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FEASIBILITY STUDY OF A HOTEL FRANCHISE BUSINESS MODEL

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Introduction/background: The study analyses the feasibility study of a hotel franchise business model using the example of a selected property.
Aim of the paper: The aim of the paper is to present the period of return on invested capital as a function of the occupancy rate of a hotel property.
Materials and methods: Case study on the example of a selected hotel franchise chain.
Results and conclusions: The paper provides an elaborate analysis of the period of return on invested capital based on the example of starting a business based on franchise cooperation with Marriott chain hotels.

Keywords: business model, franchising, hotel.

Introduction

Many concepts of business management have been developed over the years. Theories in the field of business organisation, business methods or management solutions are very rich and varied. Potential enterprises have the opportunity to implement solutions that are strictly tailored to their business, which significantly increases the chances of success.

However, it is not the management method, concept or technique that forms the basis of an enterprise's organisation, but the adopted business model, which clearly defines the specifics of the organisation's operation. Among the available business models, one of the most popular in recent years is the franchise model, which, by definition, increases the chances of success of a business.

The product of this study will be an analysis of the feasibility of a business model based on hotel franchising of the Marriott International brand of hotel that would be built in the immediate vicinity of the operation of the Central Communication Port, in the municipality of Baranów between Łódź and Warsaw.

This paper addresses issues in business models, feasibility studies, analytical methods used in business development.

The core of the study is an assessment of the potential benefits of launching the hotel operations of a hypothetical CPK Marriott company. The company in question would be established on the basis of a franchise agreement and would operate under an internationally renowned brand, which should directly translate into a relatively quick return on investment.

This paper is divided into 4 chapters, the first 3 of which provide an overview of the literature on the issues raised. The fourth chapter, on the other hand, contains the empirical part, in which the necessary data and strictly numerical data are presented, which allow clear conclusions to be drawn.

1. Business model - applications and challenges

An analysis of the available literature on the subject reveals that no clear definition of the term 'business model' has been given over the years. One of the basic definitions states that a business model is a kind of action plan, which is developed by a company in order to generate revenue and maximise operating profit. This approach to the definition of a business model allows it to be identified with activities aimed at increasing revenue and optimising costs. In addition, it is noted in this case that the business model also defines the relationships between the various market participants and provides information about how the companies in question operate, i.e. how they produce their goods and services, how they create value for customers and from which exact sources they draw their profits (Timmers, pp. 3-8).

A business model is a tool containing a certain set of elements and relations between them, schematically (more or less detailed) representing a business idea (Brzóska, 2009, pp. 5-23). It therefore represents a certain, rather static, model of the phenomenon, as opposed to a strategy expressing the way in which a company acts and behaves (often very flexibly) in relation to the changing environment and its interior. The relationship between strategy and business model is very close, but at the same time differently understood. Customer satisfaction is of key importance, as the fulfilment of shareholders' expectations depends on it" (Nogalski, 2009, p. 2; Gołembiowski, Dudzik, Lewandowska, Witek-Hejduk, 2008, p. 57). Closely linked to strategy is the business model, which reflects the means of achieving the right economic results, expressed by the relationships of revenue, costs and profit across the organisation.

The development of an effective business model by a given company is subject to certain rules. First of all, attention is paid to the uniqueness of the model. It should be constructed in such a way that it cannot be used by competitive companies (in practice, there are often situations in which an effective and efficient business model is copied by competitors to a greater or lesser extent). In addition, account should be taken of the fact that nowadays companies operate in a turbulent environment, and therefore the business model implemented in the organisation should be easy to redefine (Rudny, 2013, p. 65). In the process of developing

a business model, the following key elements should therefore be taken into account (Laudon, Traver, 2012, pp. 58-60):

- The management team - should be composed of people who have the necessary knowledge, competencies and qualifications, as this is the element that significantly influences the potential effectiveness of the implemented business model. Therefore, before forming a management team, the required experience and skills of potential members should be analysed in detail.
- Organisational development - what directions and scope of the company's development are envisaged at the stage of developing the business model, in order to align the organisational structure with these very assumptions.
- Market strategy - identifying ways to promote products and services in order to attract as many potential customers as possible.
- Competitive advantage - identifying the advantages a company will bring to the market, and whether these advantages are sufficient to achieve the desired competitive position.
- Competition - analysis of the competitive environment, including an analysis of its strengths and weaknesses.
- Market entry opportunities – identification of the market in which the organisation is to operate, including its size.
- Revenue model - identifying sources of revenue.
- Customer value proposition - defining the motives for customers to take up the company's offer.

Thus, in concluding the information presented in this section, it is important to see that a business model is more than just a company strategy or adopted management methods and concepts.

2. Essence of a feasibility study

A feasibility study, as the name suggests to some extent, is a study whose overarching objective is to assess the likelihood of a project's success or the achievement of a specific outcome. This study is carried out at the planning stage of a project and is formal in nature (Portny, 2013, p. 46). From the available literature on the subject, it is clear that a properly conducted feasibility study should provide answers to three fundamental questions, which consist of (Wirkus, 2012, p. 19):

- Is the project under consideration financially and socially sound?
- Will the project be long term and will the revenues from the completed investment cover the costs of implementation?

- Is the project feasible and, if so, what constraints should be taken into account in its implementation?

A feasibility study is a study to which three basic characteristics can be attributed (Philips, 2012, p. 65):

- Directness.
- Orderliness.
- Fact-based (objective or even subjective opinions do not affect the outcome of the study).

As seen above, one of the essential features of a feasibility study is orderliness. This feature is all the more important because a feasibility study, by virtue of its complexity, is to some extent a process, which is schematically illustrated in Figure 1.

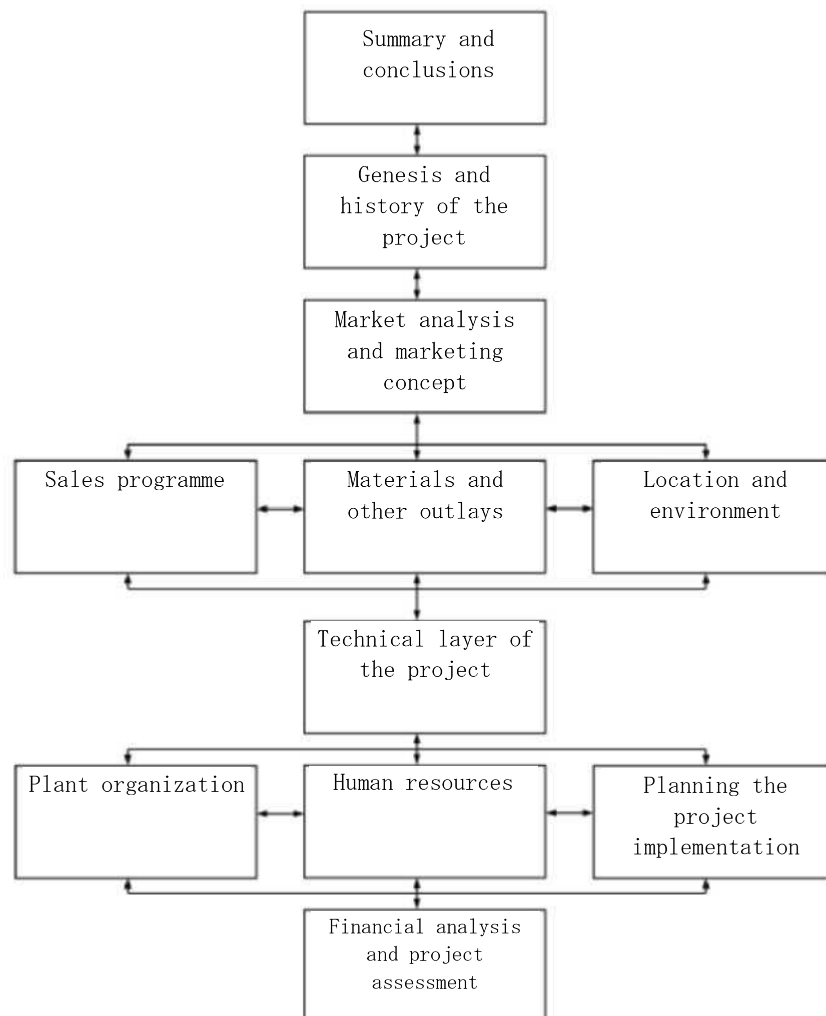

Figure 1. Structure of the feasibility study.

Source: Feasibility study - Management Encyclopaedia (mfiles.pl).

It is clear from the information in Figure 1 that a feasibility study is a multi-faceted study. In practice, it allows for an overall assessment of a potential project. As a result, it provides information on both the subject of the project, the benefits of its implementation, the expected results, potential risks, expected revenues, the payback period and much more.

The implementation of this study is therefore necessary every time a major investment is planned.

3. Selected analytical methods used in new business development

Analytical methods used in the field of case studies mainly include (Trotsky, 2013, p. 204):

- Multi-variant analysis.
- Ratio analysis, including analysis of liquidity, profitability, turnover, NPV and IRR ratios).
- Static and dynamic sensitivity analysis.
- Summary statement of costs and revenues.
- Income statement.
- QFD.
- Technology monitoring.
- Patent analysis.
- SWOT analysis.
- Benchmarking.

One of the simpler methods of analysis is the SWOT method.

In principle, the SWOT method is one of the basic concepts that make up the strategic management of a company. It allows the areas most important for the effective functioning of the company to be examined and analysed in detail. In addition, it is a kind of summary of the previously conducted theoretical strategic analysis of the company. Its greatest advantages are that it is highly transparent, easy to digest and precise. It contains only the most relevant information and omits areas that are less useful (Koźmiński, Piotrowskiego, 1996, p. 63).

The SWOT analysis consists of the following areas (Koźmiński, Piotrowskiego, 1996, p. 64):

- Weaknesses and strengths of the company.
- Opportunities and threats from the environment.

Although a SWOT analysis is not in itself a difficult task, it requires a prior (relatively thorough) examination of both the external and internal environment of the company.

The SWOT analysis is a relatively effective method for formulating a strategic plan. However, it does not take into account, or rather should we say does not indicate, certain areas, the examination of which is a necessary activity as they are directly linked to potential directions in the formulation of the strategy.

In the case of large projects, however, methods such as NPV analysis, IRR and financial ratios are mainly applicable, the most commonly used being profitability and liquidity ratios.

Table 1 below shows the calculation algorithms for the key liquidity and profitability ratios.

Table 1.
Calculation algorithms for basic liquidity and profitability ratios

No.	Indicator name	Calculation algorithm
Static liquidity ratios		
1	Cash solvency ratio	$\frac{Cash\ and\ cash\ equivalents}{Current\ liabilities}$
2	High liquidity ratio	$\frac{Current\ assets\ -\ inventories\ -\ short-term\ accruals}{External\ capital}$
3	Current ratio	$\frac{Current\ assets}{Short-term\ liabilities}$
4	Return on equity	$\frac{Net\ profit\ (loss)}{Sales\ revenue}$
5	Profitability of current assets	$\frac{Net\ profit\ (loss)}{Current\ assets}$
6	Profitability of total assets	$\frac{Net\ profit\ (loss)}{Total\ assets}$
7	Profitability of fixed assets	$\frac{Net\ profit\ (loss)}{Fixed\ assets}$

Source: Own study based on Kotowska, 2010.

4. Business model feasibility study on the example of CPK Marriott sp. z o.o.

The study will provide:

- Analysis of cumulative financial flows of costs and sales values assuming an average annual occupancy rate of 66% - Option I.
- Analysis of cumulative financial flows of costs and sales value assuming average annual occupancy rate of 75% - Option II.

Table 2.
Input data for the study - Option I

Fixed costs	35 000 000 PLN
Unit variable cost	31 210 PLN
Daily operating profit with 66% occupancy	42 808 PLN
Unit increments (days)	365
BREAK-EVEN POINT	**3 018**

Source: own study.

Table 3.
Input data for the study - Option II

Fixed costs	35 000 000 PLN
Unit variable cost	33 041 PLN
Daily operating profit with 75% occupancy	48 643 PLN
Unit increments (days)	365
BREAK-EVEN POINT	**2 243**

Source: own study.

Table 4.
Results of the study - variant 1

Days	Summary of sales	Total costs	Profit/loss
0	0 PLN	35 000 000 PLN	-35 000 000 PLN
365	15 624 920 PLN	46 391 650 PLN	-30 766 730 PLN
730	31 249 840 PLN	57 783 300 PLN	-26 533 460 PLN
1 095	46 874 760 PLN	69 1 74 950 PLN	-22 300 190PLN
1 460	62 499 680 PLN	80 566 600 PLN	-18 066 920 PLN
1 825	78 124 600 PLN	91 958 250 PLN	-13 833 650 PLN
2 190	93 749 520 PLN	103 349 900 PLN	-9 600 380 PLN
2 555	109 374 440 PLN	114 741 550 PLN	-5 367 110PLN
2 920	124 999 360 PLN	126 133 200 PLN	-1 133 840 PLN
3 285	140 624 280 PLN	137 524 850 PLN	3 099 430 PLN
3 650	156 249 200 PLN	148 916500 PLN	7 332 700 PLN
4 015	171 874 120PLN	160 308 150 PLN	11 565 970 PLN
4 380	187 499 040 PLN	171 699 800 PLN	15 799 240 PLN
4 745	203 123 960 PLN	183 091 450 PLN	20 032 510 PLN
5 110	218 748 880 PLN	194 483 100 PLN	24 265 780 PLN
5 475	234 373 800 PLN	205 874 750 PLN	28 499 050 PLN
5 840	249 998 720 PLN	217 266 400 PLN	32 732 320 PLN
6 205	265 623 640 PLN	228 658 050 PLN	36 965 590 PLN
6 570	281 248 560 PLN	240 049 700 PLN	41 198 860 PLN
6 935	296 873 480 PLN	251 441 350 PLN	45 432 130 PLN
7 300	312 498 400 PLN	262 833 000 PLN	49 665 400 PLN

Source: own study.

The cumulative cash flow analysis above shows that the investment will pay for itself after 3018 days of operation of the business, with an average annual occupancy of 66%. 3018 days translates into 8 years and 3 months.

Table 5.
Results of the study - variant 2

Days	Summary of sales	Total costs	Profit/loss
0	0 PLN	35 000 000 PLN	-35 000 000 PLN
365	17 754 695 PLN	47 059 965 PLN	-29 305 270 PLN
730	35 509 390 PLN	59 119 930 PLN	-23 610 540 PLN
1 095	53 264 085 PLN	71 179 895 PLN	-17915810PLN
1 460	71 018 780 PLN	83 239 860 PLN	-12 221 080 PLN
1 825	88 773 475 PLN	95 299 825 PLN	-6 526 350 PLN
2 190	106 528 170 PLN	107 359 790 PLN	-831 620 PLN
2 555	124 282 865 PLN	119 419 755 PLN	4 863 110 PLN
2 920	142 037 560 PLN	131 479 720 PLN	10 557 840 PLN
3 285	159 792 255 PLN	143 539 685 PLN	16 252 570 PLN
3 650	177 546 950 PLN	155 599 650 PLN	21 947 300 PLN
4 015	195 301 645 PLN	167 659 615 PLN	27 642 030 PLN
4 380	213 056 340 PLN	179 719 580PLN	33 336 760 PLN
4 745	230 811 035 PLN	191 779 545 PLN	39 031 490 PLN
5 110	248 565 730 PLN	203 839 510 PLN	44 726 220 PLN
5 475	266 320 425 PLN	215 899 475 PLN	50 420 950 PLN
5 840	284 075 120 PLN	227 959 440 PLN	56 115 680 PLN
6 205	301 829 815 PLN	240 019 405 PLN	61 810 410 PLN
6 570	319 584 510 PLN	252 079 370 PLN	67 505 140PLN
6 935	337 339 205 PLN	264 139 335 PLN	73 199 870 PLN
7 300	355 093 900 PLN	276 199 300 PLN	78 894 600 PLN

Source: own study.

The cumulative cash flow analysis above shows that the investment will pay for itself after 2243 days of operation of the business, with an average annual occupancy of 75%. 2243 days translates into 6 years and 1 month.

Summary

The hotel industry in Poland and around the world is constantly developing, as evidenced by all available indicators and observed trends. The popularisation of tourism, and the shortening of the distance problem through cheap flights, are opening up new possibilities and broadening the horizons of openness to new solutions. In the development of the hotel industry, on the other hand, special attention is being paid to franchising. This is because launching a hotel under a well-known brand provides a number of advantages, including simplifying the process of acquiring new customers. This is because well-known and proven solutions, as well as good opinions and trust, mean that customers are willing to use offers that are already familiar to them.

The results of the risk-adjusted cost-effectiveness analysis indicate that, assuming an average annual occupancy of 66%, the investment in the company will already have paid for itself after eight years and three months. On the other hand, assuming an average annual occupancy of 75%, the moment of return on the investment will occur after just six years and one month. After the hotel has been operating for a period of time to recoup its investment, the business must receive a level of 47% average occupancy to break even. This business model is forward-looking because the payback period of 6 to 8 years under various assumptions is negligible when compared to the period over which the hotel operates on average. Hotels are not built for 6 years, but for several times that.

In my opinion, the presented business model, based on hotel franchising, is worthy of attention, worth the investment allocated to the project, and will be a solid pillar against the competition as another premium hotel of the Marriott International brand developed in Poland.

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