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HOTEL ORGANIZATION AND DEVELOPMENT TECHNOLOGY

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Dimcho Todorov, Elena Petkova. HOTEL ORGANIZATION AND DEVELOPMENT TECHNOLOGY

The article examines the organization and development technology of building a hotel in the context of the macro-environment and the challenges faced by investors, as well as the phases of financing, construction and management of hotel establishments. The methods of analysis and synthesis have been used. The main conclusion of the study is that hotel entrepreneurship is a very risky activity due to the fact that even after the hotel is opened its financing continues but the bank provides funds only under the condition of compliance with a certain debt-equity ratio. That implies that operating profit should be rising as a result of a growth in the occupancy.

Key words: tourism, hotel, technology, environment, factors, economics, management.

INTRODUCTION

Tourism and respectively the associated tourism industry have grown enormously during the last few decades. At a global level hundred thousand tourism sites have been built, mainly hotels and hotel complexes, restaurant establishments, facilities, adjacent tourism and engineering infrastructure etc. At the heart of the ‘entertainment industry’, as tourism is called, a priority is always given to hotel accommodation – to its development and improvement.

In order modern and comfortable hotels and hotels complexes to be available, which increasingly meet preferences, requirements and needs of customers, there must be people (entrepreneurs) ready to meet these expectations. There must be investors, whose investments, know-how (intellectual potential) and entrepreneur spirit to fill our ideas of useful, pleasant and enjoyable experience outside the place of residence on various occasions. In other words they should make tourism possible and comfortable and our business trip, event, holiday and/or vacation – feasible and meaningful.

Although financial and economic crises have a negative impact on the construction of new hotels and facilities, the survival, stabilization and success of hotel companies, chain members and independent hotels are closely related to their competitiveness and management. The change of the ways of management and securing growth in the complex environment of permanent crises and altering declines in the economies of the countries in the context of changed market and financial regulations – reduced funding, increased internal and external competition, shrinking markets etc. – require new management strategies, skills and solutions. Hotel investments and management (construction, renovation and expansion) should be very well thought over, rethought and financially secured. The creation of a new hotel is an innovation that should be carefully developed and implemented in practice. Every hotel is an unique site that distinguishes itself from all others in terms of its characteristics and functions. Meanwhile, there are common features, respectively procedures and regularities in the development (subsequently – during operation) of innovations in the form of new hotels.

METHODOLOGY OF STUDY

The article examines the organization and technology of building a hotel in the context of the macro-environment and the challenges faced by investors, as well as the phases of financing, construction and management of hotel establishments. The objects of the study are hotel companies and hotel industry at a global level, and in Bulgaria in particular. The subjects of the study are the factors and conditions of the environment, as well as the separate stages of the technological process of the construction of a new hotel. The methods of analysis and synthesis have been used. The information was gathered by using the observation method, as well as by the experience and expertise of the authors and by secondary literary and informational sources.

The present study not only complements and enriches the existing research on the topics studied, but also presents in-depth details and a new analysis for the construction of hotels in Bulgaria and examines the latest trends and factors of the global and national socio-economic, and demographic and physical (natural) environments that have an impact on tourism and especially – on hotels. Thus, the study is also a logical continuation of the scientific publications of its authors on the subject (Todorov, 2012; Todorov, 2013; Petkova, 2013). To some extent, other literary sources have also been used as a basis of the present study. Thus, Rutherford and O'Fallon describe the whole process of construction of a new hotel in their book in details (Rutherford, O'Fallon, 2011). In comparison, the present work describes similar process, however, there are some important differences and it includes some specific figures and is adapted to the Bulgarian hotel environment. In this regard, the present study

could be useful not only for training and education but also for the practice of hotel managers and potential entrepreneurs in the country, who would wish to develop their own hotels.

The process of building a new hotel in Bulgaria should comply with the regulations of the country. These include the Spatial Planning Act, that points common requirements to the construction process of all types of buildings including hotels. In addition, there are few requirements that apply only for hotels (Spatial Planning, Act 2017). Other regulations are the Tourism Act and the Ordinance on the Categorization of Tourism Sites, which state out a number of requirements for the construction of hotel establishments of various categories and types – e.g. minimal size (length, width and height) of particular premises, proportion of the reception area to a number of rooms etc. – that should be taken into a consideration during the design and construction of hotel buildings (Tourism Act, 2016; Ordinance on the Requirements for Accommodation and Catering Facilities and the Order of Determining a Category, Denial, Reduction, Suspension and Termination of the Category, 2015).

In a number of literary sources the factors of the geographical environment, which influence the development of tourism in general are thoroughly described (Bachvarov and Tonchev, 1996, Vodenska and Assenova, 2011 etc.). Therefore, it can be logically concluded that these factors have an impact on hotel industry in particular and, accordingly, on the organization of the construction of a new hotel. Other sources contain particular useful guidelines for the development of a plan for the creation of a new hotel (Tonchev and Mileva, 2005; Tonchev, 1995; Tonchev and Todoriev, 2000, etc.). As a new point, the present study, which is of a wide scope, takes into account the current trends and conditions of the environment in which hotels are being built.

RESULTS AND DISCUSSION

As regards with the individual entrepreneur, the idea of building a hotel (we mean an independent hotel) goes through a number of stages that can be synthesized in the following way (Fig. 1):

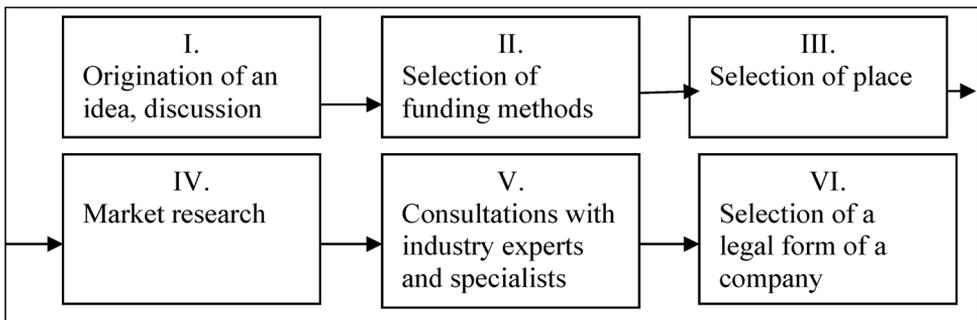


Fig. 1. Stages of the process of planning the development of a new hotel

(1) *First stage*: Origination of the idea and sharing with friends and professionals, discussing in the family in case a family or a small hotel would be built or explored.

(2) *Second stage*: A selection of funding methods, usually among: own funds, bank capital, shareholding etc.

(3) *Third stage*: A selection of a place (location) of the future hotel.

(4) *Forth stage*: Market research (marketing – perhaps could be performed at the very beginning), at least, on the demand for hotel services, passenger traffic and tourists in the area of the potential hotel.

(5) *Fifth stage*: Consultations with industry experts, specialists etc. on various aspects of the ‘project’ development.

(6) *Sixth stage*: A selection of the appropriate legal form of the company or a company owner of the hotel (Sole trader/proprietor, limited liability company – Ltd., sole limited liability company, joint stock company, public company Plc. etc.).

The construction, operation and management of hotels and hotel companies is a complex and long process running through multiple stages and phases. Even the idea of building a hotel alone is influenced by a large number of factors. The construction of a hotel in itself implies the availability of certain attitudes, conditions, expectations, a great deal of persistence and entrepreneurial risk. Every enterprise of the kind is related at least to the following questions, which answers should be given or more precisely, given by the entrepreneur to himself (Fig. 2):

(1) Where and what type of a hotel would be built (location, type, capacity, size, category)?

(2) For whom the hotel or the complex would be built – for himself/ herself or for resale?

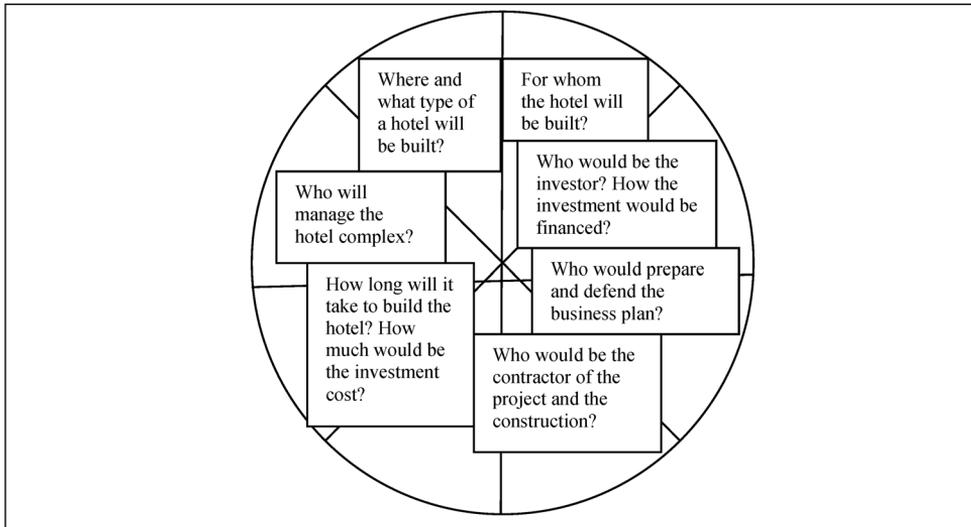


Fig. 2. Questions that should be answered when undertaking an initiative of developing a new hotel

- (3) Who would be the investor and how the investment would be financed?
- (4) Who would prepare the business plan and defend it at the financial institutions (banks, exchanges) etc., in order to obtain a credit/ loan?
- (5) Who would be the contractor of the project and the construction (the architect, the builder, the interior designer etc.)?
- (6) How long would it take to build the hotel, and how much would be the investment cost at the time of commissioning?
- (7) How and who would manage the hotel after the opening?

FACTORS INFLUENCING AND CONDITIONS FOR BUILDING A NEW HOTEL

It should be taken into an account that the intention to build a hotel is influenced by a number of factors that determine the specificities of the micro-environment, the local business environment and the legislation of the country where the hotel or the complex would be built. However, the construction of a hotel in a market economy in every European country is governed by common or similar rules, as well as by the opportunities to utilize financial resources that are characteristic of the free market and its economics mechanisms and levers. Of course, the above-mentioned factors should not be considered as unique, eternal and final, as they are subjected to changes and development depending on the time and on the specifics of the context (political, economic, social, demographic etc.). The following factors are considered as significant and ‘universal’, as well as priorities to a certain extent:

(1) *A change in the orientation towards specific tourist markets* as a result of certain political factors, such as the formation of new political and economic alliances, wars, battles of various kinds, terrorist acts and as a consequence – the associated governance decisions. In the last two or three decades the world has undergone enormous political changes, which have led to substantial economic, demographic and social ones. As a result of the collapse of the Eastern Political and Military Alliance – the Warsaw Pact and the Civic Council of Economic Mutual Assistance, the economic and tourism markets of the Old Continent have reoriented and sought new ‘horizons’. Combined with the formation of new economic, labor and tourism market, the Eastern and Southeastern European countries received a powerful impetus in the development of tourism and hotels during the period 1995–2005, which basically continues to date. The accession of Bulgaria to the European Union is of great significance to the country in the last decade related to the possibilities of using the mechanisms of the free market and the free movement of people and capital within the Union, as well as to the increase of the tourists from the European countries, on the one hand, and the limitations of the traditional markets associated with the introduction of visas for tourists from countries outside the European Union (such as Russia, Ukraine, Belarus, Kazakhstan etc.), who were present at the tourist markets in the country up to the changes, on the other hand. In the first decade of the 21st century we witnessed the terrorist strikes in the US in 2001, which led to an imbalance in the entire economy of the country, a sharp drop in the demand for tourism and hotel services over an extended period of time (three to four years); to a number of bankruptcies and restructuring the ownership and the means of management of many companies and hotel establishments in the US. At present, in the Middle East (Egypt, Syria) and at the

African continent (Nigeria, Somalia etc.) there are socio-ethnic conflicts and wars related to instability and local differences, leading to redistribution of economic and tourist markets and to a change in the way of organization and management of hotel companies.

(2) *The rise or crises of the global economic and financial system* also have a cyclical impact on tourism (typically of 8–10 years periods), which is expressed in the following:

(2.1) A cycle (period) of upward development characterized by the increase of the number of jobs, the raise of the incomes of the population and consequently by the growth in the demand of goods and services, including of hotels, restaurants etc. – during the first decade of the 21st century (2003–2007);

(2.2) A cycle (period) of crisis related to the restructuring of the economies of the countries, the loss of jobs and the reduction of the incomes of employees, hence the drop in the demand for goods and services, including tourism and hotel ones etc. – at the end of the first and in the middle of the second decade of the 21st century (2008–2016) at a global level. In Bulgaria, there has been a reduced demand for tourism (hotel) services by a large part of the local population due to bankruptcies of companies in the sectors of construction, accommodation and services; as well as a reduction of the incomes and loss of jobs.

(3) *Marketing segmentation of the tourist markets* due to the increased use of data base (information) about the needs and wants of guests, obtained through the contemporary means of communication, as a result of which the hotel companies have an opportunity for reorientation and the attitudes towards new hotel products with regards to consumer demand. For example: The development of family and small hotels characterized by sufficient comfort, coziness and affordable service are again in vogue.

(4) *A demographic factor* that will increasingly determine the supply and demand of tourism services on the European continent and particularly – in the country. In Bulgaria, on the one hand, there is a positive trend related to increased demand of hotel services mainly by citizens of highly developed European countries (Great Britain, Germany, Scandinavia etc.), and, on the other hand, there is a negative one, related to the negative natural growth of the local population, i. e. increase of the number of retired people and people with low income and reduction of the number of higher-income workers looking for hotel and other tourism services.

(5) *Changes in consumer attitudes at a global level*, from consumption accentuated on goods to consumption accentuated on services, mainly tourism services, including accommodation and catering, which leads investors and managers to look for new products in the field of supply (bidding, promotion) and techniques of management in the hotel business. Nowadays, travel agencies are searching for and compiling new products (offers, travel packages), as well as for ways to offer these, and hoteliers – for new means of operating and managing hotels and hotel business in general.

(6) *The increasing trend of changing the ways of people travelling* (using air and high speed rail transport) at a global level implies the development and construction of tourism complexes, mostly hotels near the busiest airports and railway stations in major cities and coastal areas. The option of fast and reliable communication and transfer from the place of accommodation to business centers and/or centers and venues for business meetings and conferences is crucial. In Bulgaria, for the period of the next years of 2005–2020 there is a long-term program for gradual reconstruction, modernization and renovation of airports and railway stations, receiving the main tourist flows and the construction of new terminals:

Sofia Airport, Sofia Railway Terminal, Varna Airport, Burgas Terminal etc. With the development of the infrastructure in big and medium-sized cities, the building of hotels as a part of the complex offering of services and service to guests in the settlements and the ‘tourist territories’ is envisaged.

(7) Trend of investing funds in the hotel industry by unconventionally oriented towards hotels companies that aim at increasing their presence (share) and profit in activities, such as construction, operation and management of hotel and entertainment establishments, facilities and complexes. In Bulgaria, the period of 1995–2010 is characterized by the introduction and deployment of mass construction of hotels, hotel complexes, entertainment and recreation facilities by companies from various economic sectors, from the country and abroad, often with vague origin of the initial capital.

(8) *Change in the way of management of predominantly independent hotel complexes and hotels* in connection with the global financial and economic crisis of 2008, through restructuring of the activity and staff reduction to a reasonable level, without causing substantial change in the service of guests and the profit realization of the company. The ‘margin of survival’ is the minimum profitability threshold allowing refinancing the operation and management of the establishments (such as, hotel complexes, individual hotels, restaurant establishments, public tourism attractions etc.).

Activities of Bulgarian hotel industry where most of the revenues from mass summer seaside and winter mountain tourism are reinvested should be performed with a view to the final financial results and often in a complex and a highly competitive environment, which would cause a change in the structure, organization and supervision of the operation of all management and service units and departments.

Simultaneously with the global trends, conditions and factors, influencing the development of hotel industry and mainly the construction of new establishments (independent hotels and hotel complexes) described above, without claiming full inclusion, we have to mention other factors emerging under the conditions of financial and economic crises and fierce competition over the last few years:

(1) Providing guests with better than stated condition for the given category of hotels. The trend is also evident at lower category hotels where service and services typical for the higher category sites are provided, without significantly affecting the price, such as ‘spoiling consumers’ or giving bonuses to serving guests during their stay at the hotel. In particular, it includes the possibility of using a pool, fitness or some SPA services ‘free of charge’ in order to preserve the market niche and to generate revenues from the main activity of the hotel (i. e. the accommodation).

(2) The factor of prices, discounts and promotions in times of crises or precisely because of it, is particularly relevant in consumer decision-making mostly in holiday and vacation sector. The well-designed weekend or holiday promotional packages are the reason for the generation of an essential part of revenues and a survival niche for many hoteliers under the conditions of high competition and financial instability. The offers before and after the high season on various occasions are particularly important for the competitiveness and financial survival of hotels with seasonal work patterns.

(3) Change of brand. In the US and within Western Europe the change of brand (logo) aims at: changing the image of the hotel; enhancing competitiveness; replacing management;

introducing new products and new work organization and eventually at increasing the profit of the hotel company. The change is complicated and often an expensive process that is imposed under the conditions of a changed macro environment or business, but it must necessarily lead to economic growth or extra revenues. In Bulgaria such a change was successfully accomplished with the signing of a franchise agreement with Grand Hotel Balkan in the middle of the 80's, which after substantial changes and repeated transformation of ownership, have been operating until 2015 under the brand of 'Sheraton Sofia Hotel Balkan'. Other positive examples concern other world-famous hotel chains, such as: Best Western, Iberostar etc.

In addition, other trends can be mentioned as a factor for tourism and hence for hotel development, e. g. – the increase in the number of low-cost flights. The trend might lead to a significant visitor growth, respectively to the increase in the number of overnight stays, as well as to the construction of new hotels world widely or in Bulgaria.

Finally, in analyzing the factors that influence the decision to build a new hotel, those of the physical (natural) environment, as well as some of their ecological aspects should also be described. For example, the relief largely determines the location, characteristics and technologies of construction of a building that would be utilized as a hotel. In this regard, during the design and construction of the hotel building the vertical and horizontal unevenness of the terrain, the size of slopes, the altitude and the intensity of the modern relief forming processes should be taken into a consideration. During the construction of hotels the climate and the climatic conditions of the environment are also of importance. Climate elements, such as air temperature, rainfall and snow, snow cover, winds, etc. determine what building materials and technologies would be used and what the architectural appearance of the hotel would be. Water also has an impact on the construction of hotels. That especially refers to groundwater, its quantity and quality that determine the characteristics of building structures and building technologies. The next factors for opening a hotel are soils, specifically their composition, condition and size. The condition of preservation and restoration of flora and fauna at the area of hotel construction sites should also be met. That requires the assessment of the variety of plant and animal species, their number, whether they are protected species, what are the terms of their resumption etc.

An example of why an assessment of the natural-geographic characteristics of a region should be done during construction of hotels could be given concerning the landslides. The landslide is a natural phenomenon where large masses of land are removed due to severely intersected terrain and other natural features of the region, e. g. high level of groundwater etc. The main factor for causing damages from landslides is poor construction, which is inconsistent with geological studies and the failure of earthy excavations. In recent years, landslides causing considerable damage in Bulgaria have been observed in areas of intensive construction inconsistent with geological conditions, such as some areas of mass sea and mountain tourism development in the country.

PHASES AND TECHNOLOGY OF CONSTRUCTION

The construction of a hotel or a hotel complex (as already said) starts with the idea of the entrepreneur or the people who had decided to build the hotel by the establishment of a company – a person or a legal entity. Sometimes these people risk their own personal properties

in order to realize the project. The construction stages and technologies generally relate to the following major activities and procedures:

DEVELOPMENT OF A FEASIBILITY STUDY

The feasibility study starts with the selection of a terrain (location) where the hotel would be built. That in turn implies personal preferences of the entrepreneur on the basis of a selection of suitable terrains or associations with real estate agencies (companies) to search for suitable terrain, according to predefined parameters, such as size, location, communication, price and other optional requirements. Each of these elements is essential in determining the final cost of the construction (site) and its subsequent exploitation. The feasibility study could be performed by an independent specialized company, a banking institution, a consultancy or an accountancy firm depending on the work technology preferred by the entrepreneurs. In any case, a risk analysis is performed by considering and assessing a number of factors relevant to the final economic result and efficiency of the hotel construction. In principal, feasibility study discusses, evaluates and formulates opinions and recommendations on the projects aiming to advise the entrepreneur on the various aspects of the future hotel. The milestones of the feasibility study regardless by who it is performed (consultant – a company or a bank) could be grouped as and are associated with the following (Fig. 3):

(1) Pre-project study of the business in the area of the future hotel. Studied are: what is the area and what is the type of the neighborhood – industrial, residential, commercial, central etc.; which are the major companies near the future hotel; what type of business is located nearby and what are the features of the customers of the competitors; are there any conferences, congresses and other business events held nearby; what are the needs for hotels and hotel services in the area; are there any anthropogenic resources and tourist attractions; is there any information about the competition available (hotels and other types of accommodation establishments in the area); what are their capacity, size, category, prices, type of services offered and a way of service – actual and potential; is there any statistics of the number of nights spent at the accommodations in the area; are there any survey results on prices of hotel services.

(2) Pre-project study of the terrain (plot). It examines: area development plan; representativeness and visibility of the plot – surrounding buildings and facilities and external appear-

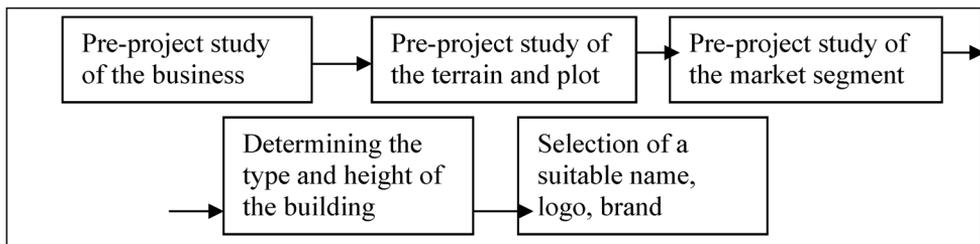


Fig. 3. Feasibility study of hotel development

ance of the built-up area; final land price per square meter; communicativeness of the plot – proximity and access to main transport routes and roads, airports, railway and bus stations; passing traffic flows – proximity of places where large groups of people live, work or visit on various occasions; procedures on issuing permits and documents by the local authorities (incl. bureaucratic obstacles) in purchasing plot and building the site; taxes and fees related to the project realization.

(3) Pre-project study of the hotel market segment. In this regard, the future hotel could be characterized by: long-stay vacation visitors; holiday and recreation visitors; provision of limited service; full service; economy class; average prices; low tariffs.

(4) Determining the type and height of the building. The site could be: a skyscraper; a high building; a building of an average height; an apartment hotel or hotel complex; a low-rise construction building; a holiday village; a tourist village.

(5) Selection of a suitable name: logo and hotel brand. It could be: personally, independently chosen name; a name as a part of a famous hotel chain (franchise) – e. g. Sheraton, Marriott, Ritz; a license to use a famous brand – (Best Western, Guest Suites).

The feasibility study could also contain an operational plan for a period of one or several (e. g. five, ten) years including analyzes and forecasts of the occupancy of hotel rooms; average daily occupancy of the rooms on the basis of estimated prices. An assessment by financial indicators, such as the return on investment (capital), profitability based on assumed occupancy, estimated profit, etc. might also be made.

If the entrepreneur would buy the plot with a credit from a bank (commercial bank), he/she would have to submit a business plan for the hotel development. For the purpose, a detailed business plan with a solid economic and financial rationale and a program for the business development at the plot should be developed. The plan and program for building and operating a hotel complex covers the following sections:

(1) A general characteristics of the complex (hotel) detailing location and size (unfolded built-up area). The natural, geographic, climatic and historical features and resources of the plot and the region as a whole, the engineering and tourism infrastructure – roads and communications (water and sewerage, power and heat supply etc.), as well as the settlements near the site and the opportunities for hiring personnel there, supply opportunities in the region, etc. could also be described.

(2) Hotel category and characteristics and parameters concerning the construction, which present: the class and the type of the hotel – urban, seaside, mountain or other. The category of the complex and the associated mandatory standards are described. Specified are the other sites in the hotel complex – restaurants, cafes, taverns, sporting facilities, shopping area, conference blocks, attractions etc.

(3) Product orientation, which specifies the main tourism product that the hotel complex would offer. That includes the orientation toward offering mass holiday seaside and mountain or specialized pilgrimage (religious) or other types of tourism and the associated types and assortments of services and service.

(4) Marketing and advertising, which are related to the type and operation of the hotel, its promotion and development, and the links with the tourism markets and fairs.

After the completion of the feasibility study commissioned by the entrepreneur (person or company) and in case of positive evaluation of the investment project by the consultant, the

purchase stage of the plot (the land) where the hotel (the site) would be built follows so, as to avoid the plot to be bought by another entrepreneur. It should be noted that the entrepreneur (person or company) not always remains the owner of the hotel (building). There is a likelihood after the purchase of the plot and due to a change in market prices, the new landowner to sell it to another company for profit. In Bulgaria, in most cases, the entrepreneurial company is also the owner of the hotel.

ESTABLISHMENT OF AN OWNER COMPANY

If the entrepreneur company does not sell the plot (worldwide practice), a new company should be established, which is different from the entrepreneurial company and is the owner of the land and the hotel after its construction. The optional forms of companies taking into account the responsibility of the investors, taxes and other implications are most often the following:

- (1) Limited liability company – Ltd.;
- (2) Limited partnership – KD;
- (3) A joint stock company that pays a corporate tax of 10%.

BUILDING CONTRACT

The newly-opened company enters into a contract with the entrepreneurial company to implement the project (building the hotel). The entrepreneurial company receives a fee (usually 3%) of the total value of the project for the service. The newly established company, which would build on the plot, proceeds to solve the following tasks:

- (1) Collection of funds (capital) by the investors.
- (2) Provision of loans for construction by banks and other financial institutions.
- (3) Selection of a chief architect of construction (a person or a company) of a local or international scale.
- (4) Selection of a builder (contractor) – construction company.
- (5) Selection of a company for an interior and exterior design.
- (6) Selection of appropriate furnishing and equipment.
- (7) Selection of a franchise company in case a decision is taken that the hotel or complex would be operated and managed under the logo (the brand) of a well-known hotel chain.
- (8) Selection of a management company that would be in charge after the construction of the hotel.
- (9) Determining liability and response in case of exceeding the construction costs.
- (10) Dealing with other emerging construction related tasks.

SELECTION OF A DESIGNER (PROJECT MANAGER) AND AN ARCHITECT

The selection of a designer and an architect of a hotel building is of particular importance to the project. They should have an experience in designing buildings and facilities of these

kinds. They should work in accordance with the local regulations on the operation of the building as a hotel. They should also comply with the hotel category requirements for areas, sizes, heights and volumes of all sectors, units, premises and spaces in the hotel complex. Designer fees usually are 5% of the project cost, but for large projects, a 3% fee could be agreed on of the total cost of the project. The fee indirectly depends on the experience and reputation of the design company. The architectural appearance of the building, its functionality and suitability for hotel activity are the main criteria for the design work well-done. The designer and the architect will not be employees of the hotel but their work would be visible and tangible to the service staff and guests from the time the hotel is opened until its closure or reconstruction. It is necessary a project of a hotel that is easy to operate, easy to function, easy to maintain and easy to manage to be prepared.

SELECTION OF GENERAL CONTRACTOR (BUILDER)

It is also very important a contractor (a construction company) with experience and built image in the construction industry that has been building hotel buildings and facilities to be selected. It is of paramount importance that the construction company has established partnership relations with subcontractors and contractors that are necessary for the implementation of every large project. In practice, the main contractor (the construction company) and the architect (the design organization) often offer a common product (design and construction) with a total price. That makes it easier to determine the final cost of the project and the final price should include the extra cost of 10% on the value of the contract for unexpected costs that could be incurred.

SELECTION OF A MANAGEMENT COMPANY

Hotel management is essential for overall activity, so choosing the right company or management team before and after the opening of the hotel is a priority. In practice, the success or failure of the investment, profit or bankruptcy depend to a large extent on the way of management and the ability of the management company to cope with all the challenges. In international practice the management company is usually selected at the very beginning of the project, and companies are chosen according to their experience and by documents. The hired contractor company starts recruiting and training the staff long before the construction works have been finished and the site has been opened (worldwide practice). It deals with preparatory operations on the exploitation, marketing, sales and structuring the hierarchy after the hotel is opened. The positions are defined and job descriptions are prepared, including the functions that the service staff will perform according to the specificity of the hotel: type, profile, capacity, clientele, category and other factors. An operational draft budget is prepared by activities and sectors, which is subsequently updated when the operation starts. Normally, for the management of a medium-sized hotel (up to 500 rooms) in the international practice from 3 to 5% of the turnover are paid to the management company. Due to the crisis and the tight market, however, after 2005, 3–4% of the turnover or 2–3% of the operating profit is allocated to the management company.

Meanwhile, the entrepreneur may recommend to the owner of the hotel (the newly formed) to sign a franchise agreement with a known hotel brand and to use its logo. The same can be done by the management company to increase and secure profit.

Of particular importance is the choice of brand, according to the specifics of the hotel and the segment in which the franchise operates, the license fee that it will request and the terms of the franchise. A request (application) is filed, after which the selected franchise company makes its own study and agrees to or refuses a sale contract for its brand. The ways in which the license fee is paid are different, ranging from a fixed percentage of turnover and profit to a fee per room or a combination of these.

FINANCING THE PROJECT

The financing of the project is a fundamental and essential element of the idea of building the hotel. In practice, with no funding secured, the idea of building a hotel will remain just a dream. It is therefore particularly important to specify the main funding items, namely:

- (1) The price of the plot (land).
- (2) The cost of the project and the construction.
- (3) The cost of furnishing and equipment.
- (4) The costs for the management.
- (5) The marketing, advertising and preliminary research costs.
- (6) The operating costs and a six-month reserve.

As a result, the final cost and methods of financing the project are determined. With the so-determined end-price, the entrepreneurial firm has the task of providing financing for the project. We must not forget that 'external' funding should be maximum of 65–70% of the total project cost.

In the international financing practice, there is almost no option for a project to be 100% funded by a single financial (banking) institution. Therefore, some conditions should be met in order a loan to be received. They are developed by the financial institution providing the funding in order to avoid an option to allocate a loan to an unreliable payer. The important condition for taking a loan that could also influence its amount are the following:

- (1) The ratio of the amount of the loan to the value of the property and the future building.
- (2) The personal guarantees of the entrepreneurial firm and the partners.
- (3) The terms of repayment: length of the term, fees, interest, arrears etc.
- (4) Possibilities and ways of repaying the loan upon extension or shortening the term of the repayment plan.

In addition, there are other factors that can influence the final decision of the financial institution whether to allocate money and how much.

Thus, the entrepreneurial company enters into negotiations with a selected financial institution (usually a commercial bank) in order to provide the necessary financial resources for the project. The bank, on its part, organizes a study and, for the purpose, its expert evaluators or an external expert company evaluate the project and make a statement on acceptance or refusal to finance within a certain period. Based on the evaluation, the financial institution (bank) determines the amount of funding, which is up to 60–65% of the estimated project value. The rest of the financing, amounting to 35–40% of the project cost, can be obtained

through share capital. Raising capital by issuing securities is a matter of a regulatory framework in individual countries. It is also important to know the functioning mechanisms of the capital markets.

The funds, the shares of (the capital) in the case are obtained and distributed among the owners of the shares (the shareholders). Each share is a 'security' that has a pre-defined value, and represents the share of the ownership held by the owner who has purchased it. The value of the shares held by each owner determines the portion of the total capital that he/ she owns. The owners of shares may be both, the owners (founders) of the project (the activity), and external shareholders. However, for the recruitment of external shareholders, the shares must be pre-announced on the Stock Exchange, which will represent (express) their actual market valuation. The Stock Exchange is a secondary market where the shares of various companies are bought and sold at the expense and at the will of their owners. Shareholders (private investors, venture capital funds, private asset managers) are offered the option of investing funds in the hotel through shares and of expecting profits in the future under certain conditions.

International funding and support can also be used to finance projects. International funding in tourism is carried out by international organizations from the World Bank Group in the form of transfers or credits provided to developing and developed countries to finance infrastructure and other activities. These associations include:

- (1) The World Bank – for granting long-term loans.
- (2) The International Development Association – (IDA) – for the provision of low-interest loans.
- (3) The International Financial Corporation (ISF) – for private shares of equity.

Financial support for tourism and hotel development depends on the importance and the rationale of the projects and their significance for the local population and the tourist markets. The projects must have a solid foundation for the local and international tourism market and offer significant return on capital. However, investments in tourism, and in hospitality, in particular, are more risky than investments in many other sectors of the economy due to their slow returns and the rapidly changing tourism markets. Once 100% funding is guaranteed, the construction of the hotel begins, which must be done within the stipulated deadlines and usually for no more than 12–14 months. Any delay increases the value of the project and leads to losses for the entrepreneur.

CONCLUSIONS

The stages and procedures for the construction and the opening of a large hotel or hotel complex are summarized as follows:

- (1) Originating and shaping the idea of the hotel.
- (2) Development of conceptual design and/or a feasibility study by the entrepreneur.
- (3) Establishment of an owner company.
- (4) Selection of a designer and an architect.
- (5) Selection of a general contractor (construction/building company).
- (6) Selection of a company for the interior design.

- (7) Selection of a hotel management company.
- (8) Finding appropriate and sufficient funding for the project (the hotel).
- (9) Initiation and completion of construction within the specified deadlines.

The main conclusion of the study is that entrepreneurship is a very risky activity due to the fact that even after the hotel is opened its financing continues, but the bank provides funds only under the condition of compliance with a certain debt-equity ratio of about: 40% equity and 60% debt. That implies that operating profit should be rising as a result of growth in the occupancy. If the profit does not grow, the bank may stop financing and the owners will be forced to seek a loan from another bank under new conditions. Due to the fact, that the value of the hotel is almost always 'historically' rising, the owners can rely on the rise of the hotel price at a 'peak moment' and sell the hotel in order to return the investment and make a profit. Either the funds received from the sale of the hotel may be below the initially invested capital, or alternatively, profit exceeding the value of investment may be realized, which illustrates both, the risk and the very profitable venture of the construction and operation of medium or large hotels.

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