The Booking.com reservation service is free. It does not charge any booking fees or add any administration fees – and in many cases, rooms can be cancelled free of charge. The Booking.com reservation system is secure and clients' credit card and personal information are encrypted. The company works to high standards to guarantee clients' privacy. More than 2.8 million room nights are booked on the website every week. Booking.com provides a cost-effective commission-based model, a network of over 5000 affiliate partner websites, and a personalized account management service to help clients to optimize their revenue.

Notable, the Booking.com offers affiliate partner program. It has a demonstrated track record of great earning potential. The commission-based model with Booking.com's hotels is the preferred sales model in the hotel industry and guarantees a long-term, mutually beneficial business relationship with the hotels.

### **5.7.3 Priceline.com [40]**

The Priceline.com was founded in 1998 in the United States of America. The Priceline.com shook online travel into motion and challenged the status quo with its bold and innovative entrepreneurial spirit. The whole Priceline Group includes Priceline.com, Booking.com, Agoda.com, and Rentalcars.com. Flights, hotels, rental cars, vacation packages and cruises are provided by the company and it gives travel consumers more ways to save big on travel. The Priceline.com is at the cutting edge of innovation. All while remaining true to its core belief: providing customers with the best value for their money. The Priceline.com is one of the largest and most successful online hotel reservation services in the world, serving over 175 countries in 41 languages and partnering with over 235,000 hotels around the world.

The Priceline.com is a publicly traded company and was ranked as Bloomberg Business week's top performing company in 2010. Additionally, the Priceline.com is consistently ranked among the top two most visited travel websites in the United States of America. It was ranked as 2011's Best Hotel Booking Service. The Priceline.com won the Best Mobile App at the Asia Pacific Travel Innovation Awards for its Hotel Negotiator® app.

Every effort is made to ensure that the company's policies regarding hiring, salary administration, promotion, and transfer are based solely on job requirements, job performance, and job related criteria. In addition, the personnel policies and practices - including those relating to compensation, benefits, transfer, retention, termination, training, self-development opportunities, as well as social and recreational programs - are administered without discrimination on the basis of race, color, religion, sex, age, national origin, disability, sexual orientation, veteran status, or other basis prohibited by law.

The Priceline.com team has enjoyed great success. As important as their success is, more important is their commitment to giving back. The Priceline.com has established a charity committee whose goal it is to identify charitable organizations in need of support, and contribute in any way they can. Such charitable organizations and events have included: Make a Wish Foundation of CT, Special Olympics of CT and Soles4Souls.

#### **5.7.4 Hostelbookers.com [41]**

The Hostelbookers.com began in 2003 with a very simple idea – to provide customers with a way to book the best budget accommodation all over the world with absolutely no booking fees. The company is based in London.

The Hostelbookers.com has gone from strength to strength and now employs a team of over 120 people. As the business has grown, so has their offering - over 20,000 properties available in more than 3,500 locations worldwide, and provide customers with an ever-increasing range of accommodation, from camping, self-catering apartments and guesthouses to hostels and budget hotels. The company's professionalism and reliability is a key and it is their dedicated staff, positive attitude and solid relationships with customers and suppliers that have enabled them to achieve what they have today.

The Hostelbookers.com offers a wide range of quality budget accommodation at the cheapest prices available online, according to recent independent research. The company confirms online reservations for over 20,000 hostels, guesthouses, apartments and budget hotels in more than 3,500 destinations worldwide. The quality of their properties is important to them. The company provides optimum availability online. The Hostelbookers.com looks forward to work together with potential clients in the future, bringing new and improved services to their customers and making this growing business even more successful than it is today.

Whether potential business's partner is an accommodation owner, a travel agent, tour operator or another travel website, there are numerous ways in which cooperate with the Hostelbookers.com. The company's partners are STA Travel, Flight Centre, Travelers Point, Kilroy Travels, Rail Europe and Gapyear.com. The Hostelbookers.com's booking engine can easily be integrated into potential business's partner website by white label or XML. The business's partner can send traffic to the Hostelbookers.com directly through banners or text links. Thus business's partner can earn commission from every booking made through own website.



## 5.8 Marketing

Nowadays, when at most of the markets is a considerable predominance of supply over demand and customers have in selection of the product really great options to choose in which companies will their purchase implement, is marketing absolutely indispensable. To this fact should be given a great attention right when setting up a new company, because without a good quality and well thought out marketing strategies and support does not have the ability to withstand even the best product on the market.

Before the formation of the marketing and sales strategy, it was necessary first to define the target market and segment the consumers, for which is the product intended. After the specification of this target segment (*see Chapter 5.6.2. Analysis of consumers*) was also necessary to establish a market position of offered services. There is necessary to elevate the particular distinction of our product from the competition, which lies mainly in the maximum saving of time when searching for holiday, according to the wishes of the customer. Searching for holiday on the internet portal CheapHoliday.cz is not about the searching in menus of many and many different travel agencies, but on the contrary. The client enters the required criteria and in his account in the tab “my Holiday” will be able to choose from the offers that meet his requirements and, moreover, for the cheapest price. The aim is to create by consumer the perception of this product as something that greatly save his time and effort with a complex search of holiday exactly according to his wishes.

### 5.8.1 Marketing mix

The basis of any marketing strategy is appropriate definition and determination of individual elements of the marketing mix. Instruments of the marketing mix will serve to influence of demand for the offered service which is for each entrepreneur one of the most important steps in setting up a new company. As was already mentioned, in the tourism sector was basic marketing mix extended and overall is consisting of “7P”:

- *Product, Price, Place, Promotion, Packaging, People, Partnership.*

### **5.8.1.1 Product**

The basic product of the internet portal CheapHoliday.cz will be the mediation of luxury accommodation in 5-stars hotel resorts in top holiday destinations worldwide. The basic purpose will be offer to the customer quick and easy access to the offers, which will be comply with its requirements, will be the highest possible quality, but at the same time, in relation to this quality at the lowest price. Therefore, it is about a product in the form of services, where is necessary to emphasize great importance to the quality of its providing. The internet portal must cause to the customer clearly, comprehensible, credible and in any case not sleazy. The generated offers must really comply with customers' requirements and show the high level of quality. All communication with the customer, either e-mail or telephone and with portal CheapHoliday.cz shall allow the customer to obtain all the necessary information.

### **5.8.1.2 Price**

The price is for each entrepreneur one of the most important elements of the marketing mix, because it is just the right price thanks to which will be the new company earning and thank to which can reach the subsequent growth and prosperity. In tourism is set that the customer as a final consumer of the service pays for its providing before its consumption. From the perspective of the final customer, the offered services by the portal CheapHoliday.cz will be provided free of charge. The customer will not have to pay any fee for log into this web application, as well as the generated offers will be provided free of charge. It means that customer will pay just in case that he will really choose the offer provided by the internet portal CheapHoliday.cz and this decision will confirm in his reservation account. The following payment will be conducted online, by the secure online payment system, which will be component of internet portal.

### **5.8.1.3 Distribution**

The basic purpose of the distribution is to ensure that the offered service will be to the customer available, at the right time and in the right place. As the services of web application CheapHoliday.cz will be provided online, it can be said that the availability is

more or less the maximum, because nowadays has access to internet almost anyone and at any time. However, despite the fact that the internet today use a large number of people, and with exaggeration could be said that who is not on the Internet does not exist, it is necessary to realize that not really everyone use internet use in the present time. Therefore, for this reason, it is clear that the people who do not have access to the Internet or do not use internet searching for their vacations are not going to be our customers. However, according to the data of the Association for Internet Advertising, which states that, for example, in September last year visited the Internet 5.89 million users, by surfing spent during this month about 24.5 hours and viewed over 6.7 billion of websites. That points out that offer services only in the form of online has high potential and perspective. [42]

The availability of the services of the portal CheapHoliday.cz will consist primarily in the simplicity to get on this website and further particularly in very good orientation there, because only this way can lead to a closing the deal. It is necessary to count with the fact that nowadays, when customers require high quality at a low price, will be for them any additional "click" on the website annoying. Therefore, it is necessary to follow the motto "the simpler the better". Thus, the basis of the distribution in our case is a necessity to constantly repeat – simply and clearly.

#### **5.8.1.4 Communication**

However, with distribution is also closely related communication, because if the final consumer will not know that the service exists, then will definitely not use it. As the CheapHoliday.cz will be a new portal, which will have to enforce on the market and get into the public consciousness, it is necessary that start its operation must follow strong and impressive marketing campaign. Nevertheless, due to the fact, that this project will be since beginning financed by the author himself and with this related efforts to reduce all initial costs to a minimum, this newly established internet portal will use from the tools of the communication mix just online advertising. Anyway, the online advertising is in tourism one of the most used and effective way how to introduce new product on the market and moreover, by the time, there will be add more other communication channels.

#### **5.8.1.5 Packaging**

In the tourism sector is also necessary to include in the marketing mix packages of services, because the tourist is mostly interested not only in accommodation, or in visiting of famous museum, but in the whole trip, which will include several services together. The portal CheapHoliday.cz will since the beginning offer according to its final consumers (*see Chapter 5.6.2*) just the luxury accommodation in the 5-stars hotels in the top holiday destinations. However, if the customer will require, there is possibility to provide for him additional services, such as transport, eating etc. Therefore, it means that the marketing mix ‘packages of services’ or the Packaging is closely linked to the other tool, cooperation.

#### **5.8.1.6 People**

As from the description of the product implies, an important role there play people who will follow the providing of services. In this case, it will be the operator, from the beginning of this project the author, who will be in regular working hours online and will deal with all the wishes and requirements of the customers by e-mail or phone. As it will be the only “personal” contact with our clients, it is crucial that this communication would be always rigorous and the customer always satisfied. Later, when the owners will look for the employee who will work in CheapHoliday.cz as an operator instead of the author, they have to be very mindful because his communication with clients will have to be on really high and professional level. In this tool of the marketing mix is necessary to include also the communication, behavior and practices of the owners of the company, both in communication with clients as well as with all other stakeholders and potential partners.

#### **5.8.1.7 Partnership**

As well as will be really important and necessary to keep the best relations with clients, stakeholders and partners, it will be crucial to maintain the solid and highly professional relationship with the supplier of IT system, without who the implementation of the project would also not be possible. The basis of this cooperation will have to be also an effort to constantly innovate and upgrade the website CheapHoliday.cz because these web pages will influence the final consumer the most in his decision to use our services.

## **5.8.2 Marketing campaign**

With the start of operation of the portal will be launched the first stage of the marketing communication. This stage will be launched in the spring of next year, March 3<sup>rd</sup> 2014, which is the ideal time when people are starting to plan a summer holiday, because after the winter they again want to warm up their bodies and enjoy the sunshine. As there will be limited budget for initial costs the advertising campaign will be launch on internet only, as online communication, advertising on social sites and e-mail marketing.

### **5.8.2.1 Online communication**

For the promotion on the Internet, we will take advantage of PPC (pay-per-click) campaign, which allow in the search engines Google and Seznam display our website when enter the appropriate keywords. As the entire project will work mostly online, we will also use for successful launch of the project the possibility of SEO (Search Engine Optimization), which means optimization of websites for search engines on the Internet.

All the internet communication and its components will be in competence of the author's partner in this project, the IT programmer. His education and skills in this field are sufficient and he will be definitely able to find the best and cheapest way how to promote our project CheapHoliday.cz and acquire new customers, because it is his interest as well.

The online communication will be conducted also on the social websites, which are in the present time the biggest and the most powerful marketing tool. We will entice the visitors of these websites to the advantages of the portal CheapHoliday.cz, which are quality, price and everything according to requirements, moreover, without loss of time.

The campaign will started on the social websites:

- Facebook.com, Twitter.com, Google+
  
- *LinkedIn.com, Pinterest.com, YouTube.com, etc.*

**Picture 3: Logo of social websites used in marketing campaign [43]**



## **5.9 Project implementation plan**

For the implementation of the project, respectively, its successful implementation is necessary to properly schedule the individual steps, in terms of their sequence in time horizon. Therefore, we will focus on the Assembly schedule of project CheapHoliday.cz.

The first stage of the implementation of entrepreneurial intention CheapHoliday.cz is processing of the business plan of the project, which should be processed in its basic version March 31<sup>st</sup>, 2013. However, already at the time of writing this business plan in the context of the author's Diploma thesis took place a communication with the partner of this project, the IT programmer, who will program the new internet portal CheapHoliday.cz.

As both of the partners are still studying the university and are about to finish in June 2013, the first preparatory work on this project will start in the summer 2013. The author will be working on the final version of the business plan CheapHoliday.cz and also look for financial resources which will be invested to the project. At the same time will his partner starts to work on the internet application. All this process should last about half a year and in the beginning of 2014 should start the last stage of preparing before entering to the market. All the project and marketing campaign should start to run March 3<sup>rd</sup> 2014.

## 5.10 Financial plan

The financial plan is actually a transformation of the previous parts of this work into numeric form. The main objective of preparation of the business plan is to express the actual financial cost of the project, determine the amount of the required capital and last, but not least, to predict the development of revenues.

The author of the project CheapHoliday.cz will act as an independent entrepreneur with business license No. 80 - Production, trade and services not elsewhere specified. The author is not yet required to register as a VAT payer, as imposed by the law on Value Added Tax, since the turnover exceeded the amount of 1 million CZK for 12 or fewer consecutive calendar months. [49]

### 5.10.1 Costs

For the determination of the Break-Even Point and thus, the number of sold out accommodations that will cover all costs and will create a border for the beginning of making a profit, it is necessary to identify the individual costs. These costs collectively displays: *Table 4 – The costs for the first year 2014.*

Into the fixed costs will be included monthly wage. Wage in the amount of 25 000 CZK/month will be paid to me. My work responsibilities will include the financial management, marketing matters and administration of the project as well as, the communication with customers, searching for accommodation according to their requirements for the cheapest price, etc. To the above mentioned wage costs must be added charges for health and social insurance, which have to be paid by the author.

Very important costs are the costs of membership annual fee and membership account fee to the RCI® Company (*see Chapter 5.6.1 Analysis of suppliers*), without which would not be the realization of this business idea possible.

The author will act as an independent entrepreneur and thus he has to register at Trade Licensing office and specify which kind of business he wants to deal with. Then he has to pay 1 000 CZK in order to get the business license for an indefinite period of time.

The other important costs are related with creation of internet application itself and its improvement and development during the year. It is also important to register the domain CheapHoliday.cz and count with other initial costs to this web portal.

The marketing campaign will be undoubtedly the most expensive item of the whole project, but at the same time it is the most important and crucial part of the project and on investments to the marketing campaign will depend future financial revenues.

It is also necessary to count with some costs for telecommunication services which are an integral part of any business activities and in any case it is better to have some financial reserves in order of appearing some additional unexpected expenses.

**Table 4: The cost for the first year 2014**

FIXED COSTS (in CZK)		
Cost	Monthly	Per year
Wages	25 000	300 000
Social insurance (25%)	6 250	75 000
Health insurance (9%)	2 250	27 000
Membership annual fee	-	15 000
Membership account fee	-	2 500
Business license	-	1 000
Internet domain registration	-	100
Web hosting	-	3 000
Initial costs (internet page)	-	20 000
SEO, PPC	-	20 000
Telecommunication services	2 000	24 000
Promotion campaign	-	100 000
Additional costs	-	12 400
<b>TOTAL</b>	<b>35 500</b>	<b>600 000</b>

*Source: Author*

According to the goals of the project, which are specified in detail in the chapter 5.5.3 *Goals*, there have been estimated the costs for the years 2014 – 2016, which are displayed below, in the *Table 5 – The estimated costs for years 2014 – 2016*.



### 5.10.2 Three scenarios

In order to be able to count certain indicators of profitability of this project, there were estimated three possible scenarios which could occur in the first three years of the project CheapHoliday.cz and which are important for final decision to accept this project.

#### *1<sup>st</sup> scenario – “OPTIMISTIC”*

Revenues from 1 sold accommodation (net) => 1 customer = 5000 CZK

year	Customers (number)		Revenues (in CZK)	
	per month	per year	per month	per year
2014	10	120	50 000	600 000
2015	50	600	250 000	3 000 000
2016	100	1 200	500 000	6 000 000

Source: Author

#### *2<sup>nd</sup> scenario – “REALISTIC”*

Revenues from 1 sold accommodation (net) => 1 customer = 5000 CZK

year	Customers (number)		Revenues (in CZK)	
	per month	per year	per month	per year
2014	5	60	25 000	300 000
2015	25	300	125 000	1 500 000
2016	50	600	250 000	3 000 000

Source: Author

#### *3<sup>rd</sup> scenario – “PESIMISTIC”*

Revenues from 1 sold accommodation (net) => 1 customer = 2 500 CZK

year	Customers (number)		Revenues (in CZK)	
	per month	per year	per month	per year
2014	5	60	25 000	150 000
2015	25	300	125 000	750 000
2016	50	600	250 000	1 500 000

Source: Author

**Table 5 – The estimated costs for years 2014 – 2016**

ESTIMATED COSTS	
year	CZK
2014	600 000
2015	1 000 000
2016	1 400 000

*Source: Author*

### 5.10.3 Cash flow plan

Projected statement of cash flow was established by the direct method. Bellow are displayed the cash flow statements for years 2014 – 2016 for all three estimated scenarios.

**Table 6: Cash flow plan (in CZK) for 1<sup>st</sup> scenario - OPTIMISTIC**

year	2014	2015	2016
Cash balance	0	0	2 000 000
Revenues	600 000	3 000 000	6 000 000
Costs	600 000	1 000 000	1 400 000
CASH FLOW	0	2 000 000	4 600 000
Cumulative CF	0	2 000 000	6 600 000

*Source: Author*

**Table 7: Cash flow plan (in CZK) for 2<sup>nd</sup> scenario - REALISTIC**

year	2014	2015	2016
Cash balance	0	-300 000	200 000
Revenues	300 000	1 500 000	3 000 000
Costs	600 000	1 000 000	1 400 000
CASH FLOW	-300 000	500 000	1 600 000
Cumulative CF	-300 000	200 000	1 800 000

*Source: Author*

**Table 8: Cash flow plan (in CZK) for 3<sup>rd</sup> scenario - PESIMISTIC**

<i>year</i>	2014	2015	2016
Cash balance	0	-450 000	-700 000
Revenues	150 000	750 000	1 500 000
Costs	600 000	1 000 000	1 400 000
CASH FLOW	-450 000	-250 000	100 000
Cumulative CF	-450 000	-700 000	-600 000

*Source: Author*

In the tables above are displayed estimated cash flows for particular scenarios. There is visible that in each single scenario is starting with zero own capital. Thus, it is obvious that the author before the very beginning of starting business itself has to collect enough amount of financial capital in order to make this project viable. The certain amount of money needed is visible in tables for certain scenarios above. There is also possibility to find the investor who will put money to the project and thus get share from acquired profit. The concrete indicators of profitability of the project CheapHoliday.cz, which should convince potential investor to invest the money to this project and which should prove the profitability and viability of this project from an economic aspect are calculated bellow.

#### **5.10.4 Break-Even Point (BEP)**

*Definition:*

Point in time (or in number of units sold) when forecasted revenue exactly equals the estimated total costs; where loss ends and profit begins to accumulate. This is the point at which a business, product, or project becomes financially viable. [50]

*Formula:*

$$\text{BEP} = \text{Fixed costs} / (\text{Price per unit} - \text{Unit variable costs})$$

*Source: [51]*

**Table 9: Break-Even Point (the number of accommodations sold out)**

<i>scenario</i>	<i>year</i>		
	2014	2015	2016
OPTIMISTIC	120	200	280
REALISTIC	120	200	280
PESIMISTIC	240	400	560

*Source: Author*

### 5.10.5 Return On Investment (ROI)

*Definition:*

The earning power of assets measured as the ratio of the net income (profit less depreciation) to the average capital employed (or equity capital) in a company or project.

Expressed usually as a percentage, return on investment is a measure of profitability that indicates whether or not a company is using its resources in an efficient manner. For example, if the long-term return on investment of a company is lower than its cost-of-capital, then the company will be better off by liquidating its assets and depositing the proceeds in a bank. It is also called rate of return, or yield. [52]

*Formula:*

$$\text{ROI} = (\text{Earnings} - \text{Initial Investment}) / \text{Initial Investment}$$

*Source: [53]*

**Table 10: Return On Investment (%)**

<i>scenario</i>	<i>%</i>
OPTIMISTIC	120
REALISTIC	-40
PESIMISTIC	-120

*Source: Author*

### 5.10.6 Net Present Value (NPV)

Definition:

The difference between the present value of the future cash flows from an investment and the amount of investment. Present value of the expected cash flows is computed by discounting them at the required rate of return. [54]

Formula:

$$NPV = -C_0 + \frac{C_1}{1+r} + \frac{C_2}{(1+r)^2} + \dots + \frac{C_T}{(1+r)^T}$$

$- C_0 =$  Initial Investment

$C =$  Cash Flow

$r =$  Discount Rate

$T =$  Time

Source: [55]

**Table 11: Net Present Value (CZK)**

<i>scenario</i>	<i>CZK</i>
OPTIMISTIC	4 508 940
REALISTIC	742 599
PESIMISTIC	-1 140 571

Source: Author

### 5.10.7 Internal Rate of Return (IRR)

Definition:

The rate of return that would make the present value of future cash flows plus the final market value of an investment or business opportunity equal the current market price of the investment or opportunity. [56]

Formula:

$$0 = P_0 + P_1/(1+IRR) + P_2/(1+IRR)^2 + P_3/(1+IRR)^3 + \dots + P_n/(1+IRR)^n$$

where:  $P_0, P_1, \dots, P_n$  equals the cash flows in periods 1, 2, . . . n, respectively;  
and IRR equals the project's internal rate of return [57]

**Table 12: Internal Rate of Return (%)**

<i>scenario</i>	<i>%</i>
OPTIMISTIC	152.40
REALISTIC	41.68
PESIMISTIC	-75.00

*Source: Author*

## 5.11 The main assumptions of project success

Now, after the financial section of the business plan, it is appropriate to define what strengths the project has and conversely, what are its weaknesses.

### **STRENGTHS**

- new approach to online selling of holiday accommodation
- reduction of the time demands on searching
- simplicity in control, clarity and logic of the portal
- the cheapest price for the highest quality
- guarantee of 5-stars + hotel accommodation
- strong collaboration with potential / (later existing) clients
- high developed marketing campaigns on the internet

## **WEAKNESSES**

- insufficient equity capital
- low experience with business
- difficulties to build well-known brand in the tourism sector

Furthermore, it is also necessary to identify the opportunities and threats that may affect our project from the external environment.

## **OPPORTUNITIES**

- new company with considerable growth potential
- cooperation with the 5-stars + hotel resorts
- possibility of additional air ticket sales
- build business partnership with (airline companies, food and beverage companies)
- offer marketing mix package of services
- expand offer of new destinations
- use of other advertising tools (booklets, TV, radio, newspapers)
- promotion of the company's brand by participating in free social activities (on festivals, in activities of charitable foundations, etc.)

## **THREATS**

- new company on the market
- possibility of insufficient demand
- the arrival of new competitors
- strong position of the existing competitors on the tourism market
- copying of the principle of web application
- government economical / political decisions (new taxes, new agreements / restrictions between countries, etc. )

## **5.12 Evaluation of the project**

The project CheapHoliday.cz will be operated by the author of this business plan who will act as an independent entrepreneur with the business license No. 80 - Production, trade and services not elsewhere specified. Thus, there will not be any initial costs for establishment of the new company. From a formal point of view the project seems to be feasible. One of the main obstacles is lack of capital that will be needed for the first year of operation to ensure. The best variant how to get necessary capital would be a potential investor who would get for invested capital the certain percentage of future generated profit. Additional financial capital provided by the investor would be used primarily on the promotion of the project, in order to get the portal into the awareness of potential customers and subsequently to final consumers.

The risks and determining factor, which affects the profitability of this project is obviously the amount of demand, because even the best product that will not be demanded by customers, cannot be successful. From the available data, analysis of competition's results in its business and growing trends in tourism is obvious that tourism market is profitable area, but also with still growing competition, and thus is necessary to "fight" about the clients. The internet portal CheapHoliday.cz should be for a potential customers very interesting project, because it offers many benefits which are not yet on the market, in terms of efficiency, transparency and maximum savings of time. For these reasons, the project seems to be viable and with considerable potential for success.

In order to find out whether the project CheapHoliday.cz would be feasible also from the financial perspective, there were estimated three possible scenarios and counted certain indicators of profitability. If we assume the optimistic scenario, which is actually in connection with planned marketing campaign not unrealistic, and was as optimistic scenario built deliberately, we can see that all indicators of profitability are in "green numbers" and therefore the project should be clearly accepted. Moreover, if we would like to create huge competitive advantage of this project, we could create other scenario that we would consider number of customers from the optimistic scenario and revenues from one sold accommodation from the pessimistic scenario, we would actually just create by us already estimated 2<sup>nd</sup> scenario, which numbers say that the project should be also accepted.



## ***6. Conclusion***

The aim of this diploma thesis was preparation of the business plan which should deal with mediation of luxury accommodation in 5-stars+ hotel resorts in top holiday destinations all around the world and based on economic analysis and feasibility study to determine whether this entrepreneurial intention called CheapHoliday.cz would be from an economic point of view profitable and thus, whether this project should be accepted.

The first part of diploma thesis provides a summary of today's trends in the field of tourism and e-business activities in this sector. In addition, it includes the theoretical definition of the business plan and a description of its specific contents.

The second part of diploma thesis already focuses on concrete description of the business plan itself. In the beginning was described the tourism market and performed the economic analysis of this sector and outlined its growing potential. Further was focused on the description of the main product, which is the new internet portal CheapHoliday.cz. The main product was defined and clarified its difference from other similar online portals.

Further was performed the analysis of suppliers, consumers and last but not least, the analysis of competition. On the basis of this analysis was found that in the tourism market besides the big important companies is operating also a lot of small companies and thus, the competition is huge, but nevertheless is really realistic that thanks to difference in the principle of reservation system has this project potential and will find its customers.

In order to ensure the required demand was necessary to devise the marketing plan. For online sale of holidays is essential to get during the first year of making business to the awareness of potential customers. The most important part of the business plan was the creation of the financial plan that all of the above mentioned information, transformed into numeric form and helped to clarify whether it is advantageous to implement the project.

According to all counted indicators of profitability of the project success such as Break-Even Point, Return On Investment, Net Present Value and Internal Rate of Return was found that the project CheapHoliday.cz is from an economic point of view feasible, viable and profitable and thus, it should be definitely accepted and realized by the author.

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## ***8. Appendices***