

## TOURISM COMPANIES AND PROFITABILITY

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**Abstract:** *Recently included among the consumption needs of the modern man, measured as an indicator of the quality of life, tourism deserves the importance attached to it today by the culture people from all fields of knowledge. The infinity of interdependences in the world economy and the current technique, which by compressing the space and time approaches civilizations and people and creates for tourism a more complex function than the one mentioned namely the mediator of mankind access to the treasure of civilization and humanity beauty. Tourism is an economic and social phenomenon of the modern civilization, rooted in society, and as such it is in a relationship of interdependence with it.*

*The research on tourism phenomenon integrates a broad thematic area, from defining its place in the development strategy to highlighting the determinants, the development fluctuations and the manifestation forms of coordinates and market mechanisms and evaluating its impact on economic, social, cultural, environmental and political area.*

*We should not overlook the fact that tourism has become nowadays a task as important as the activity from other key sectors of the global economy (industry, agriculture, trade). The tourism phenomenon is extremely difficult to be delimited because, like any human activity, it falls within the scope of interdisciplinary study, involving both economists, geographers, psychologists and sociologists.*

**Key words:** profitability, Romanian tourism, profitability forms.

**JEL Classification:** L83

### 1. Introduction

The external economic factors have made in the past 25 years the Romanian tourism to be characterized by a recession. Since 1989, the Romanian tourism has undergone many changes, hotels have started to be increasingly less populated, which has led to a decline in the recovery of tourism areas. The decline in the living standards and in the purchasing power of most Romanian contributed to this as well as the reducing investment in this area.

In the next few years, while the economic indicators continued to decline, it appeared a class of small entrepreneurs which, by carrying out economic activities in tourism, started to record a profit.

The topic is chosen by the fact that tourism, by its contribution on the overall development of the society, justifies the interest in knowing its content and characteristics, its peculiarities in the manifestation of the economic regularities from its reference area, and the profitability issues will never miss from the forefront of the theoretical and practical approaches of all types of structures that perform an economic activity.

### 2. Profitability in travel companies. Concept

The tourism activity is among the few phenomena that have been imposed, particularly, worldwide, its spectacular development constitutes one of the characteristic features of our century and, in particular, of the second half of it.

The purpose of any business activity in the private or public field is to obtain profit and to develop economic activities in terms of economic profitability. We can speak of the return of an activity when the effects are the net income, the profit. We can speak of economy when the

effects are in the form as economy savings. We have to distinguish between the concept of return on assets seen as a theoretical concept which involves the quality of a system to produce useful economic effects and the profitability measure which is achieved by comparing the effects with the effort. The meaning of the profitability of the productive activity, the use of resources, varies depending on the organizational levels of the economy, the interests pursued and the place where the action is carried out. Thus, profitability is expressed by the increase in the net national product per unit of effort and at the company's level profitability is expressed by the level of labor productivity and unit costs of production.

Profitability is an important quality synthetic indicator, which expresses the ability of a company to obtain net income. In other words, the return can be defined as a company's capacity to produce a surplus over the expenses. The absolute expression of profitability is represented by the mass profit. Profitability reflects the margin of income that exceeds expenses, and in relative expression it must always appear over-unit.

Profitability can be highlighted in different ways by combining three factors:

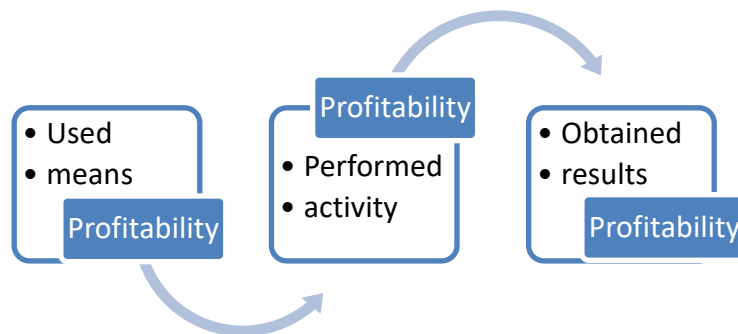


Figure no. 1 Factors with which profitability can be highlighted

By combining the three factors, it may appear two types of reports:

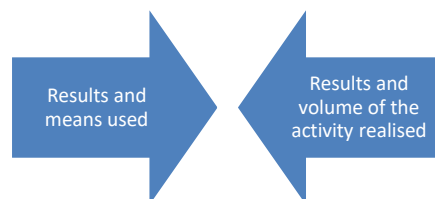


Figure no. 2 Reports resulting from combining the profitability factors

### 3. Forms of expression of profitability in tourism companies

The tourism activity, part of the global social system, as any activity is, on the one hand, a resource consuming activity and, on the other hand, an activity that produces effects. The useful effects of the tourism activity have a complex character, so that the economic facet itself is closely linked to the social one of it.

The economic profitability shows how great the resources are used. The comparison of the effects with the efforts that caused them highlights only one side of the economic profitability. A comprehensive analysis must consider, however, other factors, such as: the resources and results structure (observing not only the performances mathematically

quantifiable, but also to society effects), time (which may act differently on the elements of the structure), the quality of the commercial and financial effects (results should be reflected in the actual social utility).

In order to commensurate the return of an economic and social activity, it is mandatory to compare the effort with the effect, in the context of the influence on this correlation of time and space, to every effort giving only its causal effect and to each effect recognizing the entire effort.

The significance of the concept of return should be sought everywhere where the resources are consumed (material, commercial, economic and financial) and where the living and materialized social work is spent. The competition, the economic rivalry, conducted in an objective framework of free market economy, require that any economic activity to meet specific requirements of the company, to meet the real requirements of the material and spiritual life of the people.

In this respect, the tourism activity has multiple tasks regarding the profitability. But the heterogeneity and the complexity of the tourism product offers to the profitability of this sector a very broad range of coverage and evaluation. Therefore, not incidentally, experts qualify the profitability tourism as very complex because it expresses the result as a set of specific activities: tourist transport, catering, provision of other basic and complementary services, sales of goods, domestic tourism and international tourism etc. By their nature, the results of tourism have both direct and indirect effects.

The complexity of the tourism activity involves a wide variety of basic material facilities and the correct assessment of the profitability of their use includes a very large area and requires a research methodology varied. Only in this way the profitability of this sector can be measured in the dynamics of each component, in conjunction with a range of factors and following possible consequences in the overall context of the profitability in tourism.

Regardless of the methodology used, the profitability studies, as a whole, aim to evaluate tourist satisfaction towards functional means entrained, the concrete ways to increase its satisfaction with the least cost and in reduced time, the organizational cost that can achieve an increase in profitability, both through a judicious correlation of the existing functional elements with the structure and the origin of tourists and through reducing costs along with increasing revenues, respectively, profit.

The main ways, mentioned in the literature, that can be used to assess the profitability of the various structures of tourist facilities, concern different approaches: economic, social, political, promotional, technical, commercial and financial respectively as many forms as the profitability has.

The economic profitability expresses the relationship between the proceeds and the amount spent for the construction and operation of tourist facilities and goals. This facet of the profitability relationship depends on the duration of recovering the advanced capital, the revenue per day- tourist, etc. Therefore, a great importance is given to the attenuation of the seasonal use of the material support of the delivery of tourist services through multiplying the forms of tourism, especially those less dependent on natural factors.

The social profitability is revealed by the contribution that the tourism accommodation, through their material facilities, provides to the policy of involving a large number of individuals in the domestic and international tourism in order to create the best conditions for the recovery of the labor and affirming the role of cultural and peace ambassador given to international tourism.

The promotional profitability consists in the image that the tourist-consumer has on the tourist offer, after staying in a particular destination, image that, in addition to all other

impressions retained, may contribute to an overall positive assessment, opinion who shared at the return to the residence can have a major promo.

The technique profitability, aiming at constructive solutions and technical features adopted, reflects the actual functionality of the installations and facilities. It is directly dependent on the reliability of tourist facilities, the time needed to remedy faults, the costs for fixes and repairs, factors that influence both the economic profitability and the promotional profitability.

Since all these facets of the profitability concept are interrelated to each other, one may find the necessity of ensuring reasonable facilities and equipment with the best possible results in an integrating technical and economic, social, political and promotional sense. Therefore, in the present stage of transition to a market economy, raising profitability in all fields, especially in economics, has assigned a cardinal role. It must have as support the judicious management of the material, human and financial resources of each economic agent, regardless of ownership. To support this goal, the scientific research and the higher education should bring their contribution through a more direct involvement than before.

Like other areas, tourism - characterized by a wide range of activities – has in this stage multiple tasks regarding the economic and social profitability growth, the increasing contribution to GDP for balancing the payment and trade balance, while lifting the quality conditions for rest and recreation of the Romanian and foreign tourists.

The profitability of a company can be expressed in absolute size through the size of income (volume indicator) or in relative size through rates of return, which measures the efficiency of the capital used in the analysis period.

**Return on equity** is actually the return of the capital used in conducting the business, the ratio of the mass of profit and the capital employed:

$$R_{Cpu}(\%) = \frac{Pr}{Cu} * 100$$

where:

$P_r$  = profit;

$C_u$  = capital employed.

**Financial profitability** (RF(%)) of the equity is expresses by the ratio of the net results and equity:

$$R_F(\%) = \frac{Pr_{net}}{C_{pp}} * 100$$

where:

$P_{r\ net}$  = net profit;

$C_{pp}$  = equity

$$Rf = \frac{P_{r\ net}}{V} * \frac{V}{A_t} * \frac{A_t}{C_{pp}} * 100 =$$

= Profit margin \* Asset rotation \* Financial leverage

where:

$V$  = sales;

$A_t$  = total assets;

$C_{pp}$  = owner's equity.

The three components reflect three distinct domains in the organization.

The first one expresses the market position of the company as also the competitive disadvantage it has in comparison with the competition.

The second one reflects the ability and capacity of management of managing the efficient activity, having accelerated turnovers of the capital invested in assets.

The financial leverage reflects the strategy, in the financing domain, by requesting borrowed sources for increasing the activity. When talking about the financing policy, there are more variables which can influence the decision: the type of activity, the cost of capital, the access to finance, the capital market conditions.

The profit indicates the effect of the activity, its positive effect, and the profitability- its efficiency. According to the profit considered, the profitability is determined after the formula:

$$R_{r \text{ brute}} = \frac{P_{r \text{ brut}}}{C_{pv}} * 100$$

and, respectively,

$$R_{r \text{ nete}} = \frac{P_{r \text{ net}}}{C_{pv}} * 100$$

where:

$P_{r \text{ net}}$  = net profit;

$P_{r \text{ brut}}$  = gross profit;

$C_{pv}$  = the cost of the services/ products sold.

The evaluation of the financial performances represents a fragile aspect due to the connotations it raises. A first aspect is the basis of comparison against which a company's achievements are reported. Thus, companies can be compared with each other as belonging to the same industry and they are competitive on a particular market. Due to the effect of globalization, the national-international appearance becomes less important, the borders have no longer a barrier in the battle for capturing new market segments. In the last period, we can observe a real crusade in striving to penetrate new markets. In the face of this avalanche, traditional national industries go bankrupt, local firms fail or are swallowed by transnational companies who provide resources, expertise and a global culture. Thus, the performance appraisal becomes new valences depending on a firm's strategy that is developed in order to survive in business.

Therefore, the calculation of a "battery" of rates of return is possible, reporting an indicator of results to a workflow or stock. The more the rates are higher, the more the company is profitable.

The enterprise is the more cost effective the value of these higher rates.

The first step in assessing the profitability of the financial resources it should be used to design a model with the help of which there can be done the complete and comprehensive information, fast and efficient, for the adoption of decisions of superior quality.

Although many criticisms may be made, in the sense that focusing on financial profitability, managers can ward off the other strategic objectives, pursuing only short-term interests, the financial profitability remains a prime indicator because it appreciates the ability to gain profit, the full potential of the company and, consequently, the company's market value.

The financial profitability is a pointer through which owners of capital the profitability of their investments, respectively the opportunity to maintain them. In a competitive system, a company must develop, invest, and this investment must be financed. Often the funding involves also the consolidation of the equity, either through the contribution of the existing shareholders either through new shareholders. The investment invitation is conditional upon the convenient remuneration of the equity. In addition, if the remuneration rate is raised, the shareholders accept easily to leave part of their profile available to the company, providing the means of growth. For managers, the financial profitability is a fundamental objective, an essential condition of their strategy to maintain power.

#### **4. Factors which influence the profitability of the companies from tourism**

The volume of the returns and the profitability of the accommodation unit ( hotel, motel, inn/villa, hotel complex, etc.) depend on the occupation degree ( $C_{uc}$ ) and on the level of the prices used.

In order to highlight the relationship that exists between the profitability of an accommodation unit and its occupation degree, we need to express two different functions, and these are : the cost function and the revenues function.

As in other sectors of activity, we deal also in tourism with two categories of costs, respectively fixed costs and variable costs. The first ones, the fixed costs, or the conventional „constant” ones as they are called, they contain mostly the depreciations. In general, they do not depend on the volume of the tourist activity. The variable costs, in exchange, depend directly on the volume of the activity, and firstly, on the degree of occupation realized (for example, the expenses with the maintenance, repairs, consumption of materials, fuel, energy, salaries etc.). Therefore,

$$C_T = C_F + C_V$$

where:

$C_T$  = total cost;

$C_F$  = fixed cost;

$C_V$  = variable cost.

In what concerns the revenues, they are influenced by at least the following parameters:

- the number of tourists recorded and accommodated in a year ( $T$ ),
- the average duration of the stay ( $\overline{ds}$ ) and
- the price requested for a day- tourist ( $tf$ ), so:

$$V = T * \overline{ds} * tf$$

When the **total revenues cashed in ( $V$ ) are equal to the total costs ( $C_T$ )**, the profit realized ( $pr$ ) will be equal to zero.

$$V = C_T \Rightarrow pr = 0$$

The point in which takes place this equality marks what we call „ breakeven point” of the tourist company or of the hotel.

In order to determine the breakeven point we need the fixed expenses, the variables ones and the revenues from sales.

The fixed expenses are determined as an amount between the wear, the C.C.S. salary, the salary of the auxiliary workers, the salary of the workers with attendance and the contribution to the salary. The variable expenses can be determined as a difference between total expenses and fixed expenses.

## 5. Conclusions

Given the evolution of the global tourism, tourism activity is among the few large-scale phenomena, which are essential for the welfare of each of us. Any travel agency, in order to be profitable, it must have an effective manager to manage all resources, human, financial and material in order to obtain a result at least lucrative, with which you can develop your business and thrive on the tourist market.

The tourist activity is numbered among those phenomena which have been imposed globally, the special development of it being one of the characteristic features of our century, and especially of the second half of it.

The goal of any travel company is to obtain profit, performing economic activities in terms of economic profitability. We can talk about the profitability of an activity when the effects are of the nature of the net income, profit. We can speak of efficiency when the effects are of the nature of economies. The concept of profitability must be delimited as economic and theoretical concept, which involves the capacity of a system to produce useful economic effects and measure profitability which is carried out by comparing the effects with the effort.

The purpose of the use of profitability varies according to the organizational levels of the economy, interests which pursue the place where the action takes place.

**The ways of increasing the profitability in the Romanian tourism**, are numerous, some general, others specific to each type of benefits. Between the general valid there can be mentioned:

- ✓ The diversification of supply, by building on top of the natural and anthropogenic tourist resources, and the creation of competitive tourist products;
- ✓ creating conditions of uninterrupted activity, of higher and intensive usage of the technical-material base;
- ✓ the development and modernization of tourist material databases, in relation to the requirements of the international tourism, competitive, increasing the share of extra services and, on that basis, the average daily collection-tourist;
- ✓ ensuring adequate staff numbers and the level of preparation; the labor productivity growth per job;
- ✓ raising the quality of services and ensuring a higher constant level; this objective is primary for company employees, the company's policy are encouraged to comply with the phrase "Our customer, our master," in terms of respect and quality of services offered.

For each of the specific activities of tourism, in addition to the General presented, you can detach also own ways of increasing profitability. Thus, at the accommodation is required to be considered: ensuring optimum coefficient of utilization of the accommodation capacity; the diversification of services in units; increasing the amount of goods through reception, maintaining an impression of novelty of the accommodation spaces, etc.

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