

Establishment of the New Hostel in Armenia

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Zásady pro vypracování

Introduction

Define the objectives and the application methods used in the Master thesis.

I. Theoretical part

- Compile the theoretical information about establishment of a new business.

II. Practical part

- Complete the analysis of the hostel business in Armenia.
- Prepare the project of establishing a hostel in Armenia.
- Submit the project to risk, time and cost analysis.

Conclusion

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ABSTRAKT

Tato práce pojednává o založení nové ubytovny v Arménii v hlavním městě Jerevanu. Práce je o zahájení vlastního podnikání se samosprávou. Mluví se hlavně o založení nového hostelu v Jerevanu kvůli mnoha turistům, kteří tento region v posledních letech navštívili. Práce bude sloužit jako průvodce, který chce rozvíjet své dovednosti v turistické oblasti. Kvůli vstupu na trh nízkonákladových leteckých společností, jako jsou Ryan Air a Wizz Air, se Arménie stane jedním z hlavních turistických cílů pro Evropu. Turisté obvykle navštěvují hlavní město Arménie Jerevan, ale protože z Jerevanu není žádná kultura hostelu, probereme potřebu hostelu ve městě.

ABSTRACT

This thesis discusses the establishment of the new hostel in Armenia, in the capital city Yerevan. The work is about starting your own business with self-management. It is mainly spoken about establishing a new hostel in Yerevan, because of many tourists that visit that region in the last years. The thesis will serve as a guide who wants to develop their skills in tourist sphere. Because of the entrance in the market of low-cost air companies, such as Ryan Air and Wizz Air, Armenia will become one of the main touristic targets for Europe. Tourists usually visit the capital of Armenia, Yerevan, but as there is no hostel culture out of Yerevan, we will discuss the need of hostel in the city.

KEY WORDS: Hospitality. Hostel, Guest House, Tourist, Tourism, Management, Business, Risk Management.

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I would like to thank my family and friend for their support during my Master's Thesis. I hereby declare that the printed version of my Bachelor's/Master's Thesis and the electronic version of my thesis uploaded to IS/STAG system are identical.

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INTRODUCTION

Relevance of the topic: Hostels, which are very close to the hotel, is a concept widely used in the tourism industry of Armenia. Unlike a hotel, the hostel has a number of parameters that bring the living conditions closer to home. Modern hostels perfectly embody the ancient taverns, each of which had its owner or hostess, its atmosphere, its unique dishes in the kitchen and, of course, its price range. Guest houses(hostels) can also be compared to modern apartments, which are richly offered to tourists in Western resorts. It should be noted that guesthouses allow you to choose the cost of rest for any budget.

Purpose and objectives of the research. The aim of the research is to study the establishment of a hostel in Armenia. In order to achieve this goal, the following tasks have been set:

- Submit a business plan
- Introduce business models
- Introduce the capital structure and definition of profit
- Provide accommodation and the idea of hostels (or guesthouses)
- Carry out an analysis of the hostel business in Armenia
- Provide analysis of a new business idea
- Submit a new hostel business plan in Armenia
- Submit a financial plan.

In our world having a profitable business is one of the main goals for many people. There is no person in this world that does not want to have his/her own business. In my Master Thesis I am introducing the establishment of a new hostel in Armenia, in Yerevan. I am answering the main questions that should know a young entrepreneur who wants to start a business in hostel sphere.

The Master Thesis is intended for those who have an idea to start a hostel business or have already started, want to develop through more effective, innovative management. The purpose of the work is to support novice and current hostel managers to plan and implement their business

processes as profitably as possible, as well as to monitor, evaluate, and improve service delivery and service quality. One of the goals of the Thesis is to develop the potential of organizations and individuals operating in the field of hospitality, to promote the creation and promotion of tourism infrastructure, ensuring the continuous growth of industry indicators in the region (Yerevan). So, if you have an idea to establish a new business in this interesting and promising field, you will find new approaches, knowledge and skills in managing this business in my work.

In this work you can find the answers to the main questions regarding the theme. 1. What do you need to have to get started?

2. How to evaluate the local market?

3. How to calculate revenues, expenses, pricing mechanism?

These are questions that you will find answers to. By getting acquainted with the chapters of the Thesis, as well as using the approaches and tools presented in them, you will have the opportunity to first understand what a guest house is. You will also find the answer to the question whether you are ready to start and run a hostel business in Armenia or not. After answering the question in the affirmative, this will be your practical guide and helper both in developing an idea and in managing staff, finances or processes. This work is intended to serve as a practical guide for entrepreneurs wishing to open a holiday home in rural communities. It will give the novice entrepreneur an idea of the principles of management of the tourist house, the problems, the need for the necessary financial means for its establishment and operation, as well as the promotion tools. It should be noted that the guide provides a typical example of a business model that should be tailored to the specifics of each specific business project. The financial projections in this guide are based on the example of a typical guest house.

In the thesis I am discussing the following vital concepts that are considered as the main preconditions: hospitality, tourist and guesthouse/hostel.

1. HOSPITALITY is one of the branches of the tourism industry. It is

characterized by a friendly reception of guests, open-minded and caring attitude towards them. And the guests are the ones who mainly need food, drinks and accommodation.

2. TOURIST is a citizen who:

Leaves his place of permanent residence for leisure, cognitive, business, cultural or other purposes.

It is located there for 24 hours to 12 months. Spends at least one night.

Does not engage in paid activities.

3. THE GUESTHOUSE is a private house, the rooms of which have been transformed into separate rooms for receiving guests. Except providing places to sleep, breakfast is always offered here, if necessary, lunch and dinner, also.

If you have a home of your own, you love to interact with people, you have the skills to manage, and you have a great desire to start a business, then it's time to think about starting a hostel business. Starting and running this type of business can be profitable, but you need to open your eyes wide, be alert to the details and work hard, which is not for everyone.

Being the owner of a guest house, of course, you will be your own manager, but all the same, you have to do some tasks again in order to please the guests of your house, who will pay you.

Summing up, I studied the most important concepts that may definitely be useful for every person who is interested in this topic. Hostel business, nowadays, is a developing one in our world but it depends on many factors that may affect positively or negatively.

Study structure

The study is constructed from Cover page, Content, Introduction, Two Chapters, where second chapter has three sub-chapters, Project suggestion, Conclusion and Bibliography.

On the first chapter it is represented the hospitality sphere in Armenia, how it is developing, the strengths and weaknesses of the sphere. First sub-chapter of the second chapter is spoken about hostel/guest house analysis, we will discuss the market. Next sub-chapter is about the main project, what we need to start the business. The last one is about risk and cost analysis, how to minimize our risks, how manage our risks and how to start your own business with less costs. We took Yerevan, Aygedzor. It is a great example to show the beauty of the Armenia. Also, here, in Armenian hostel business is not so developed, so with this thesis we will be a stimulus to develop that sphere in Armenia.

OBJECTIVES AND METHODS OF MASTER THESIS PROCESSING

Object and subject of research. The object of the research is the establishment of a hostel in the Republic of Armenia, and the subject is the analysis of hostels in the Republic of Armenia as a place of residence.

Theoretical, methodological and informational bases of the master's thesis. The topic studied in the thesis and the problems posed in it were solved by the studies on the topic of domestic and foreign specialists, in particular, the works dedicated to the issues of brand management. Systematic, statistical and comparative analysis methods were used to solve the problems raised during the research.

The structure and volume of the master thesis. The master's thesis consists of an introduction, three chapters, a conclusion, and a list of used literature.

I THEORETICAL PART

1. ENTREPRENEURSHIP AND BUSINESS PLAN

Entrepreneurial activity is an activity that is carried out on a solid basis, which pursues profit, has a tendency of development and expansion. Entrepreneurship is a special factor, due to which the combination of other factors is carried out. It combines science and the art of cognition. The main place in the system of entrepreneurial activity belongs to the entrepreneur, and the entrepreneurial success is conditioned by his effective function. (Jack, Sarah & Anderson, Alistair, 2002). Successful solution of problems related to risk and innovation is crucial for the entrepreneur. Risk is a potential threat of loss. From an entrepreneurial point of view, risk is a negative situation. There are two types of risk: purely and speculative. In a market economy, risk has protective and regulatory functions with certain management methods. Successful solution of problems related to risk and innovation is crucial for the entrepreneur. (V. Anokhin, 2003). Entrepreneurship is carried out at the entrepreneur's own risk. The entrepreneur needs to think, to use new tools to effectively combine the resources needed for the activity, in order to make a big profit for each of them.

Risk is a situation involving exposure to danger. Therefore, in order to manage it, certain principles need to be developed:

- risk detection;
- risk assessment;
- choice of management methods;
- application of other methods;
- Evaluation of results.

Risk assessment

Risk is the uncertainty about the future. There will be risks in every aspects of business. The goal is to minimize our risks, because we cannot eliminate risk completely. (Darrell Clifton, 2012.) There are two types of risk assessment - internal and external. The Risk Assessment process takes this simple calculation, expands it for a variety of threats, and formalizes it so that a security plan can be developed and documented for use later in justification. (Darrell Clifton, 2012.) So, why do we need to go through all of this if we can do it in our heads?

This process can be divided into five steps. First, we will divide the property into sections. (Darrell Clifton. (2012). *Hospitality Security: Managing Security in Today's Hotel, Lodging, Entertainment, and Tourism Environment*. CRC Press.). Then we will list all the possible threats and hazards for each area. Next, we will compile some

historical data to determine probability. After that, severity will be figured into the process. Finally, we will work with the resulting values to determine risk. (Darrell Clifton. (2012). *Hospitality Security: Managing Security in Today's Hotel, Lodging, Entertainment, and Tourism Environment*. CRC Press.). Economic Capital is one of the methods that help us to measure risk, in other words economic capital is a measure of risk in terms of capital. Risk identification and assessment is the first step, but a company must measure risks before it can manage them. Economic capital is a common currency whereby any risk can be quantified, thus making it one of the best available metrics. (Lam,2017).

Firms in any industry hold capital for two primary reasons: to fund ongoing operations and investments and to protect against unexpected losses. Unlike book capital, which is an accounting measure that represents the sum of invested capital and retained earnings, economic capital represents the amount of capital required to absorb unexpected loss. (Implementing Enterprise Risk Management: From Methods to Applications, Lam,2017). A simple example can illustrate the difference between book capital and economic capital: A company that increases its risk exposures, say, by increasing foreign exchange exposures or operational risks, will not instantaneously increase its book capital. Its book capital will reflect this shift over time only as the company experiences actual losses or retained profits. But its required economic capital will immediately increase as soon as its risk exposures increase. (Implementing Enterprise Risk Management: From Methods to Applications, Lam,2017).

With the right management methods, in this area, we can determine risk and mitigate it. But wrong methods can bring negative results and irreversible consequences. If with management methods we cannot minimize risk, here can help other methods as well- controlling, audit and etc. (Darrell Clifton, 2012.). After implementing all methods, we should evaluate results. Try to have positive and good results, but in case of not favorable ones, do not despair and try to make it better. In modern economics, entrepreneurship (entrepreneurial capacity) is considered as an independent factor of production together with labor, land and capital. The enterprise is a unique factor, because it unites, combines and applies other factors of production in a unified process of management. (Darrell Clifton, 2012.). In the stages of formation and further development of market relations, the entrepreneurial activity, the form and the level of its organization acquire a key role and significance in any sector of the economy. In fact, any business entity, regardless of whether it is in the stage of establishment, development, maturity or decline, is engaged in the

organization of business activities, otherwise it is impossible to ensure its business goals. In this respect, it is important to have a clear understanding of a number of concepts related to "entrepreneurship", "organization of entrepreneurial activity", their socio-economic nature, which, in addition to theory, also has a practical significance.

Entrepreneurship is a profitable entrepreneurial activity aimed at choosing the best ways to use production risks effectively and earning income. It is also a way of doing business that is characterized by initiative, innovative, economic responsibility, flexibility, and commercial risk. (Berdnikova T.B. "Analysis and diagnostics of the financial and economic activities of the enterprise", 2007). I. Schumpeter notes that the status of the owner is not a necessary determinant of doing business. According to him, the entrepreneur is the agent who sells new combinations of factors of production each time, and the entrepreneur's operation is a discrete category, it is not always fixed.

Such an operation is associated with certain characteristics of the entrepreneur - a unique motivation, intellect, high willpower and developed intuition. Schumpeter presented the business function as the fourth factor. (S. Fischer, 2003) The authors of the "Economics" textbook single out the special form of human talent - entrepreneurial ability, as a special human resource. According to them, an entrepreneur is a person who initiates the unification of land, capital, labor resources in a single process of production of goods and services. (S. Fischer, 2003). In addition, the entrepreneur is an innovator who seeks to organize the release of new products on the basis, to use new production technologies, he is a risk-taker. Entrepreneurship is often portrayed as a process of organizing the production of a new product, which provides income, and in connection with which the entrepreneur assumes financial, social and moral responsibility.

There is another view, according to which "entrepreneurial ability" is the ability to take risks and make decisions by combining factors of production. Thus, the above-mentioned authors present entrepreneurship as a special form of economic activity, a special sector of the economy, the ability to take risks and make decisions.

Academician T. I. Zaslavskaya singled out as typical features of entrepreneurship:

- Targeted profit decision
- Freedom of economic decision-making and autonomy
- Independence based on personal risk and responsibility.

It should be noted that the implementation of entrepreneurship is based on

certain interests, both at the macro and micro levels, that is, the implementation of entrepreneurial activity is beneficial to the state, the society with some reservations, and all entrepreneurs.

It is in the interest of the state to provide more tax revenues to the state budget, for the society and customers it is beneficial in terms of offering higher quality goods and services. By the way, from the point of view of consumers, the higher the level of competition, the lower the prices or the higher the quality of the product, therefore the enterprise provides the function of ensuring competition.

Entrepreneurship and the process of its implementation must be protected by law; in its own stage, it must respect the law, that means, there is a legal function. Due to the implementation of entrepreneurship, the national wealth is multiplied, new enterprises are formed, the living standards of the population are raised, the social and psychological needs of the entrepreneur are actively implemented, and the function of ownership develops.

Entrepreneurship has its own characteristics in different branches and differs in the content and technology of doing business. Even the type of goods and services that the entrepreneur is dealing with, the ways in which they receive them, actively influence the nature of the business. For example, there is a situation where the entrepreneur produces the product by acquiring the factors of production, another situation is when the entrepreneur resells the finished product, and the third is when the entrepreneur does not produce the product, does not trade with them, but mediates by connecting the producer to the consumer.

1.1 Types of Entrepreneurship

Entrepreneurship depends on whether the entrepreneur works independently or in a cooperative with other entrepreneurs, uses only his own property for business, or involves other people's property, uses only his personal work, or employs hired labor. (J.Gortney and R. Stroup "Economics" E. 1999)

Let us then consider the types of entrepreneurship that differ in the nature of the particular activity and the entrepreneurial factors used at the time. (J.Gortney and R. Stroup "Economics" E. 1999). Depending on the content of the entrepreneurial activity and depending on the main stages of the reproduction process, we distinguish the following types of entrepreneurship:

- Manufacturing
- Commercial
- Financial credit
- Insurance

- Mediation.

A. Manufacturing business.

The basis of productive entrepreneurship is the production of any direction - material, intellectual, creative. At the same time, the producer uses his own or acquired items of labor - means, labor, organizes the production of goods, services, information, care goods - to sell to consumers or commercial organizations in the future. Manufacturing entrepreneurship refers to the most necessary and at the same time one of the most complex types of business. This type of business is not as profitable as other types of business, so it is less attractive to start a business for post-Soviet countries and economies. Manufacturing entrepreneurship is based on the creation of material goods. This type of business includes construction, transportation, services, communications, household services, information production, and many other areas. The main function of productive enterprise is the organization of production. (J.Gortney and R. Stroup "Economics" E. 1999).

B. Commercial entrepreneurship.

In a commercial enterprise, a business person acts as a trader who sells finished goods purchased from other people. There is a close interconnection in the production and exchange spheres of business. manufactured goods must be exchanged for other goods or in drams. (J.Gortney and R. Stroup "Economics" E. 1999). Historically, the craft business has immediately become active in trade. This has been the case for centuries. It should be noted that production has not always been an active part. Too often, the commerce itself drives production business to create demand for its products. Commerce in the narrow sense means trade, and the merchant means trader. For many years the country did not know of any trade other than state trade, so private or "shadow" traders were called merchants, equating commerce with fraud as non-profit. (J.Gortney and R. Stroup "Economics" E. 1999). The only exception was the seller of home-made food products. The term "commercial activity" is now interpreted in a broader sense, directly referring not only to trade but also to other types of entrepreneurship.

Commercial entrepreneurship also includes commodity exchanges. In a commercial enterprise, practically all the productive factors and resources are used, but some of them are on a small scale. This type of entrepreneurship attracts the opportunity to sell the product at a higher price than it was bought to earn a high income. This type of abuse, if it does not violate the rules of resale to other norms, is legal to is not condemned.

C. Financial entrepreneurship.

Financial enterprise is a special type of commercial enterprise in which the subject of purchase and sale is money, foreign currency, securities, which are sold or given on credit to the buyer. (J.Gortney and R. Stroup "Economics" E. 1999). Financial entrepreneurship covers a wide range of activities, including buying and selling foreign currency, exchanging securities for cash, foreign currency, or other securities.

Financial, or as it is more often called, financial entrepreneurship, is essentially the sale of one kind of money to another, mostly today's money at future prices at other prices, which provides income. (J.Gortney and R. Stroup "Economics" E. 1999). In other words, entrepreneurial income arises from the sale of financial resources by receiving a percentage of additional capital.

D. Insurance business.

Insurance business is the fact that the entrepreneur guarantees the insurance agent a certain amount of compensation for possible damage to property, life, as a result of unprecedented events. (J.Gortney and R. Stroup "Economics" E. 1999). This type of activity can be considered as a special type of financial enterprise, which consists in the fact that the entrepreneur receives an insurance investment, which returns only in certain circumstances, to act in the event of insurance. The calculations show that in the case of a rational relationship between the investment and the sum insured, subtracting the probability of the occurrence of the insurance event, the entrepreneur returns income from the other investments.

Insurance companies are directly related to such things as property insurance, personal life and health insurance, as well as risk and liability insurance. Social security is not directly related to business. The business only deals with voluntary forms of insurance, which are sold in the market in the form of services. (J.Gortney and R. Stroup "Economics" E. 1999).

E. Intermediary business.

Mediation is another type of entrepreneurship. As this type of business is closely related and acts as an integral part of other types of entrepreneurship, it is appropriate to mention intermediation in the manufacturing, commercial and financial sectors. (J.Gortney and R. Stroup "Economics" E. 1999). Mediation is characterized by the fact that the entrepreneur does not produce products, does not trade in goods, securities, does not give loans in drams, but only provides intermediary services. The place of the mediator is between the producer or the

"buyer" of the seller of goods. He supports the transaction by joining the overall chain of business. All the listed types of entrepreneurship are closely related. The production is usually followed by the commercial. They both require money, that is, they need financial entrepreneurship.

And sometimes the producer, the seller, the financier is united in one enterprise. Intermediary and insurance companies can be related to production and services. Thus, due to the integration of well-known types of entrepreneurial activity, combined type businesses emerge.

There are three main types of entrepreneurship.

a. socio-economic

b. organizational-economic,

c. organizational-legal. (Chair of Macroeconomics "Entrepreneurial Table Book" E. 1997)

A. Socio-economic forms of entrepreneurial activity. Socio-economic forms of entrepreneurial activity characterize not only the subject of property, but also the subject of business. That is, the socio-economic nature of entrepreneurship depends on the type of property on which it is based. Depending on the type of property, there are state, collective and individual types of business activities. (Chair of Macroeconomics "Entrepreneurial Table Book" E. 1997)

State enterprise. The state is the largest employer, so its costs and revenues are many times higher than those of the largest limited liability companies. State-owned enterprise is a form of economic activity carried out by the enterprises that have been established-

a) public administration bodies, which are authorized (according to the current legislation) to manage state property (state enterprise)

b) by local self-government bodies (municipal enterprise). A strong feature of these types of enterprises is that they are liable only for the property they own. In the case of a state-owned enterprise, the economic entity carries out entrepreneurial activity at the expense of state funds. (Chair of Macroeconomics "Entrepreneurial Table Book" E. 1997) In this case, the objects of state ownership are attached to separate enterprises with the right of full management, which envisages their possession, management and use. The state itself is not considered an economic entity in Western economics, as the important task of the state in the market economy system is to define common "rules of the game" of business activity and to exercise control over their implementation. (Chair of Macroeconomics "Entrepreneurial Table Book" E. 1997)

In this sense, the state enterprise has a dual position in the system of economic relations. On the one hand, it is an object of centralized state management, on the other hand, it acts as an independent subject of market relations.

Collective entrepreneurship. This is the business form in which the means of production and results are the collective property of a group of people. Collective entrepreneurship has different forms of export, such as cooperatives, collective farms, joint-stock companies, etc. (Chair of Macroeconomics "Entrepreneurial Table Book" E. 1997)

Private entrepreneurship. This is organized on the basis of individual ownership, as in the case when the economic entity, the individual leases the property belonging to someone else (for example, in the case of leasing state-owned enterprises). (Chair of Macroeconomics "Entrepreneurial Table Book" E. 1997).

B. Organizational and economic forms of entrepreneurial activity. In modern economics, the classification of organizational-economic forms of entrepreneurial activity is based not only on property forms or their combination, but also on the type of entrepreneurial organization based on it. (Chair of Macroeconomics "Entrepreneurial Table Book" E. 1997). In this sense, three main types of organizational and economic activities are distinguished.

- Individual (sole) enterprise
- partnership
- Corporation (joint stock company)

It is customary to present the mentioned forms of entrepreneurial activity in the form of a private-public enterprise. At the same time, private enterprises include private enterprises, associations, and corporations for public ones. (Chair of Macroeconomics "Entrepreneurial Table Book" E. 1997).

Private enterprise, as the name implies, is a firm owned by one person, an entrepreneur. The owner of such a firm, on the one hand, manages the income alone, as he carries out commercial activities on the basis of his own property, directly managing it, on the other hand, he bears sole responsibility for the firm. Quantitatively, this form of the organization is the leader among the organizational forms in developed countries with a very large gap, but its share in the overall economic turnover of the country is not so significant. (Chair of Macroeconomics "Entrepreneurial Table Book" E. 1997).

This form is characterized by the accumulation of a whole bunch of rights in the hands of one person. This is typically less hierarchical than other forms of organization, as all orders in such an organization come from one person. Thus, it

can be concluded that the level of transaction costs associated with the implementation of economic decisions within a sole proprietorship firm is lower than in more complex organizational structures.

The point of view is one of the advantages of individual entrepreneurship. In addition, the advantages of this form are: Simplicity of registration at the time of creation, tax benefits (in many developed countries), the best conditions for the implementation of the functions of an innovator, the lack of the need to agree on decisions, strong incentives for economic profit. (J. Gortney and R. Stroup "Economics" E. 1999)

But in addition to the significant positive features, it has disadvantages, among which can be classified:

- Lack of additional sources of financing for economic activities
- Concentration of risk in a limited area of activity (no resources for diversification). In this case, diversification means increasing the number of markets in which the firm operates. Diversification solves the firm's dependence on one market, as a firm's unfavorable situation in one area does not mean bankruptcy.
- Focus all management functions on the firm owner (the level of his authority level is the problem of division of working time) High level of responsibility for wrong management decisions.

The other common type is association. An association is a firm owned by two or more persons who operate jointly and directly participate in the management. The owners jointly manage the activities of the firm, and the income of each depends on their share in the authorized capital. (Chair of Macroeconomics "Entrepreneurial Table Book" E. 1997). The partners bear joint responsibility for the firm's liabilities, the size of which again depends on their share, as well as the type of company.

Depending on the type of company (full or limited liability) the owners may be liable either with their full property or the amount of their share in the authorized capital. Associations are less common than individual entrepreneurship. Because an association, unlike a sole proprietorship, is organized and managed by several owners, the relationship between them is, by its economic nature, a network of reciprocal agreements between the owners of the resources. The formal expression of this relationship is the founding agreement and charter of the firm, but informal agreements between partners are more important, especially in the current affairs of the firm. (V.P. Gruzinov "Enterprise Economics and Entrepreneurship", 1994).

Since there are several owners in the company, each of them can carry out any of the "bunch of rights" of the property we know, but it should be known in mind that such activities must be agreed with other partners. This situation leads to an increase in the cost of firm transactions.

The following are among the advantages of the association:

- Relative simplicity during registration
- Greater opportunities to attract financial resources compared to the individual
- Specialization of owners to reduce risk on a particular branch of the firm
- Increasing stability.

But this has its disadvantages.

- Unlimited property liability for firm liabilities; in the case of full liability companies, the "principal-agent" issue (when the management function is transferred from the owner to the hired manager), restrictions on the involvement of funding sources. (V.P. Gruzinov "Enterprise Economics and Entrepreneurship", 1994).

A more complex form is considered to be corporation. The economic nature of the corporation, its organizational structure is complex and multifaceted. It is not by chance that a separate science deals with this issue. In contrast to the forms of organizations discussed above, this form can be owned by 10, 100 and even 1000 economic agents. A corporation, or, as it is commonly called, a joint-stock company, is a form of business enterprise, the ownership of which is formed through the sale of bonds and shares through the consolidation of individual capital. The authorized capital of the corporation is the sum of the shares of all the participants. Each of them owns a certain unit of capital (share, stock). (V.P. Gruzinov "Enterprise Economics and Entrepreneurship", 1994).

The owner of the share is entitled to a certain share of the corporation's income. The income that is attributed to one share is called dividend. The shareholders' council determines the amount of income from the given economic activity, which is subject to division. (V.P. Gruzinov "Enterprise Economics and Entrepreneurship", 1994). Each shareholder in this board has the right to vote, and the "weight" of his vote depends on the number of shares he owns. Although the capital is distributed among a large number of people, there is always a participant or group of participants that has a controlling stake (50% + one share). However, in very large corporations, this controlling stake may be very small (3-5%). The Board

of Shareholders has the right to appoint a manager to manage the current affairs of the firm. Corporations have a modest share of 20-25% in the organizational form of the enterprise, but they account for 80-90% of the country's total economic turnover. (V.P. Gruzinov "Enterprise Economics and Entrepreneurship", 1994)

The main economic peculiarity of corporations is that in this form of management, the separation of ownership and management finally takes place. Among the advantages of the corporation are: Opportunities to raise significant financial resources to ensure its development Unlimited shareholder liability for the firm's liabilities in different markets and possibly diversification in countries of operation. (V.P. Gruzinov "Enterprise Economics and Entrepreneurship", 1994, p. 96).

Like other forms of business, the corporation, with its advantages, is not without its drawbacks. They are:

- Difficulties in registering with government agencies
- The "chief agent" problem
- Double income taxation (first the corporation income is taxed accordingly, then the shareholders pay tax on the dividend they receive).

In economics theory and business practice, the terms "corporation" and "joint stock company" are used interchangeably, but it should be noted that "corporation" is a broader concept. The most common type of corporation is a joint stock company. (S. Fisher et al. Economics M., 2003)

Among the corporate organizations, the so-called "S" corporations stand out, which are a combination of corporations and partnerships. "S" is the initial letter of the English word "small". <S>> - Corporate Privilege is given specifically to small

corporations in the United States whose income is considered the income of its owners and is taxable only on income tax. (S. Fisher et al. Economics M., 2003)

To become a corporation, a company must not have more than 35 shareholders, just as it cannot own more than 80% of another corporation. As in the case of ordinary corporations, legal services are usually necessary when organizing corporations. Holdings are also a variety of corporations, which, by acquiring a controlling stake in other corporations, act as a unique form of corporate union. (S. Fisher et al. Economics M., 2003)

C. Organizational-legal forms of business activity.

Organizational and legal forms of entrepreneurial activity are the various permissible forms of individual entrepreneurship, partnership, corporation,

in accordance with the legal laws in force in the economic practice of each country. (Chair of Macroeconomics "Entrepreneurial Table Book" E. 1997).

In modern business practice, it is customary to separate business entities into groups of individuals and legal entities. Enterprises with the status of legal entities, in turn, depending on the main purpose of their activity, are commercial (commercial) or non-commercial (non-commercial) organizations. (Chair of Macroeconomics "Entrepreneurial Table Book" E. 1997). Organizations whose main purpose is to make a profit are called commercial. Non-profit organizations do not pursue profit for their activities. Commercial organizations come in the form of a full partnership, a partnership based on trust, a limited liability company, an additional liability company, an open-ended joint stock company, and cooperatives.

Full associations. A partnership is a company whose members (full friends), in accordance with the charter, are engaged in business activities on behalf of the association and are responsible for its obligations with the property they own. A full association is a legal entity that is a union of two or more participants (full friends) acting as the owner of the association. (Chair of Macroeconomics "Entrepreneurial Table Book" E. 1997).

Full-fledged friends are jointly and severally liable for the obligations of the association with all their property. This means that the responsibility of full-fledged friends exceeds the amount of their investment in the partnership. A person can be a member of only one full association. The full partnership is governed by the general consent of all participants. (Chair of Macroeconomics "Entrepreneurial Table Book" E. 1997).

Trust-based partnership. A trust-based partnership (limited partnership) is a partnership in which, together with the participants (full friends) who carry out business activities on behalf of the association and are responsible for the liabilities of the association with their property, there are one or more participating depositors (limited partners). (Chair of Macroeconomics "Entrepreneurial Table Book" E. 1997).

Bear the risk of losses related to the activities of the association and do not participate in the business activities of the association. A trust-based partnership is generally like a full-fledged partnership. (Chair of Macroeconomics "Entrepreneurial Table Book" E. 1997). It is a legal entity that is a union of two or more persons who act as owners or participating depositors of the association. The main difference between a full-fledged and a trust-based partnership is the responsibility of the members of the trust-based partnership. (Chair of Macro-

economics "Entrepreneurial Table Book" E. 1997). A full partnership has only one class of participants who are jointly and severally liable for all the liabilities of the association. Trust-based companies have two types of participants. First, it has full friends who are responsible for the day-to-day operations of the organization. The latter are responsible for the obligations of the association with all their property. A trust-based association has one or more "commanders" or so-called participating depositors. Commanders do not participate in the day-to-day operations of the organization. They bear the risk of losses related to the activities of the association within the value of their deposits in the authorized capital. The number of full partners li depositors of a partnership based on trust is not limited.

1.2 LIMITED LIABILITY COMPANIES.

A limited liability company is a company established by one or more persons, the authorized capital of which is divided into shares in the amount defined by the charter. The participants of the limited liability company are not responsible for its obligations; they bear the risk of losses related to the company's activities within the value of their deposits. (<https://www.arlis.am/documentview.aspx?docid=80069>)

Both citizens and legal entities can establish or participate in a limited liability company in the Republic of Armenia. Participants face the risk of losses associated with the operation of the company to the extent of the value of their investments. (<https://www.arlis.am/documentview.aspx?docid=80069>). The participants are not responsible for the liabilities of the limited liability company with their own property. The highest governing body of a limited liability company is the general meeting of participants. The general meeting of participants may decide on important issues such as the annual report of the company, the approval of the profit and loss account. (<https://www.arlis.am/documentview.aspx?docid=80069>)

The board of the limited liability company is accountable to the general meeting of participants. Limited Liability Company participants have the right to sell their shares to third parties, if this right is provided by the company charter. In this case, the other participants have the pre-emptive right to buy that share. Limited Liability Company is the most widespread type of commercial legal entities in Armenia. (<https://www.arlis.am/documentview.aspx?docid=80069>)

Companies with additional responsibility. A company with additional liability is a company established by one or more persons, the authorized capital of which is divided into shares in the amount defined by the charter. (<https://www.arlis.am/documentview.aspx?docid=80069>). The participants of such a

company are jointly and severally liable for its obligations with their property, in the amount of multiples of the value of their deposits, which are determined equally for everyone by the charter of the company.

(<https://www.arlis.am/documentview.aspx?docid=80069>)

If the company's property does not meet the requirements of creditors, the company participants may incur joint and several liabilities with their personal property. Their personal responsibility is limited to the amount of their investment, which is the same for everyone, as opposed to a full company. Additional liability companies are intermediate between unlimited liability companies and limited liability and joint stock companies. The latter exclude personal responsibility in general. (<https://www.arlis.am/documentview.aspx?docid=80069>)

Cooperatives. A cooperative is a voluntary association of citizens based on the membership of legal entities and formed by the union of property shares of its members to meet the material and other needs of the participants. Cooperatives in Armenia are a special type of legal entity. According to the Criminal Code, cooperatives are associations that can carry out both commercial and non-commercial activities. The highest governing body of the cooperative is the general meeting of its members. The property of the cooperative, in accordance with its charter, is divided into shares of the members. (<https://www.arlis.am/documentview.aspx?docid=80069>)

Non-profit organizations can be represented by the following groups: public associations, foundations, institutions, unions of legal entities. Non-governmental organizations are voluntary associations of citizens, united on the basis of their common interests, to meet other physical or non-material needs (NGOs, consumer cooperatives, religious organizations, etc.). (S. Fisher et al. Economics M., 2003.)

Foundations are non-member organizations that are organized on the basis of voluntary property investments of citizens, legal entities, social, charitable, cultural and other charitable activities. Foundations are organizations created by the owner (particularly the state) to carry out non-commercial activities and are fully or partially funded by him. These are the budget institutions. (S. Fisher et al. Economics M., 2003.)

Unions of legal entities are established by commercial and non-commercial organizations to coordinate their activities, as well as to represent and defend common interests. (S. Fisher et al. Economics M., 2003.)

The business plan is an official document. I think that in order to develop a business plan, it is necessary to gather sufficiently reliable information on a number

of issues, the scope of which can vary from specific goals and objectives of business development. Therefore, it is advisable to have two versions of the same business plan. The first version of the business plan (official) is a reflection of the business past, present, future goals, objectives and other constraints, which is presented in the form of a set of official documents. It is necessary for prospective partners, investors, managers and shareholders of a company (or other enterprise with legal-organizational status) to clarify the overall purpose and justify the effectiveness of its management. The second version of the business plan is a daily working document for the company president, programmers and team of consultants, in which all the working and news material is concentrated. (Al Coke,2002). It is called a business plan and allows:

Understand the importance of a formal business plan;

I. Recognize and assess in advance the two main types of business risk: internal, over which the entrepreneur generally has the opportunity to control (staff, material resources) and external, which the entrepreneur is unable to change (economic system, new legislation), (Al Coke,2002)

II. Taking into account the constant changes taking place in the external and internal environment, to carry out a thorough control of the state of affairs on the basis of the audit, (Al Coke,2002)

III. Serves as a formal business plan update bulletin as needed. (Al Coke,2002)

A business plan is required for the following purposes:

- 1) raising money, attracting investments,
- 2) More efficient use of time, money and other resources
- 3) Easy and efficient control of income and expenses,
- 4) Creating a guide for planned solutions to business problems and issues,
- 5) Assessment, analysis, re-planning of the periodic actual state of activity,
- 6) Familiarization with the new staff with general activities, their responsibilities, roles and rights,
- 7) Problem solving of the actual situation.

Every business organization, in accordance with its goals, must determine in advance and procure the required amount of equipment, raw materials, materials, fuel,

energy through suppliers. This means planning the production process in advance and securing its resources. Forecasting the future operations of a business

organization, ensuring proportionality between them, quantitative description of production and trade processes through certain indicators form the content of business planning or planning. (Al Coke,2002). Not planning a business means operating without clear goals, without a systematic supply of resources, that is, dictated by the situation, which, as economic life shows, does not promise success. Therefore, the first function of business management is forecasting and business planning based on it. Thinking in advance about the future opportunities and problems of the business will guide you and avoid mistakes. (Korshunov N.M., Eriashvili N.D. "Business Law" 2003)

The business plan is of interest not only to the entrepreneur, but also to partners, creditors and investors. Cooperation in the field of business presupposes the agreed risk of dividing a certain proportion. Business is a risk, each participant in the process agrees to take the risk in accordance with the means invested and has the right to seek to reduce it. (Korshunov N.M., Eriashvili N.D. "Business Law" 2003) The more reasonable and reliable the project targets and calculations, the closer the predictions are to reality, the more convincing and tempting the business plan is. In this case, lenders (banks) provide loans, investors agree to invest, the number of partners increases. An unreliable, unreasonably high-risk project causes the opposite attitude, making it difficult to finance.

1.3 KEY PERFORMANCE INDICATORS (KPI)

To understand key indicators, we must first understand indicators themselves. An indicator is a specific type of metric that answers the question, "How are we doing?" in an actionable way. (J. Lam,2017) Often, indicators accompany benchmarks to measure success or failure in meeting certain goals. Indicators enable management and other decision-makers to assess the needs of the company and the progress toward intended outputs, outcomes, tactical goals, and strategic objectives. Indicators are as varied as the activities they measure. (J. Lam,2017) One way of classifying indicators is by the stage of a process they are measuring. An input indicator, for example, might measure the human and financial resources assigned to a particular project, whereas an output indicator could measure the quantity of goods and services produced. Further downstream, an outcome indicator measures broader results achieved through goods and services. (J. Lam,2017)

KPIs are simply indicators specifically used to determine how well the company is performing against its business goals. They are key because they directly and significantly impact business performance. What's more, a KPI must be

sufficiently specific to suggest actions that will lead to improvement. For example, total sales volume may be an important metric, but if it falls short of expectations, it doesn't provide any hint as to a cause or potential solution to the problem. By contrast, consider a company that has chosen to grow sales by focusing on a target market of midsize manufacturers in a certain geographic region. (J. Lam,2017). A KPI that measures the value of sales opportunities with that profile currently in the pipeline can reveal just how efficiently the sales team is working. It also hints at possible solutions, such as increasing the size of the sales team or drilling down to find potential sticking points in the sales process. (J. Lam,2017)

Strategic frameworks such as Balanced Scorecard rely on KPIs to measure performance as it relates to strategy. (J. Lam, 2017). In this model, a company uses performance indicators to monitor the implementation and effectiveness of its strategy as well as measure the gap between actual and target performance. This in turn helps determine the organization's effectiveness and operational efficiency. (J. Lam, 2017)

2. BUSINESS MODELS

The concept of "business model" of the organization is currently considered one of the structural terms in modern scientific literature. Many authors provide a comprehensive overview of approaches to defining this concept in their articles. Consider the concept of business model. In its simplest definition, a business model is a way of doing business that provides the enterprise with income and profit. The business model formally expresses the process of making money, determines in detail its place and role in the value chain. Researcher P. According to Timmers, the business model consists of a set of products, services, information flows, as well as a description of their role in the value chain of different participants in the business process. (Paul Timmers.1998).

To understand the business mission of the company, a marketing model is added that combines business models and marketing strategies of a searchable business representative. A. Osterwalder, a business process modeling entrepreneur, and Yves Pinier, a well-known American scientist in the field of information technology and systems, in their joint work "Building Business Models" note that the business model interprets how the enterprise creates, transports and carries the cost. (2015, "Business Models and Modelling", *Business Models and Modelling (Advances in Strategic Management)*, Emerald Group Publishing Limited, Bingley). The concept of the authors reveals the term "business model"

with nine blocks, which are built in four business areas.

- consumers,
- Product and service quality and functional features;
- Specialized infrastructure,
- Market stability.

A number of important additions to the definition of the term "business model" can be mentioned in the joint work of researchers.

- The term "business model" is often misunderstood and identified with the term "business process model";

- Try to describe the business model with the help of modeling languages.

UML, EPC, Petra Networks.

In fact, the business model describes the process of value exchange between different participants in the business process. According to the works, the business model is a conceptual description that explains the principles of the enterprise. The business model explains how business circles are integrated with each other and integrated into a single structure. (Paul Timers, 1998). The business model is not considered separately from the strategy, but it is not identified with it.

Unlike strategy, the business model does not focus on the measure of efficiency. The connection between the business model and the strategy can be shown with the help of "value equation".

$$\text{Val} = \text{Mdl} * \text{Str},$$

where:

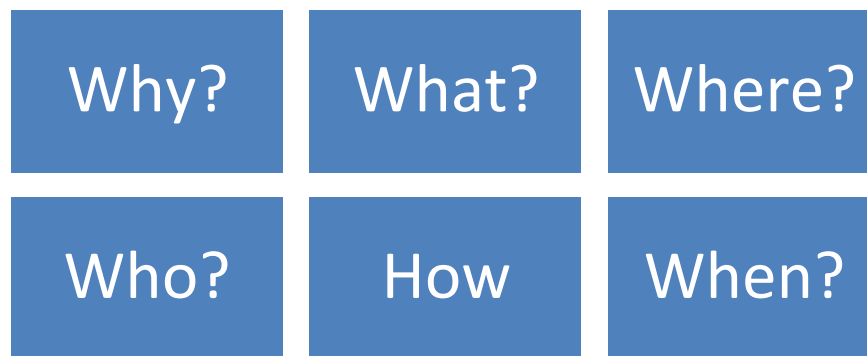
Val - value,

Mdl - business model,

Str - strategy.

The proposed dependency implies that the enterprise must select effective business models for the implementation of strategies and solve the problem of value creation for customers based on them. (Bossidy Larry, Charan Ram. Facing reality. How to adapt a business model to a changing environment, 2008).

The right business model is the foundation of a developed and sustainable business. Different business models are called for one purpose. describe how a business develops value, creates it and delivers it to customers. (Bossidy Larry, Charan Ram. Facing reality. How to adapt a business model to a changing environment, 2008). In the case of a guest house, this business model helps to create the future of the business.



Picture 1. Business Model Questions

The answers to the above questions from the business model to the Canvas model is located in the following 9 linked blocks:

2.1 Customer segments

To understand our target, we can divide them into following segments: the ones whose purpose is important, people whose place of residence is targeted, tourists' needs and behavior. Also we can count the target by tourists' income and other possible features. For example: The guest house segment may include local and European tourists interested in ecotourism without age restrictions, for whom affordable but high quality services may be available. They appreciate the availability of breakfast, as well as the services offered by the guest house, as well as transportation.

2.2 Valued offer

This is the package of hotel services that creates value for the customer segment. Only due to the uniqueness of our offer will guests start booking rooms. To understand what your value proposition is, try answering the following questions:

- What service packages do I offer to each segment of potential guests?
- How valuable is my service to the guest?
- Which of my guests' needs does my service address?

For example: Breakfast made from home-grown and ecologically clean fruits and vegetables. Organizing trips by the host to the natural and historical-cultural monuments of the community, getting acquainted with the fauna, the best combination of quality and price.

2.3 Ways

This block should describe how we will convey the value of the offer to the target group of future guests. Answering to these questions will help us to find out what ways and means of communication we will use in the future:

- ✓ How do you achieve your different goals?
- ✓ How will the different paths integrate with each other?
- ✓ Which are economically viable?
- ✓ Which one works best?

These are just some of the goal setting shareware that you can use to reach your guests travel agencies, online booking sites advertising on ecotourism websites and blogs; network of former visitors.

2.4 Customer relationship

To imagine how to form a relationship with future guests, here are some questions to be answered:

- What kind of relationship does each segment of the guests expect from you?
- What types of relationships are used in practice?
- How will different types of relationships be combined in your business?
- How much will it cost to build a relationship?

For example: warm, friendly attitude, 24-hour reception, rapid response on digital platforms, free services / accessories (tea, coffee, etc.)

2.5 Revenue streams

This block should present the business revenue streams that come from each customer segment. If the visitor is the heart of the hotel business model, then the revenue streams are its pulse. Clarify that. what are guests really willing to pay for and what are they paying for now, how do they pay now and how do they actually pay. And the last question is what is the share of each stream in total revenue.

For example, a guest house may receive its revenue from the following sources: overnight + breakfast service, lunch and dinner service; from the sale of souvenirs, guide services.

2.6 Key resources

Determine what key resources you will need to operate the business model: to value the product, ways of distribution, to build relationships with visitors, to earn income.

For example:

1. Financial
2. Human
3. Physical (furniture, equipment)

2.7 Basic actions

Describe the most important steps that will ensure the establishment of the service and the effective operation of the business.

- What are some basic steps you can take to begin the process of preparation for mediation?
- What do you need to do to build relationships with your guests?
- What are the steps to generate revenue streams?

For example: Hostel maintenance, Economic service of the guest house, provision of food, reception work, marketing and sales, personnel management, financial management.

2.8 Key partners

In this section we need to clarify who will be our main partners and what will they do, what key resources can we get from them and who are our suppliers. For example, food suppliers, suppliers of household items, travel companies, local self-government bodies.

2.9 Cost structure

In this last block, we should describe all the costs associated with running a business model.

- What are the most significant costs to our business model?
- What are the most expensive resources?
- What are the most expensive actions?

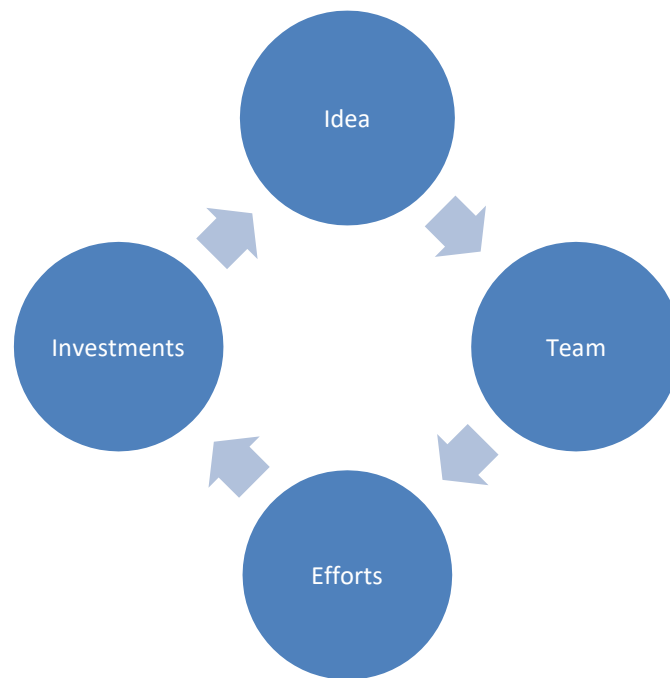
For example: Salary, marketing expenses (commissions, business cards, flyers, etc.), law, accounting, utility payments, tax liabilities, costs of food raw materials, costs of household raw materials, expenses of vehicles and etc.

3. CAPITAL STRUCTURE AND DEFINITION OF PROFIT

Funds are the basic requirement of any company to meet its long-term working capital requirements. Businesses raise these funds from long-term or short-term sources. The capital structure and financial structure are often used in this context. (Darrell Clifton. (2012). *Hospitality Security: Managing Security in Today's Hotel, Lodging, Entertainment, and Tourism Environment*. CRC Press).

The capital structure includes only long-term sources of funds, while the financial structure assumes the method of financing the company's assets, ie it represents all the liabilities of the Statement of Position, i.e. the Balance Sheet, which includes both long-term and short-term liabilities and equity. Each year, the

company takes a portion of its profits and invests it back into the property as improvements. This infusion of cash is called capital and may vary from year to year. This money is not spent on salaries or regular expenses because it is an investment intended to provide a return on investment (ROI). (Darrell Clifton. (2012). Hospitality Security: Managing Security in Today's Hotel, Lodging, Entertainment, and Tourism Environment. CRC Press).



Picture 2. Successful Business Formula

The combination of long-term sources of funds, ie equity, preferred capital, retained earnings and debt liabilities in a company's capital is known as the Capital Structure. (Paul Timers,1998). It focuses on selecting an offer that will reduce the value of capital and maximize earnings per share. For this purpose, the company may choose the following capital structure mix:

- Equity only
- Preferred capital only
- Debt only
- Mixture of equity and debt capital.
- Mixture of debt and preferred capital.
- Mixture of equity and preferred capital.
- A mix of equity, benefits and debt capital in various proportions.

There are certain factors that are taken into account when choosing a capital structure, such as: The model chosen for the capital structure should reduce the value of capital and increase profitability, the mix of capital structure should contain more equity and less debt to avoid financial risk. (Clifton,2012).

The composition of the financial structure represents the total share and liabilities of the Balance Sheet, i.e. it includes equity, preferred capital, retained earnings, bonds, short-term loans, accounts payable, deposit reserves, etc. The following factors are taken into account at the time of designing the financial structure:

- Leverage. Leverage can be both positive and negative, meaning that a modest increase in EBIT will greatly increase EPS, but at the same time it increases financial risk.
- Cost of capital. The financial structure should focus on reducing the cost of capital. Debt and preferred equity are cheaper sources of financing than equity.
- Control. The risk of losing company and losing control must be low.
- Flexibility. No company can survive if it has a solid financial structure. Thus, the financial structure must be such that as the business environment changes, the structure must also be adjusted to cope with expected or unexpected changes.
- Solvency. The financial structure should be such that there is no risk of becoming insolvent.

The following are the main differences between the capital structure and the financial structure:

1. The capital composition of a company, which includes only long-term accumulated assets, is known as the Capital Structure. The combination of long-term and short-term resources used by a company to acquire resources is known as a financial structure. (Paul Timers,1998).

2. The capital structure is under the shareholders' fund and non-current liabilities. On the contrary, the whole aspect of equity and liabilities shows the financial structure of the company. (Paul Timers,1998).

3. Capital structure is a part of the financial structure. (Paul Timers,1998)

4. The capital structure includes equity, preferred capital, retained earnings, debt liabilities, long-term loans, etc. On the other hand, the financial structure includes the shareholder fund, current and non-current liabilities of the company. (Paul Timers,1998)

A company can also grow organically by attracting new customers, introducing new products, and winning more business with current customers. To

ensure a positive contribution to its strategic risk profile, the company must price its products appropriately. The most effective way for companies to ensure an appropriate return on the risks that they are willing to accept is to incorporate the cost of risk into their pricing methodologies. If the cost of risk is not fully reflected in the initial pricing (for example, if the product or transaction is underpriced relative to the risk), then there is nothing the company can do to recover its costs. Risks that are underpriced may increase revenue and growth in the short term, but over time they will destroy shareholder value. (Lam, 2017,). When quantifying the total cost of risk, companies should include:

- Expected loss (EL), or average loss per year over a business cycle
 - Unexpected loss (UL), which can be defined as economic capital \times Ke (cost of equity capital)
 - Risk transfer costs (of hedging or insurance)
 - Risk management costs (that pertain to maintaining staff, systems, etc.).
- (Implementing Enterprise Risk Management: From Methods to Applications, James Lam,2017)

The structure of capital and the structure of finance are not contradictory. Instead, they are inseparable. The optimal capital structure is when a company uses a mix of equity and debt financing to maximize the value of the company and to minimize the value of side-by-side capital as well. (Lam, 2007)

4. ACCOMMODATION AND THE IDEA OF HOSTELS (OR GUEST HOUSES)

The hospitality industry is a complex group of different types of businesses. Their commonality is that they provide a service to visitors. Lodging is a big piece of the hospitality pie and includes hotels, motels, bed & breakfasts, and even college dorms or government housing (as far as security is concerned, anyway). (Darrell Clifton. Hospitality Security: Managing Security in Today's Hotel, Lodging, Entertainment, and Tourism Environment. CRC Press, 2012).

After making a decision to start a hotel business, you need to start working. And the first step is to clearly formulate the business concept of the guest house, the idea. In fact, the idea is at the heart of a successful business formula. (Clifton, 2012).

The business idea developed for the guest house should be as appropriate as possible.

- family preferences and opportunities
- home conditions

- the peculiarities of the community,
- competitive market.

The business concept allows you to understand how you are going to deliver your services and provide a unique and positive experience for your guests. Take the time to write down the main idea around which you will build your business. This will be the basis for differentiating your guest house in the market and developing marketing materials in the future. What will differentiate you from the rest? On what basis will one guest direct you to another? So where do you get ideas for a home-based business?

The main sources are as follows:



Picture 3. Sources of Idea

1. Look for ideas within your own interests and hobbies

a. First of all, you need to be creative, while understanding what comes from your personal interests, corresponds to your strengths. Think about the following points.

b. My strengths: Remember what makes you so good. For example, I get along well with different people, I am sensitive, creative and innovative, I know any branch of craft or art.

c. What do I like to do? Remember your preferences in this section. For example, I like to organize events, campaigns, etc.

d. Hospitality services that I really like. Try to remember which hospitality facilities are most attractive to you.

My strengths	What I like to do	Hospitality services that I really like
1.	1.	1.
2.	2.	2.
3.	3.	3.

Table 1 Generator of Concept

By filling in the answers in the table above, we will have a complete picture of our preferences, strengths and skills. It is possible to come up with ideas and thoughts for creating a special guest house while thinking about the issues.

2. You need to pay attention to the circumstances that bother or disturb you

It is possible to find ideas not only for your own abilities and preferences, but also for your needs as a tourist. Are there any hospitality services we or our family need?

Which part of the tourists' needs do you think has been neglected? What services would make it easier for you as a visitor to relieve at least some of your worries (renting a car, making food, etc.)?

3. Look to the future and create an ideal state of mind

Sometimes you just have to be more discriminating with the help you render toward other people. The problem is that you need enough imagination to travel through time and look back at the current reality. Sit down and imagine the ideal state of the future. What will the hospitality industry look like in 5 or 10 years? And now start to think, for example, what part of that ideal situation in terms of hotel services is possible to become a reality today.

Ideas may include the application of innovative technological approaches to the cleanliness of the hotel, the preparation of breakfast or other issues.

4. Always keep an eye on current developments and see new perspectives in them

Most often, the ideas are shaped by the situation in the market (competition, environmental changes, legislative changes, new international donor programs). To develop a clear idea, you can conduct market research to understand the needs of customers, the need for a new service.

5. Travel!

This is more than important in the field of hospitality. By traveling and seeing how guesthouses work in different countries or in different regions of Armenia, you will be able to apply a more innovative approach to developing your

own idea, and in the future, to ensure the current management and development of the business.

The guest house is a widespread concept in the field of tourism, similar to a hotel. Unlike the hotel, the guest house has a number of parameters that make the living conditions close to home. The guest house is a private house, the owner of which rents it out in full or in separate rooms. Often, the owner and his family live in the same house, but on different floors or in a separate part of the house. By providing various services, the owner of the guest house acts at its own discretion; it is supervised by many state structures, under the control of which the hotels are located. All this has its positive and negative sides.

The number of floors and the area of private houses, as well as the number of rooms and rooms are not regulated. However, they are mostly two- or three-story buildings with a total area of about 400 square meters and a number of rooms of approximately 10-20. The free area of the guest house, which is the main part, is occupied by the owner.

4.1 Safety

One of the most important things in hotel/hostel services is safety. Not only in this sphere, but also in other spheres as well. People want to feel safe in hotels, hostels, restaurants, everywhere. To create safely environment, we should have department which is responsible for safety of personnel and guests. Unfortunately, there are no insurance companies where you can insure your business and stuff I Armenia. In most organizations, the responsibility for the safety function rests on the shoulders of the security director. This is a logical fit because Security and Safety are very similar jobs. Security's function is to protect assets and Safety protects the two most important assets: guests and employees. Fire departments and other business codes protect all occupants, including guests. It is good business—and to everyone's benefit—if you apply all safety-related programs to guests and employees. Whether the safety responsibility is yours or under the umbrella of another department, you can still work very closely with that other department toward the common goal of protecting employees and guests. (Darrell Clifton. *Hospitality Security: Managing Security in Today's Hotel, Lodging, Entertainment, and Tourism Environment*. CRC Press, 2012.).

5.SUMMARY OF THEORETICAL KNOWLEDGE

To sum up theoretical plan, we can conclude that to have a good business plan is not enough to have a good business. Entrepreneur should count all risks and

should find the solutions. After that, he/she can adopt some business models, which can help to run your business. Effective business models bring positive results and vice versa. To start a new business, it is also very important to know your limits-how much money do you have? How much should I find? And how much should I spend? In one sentence, we should know our capital. Of course every businessman and entrepreneur wants to make a profit, as much as it is possible. Thus, we should count our profit, to know whether we are in a right direction or not. Unfortunately, in Armenia, hostel industry is not developed, so with the knowledge from the theoretical part we can avoid some risks and undesirable consequences. In this Chapter we discussed Entrepreneurship and its types, so the entrepreneur can decide which one to choose and why. Also, here we spoke about Business Plan and Business Models, which one is better for hospitality sphere, how the business plan works and how to find risks, control and minimize them. In section 3 you can find the information about Capital Structure and Profit, how to build your capital and how to get profit. Last section is about Accommodation and Hostels. Here I made my own 5+1 sources to create a good hostel/guest house. 5 main and one final touch. Summarizing first chapter, it will serve as a guide to have knowledge about Hostel Business.

II. PRACTICAL PART

5. ANALYSIS OF THE HOTEL BUSINESS IN ARMENIA

In terms of influencing the attractiveness of tourism in Armenia, the following 4 tourism infrastructure services are most used: hotels, transport, food industry, entertainment industry. (Yu. Suvaryan,2004)

One of the most important infrastructural services for tourism is the accommodation of tourists in hotels. Accommodation of tourists in hotels is an integral part of the package of services provided by travel agents and operators. Armenia has many types of accommodation to offer, from luxury five-star hotels to local apartments and homes in rural areas. (Yu. Suvaryan,2004). The number of hotels has increased in the last five years from-379 in 2013 to 600 in 2018. Available accommodations include 1-5 star hotels, hostels, spa and wellness facilities, B&B (bed and breakfast) services, apartments for rent including the Airbnb online platform. Most of the new hotels have been built in and around Yerevan and provide more than 80% of the total revenue. However, today there are only 13 hotels that meet international standards. (RA Tourism Development Strategy 2020-2030, November, 2019)

Procedure and conditions for providing hotel services in Armenia.

1. The quality of hotel services must comply with the requirements of normative legal acts and the contract for hotel services;

2. Hotel facilities can be qualified on a voluntary basis.

3. The qualification procedure for hotel facilities is granted in accordance with the requirements set by the Government of the Republic of Armenia Decision N 946-N of June 10, 2004 for a period of five years.

4. The material and technical support of the hotel facilities with qualification procedure and the list of services provided must comply with the requirements of the granted qualification procedure;

5. In case of change in the requirements of the qualification categories, the logistics of the hotel facilities with the qualification procedure shall be subject to compliance with the requirements of the qualification procedure within 90 days from the moment the decision of the Government of the Republic of Armenia enters into force.

The qualification procedure of hotel facilities.

The decision N 946-N of the Government of the Republic of Armenia of July 10, 2004 "On Defining the Procedure and Conditions for Providing Hotel Services, Approving the Qualification Procedures for Hotel Facilities" shall

establish the qualification procedure for hotel facilities (hereinafter referred to as the procedure) in accordance with " According to the requirements of the Law of the Republic of Armenia "On Tourism".

In order to obtain a qualification procedure for a hotel facility, a legal or natural person providing hotel services (in cases defined by the legislation of the Republic of Armenia) or a sole proprietor (hereinafter referred to as the applicant) shall submit an application by attaching the documents specified in paragraph 5 of the procedure. The name, type, contact details (including e-mail address) of the hotel facility, the expected qualification procedure and information on the state registration or registration number are indicated. (Yu. Suvaryan,2004).

The process of submitting and accepting the application electronically is carried out as follows:

In order to receive a qualification procedure, the applicant selects the providing agency- entering "System for accepting applications for qualification certificates and documents submitted by economic entities" in the www.e-gov.am website. Then choosing the Ministry of Economic Development and Investment of the Republic of Armenia the field "Activity of the Republic of Armenia". After that clicking "Other areas" section and selects the "Hotel Facility Qualification" subsection, as well as the type of applicant and completes the application according to the form, attaching the documents defined in point 5 of the procedure. After filling in the relevant fields of the application, the application is signed in accordance with the legislation of the Republic of Armenia by electronic digital signature in the form of a file of the appropriate format (PDF). The documents defined in point 5 of the procedure are submitted as a video copy in the form of a file in the appropriate format (DOC, DOCX, PDF, JPEG, XLS or XLSX). The application is considered accepted from the day of entering the qualifying body. The fact that the application has been entered electronically is confirmed by a return notice, which contains a 12-digit code. The applicant can follow the application process by logging in to the system with the mentioned 12-digit code.

Attached to the application are:

- 1) The documentation of the operation of the hotel facility that came into force not more than 10 years before the submission of the application, in accordance with the Law of the Republic of Armenia on Urban Development, the technical passport in accordance with the procedure established by the authorized body of the Government of the Republic of Armenia; - another document envisaged by the legislation of the Republic of Armenia.

2) Conclusion of the authorized body in the field of fire safety on the compliance of the hotel facility, with the fire safety requirements defined by law and other legal acts, issued no earlier than 30 days before the submission of the application;

3) The conclusion of the authorized body of the Government of the Republic of Armenia on the provision of sanitary-epidemiological security, given not earlier than 30 days before the moment of submitting the application;

4) A copy of the applicant's ownership or use certificate for the real estate object of the hotel business.

Within three working days after receiving the protocol with the positive conclusion provided for in Clause 19 of the Procedure, the applicant shall submit to the Qualifying Authority the originals of the documents by law or procedure, and in the case of an authorized person Power of attorney and identity document. The qualifying body compares the originals of the documents submitted by the applicant with the videotaped copies of the documents attached to the application submitted to ensure that they are valid, after which the originals of the documents, except for the state fee receipt, are returned to the applicant. In case of a positive conclusion of the Evaluation Committee, the qualifying body shall, within 5 working days after receiving the conclusion, make a decision on satisfying the application, awarding a qualification order in accordance with the hotel facility, handing over the qualification certificate defined by the RA Government Decision N 946-N of June 10, 2004. In case of submitting the originals of the attached documents electronically, they must be submitted to the authorized body in accordance with the procedure established by the legislation of the Republic of Armenia (and in case of an authorized person, he / she also submits the relevant power of attorney). Upon application, the qualification certificate may be issued in another language. The qualification certificate is issued for a period of 5 years.

5.1 Registration of the Hostel

Within 3 working days after receiving the protocol with the positive conclusion of the Hotel Facilities Qualification Evaluation Commission, the applicant submits the receipt of the paid state fee (original) to the qualifying body, and in case of payment through the state electronic payment system, the receipt generated by the electronic system or the 20-digit number. Moreover, in case of non-payment of the state fee within the above-mentioned period, the application is subject to rejection. State fee rates and payment accounts for the qualification of hotel facilities.

6. BASIC IDEA OF BUSINESS PLAN

1. Summary description:

Company name: "Yerevan Resort" hostel complex LLC

Category: 2 **

The hostel occupies a six-story building located in the Aygedzor district not far from the center of Yerevan.

This project of the hostel is calculated for five years and assumes:

1. Construction of a hostel with 120 rooms, the total cost of the project will make 752 500 000 AMD,

2. The cost of the project will be covered at the expense of 900 000 000 AMD own funds and 300 000 000 AMD long-term loan with a four-year repayment period;

3. The project proves that the organization will repay the loan and interest in full within the first four years of starting work.

4. Interest return period (in discounted amounts) is 3 years.

5. The effectiveness of the project is confirmed by the positive value of the NPV index.

6. The loss threshold by years is presented in Table 14 and in the first year is 127 132 000 AMD.

6.1 The Concept of Business Plan

The hotel services industry is one of the fastest growing industries. At the same time, there are not enough places for tourists in the hotels of Yerevan (especially those who are the customers of the planned hotel), so the hotel can completely fill the gap in the sales market, provided the implementation of an active marketing policy.

The projected organization enters a market that can be defined as a monopoly competitive market with a clear expression of oligopolistic competitive definitions. Its main characteristics are:

1. There are quite a few buyers in the market who have enough information about the services provided by organizations working in the hotel business. Therefore, it is necessary to implement an active marketing and advertising policy,

which will be aimed at providing information to potential customers about the hotel and its services.

2. There are a large number of sellers in the market, whose services are differentiated, but at the same time, the differences are not significant. one has paid parking, the other does not, and so on. Since none of the companies sell exactly the same product, they have a certain advantage over the price. At the same time, the availability of substitute services in the market limits the ability of organizations to raise prices, as consumers are quite sensitive to their prices when such services are available in the market. Therefore, price competition methods are excluded in the market.

3. Elements of oligopolistic competition create significant barriers to entry in the market. It is necessary to have a considerable amount of capital to enter the field, as the construction of a hotel and the necessary equipment are quite expensive. At the same time, leaving the field is not limited to any barriers, the hotel building is relatively difficult to equip, the rooms can be rented as offices, and so on. Such a ratio of entry and exit barriers gives rise to some business insurance.

7. DESCRIPTION OF SERVICES PROVIDED

The organization intends to provide the following services for the guests of Yerevan:

a. Complex hotel services - the organization manages a properly equipped hotel with 120 double rooms, of which:

- i. 70 rooms with large double beds,
- ii. 50 rooms with two separate beds.

b. Catering services - on each of the six floors of the hotel there will be a cafe for 16 people, in addition the hotel will have a restaurant for 80 people. Seats for a total of 176 people.

c. There will be a paid parking lot for 120 cars in the hotel area, the services of which can be used both by the people staying in the hotel (at a favorable price, which is 50% lower), and by outsiders.

d. In addition, the hotel will lease areas on which:

- ✓ Car wash,
- ✓ Souvenir booth
- ✓ The post office of the post office.

In addition, the hotel provides a complete package of services in accordance

with the wishes of customers: booking tickets for theaters, cinemas, stadiums, concerts, information services, guide, translator, etc.

8. COMPETITION

According to my research conducted on ARMHOTELS.AM, the company enters a market where the average share of each competitor does not exceed 7.5% - 10% of the market. However, the following should be noted:

1. Intra-branch competitors who have a rather strong position in the current market pose a threat to the organization.
2. It is possible for new competitors to enter the market due to the amount of revenue received;
3. The suppliers with whom the hostel is to work will inevitably take an active position due to the latter's insufficient financial resources and will strive for vertical integration.

Competitiveness assessment

Competitiveness factor				
Indicator	Hostel <<Yerevan Resort>>	Hostel <<Olimpia>>	Hostel <<Silachi>>	
Place	Center	on the outskirts of Yerevan	near the shopping center	
Availability of parking space	Available	Unavailable	Available	
Room equipment	New	3 years+	1 year+	
Food	Canteen + Cafe	Unavailable	Canteen	
Free Wi Fi	Available	Available	Available	
Quality of additional services	High	Average	High	
Noise level	Low	Normal	High	

Table 2

It is also possible that rivals are striving for horizontal integration. In any case, if these aspirations are realized, the hostel will lose much of its independence.

9.MARKETING PLAN

In pricing, the hostel uses the method of pricing based on current market prices. The average cost of one room for one day is 20000 AMD. The choice of pricing method is due to the fact that the flexibility of demand is difficult to measure in this case, to return to the current price level means to maintain balance within the sector.

Assess the strengths and weaknesses of the organization

Strengths:	Weaknesses:
1	2
Distribution system:	
<ol style="list-style-type: none"> 1. Existence of experienced managers, 2. Consumer demand analysis of services, 3. Organization of staff training, 4. Work with different types of payment systems, 5. Accumulating sales experience and creating a customer database 	<ol style="list-style-type: none"> 1. Lack of own experience in terms of advertising, 2. Need for risk
Services provided:	
<ol style="list-style-type: none"> 1. Ability to provide services in accordance with the special wishes of customers, 2. Perspective sales volume planning, 3. Provision of related services 	<ol style="list-style-type: none"> 1. Lack of ability to influence suppliers 2. Need for certification of services provided; 3. Lack of international certification
Own financial resources of the organization	
<ol style="list-style-type: none"> 1. Financial independence 	<ol style="list-style-type: none"> 1. Insufficient space for operational response in case of current assets and increased demand
Management organization	
<ol style="list-style-type: none"> 1. Rapid response to changes in market conditions, 2. Availability of qualified staff 	<ol style="list-style-type: none"> 1. Top management allocates resources and staff
Hostel rating:	
<ol style="list-style-type: none"> 1. High level of service 	<ol style="list-style-type: none"> 1. The need to fulfill the obligations assumed in the case of minimum or zero income

Table 3

Opportunity and threat analysis

Opportunities	Threats
1	2
Public	
1. Expanding the sales market	1. Change of political situations, 2. Lack of business insurance
Market development trends	
1. Expansion of service	1. Adoption of new standards
Competitors:	
1. Deterioration of some competitors due to insufficient management	1. Reduction of prices by competitors
Distribution	
1. Growing demand for hotel services 2. Economic growth, increase in demand, 3. Increase of real incomes of the population	1. High corruption of officials, 2. Existence of risk in terms of customer solvency assessment
Consumers:	
1. Capturing new market segments 2. Provision of services at the level of international standards	

Table 4

The analysis allows you to choose a limited growth marketing strategy for the hostel:

- ✓ By completing the selected market segment,
- ✓ At the expense of improving the services provided,
- ✓ Deep market penetration, which seeks to increase sales through the creation of a hotel website, which will provide detailed information about the organization and its services, as well as online booking, which will ensure the hostel is busier.

10.CALCULATION OF CAPITAL EXPENDITURES

Expenditures on property, plant and equipment are considered to be capital expenditures if, as a result, the condition of property, plant and equipment is converted through restructuring, upgrading, modernization, overhaul or expansion. The calculation of Capital Expenditures(CapEx) is the sum of current depreciation and change in plant, property and equipment. For our hostel we have approximately 752.500.000 Armenian Money Dram. As Aygedzor locates in center of Yerevan, the buildings here are expensive. To buy a building we need approximately 350 million

Drams. Equipping the building and all rooms 217 million Drams are needed. It is thoroughly described in numbers what we really need to equip. For parking and catering we need 80.000.000 Drams, and for office we need 25.000.000 Drams.

Calculation of capital expenditures for the acquisition of fixed assets

Expenses	Price, Armenian Money Dram (AMD)
1	2
1. Cost of construction costs	350 000 000
2. Equipping the building with the necessary equipment. Including,	217 500 000
• Cost of equipment at factory prices	150 000 000
• Transport and procurement costs;	17 500 000
• Installation, adjustment and operation costs	50 000 000
3. Valuation of the parking lot	80 000 000
4. Office equipment	25 000 000
5. Value assessment of public catering establishments	80 000 000
Total costs	752 500 000

Table 5

+:

Depreciation method - linear

Average depreciation cost - 8.5%

Amortization cost for one month - 5 330 000 AMD

Amortization cost for one year - 63 960 000 AMD

11. RISK ASSESSMENT AND INSURANCE

Previously, I had talked about risks and the way how to avoid or minimize it. Now we will discuss some types of risks and will measure them. In market, whether we like it or not there could be some unfavorable changes. During our business process, there could come up some financial risks, and we should be ready for that and implement some tools to solve the issues. These two type of risks are unavoidable. Other risks, which I mention in the table, are not so big and we can control them.

The types of risks and their insurance methods are presented in Table 6.

Type of risk	Degree of risk	Risk insurance methods
1	2	3
1.Unfavorable changes in market conditions	Unavoidable	1 In-depth market research on a regular basis, 2 Application of advanced customer service methods
2.Competitors' reactions. Unfair competition	Permissible	1. Application of legal protection methods; 2. Response to market conditions, 3. Use of marketing unit
3.Inflation processes	Permissible	1. Implementation of reasonable pricing policy: price increase does not lag behind the level of inflation;
4.Force majeure circumstances	Too much	1. Property and customer insurance
5.Financial risks	Unavoidable	1. Creating a stable financial and credit potential

Table 6

12. FINANCIAL PLAN

12.1 Sales forecast

This project is calculated for 5 years. Moreover,

- In the first year of the project implementation, the occupancy rate is 0.75.

Sales increase by 5% annually.

- Revenue from additional services is inflated to 10% of revenue from core business;

- The annual price increase is 10%.

Sales revenue in case of project implementation (forecast)

Indicators	1 year	2 years	3 years	4 years	5 years	Total
1	2	3	4	5	6	7
1. Volume of services provided, room-day	32850	34493	36217	38028	39930	181518
2. Estimated cost per room per day, AMD	25000	27500	30250	33280	36600	-
3. Income from main activity, thousand drams	821250	948500	1095600	1265600	1461450	5592400
4. Income from non-core activities, thousand drams	82125	94850	109560	126560	146145	559240
Total	903375	1043350	1205160	1392160	1607595	6151640

Table 7

The average price of the hostel room in Yerevan is between 40\$-60\$. We took into consideration the aggregate-50\$, which is 25.000 Drams. To calculate the income from main activities we should multiply Volume of services and cost per room, which is $25000 \times 32850 = 821250000$ Drams. From non-core activities we took 10 % from the income, which is 82125000 Drams. The total income equals the sum of income of non-core and main activities. In our case it is 903.375.000 Drams.

Sales calculations are used to calculate direct material costs. Here we can see that our sales will be 6.151.640.000 Drams for 5 years.

12.2 Calculation of direct material costs

We will make all further calculations for the first year of project implementation, for each subsequent year all types of costs will increase by 10% per year. It is very important to calculate your material costs. Customers like everything to be comfortable, and we cannot skimp for material costs. But that does not mean we have to spent all our money in material costs. We need to know our budget and disburse it cleverly.

Direct calculation of material costs

Indicators	Basic materials:		
	Hostel furniture materials (linen, etc.)	Quick-selling items (detergents, etc.)	Fuel, electricity, etc.
1	2	3	4
1.Quantity required to ensure stable operation of the hostel	1700	87600	-
2.Plus the required amount of reserve at the end of the year	1700	1680	-
1.Result: The amount of withdrawn reserves at the beginning of the year	3400 -	89280 -	- -
2.Result: the amount of material assets purchased	3400	89280	-
3.Unit price of material resources, AMD	6000 dram	100 dram	-
4.Result: direct material expenses, thousand drams	20400	8928	10572
Total direct material expenses, thousand drams	-	-	39900

Table 8

We have the following direct material costs:

- 1 year - 39 900 000 AMD
- 2 years - 43 900 000 AMD
- 3 years - 48 300 000 AMD
- 4 years - 53 100 000 AMD
- 5 years - 58 400 000 AMD

12.3 Labor costs

To have a good business, the staff must be the best. For the first period we need to have beginners in this sphere. But after making our place in the market we should increase the wages and salaries, of course quality should remain the same or better.

Calculation of labor costs in the first year of project implementation

Indicators	Amount:
1	2
1. Number of working hours required for the provision of services, norm-hours	200 000
2. Average hourly rate, AMD	550
3. Result: labor costs, thousand drams	110 000
4. Taxable social payment at a rate of 26%	28 600
5. Total expenses related to remuneration, thousand drams	138 600

Table 9

For further calculation we accept:

1 year - 138 600 000 AMD

2 years - 152,500,000 AMD

3 years - 167 700 000 AMD

4 years - 184 500 000 AMD

5 years - 202 900 000 AMD

The total number of employees is 105 people.

The organizational structure is presented in Annex: Figure 1.

12.4 Evaluation of overheads

The calculation of overheads is presented in Table 10.

Calculation of overheads in 1 year of project implementation (thousand drams)

Indicators	Amount
1	2
1. Salary of support staff	55740
2. Administration salary	25360
3. Social payments	21100
4. Electricity and lighting	45200
5. Depreciation of fixed assets	63960
6. Auxiliary materials:	29380
7. Ongoing renovation	20000
8. Property tax:	16560
9. Insurance	15000
10. Other expenses	9150
Total	301450

Table 10

The average wage in Armenia in this sphere is approximately 1500\$, which is 772.380 Drams per person. Including taxes and state fees, and summing up with salaries we have total overheads as 301.450.000 Drams

For further calculation we accept:

1 year - 301 450 000 AMD

2 years - 331,600,000 AMD

3 years - 364 750 000 AMD

4 years - 401 200 000 AMD

5 years - 441 350 000 AMD

12.5 Estimate of cost of services provided

We combine all the previous calculations in Table 10.

Calculation of the cost of services provided

Expense articles	Project implementation years:				
	1	2	3	4	5
1	2	3	4	5	6
1. Direct material costs	39900	43900	48300	53100	58400
2. Direct costs related to the remuneration of key staff	138600	152500	168700	184500	202900
3. Overlays	301450	331600	364750	401200	441350
Total amount of cost of services provided	479950	528000	581750	638800	702650

Table 11(a)

Cost calculation of one number

Indicators	1 year	2 years	3 years	4 years	5 years
1	2	3	4	5	6
1. Volume of services provided, room-day	32850	34493	36217	38028	39930
2. Estimated cost per room per day, AMD	25000	27500	30250	33280	36600
3. The cost of the provided services, thousand drams	479950	528000	581750	638800	702650
4. The cost of one room per day, AMD	14610	15310	16060	16800	17600
5. Extra, %	58.44	55.67	53.09	50.48	48.08

Table 11(b)

12.6 Calculation of selling and administrative expenses

The calculation reflects the estimated costs of selling as well as the total administrative costs (Table 12). To understand whether our business is doing good or bad, we should calculate administrative and general costs, then we should calculate Operating Profit. If it is positive, as it should be, our business is doing good, but in case of negative result, we should implement new tools to minimize our expenses.

**Calculation of current expenses in the first year of project
implementation (thousand drams)**

Expenses 1	Amount 2
1. Expenses for sales	171490
1.1 Salary of commercial agents	69140
1.2 Social payments	17970
1.3 Advertising costs	34690
1.4 Telephone expenses	13690
1.5 Other selling expenses	36000
2. General administrative expenses	100160
2.1 Salary of the administration (with social payment)	51880
2.2 Salaries of other employees (with social payment)	15130
2.3 Charges for electricity and lighting	10810
2.4 Wear of office equipment	3890
2.5 other general expenses	18450
Total current expenses	271650

Table 12

For the calculation we accept:

1. Commercial expenses:

1 year - 171 490 000 AMD

2 years - 188,640,000 AMD

3 years - 207 500 000 AMD

4 years - 228 250 000 AMD

5 years - 251 080 000 AMD

2. General administrative expenses:

1 year - 100 160 000 AMD

2 years - 110 180 000 AMD

3 years - 121 190 000 AMD

4 years - 133 310 000 AMD

5 years - 146 640 000 AMD

12.7 Revenue and Expenditure Plan

We summarize all the previous calculations in Table 13.

Hostel revenue and expenditure plan by project implementation years (thousand AMD)

Indicators	Years of project implementation				
	1	2	3	4	5
1	2	3	4	5	6
1. Proceeds from the sale	903375	1043350	1205160	1392160	1607595
2. Cost of services provided	479950	528000	581750	638800	702650
3. Gross profit	423425	515350	623410	753360	904945
4. Sales Cost	171490	188640	207500	228250	251080
5. General and administrative costs	100160	110180	121190	133310	146640
6. Income from sales	151775	216530	294720	391800	507225
7. Loan Interest Payment (16%)	48000	24000	-	-	-
8. Non-Taxable profit	103775	192530	294720	391800	507225
9. Profit tax at 20% rate	20755	38506	58944	78360	101445
10. Net Income	83020	154024	235776	313440	405780
11. Repayment of the loan principal	75000	75000	75000	75000	-
12. Retained earnings for one year	8020	79024	160776	238440	405780

Table 13

As we calculated above, proceeds from sales and cost of services, now we need to know gross profit. Deducting cost of services from sales revenue we will get gross profit, then we minus the sum of Sales, general and administrative costs to get income from sales. After that, we should pay loan interest to get non-taxable profit. To get net income we should pay also profit tax (20%). And finally deducting loan principal, we will get retained earnings. After the 4th year we will fully pay loan.

12.8 Project safety threshold analysis

Critical sales volume can be calculated using the amount of marginal revenue, which is defined as the difference between variable revenue and expenditure:

$$MR = I - VC \quad (1),$$

Where: I - income from sales,

VC - the amount of variable costs.

As the hostel is a multi-profile organization, the concept of gross marginal income is used to calculate the critical (safety) volume:

$$N_{min} = FC / mg \quad (2),$$

Where: CF - the main costs are (fixed costs)

mg - gross marginal income.

The concept of "financial efficiency" is closely related to the concept of "unprofitable volume". Financial efficiency (safety belt) is the difference between the actual and safety thresholds:

$$\text{Financial eff.} = \text{Fixed expenses} / (1 - \text{variable expenses} / \text{income})$$

The calculation of indicators is presented in Table 14.

Calculation of critical sales volume and safety margin

Indicators	Years of project implementation					Deviation of the 5th year from 1 year
	1	2	3	4	5	
1	2	3	4	5	6	7
1. Proceeds from the sale, thousand drams	903375	1043350	1205160	1392160	1607595	+704220
2. Variable costs, thousand drams	479950	528000	581750	638800	702650	+222700
3. Marginal income, thousand drams	423425	515350	623410	753360	904945	+481520
4. Gross marginal income	0.468	0.494	0.517	0.541	0.563	+0.095
5. Fixed Costs, thousand drams	271650	309830	328690	361560	397740	+126090
6. Security threshold, one thousand drams	127132	153056	169933	195603	223927	+96795
7. Financial efficiency, thousand drams	+776243	+890294	+1035227	+1196557	+1383668	+607425

Table 14

Thus, the financial efficiency of the hostel is constantly increasing, almost doubling during the years of project implementation.

13. FUNDING STRATEGY

The hostel is a limited liability company with an organizational and legal capacity, the authorized capital of which at the initial stage of the project implementation is 900,000,000 AMD.

Hostel demand for cash:

1. Formation of fixed capital - 752 500 000 AMD. The demand is fully met

at its own expense,

2. Development of working capital - 447 500 000 AMD. The demand in the amount of 147,500,000 AMD is satisfied at the expense of own funds and at the expense of long-term crediting in the amount of 300,000,000 AMD for a period of 4 years, with an annual interest rate of 16%. Interest is paid at the end of the year.

The loan is repaid in different amounts over four years. The shares are paid at the end of the 1st and 2nd years of the project implementation.

As the calculations (Table 13) show, the loan's interest will be repaid in full within four years.

14. PROJECT EFFECTIVENESS EVALUATION

To evaluate the effectiveness of the project, we use the net present value method, which is based on a comparison of cash flows and investments for the forecast period. By cash flows we mean the result of net income and amortization contributions:

$$R_t = \prod_4 + A, \quad (3)$$

The net present value is determined by the following formula:

$$NPV = \sum_{i=1}^L R_i / (1 + 2) i - JC, \quad (4)$$

$$i = 1:$$

where the volume of JC-investments, which is accepted as completed at the beginning of the project implementation,

R_i - cash flow element in year i ,

$2 = 0.16$ - discount coefficient, which takes into account the average level of project risk,

i - the serial number of the project implementation year.

When $NPV > 0$, the project is considered effective.

We have,

$$NPV = 83020 + 63960 / (1 + 0.16)^1 + 154024 + 63960 / (1 + 0.16)^2 + 235776 + 63960 / (1 + 0.16)^3 + 313440 + 63960 / (1 + 0.16)^4 + 405780 + 63960 / (1 + 0.16)^5$$

NPV is definitely bigger than 0.

thousand drams

Thus, the project is economically viable ($NPV > 0$). The return on investment of the project does not exceed three years.

What if business plan will not work normally and the business turns

unsuccessful?

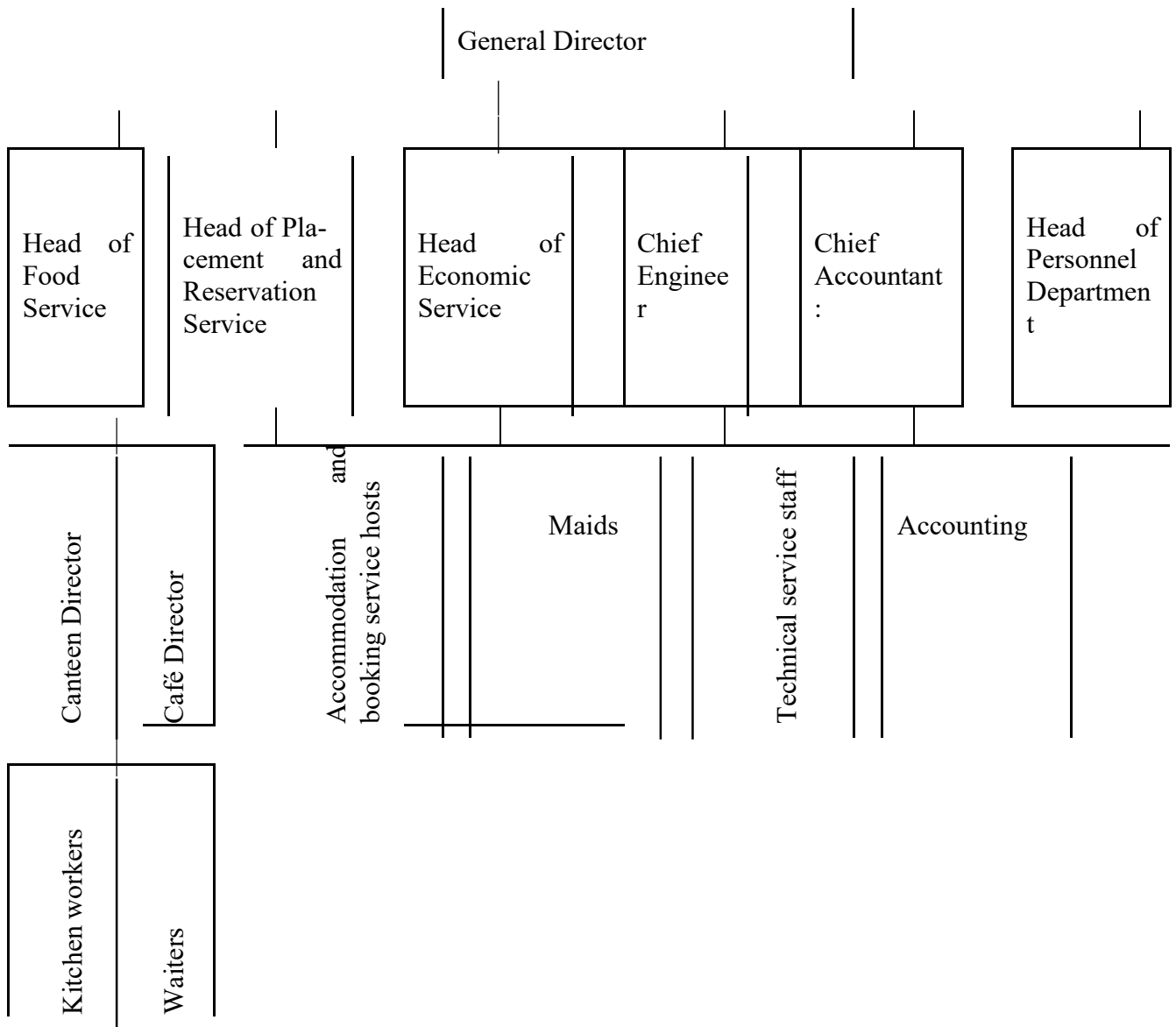
First of all, there are lots of examples of unsuccessful businesses, then how they rework and make it better, and finally have better quality and success. In our case, if we fail, we will face the risks that I mention in the work. First and the most important loss is money that we invest. If we cannot get the investment back, we will have a loss of money, that will cause some financial liabilities to investors, banks or relatives, which in turn will make problems and headaches. The next risk that we will face in case of failure is waste of our time. This one we cannot bring back in any way. Thus, this means we should think twice before starting our business, to spend our time effectively. Another risk to be ready for Armenia is external risks. Political instability and war situation with neighbors, because for tourists, when they look for vacation, safety is the most important thing. So, it means no matter what, we should start our business in safe area, in this case Yerevan, and to ensure the safety of our guests.

So, in one sentence, all the money, time and affords that we put to our business, you have to be consistent and, through all that, neutralize/minimize all the risks.

Appendix №1

Figure 1:

Organizational structure



CONCLUSION

Ask if the numbers presented to you are realistic. Also spend time researching the number of customers using the business, the average amount paid per customer. It is also important to calculate the payback period of the invested amount, which is very simple and is determined by the ratio of the amount invested and the monthly net profit. In general, I think the following points are used:

1. Learn from experienced entrepreneurs, ie people who have passed the initial stage / whether they have succeeded or not

2. You need to think about who will buy your product or use the service you offer. That is, you need to calculate how many people you can serve per day or how many products and at what price to sell

3. Creating a unique style is a necessary step, ie you need to understand how your service or product differs from existing ones, why the customer should give preference to your product. It follows that you should not be satisfied with just setting low prices, as you can be pushed out of the market at any time by setting lower prices.

4. Remember that it is not possible to get quality products or be able to provide quality services from low-quality and cheap raw materials or bad equipment, or people's demand for product quality, I think, is getting tougher day by day, and for any expenses you have to think, is it possible? to get the same quality product at cheaper prices,

5. It is necessary to use a business diary, as there can be meetings, payments, reports, etc. every day. And It is very difficult to remember all that, especially their terms, quantities, prices, places, addresses, people's names, phone numbers, money etc.,

6. Do not waste your time, because the people who use the time most effectively succeed.

In addition to following the above steps, a business plan written to start your own business must be systematic, well-designed, demonstrate the competitive advantages, volume, financial performance of the products to be produced by the organization, and contain reliable information.

Summing up, reading this work, one can find the most important tools to establish a new hostel business in Armenia (particularly in regions). I have discussed all the important questions that may be helpful for the people who wants to start a business in this specific field.

Considering the importance of accommodation sector in the hospitality industry in respect of entrepreneurship development, economic contribution, employment generation, an analysis of the status and prospects of the sector in Armenia is the thrust area of the work. The work is also directed towards assessing future prospect of hostel business in Armenia. It will give the novice entrepreneur an idea of the principles of management of the tourist house, the problems, the need for the necessary financial means for its establishment and operation, as well as the promotion tools.

Hotel management is an activity that requires a lot of personal involvement, the effectiveness of which largely depends on the right choice and implementation of the activity scale. Before considering the financial benefits of running a hotel, entrepreneurs are advised to analyze the impact of many human factors from the opening of the hotel on the successful operation of the hotel.

Guest management experience shows that failure is often the cause of underestimation of the complexities of managing guesthouses. It is very important that the entrepreneur assesses before starting the business whether he / she and his / her family are ready to accept the challenges arising from the hotel business, whether they have the necessary skills to manage the hotel.

Finally, the future of the hostel industry depends on the economic, social, political, scientific and technological changes. The hostel industry is very much sensitive to all these factors. Changes in any of these aspects or in any branch of activity are immediately reflected in this field. It is a type of business in which ideas and methods of operation undergo continual alterations. My Thesis study has tried to unfold a number of issues related to the development of hostel industry in Armenia, as per the objectives of the work. Thus, it does not claim to have examined all the questions associated with the industry. But it has definitely covered at least some vital issues confronted by the sphere. Nevertheless, with the vastness of this specific field, the treatment of the problems leaves, still there lies further scope of study in a number of ways. This work, first of all, will clearly lead to the path for further research in developing the hostel business sector of Armenia.

So, the aim of my Master Thesis is to introduce the way following which you may reach your desired business. In this work you can find all the important answers to the main questions and also you will find information about the vital aspects that could help or obstruct you and your new business. I hope, this work will be helpful for many people who are interested in this field or just want to start a

new, interesting and profitable business.

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