Business Plan for a Tourism Operator Company

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Haaga-Helia University of Applied Sciences

Bachelor of Business Administration

Thesis

2023

Abstract

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Degree
Bachelor of Business Administration

Report/Thesis Title
Business Plan for a Tourism Operator Company

Number of pages and appendix pages
39 + 5

This bachelor´s thesis discusses a business plan for a tourism operator company. The aim was to create a business plan with a specific focus on the financial viability of the business plan and supporting financial calculations.

The thesis consists of a theory section, business model environment, business plan financials, and conclusions. The theory section discusses the general theory of creating a business plan and how the financials are calculated. It includes a general overview of what a business plan is, how to perform an industry analysis, what management or cost accounting is, pricing and how it relates to a business plan, and what financial information is required and how financials are calculated. The final product was a completed business plan for a tourism operator company.

The key findings were the difficulty of operating a company in a remote area of Finland and that the company would run the risk of not earning a profit in the first year of operations. The business plan proposes a careful approach to the business, but the margin of safety on many of the services offered is small. For further analysis, the author of this thesis suggests a detailed marketing plan for the company and study on other regions to expand the business. Another suggestion is to conduct research on the attractiveness of North Karelia as an international tourism region.

Key words
business plan, business planning, cost-volume profit analysis, industry analysis, tourism, pricing

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1 Introduction

The thesis is a project type of thesis for the Degree Programme in International business in the major specialization of Accounting in the Haaga-Helia University of Applied Sciences.

1.1 Background to the topic

Originally the thesis goal was to create a business plan with and for Ilomantsi Tourism Association as a commissioning company. Due to changes in the association's strategy, the association decided not to continue forward with the proposed plan. The author of this thesis discussed a change of focus with the thesis instructor, and it was agreed that the thesis would keep parts of the work already done but shift the focus of the thesis to a business plan for a possible tourism operator company.

A business plan or a business model is perhaps the most important document for any starting enterprise. Many models have been created to help entrepreneurs formulate their business ideas into business plans. How business plans are created, why they include the parts that they do and how do they all interconnect are all interesting topics. The author of this thesis is especially interested in the financial calculations related to a business plan, such as pricing, cost analysis, and financing sources. A tourism operator company is of personal interest to the author of this thesis, as both a native of North Karelia and a keen traveler, the question of how a relatively difficult to reach and operate tourism region such as North Karelia and especially Ilomantsi could be turned into a profitable, sustainable, and unique experience for both international and domestic tourists is most intriguing.

Tourism is a growing industry in Ilomantsi, and major new tourist attractions have been innovated in recent years, such as Ilomantsi War Road (Ilomantsin sotatie 2023). The changing nature of the tourism industry enables a business to consider new sources of income and potential avenues for growth. After the COVID-19 pandemic and with systematic work by operators such as Visit Karelia the number of international tourists can be expected to resume the pre-COVID-19 numbers and grow in both North Karelia and in Ilomantsi.

1.2 Project Objective

This thesis aims to create a business plan for a tourism operator company with a specific focus on the financial viability of a business plan. The outcome of the thesis is a completed business plan. The international aspect of the thesis is covered by creating the business plan focusing on international tourists. The project objective of this thesis is to prepare a business plan for a new tourism operator company. The project objective (PO) is divided into project tasks (PT´s) as follows:

PT 1. Preparing the theoretical framework for the business plan.
PT 2. Analysing the business environment.
PT 3. Establishing the customer segments of the company.
PT 4. Establishing the key services of the company.
PT 5. Creating a pricing strategy for the company.
PT 6. Creating an excel file of the financial projections for the business plan of a tourist start-up company, including cost-volume profit analysis, budgeted income statement, and balance sheet.
PT 7. Analysing the financial projections created for the business plan.
PT 8. Analysing funding sources for the company.
PT 9. Analysing the outcomes.

Table 1: Overlay matrix

Project Task	Theoretical Framework (chapter)	Project Management methods	Results chapter
PT 1. Preparing the theoretical framework for the business plan.	2	Literature review	2
PT 2. Analysing the business environment.	2.2	Literature review, data review	3.1, 3.2
PT 3. Establishing the customer segments of the company.	2.1	Literature review, data review	3.3
PT 4. Establishing the key services of the company.	2.1	Literature review	4.1
PT 5. Creating a pricing strategy for the company.	2.4	Literature review	4.2
PT 6. Creating an excel file of the financial projections for the business plan of a tourist start-up company, including cost-volume profit analysis, budgeted income statement, and balance sheet.	2.2, 2.5	Literature review	4
PT 7. Analysing the financial projections created for the business plan.	2.2, 2.5	Literature review	4.3 -4.5
PT 8. Analysing funding sources for the company.	2.5	Literature review	4.6
PT 9. Analysing the outcomes.			5

1.3 Project scope

The project scope is the business plan. Included in the project are the analysis of the current situation, industry analysis, key services and their cost structure and revenue streams, financial projections including a budgeted income statement and balance sheet, and establishing the sources of financing.

1.4 Benefits

The main benefit is the completed business plan for either direct implementation or as a blueprint for a tourism operator company. The thesis author's personal benefit is gaining knowledge from preparing a business plan, and analysing both financing sources and cost structures as well as revenue streams.

1.5 Risks and risk management

Key risk of the thesis is the unsuitability of the proposed business plan. Care must be placed in the financial calculations not to provide either too optimistic or pessimistic view of the company´s growth potential.

1.6 Key concepts

Business plan is a working and much used tool both in teaching entrepreneurship as well as when applying for financing from various institutions (Hesso 2015, 10). The business plan is also a process that helps entrepreneurs gain deep knowledge about their ideas (Timmons, Zacharakis & Spinelli 2004). A business plan typically comprises of an overall description of business environment, the business itself, customers and competitors, and a plan for the future accompanied by financial reveunue and profitability estimates (Laamanen, Kamensky, Kivilahti, Kosonen, Laine & Lindell 2005, 55.)

Industry analysis is a method by which the company can perform and external and internal analysis that includes a comprehensive assesments of its own capabilities and performance relative to its competitors as well as positioning relative to industry trends. There are many ways to perform an industry analysis. An often used method is PESTEL, other methods include Porters five forces and Ten Ways to Evaluate a Market (Kaufman 2020, 45). Osterwalder and Pigneur (2010, 200) suggest mapping four main areas of the environment.

Financial and management accounting have different goals. Management accounting is the process of measuring, analyzing, and reporting financial and nonfinancial information that helps

managers make decisions to fulfill the goals of an organization. Financial accounting focuses on reporting financial information to external parties. Reports such as balance sheets, income statements, and statement of cash flows are common to both financial and management accounting. (Horngren, Datar & Rajan 2015, 25-26.)

Cost-Volume-Profit Analysis is used by managers to study the behavior of and relationship among total revenues, total costs, and income as changes occur in the number of units sold, the selling price, the variable cost per unit, or the fixed costs of a product (Horngren & al. 2015, 89).

2 Key concepts for a Business Plan

The theoretical framework for the thesis consists of a general overview of what a business plan is, what are the main areas of a business plan, and how the financial calculations in a business plan are created and presented. Figure 1 illustrates the roadmap of how a business plan is constructed and what elements need to be considered and in which order to reach a completed business plan.

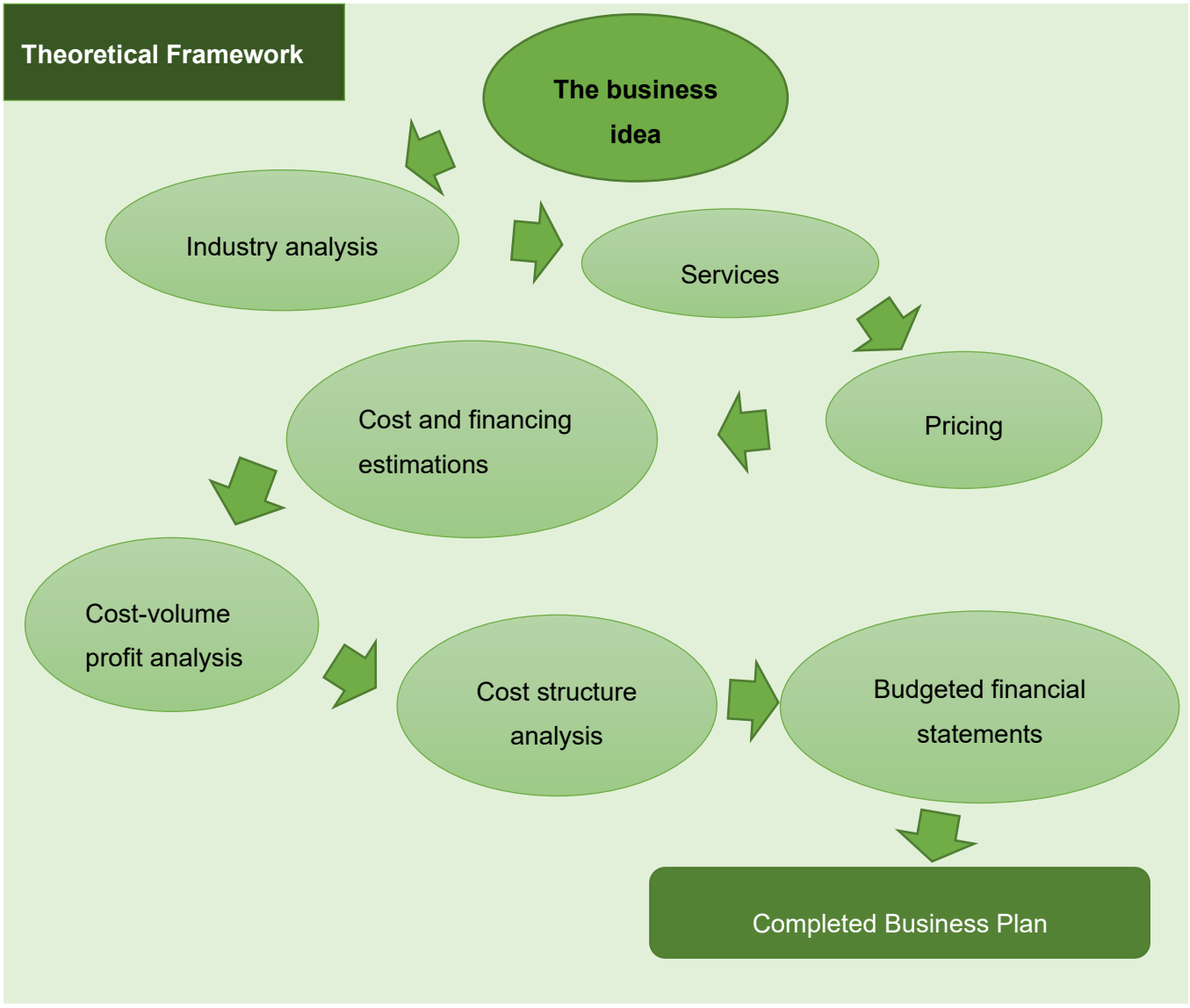

Figure 1. Theoretical framework for creating a business plan

2.1 Business Plan

A business plan should plan to cover every aspect of your company (Steffan 2008, 15). A good business plan tells how the company plans to make money (Hesso 2015, 13). Steffan (2008, 13-14) lists several reasons for developing a business plan:

- Budget for financial planning and analysis.
- Raise finance.
- Attract investment in terms of money or an individual's time (mentor).
- Improve performance of an existing business.
- Appeal to suppliers.
- Attract customers.
- Entice key employees to join the team.

It is also important to remember that the business plan is a living document, and it should be continuously updated and revised as the context of the business plan changes (Timmons, Zacharakis & Spinelli 2004, 43-44). Questions such as what the company's objectives are, how do we create value for our customers, what the market for our product/service is, what organizational and financial structures serve the company best, and what are the risks and opportunities and contingency plans for our strategy are important when developing a successful strategy (Horngren & al. 2015, 220).

There exist many models for a business plan. The Business Model Canvas presented by Osterwalder and Pigneur (2010, 16-17) forms the building block of the business plan presented in this thesis. Osterwalder and Pigneur (2010, 15) believe that a business model can be best described through nine basic building blocks that show the logic of how a company intends to make money.

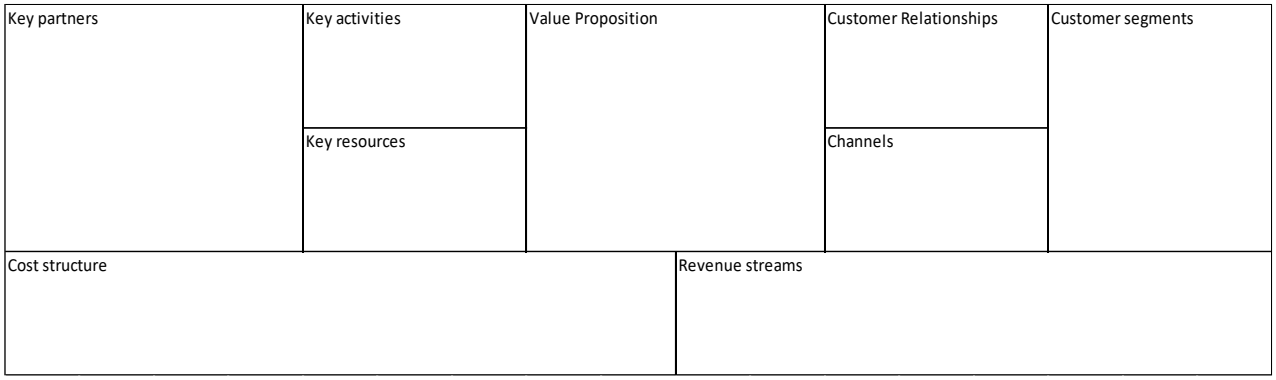

Figure 2. The Business Model Canvas (adapted from Osterwalder & Pigneur 2010, 44)

As shown on figure 2, these nine blocks are key partners, key activities, value proposition, customer relationships, customer segments, key resources, channels, cost structure, and revenue streams. These nine blocks cover the four main areas of a business: customers, offer, infrastructure, and financial viability.

The customer segments block defines the different groups of people or organizations a business aims to reach and serve. Different types of customers segments include mass market, niche market, segmented, diversified, and multi-sided markets. (Osterwalder & Pigneur 2010, 20-21.) Value proposition block describes the bundle of products and services that create value for a specific customer segment. Value propositions include but are not limited to, newness, performance, customization, price, accessibility, usability, brand, and design. (Osterwalder & Pigneur 2010, 22-25.) Channels, according to Osterwalder and Pigneur (2010, 26-27) refer to communication channels through which the company communicates with and reaches its customer segments in order to deliver their value proposition.

Customer relationships describe the types of relationships the company has or establishes with their respective customer segments. These relationship types vary from personal assistance and dedicated personal assistance to self-service and automated services. (Osterwalder & Pigneur 2010, 28-29.) Revenue streams cash generated from different customer segments, that is how much the customers are willing to pay, for what are they paying, and how much. There are several ways to generate revenue streams such as asset sales, usage or subscription fees, lending, renting and leasing, and licensing. (Osterwalder & Pigneur 2010, 30-31.)

Key resources, according to Osterwalder and Pigneur (2010, 34-35) are the most important assets required to make the business model work. These can be physical, intellectual, human, or financial. Key activities are the most important things the company needs to do to make the business

model work, such as production, problem solving, or platforming and networking. (Osterwalder & Pigneur 2010, 36-37.) Key partnerships describe the network of suppliers and partners that the business model needs, such as suppliers, key partnerships, sub-contractors and more (Osterwalder & Pigneur 2010, 38-39). The last building block, according to Osterwalder and Pigneur (2010, 40-41) is the cost structure. This block describes the most important costs, the most expensive key resources, key assets, and key activities. It may be useful, thus, to distinguish between two broad classes of business model cost structures, cost-driven and value-driven (Osterwalder & Pigneur 2010, 41).

2.2 Industry Analysis

For a company to be successful analyzing the industry and the environment in which the company operates is important. There are many tools for analyzing the industry. Osterwalder and Pigneur (2010, 200) suggest mapping four main areas of the environment. These are market forces, industry forces, key trends, and macroeconomic forces.

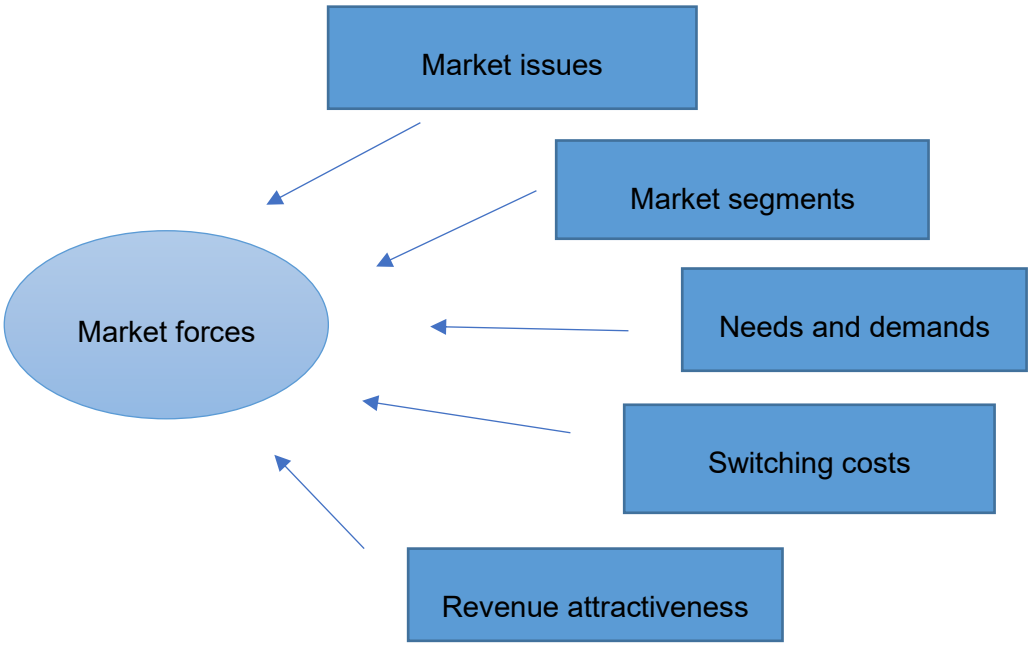

Figure 3. Market Forces – Market Analysis (adapted from Osterwalder & Pigneur 2010, 202)

Figure 3 illustrates the five key components of analyzing market forces. These are market issues, market segments, needs and demands, switching costs, and revenue attractiveness. Market issues help identify key issues driving and transforming the market from customer and offer

perspectives. Market segments identify the major market segments, describe their attractiveness, and seek to spot new segments. Needs and demands outlines market needs and analyses how well they are met. Switching costs describes elements related to customers switching business to a competitor. Finally, revenue attractiveness describes how attractive the revenue is (i.e., how much the customers are willing to pay) and the pricing power. (Osterwalder & Pigneur 2010, 202.)

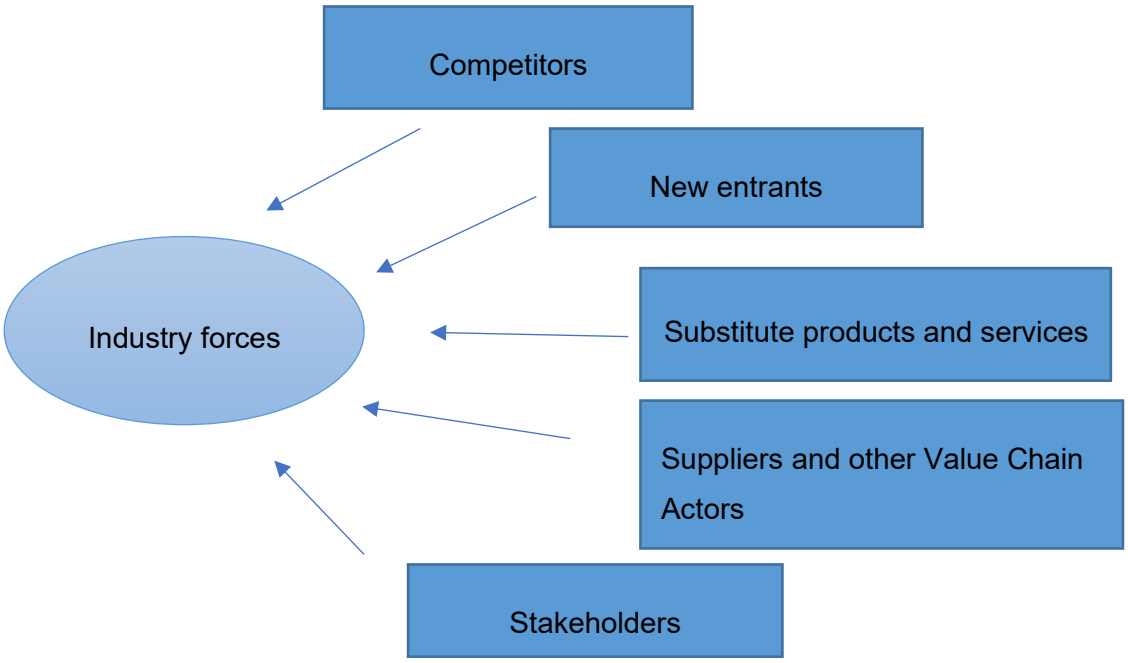

Figure 4. Industry Forces – Competitive Analysis (adapted from Osterwalder & Pigneur 2010, 204)

Figure 4 aims to divide the industry forces into five main elements. These are competitors, new entrants, substitute products and services, suppliers and other value chain actors, and stakeholders. Competitors are the key competitors of the company, the dominant players, and seek to analyze their strengths and weaknesses. New entrants identify new players and determine if they can compete with a different business model than that of the company. Substitute products and services ask which products/services could replace the current ones and how easy it would be to switch to those. Suppliers and other value chain actors describe the key value chain partners or providers and tries to identify to which extend is the business model dependent on other players. Finally, stakeholders analyzes which stakeholders might influence the business, how they might influence and how influential they are. (Osterwalder & Pigneur 2010, 204.)

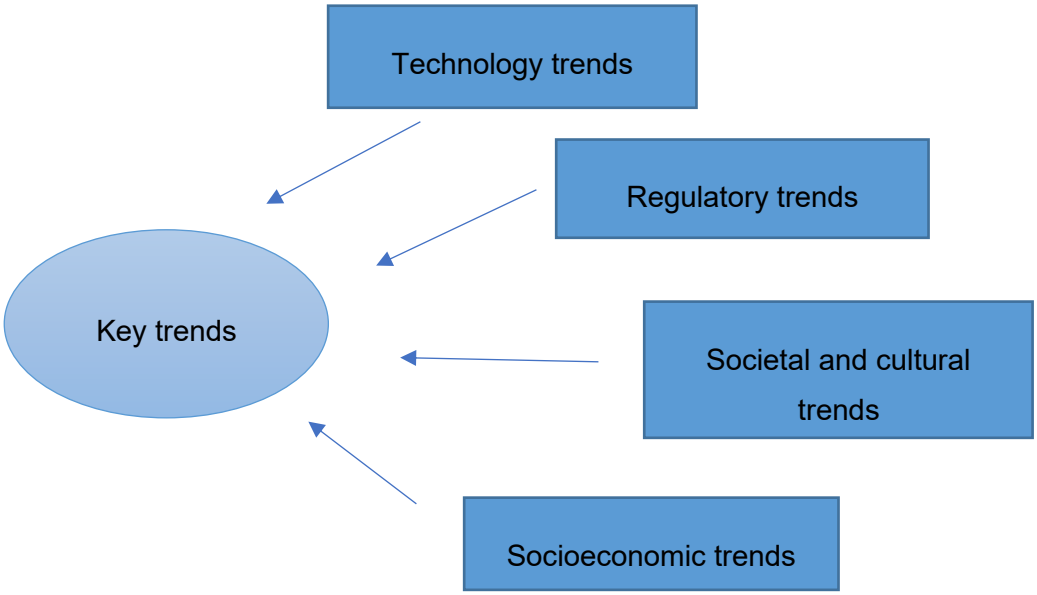

Figure 5. Key Trends – Foresight (adapted from Osterwalder & Pigneur 2010, 206)

In figure 5, the aspects of foresight a company should evaluate are discussed. These include technology, regulatory, societal and cultural, and socioeconomic trends. Technology trends identify trends that could threaten, evolve, or improve the business model. Regulatory trends describe regulations and regulatory trends that influence the business model, such as any rules that may affect the business or any regulations or taxes that affect customer demand. Societal and cultural trends identify major societal trends that may influence the business model. Socioeconomic trends outline major socioeconomic trends relevant to the business model, such as key demographics, wealth and income distribution in the market, and spending patterns of customers. (Osterwalder & Pigneur 2010, 206.)

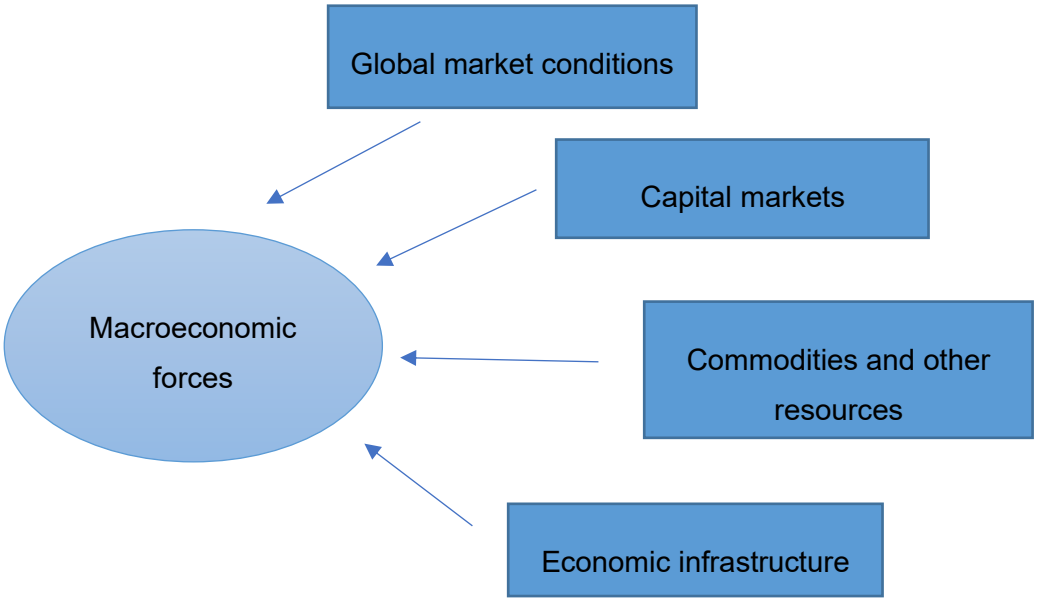

Figure 6. Macroeconomic Forces – Macroeconomics (adapted from Osterwalder & Pigneur 2010, 208)

As figure 6 illustrates, the macroeconomic forces consist of global market conditions, capital markets, commodities and other resources, and economic infrastructure. Global market conditions outline current overall conditions from a macroeconomic perspective, such as boom or bust phase, the general market sentiment, and the unemployment rate. Capital markets describe capital market conditions as related to capital needs, such as how easy it is to obtain funding and how costly acquiring the capital is. Commodities and other resources highlight current prices and price trends for resources required for the business. Economic infrastructure describes the economic infrastructure of the market in which the business operates, such as how good public infrastructure is, how high are taxes, how good are the public services for the company and so on. (Osterwalder & Pigneur 2010, 208.)

2.3 Management Accounting

Financial and management accounting have different goals. Management accounting is the process of measuring, analyzing, and reporting financial and nonfinancial information that helps managers make decisions to fulfill the goals of an organization. Financial accounting focuses on reporting financial information to external parties. Reports such as balance sheets, income statements, and statement of cash flows are common to both financial and management accounting. (Horngren & al. 2015, 25-26.)

Management accounting focuses on the future and aims to help managers make decisions to fulfill the organization's future goals. The prime users of management accounting are internal users, such as managers of the organization, but also other employees. The type and time span of reports varies between organizations, typically from hourly to yearly reports depending on the needs of the organization and the type of reports. Cost accounting (Horngren & al. 2015, 26) is the process of measuring, analyzing, and reporting financial and nonfinancial information related to the costs of acquiring or using resources in an organization. In this thesis, based on the viewpoint of Horngren and others (2015, 26), the author takes the perspective that cost information is a part of management accounting and thus these terms can be used interchangeably.

Strategic cost management (Horngren & al. 2015, 27) describes cost management that specifically focuses on strategic issues. Management accounting helps formulate strategy by answering questions such as:

- Who are our most important customers, and how can we be competitive and deliver value to them?
- What substitute products exist in the marketplace, and how do they differ from ours?
- What is our most critical capability? Technology, production, marketing, or something else?
- Will adequate cash be available to fund the strategy, or will additional funds need to be raised?

Three key management accounting guidelines help management accountants provide the most value to the strategic and operational decision making of the companies. Employ a cost-benefit approach, give full recognition to behavioral and technical considerations, and use different costs for different purposes. (Horngren & al. 2015, 35.)

2.4 Pricing

Pricing is perhaps the single most important decision a business makes. In theory, the price of a product or service can be set at any level. In practice, there are many factors that affect pricing decisions. Horngren and others (2015, 539-540) list three major factors that affect pricing decisions: customers, competitors, and costs. Customers influence price through their effect on the demand for a product or a service. Alternative or substitute products of competitors hurt demand and cause companies to lower their prices. Costs influence prices because they affect supply. The lower the cost of producing a product or a service, the greater the quantity of product the company is willing

to supply. Miller-Nobles and Mattison (2022, chapter 10) argue that, when setting regular prices, three basic questions must be answered by the management: what the company's target profit is, how much will customers pay, and is the company a price-taker or a price-setter for the product or service.

According to Miller-Nobles and Mattison (2022, chapter 10), a company is a price-taker for a product or a service when the product lacks uniqueness, there is intense competition or pricing approach emphasizes target pricing. A company is a price-setter when the product or service is more unique, there is less competition, and their pricing approach is more cost-plus pricing. In target pricing, the sales price is taken from the market, that is how much the customers are willing to pay for the service or the product. In cost-plus pricing, the pricing approach starts with the full product or service costs and adds the desired profit to determine the price instead of "taking" the price from the market. (Miller-Nobles & Mattison 2022, chapter 10.) According to Kaufman (2020, 122-123) a common misbelief is that lowering prices increases sales, when often rising prices can attract more customers. Discounts attract customers when the offer is a commodity. In practice, rising prices can increase demand by appealing to a more attractive type of customer.

Table 2. Pricing mechanisms (adapted from Osterwalder & Pigneur 2010, 33.)

Fixed Menu Pricing	**Dynamic Pricing**
List Price	Negotiation (bargaining)
Product feature dependent	Yield management
Customer segment dependent	Real-time-market
Volume dependent	Auctions

Osterwalder and Pigneur (2010, 32-33) discuss the two main types of pricing mechanism: fixed and dynamic pricing. In fixed menu pricing, the predefined prices are based on static variables. The four different fixed menu pricings are: list price, product feature dependent, customer segment dependent, and volume dependent. In list price, the price is dependent on individual products, services, or other value propositions. In product feature dependent, the price depends on the number or quality of value proposition features. For customer segment dependent, the price depends on the type and characteristic of a customer segment and in volume dependent, the price is a function of the quantity purchased.

In dynamic pricing, the prices change based on market conditions. In negotiation (bargaining), the price is negotiated between two or more partners and is dependent on negotiation power and/or skills. For yield management, the price depends on inventory and time of purchase (commonly

used for perishable resources such as hotel rooms or airline seats). In real-time-market, the price is established dynamically based on supply and demand and in auctions, the price is determined by the outcome of a competitive bidding. (Osterwalder & Pigneur 2010, 33.)

Kaufman (2020, 120-122) discusses the Four Pricing Methods, which are replacement cost, market comparison, discounted cash flow/net present value, and value comparison. The replacement cost method supports a price by asking a simple question: “How much would it cost to replace?” The market comparison method supports the price by asking how much other similar things are selling for. The discounted cash flow/net present value supports the price by asking: “How much is it worth if it can bring in money over time?” This method is only useful for pricing things that can produce an ongoing cash flow. The value comparison seeks to find who the product/service is particularly valuable for. Value comparison is usually the optimal way to price, since the value of an offer to a specific group can be quite high, resulting in a much better price.

2.5 Financial Projections

The statement of cash flows is an important and necessary statement because it shows the overall increase or decrease in cash during the period, as well as how the company generated and used cash during the period (Braun & Tietz 2015, 784.) The cash flow statement helps all stakeholders, including employees, suppliers, creditors, investors, and governmental authorities evaluate how the company has generated and used cash in the past. It also helps management understand if the company is generating sufficient cash inflows and if the cash outflows are increasing or decreasing. Braun and Tietz (2015, 785) list three types of activities in which the statement of cash flows classifies all business transactions: operating activities, investing activities, and financing activities. Operating activities primarily consist of the day-to-day profit-making activities of the company, such as selling goods or services, paying employees, advertising etc. Investing activities include transactions that involve buying or selling long-term assets, such as plants and machinery. Financing activities include transactions that generate capital for the company or pay it back, such as issuing long-term debt, selling company stock or paying dividends to stockholders.

Cost-volume-profit (CVP) analysis, according to Horngren and others (2015, 88), is used to study the behavior of and relationship among total revenue, total costs, and income as changes occur in the number of units sold, the selling price, the variable cost per unit, or the fixed cost of a product/service. The contribution margin indicates why operating income changes as the number of units sold changes. The contribution margin is calculated as below. (Horngren & al. 2015, 90-91.)

Contribution margin= Total revenues – Total variable costs

Operating income can then be calculated from contribution margin using the following formula:

Operating income= Contribution margin – Fixed costs

Contribution margin per unit is a useful tool for calculating contribution margin and operating income. It is defined by Horngren and others (2015, 91) as below.

Contribution margin per unit= Selling price- Variable cost per unit

Income statement can sometimes be expressed as contribution income statement (see table 3), grouping costs into variable and fixed costs to highlight contribution margin.

Table 3. Contribution income statement (adapted from Horngren & al. 2015, 91)

Revenues
- Variable costs
= Contribution margin
- Fixed costs
= Operating income

There are three related methods to think more deeply about and model CVP relationships, the equation method, the contribution margin method, and the graph method The equation method and the contribution method are most useful when determining operating income at few specific sales levels, and the graph method helps visualize the relationship between units sold and operating income over a wide range of quantities. (Horngren & al. 2015, 93.)

The breakeven point is that quantity of output sold at which total revenues equal total costs, that is the result is 0 of operating income (Horngren & al. 2015, 95). Per unit the breakeven point would be calculated as:

Contribution margin per unit – Fixed costs = Breakeven point

In practice, however, as companies usually have multiple products or services) is its more benefical to calculate the breakeven point in terms of revenues using contribution margin percentages (Horngren & al. 2015, 96). The contribution margin percentage is calculated as:

Contribution margin / Revenues = Contribution margin percentage

and the breakeven revenues as:

Fixed costs / Contribution margin percentage = Breakeven revenues

According to Horngren and others (2015, 97) target operating income is a useful calculation to determine how many units are needed to sold to reach a certain operating income. The formula for calculating quantity of units sold to reach a desired target operating income can be expressed as below.

Fixed costs + Target operating income / Contribution margin per unit = Quantity of units required to be sold

The revenues needed to earn the desired operating income can be calculated as below (Horngren & al. 2015, 97).

Fixed costs + Target operating income / Contribution margin % = Revenues needed to earn target operating income

Sensitivity analysis is a “what-if” technique used to examine how an outcome will change if the original predicted data are not achieved or if an underlying assumption changes (Horngren & al. 2015, 101). This helps visualize multiple outcomes that might occur before committing to a project or starting a venture. According to Horngren and others (2015, 101), another aspect of sensitivity analysis is margin of safety. Margin of safety can be calculated as:

Budgeted (or actual) revenues – Breakeven revenues = Margin of safety.

or as:

Budgeted (or actual) sales quantity – Breakeven quantity = Margin of safety (in units).

The margin of safety answers the “what-if” question: If budgeted revenues are above the breakeven point and drop, how far can they fall below budget before the breakeven point is reached. Sensitivity analysis can provde a good feel for decisions’s risks. (Horngren & al. 2015, 101.)

3 Business Model Environment

3.1 Analysis of the current situation

The tourism operator company aims to provide guided tour services and rental services to international and domestic tourists in Ilomantsi region. The tours are focused around themes, such as the War Road, Möhkö village and its surrounding area, the historic centre of Ilomantsi, the Karelian food and culture, and Lake Koitere. In the future these tours can be expanded to cover more areas, such as the lake Suomujärvi as well as Patvinsuo and Petkeljärvi national park. The renting services consist of bikes, snowshoes, and canoes.

The main tourist attractions in Ilomantsi include national parks, the historic center of Ilomantsi including Parppeinvaara, Orthodox churches and eukterions (small chapels), the historical Möhkö Ironworks area and museum, and the War Road and related museums and sights (Visit Ilomantsi 2023; Ilomantsin sotatie 2023.) Ilomantsi has two national parks, Petkeljärvi and Patvinsuo. Petkeljärvi has ridges formed during the last Ice Age and pristine blue lakes. Patvinsuo has open marshes and is located on the shorelines of lakes Suomujärvi and Koitere. (Metsähallitus 2022a; Metsähallitus 2022b.)

The owner of the company will be working full-time as a guide, but in the future a part-time worker could be employed during peak tourism times (summer and winter holidays) to increase the number of tours and manage rental equipment.

3.2 Industry analysis

The industry analysis is based on the industry analysis model presented by Osterwalder and Pigneur (2010, 200-209).

The main market segments are domestic and international tourists. In North Karelia, the total number of tourists measured as registered accommodations in 2022 was 494 000 (Visit Karelia 2023). The tourist segments can be divided further by interests and language. The largest international tourist groups are Germans, followed by Swedes and then different European nationalities such as Estonians, French, and Swiss, with numbers varying between months measured (Visit Karelia 2023). The severest decline has been in Russian-speaking tourists due to international events. In

2022, the percentage of international tourists in North Karelia (measured as registered accommodations and accommodation sales) was 6,5% in June, 5,3% in July, 8,1% in August, and 10,3% in December (Visit Karelia 2023).

For Ilomantsi specifically there is no specific study on the number of tourists. Some estimates can be drawn from figures such as visitors to museums or the number of tourists visiting the tourist information spot located at Parppeinvaara. The number of visitors at Parppeinvaara museum in 2022 was 4 340 and at Möhkö Ironworks 4 070. The tourist information spot served 155 persons recorded between June and August 2022, with international tourists representing 17,1% of the visitors. (Ilomantsin matkailuyhdistys ry 2022.)

The interests between domestic and international tourists may vary. Many are attracted to Ilomantsi due to the nature, with the national parks and hiking routes being popular. In the fall, many domestic hunter groups visit Ilomantsi. The War Road is a growing attraction for both domestic and international tourists. The Karelian culture is also an attraction for both groups. The biggest growth potential is in international tourists with special interests, such as the war history or pristine nature.

The key market issues include the relative difficulty of reaching Ilomantsi, both as a domestic and international tourist. The nearest railway station with frequent service is Joensuu railway station, located 70 kilometers from Ilomantsi center (Visit Ilomantsi 2023). The airport at Joensuu is serviced by Finnair, but the service is scheduled to end in 2023 with no future plans proposed (Traficom 2023). There are frequent buses from Joensuu. The use of one’s own or rented car is advised, as many tourist locations are difficult to reach or are located some distance away from Ilomantsi center. Another market issue is the lack of workforce in Ilomantsi. Many events or services are scaled down due to lack of sufficient workforce, even during the high tourism peak in summer.

The customers need accommodation, food, and services. The first two demands are reasonably well met. There are two hotels and various other places offering accommodation in Ilomantsi. The restaurants in Ilomantsi center cater to a decent standard, with Parppeinpirtti restaurant offering unique Karelian style food (Parppeinpirtti 2023).

The largest unsatisfied need of customers is the services. There is a lack of tourist-focused activities and services. Möhkö Ironworks and the surrounding Möhkö village currently have the best tourism services and infrastructure and run their own website. Ilomantsi Museum Foundation manages the museums in Ilomantsi and offers tours of the museums as well as the Möhkö Ironworks

area (Parppeinvaara 2023). Mantan Luontopalvelut offers nature focused tours and services such as bush crafting, fishing, kayaking, and snowmobile- and shoe tours (Möhkön Manta, 2023).

There is a growing demand for guided tours. For example, the hotel Pogostan Hovi offered in summer 2022 four guided tours for the War Road, and even with minimal marketing three sold out. The are no other guided tours of the War Road currently offered and the tourists are required to tour amongst themselves. The website for the War Road does offer suggested tour ideas and timetables. (Ilomantsin sotatie 2023.)

The switching costs for the customers are minimal. Finland, especially Lapland, offers many well-marketed and operated tourist attractions. The key locations in Lapland are also well branded and the whole Lapland area is the most important location for Finnish tourism industry. Lapland is also the main competitor, but other tourism regions of Finland are also competitors. Their competitive advantages are economies of scale, strong branding and already established tourist attractions. North Karelia and Ilomantsi are located so that they do not benefit from the streams of tourists going to Lapland (there is no pass-by traffic). The main downside for Ilomantsi´s growth is the lack of branding for Ilomantsi specifically. Currently Ilomantsi is part of the Lakeland tourist branding and as such can easily vanish from the tourist map, especially since the Saimaa lake region is much easier to reach for an international tourist arriving in Helsinki. (Visit Karelia 2023; Visit Finland 2023.)

There are no major regulatory trends that could threaten the business directly. A decrease in travel by air could cause the flow of international tourists to slow down. A major societal and cultural trend that has a positive impact on the company is the growing need for personalized travel services. The focus on green and sustainable tourism is also a positive trend that can be capitalized by offering tours focusing on nature and switching modes of transportation to greener alternatives, such as electric powered boats.

A major technology trend that could threaten the company is better virtual realities that enable tourists to experience the tourism sites from their own home. It is, however, quite unlikely that virtual reality could fully replace the real experience of traveling to the site and seeing it for yourself. The current socioeconomic trend that has an impact, at least short-term, for the company is a possible bust economy, as tourism and especially guided tours are largely a luxury service that will not thrive in an economy that is on a downward spiral.

The capital market is in a relatively good condition, as capital is quite accessible, although the cost of capital has increased significantly, with the current European Central Bank interest rate on March 22nd on the deposit facility being at 3 % and the interest rate on the main refinancing operations at 3,50 % (European Central Bank, 2023a). This interest rate influences the interest rate of any possible loans that might be required to finance the company. The current inflation rate of 6,7 % in Finland in March 2023 according to the European Central Bank (2023b) is high. This has an impact on the prices of commodities, and it is likely that prices will rise because of high inflation.

3.3 Customer Segments

Customer segments of the company can be divided into two broad segments, which are then divided into further subcategories. The two main customer segments are international and domestic tourists. This thesis will place its main focus on international tourists. The guided tour market is a very niche market, targeting a specialized customer segment, and as such the tours are tailored to the specific requirements of the target audience. The international tourist customer segment can be divided into several subcategories, such as history enthusiasts, nature and peace- seekers, and people who seek something different. The value proposition of the company is delivering specific guided tours for demanding customers. The tours proposed in the business plan form the basic building block and further specialized tours could be prepared in the future.

The customers are reached via multiple channels. The main channel will be co-operation with Ilomantsi Tourism Association and Visit Karelia. The customers are also reached via participation in various expos, such as Travelling in Finland Expo (Kotimaan matkailumessut 2023). Another main channel will be the company´s website, as that will serve as the main source of information for potential customers. Social media channels such as Facebook and Instagram will also be utilized. Participating in international expos is vital for reaching international tourists and tourism operators.

4 Business Plan Financials

4.1 Services

The key service of the company is guided tours offered to tourists. These tours and packages offered can be divided into two subsections, one directed at self-travellers and the other a bespoke service. For those tourists interested in touring the region themselves, a rental service for bikes, canoes, and snowshoes is offered. Bespoke services are offered widely, focusing on the unique aspects of Ilomantsi, such as the close proximity with Russia, the War Road, and the historical Karelian areas and nature. Especially for international tourists the Karelian culture, food, and way of life are a key selling point. All tours will be offered in Finnish, English, or German. Further languages could be added in the future.

An example short tour of the War Road could consist of the following:

1. Meeting with the guide at Ilomantsi Centre or designated spot with a greeting drink and introductions.
2. A journey to Öykkösenvaara, with stops along the way at interesting historical locations.
3. Arrival at Öykkösenvaara, a tour of the historical battleground and museum. Lunch at Öykkösenvaara.
4. A short trip to the Russian border.
5. A stop at Möhkö village, visit to the Möhkö Memorial and Möhkö Ironworks.
6. A stop at Oinassalmi Memorial site and a visit to a restorated machine-gun nest.
7. A stop at Taivallampi Memorial site.
8. Return to Ilomantsi Centre/starting location.

The total length of the tour is estimated at around 5 hours 30 minutes and 80 kilometers. The travelling is arranged by a minibus operated by the company. The variable costs of the tour include fuel, lunch costs, greeting drinks, a small War Road pin as memorabilia, and entrance fees to Möhkö Ironworks and museum. The tour is specially marketed for international tourists interested in the wartime history of Ilomantsi and North Karelia, with the unique selling point that Ilomantsi is one of the few regions in modern-day Finland where battles between Finland and the Soviet Union took place during World War 2. For international tourists arriving in Ilomantsi from Joensuu airport or railway station, a travel option by the company minibus could be offered. This has not been included in the calculations in this thesis but is a future consideration for the company.

Other tours offered by the company are:

- Nature Trail tour
- Nature Trail tour overnight
- Karelian food and culture tour
- Koitere lake tour

Both the nature trail and nature trail overnight tours are for both domestic and international tourists. Karelian food and culture tour is specifically designed for both domestic tourists not from North Karelia and international tourists interested in the unique food and culture experience of Ilomantsi and North Karelia. Koitere lake tour is targeted at international tourists but is naturally available for domestic tourists as well.

4.2 Pricing and sales projection

The revenue stream is created by the cost of the tour paid by the customer, or the rental cost of the equipment. The cost structure is more value-driven, as the tours can be considered a more premium service and focus on creating value for the customer. The pricing mechanism for most tours is a mix of fixed and dynamic pricing, as the price is dependent on the number of customers on each tour, the length of the tour and any special requests or arrangements.

The pricing for tours is based on a mixed method of market comparison and value pricing. The prices for tours can be considered somewhat price elastic, as the type of tour and increase or decrease in demand can result in higher or lower prices. The market comparison was performed by searching via the internet how similar tourism industry operators price their services. Not all services had a direct comparable market equivalent, in those cases estimates based on prices of other services were used as estimates.

Hotel Pogostan Hovi offers a guided tour of the War Road in summer 2023, set at 85 euros per person (Hotelli Pogostan Hovi 2023). The tour is 7 hours, the price includes transportation and lunch. The tour is focused on Taistelijan talo (Soldier´s house) at the northern end of the War Road. Ilomantsi Museum Foundation offers several tours, such as a tour of Karelian Culture in Parppeinvaara, price is set at 90 euros per guided tour, the duration of the tour being 2,5 hours (Parppeinvaara 2023). Mantan Luontopalvelut offers a river boat tour at river Koitajoki, priced at 25 euros per person for a 1,5-hour trip. They also offer a combined river boat and cycling tour for 50

euros per person, the length of the trip being dependent on the return journey done cycling at own leisure. (Hotelli Pogostan Hovi 2023; Möhkön Manta 2023.)

The pricing for equipment rentals is based on market comparison method, as the prices are very similar across Finland and the higher value costing method cannot be justified on a product that has low price elasticity. Wild Taiga operating in Kuhmo and Suomussalmi area offers rentals for canoes at 30 euros per person and snowshoes at 20 euros per person. Mantan Luontopalvelut offers bike rentals at varied costs depending on the length of time, such as 2-4 hours at 30 euros and a day rental at 50 euros per person. They also offer snowshoe rental at 15 euros for 2 hours or 25 euros a day. Their canoe rents are priced at 50 euros a day. (Möhkön Manta 2023; Wild Taiga 2023.)

Table 4. Guided tours pricing per customer

Tours	**Price per customer (EUR)**
War Road tour	100
Nature Trail tour	125
Nature Trail tour overnight	270
Karelian food and culture tour	140
Koitere Lake tour	170

Based on the market research, the tours are priced as presented in Table 4. War Road tour is priced at 100 euros per customer, a nature trail tour is priced at 125 euros per customer, and an overnight nature trail tour is priced at 270 euros per customer. A Karelian food and culture tour specifically targeted at international tourists is priced at 140 euros per customer and a Koitere lake tour is priced at 170 euros per customer.

Table 5. Projected sales, first operating year, tours

Tours	Number of tours	Average no. Customers per tour	Price per customer (EUR)	Total price per tour (EUR)	Total sales (EUR)
War Road tour	14	8	100	800	11 200
Nature Trail tour	20	7	125	875	17 500
Nature Trail tour overnight	10	4	270	1 080	10 800
Karelian food and culture tour	10	8	140	1 120	11 200
Koitere Lake tour	10	4	170	680	6 800
Total sales tours					**57 500**

Table 5 presents the projected sales for the first operating year of the company. The total number of customers reached by the tours is estimated at 412 customers, with the largest number of customers coming from the nature trail tour at 140 customers. Both the nature trail overnight and Koitere lake tour have the lowest projected customer participation numbers at 40 customers each. These tours present a higher risk due to the lower estimated average number of customers per tour, but can also be considered work for the future, as longer tours could be added in the future, such as a week-long nature trail. For Koitere lake tour, more specialized services could be added in the future, such as fishing as part of the tour, or a visit to nearby swamps for birdwatching.

Table 6. Projected sales, first operating year, rentals

Rental	Number of times rented	Price per day	No. Days rented	Total sales (EUR)
Bikes	120	50	2	12 000
Canoes	60	50	3	9 000
Snowshoes	100	20	1	2 000
Total sales rental				**23 000**

The projected sales for the first operating year for rentals are shown in table 6. The company plans to purchase four canoes, eight pairs of snowshoes, and six offroad bikes available for rent. The prices are based on market research. The bikes and canoes are rented mostly during summer season, and snowshoes during winter holidays. The prices are per day, but price differentiation could be considered in the future, such as two-hour rent having a different price than a full-day rental. The number of days rented is an estimated average of all rentals. All rentals are currently offered

for self-travelers but in the future guided tours could be added, such as a snowshoe tour of Lake Koitere, or a nature trail tour by bike.

4.3 Costs

The company will incur costs from both operating the tours, renting the equipment, and fixed costs required to run the business. Variable costs of the tours include costs such as food, fuel, entrance fees, and the variable salary expenses. A more detailed break-down of the costs of the War Road tour is provided in chapter 4.4. The other tours' variable costs are rough estimates.

Table 7. Variable costs of tours

Tours	Average no. Customers per tour	Variable costs per customer (EUR)	Total variable costs per tour (EUR)	Total variable costs (EUR)
War Road tour	8	23	186	2 605
Nature Trail tour	7	35	245	4 900
Nature Trail tour overnight	4	80	320	3 200
Karelian food and culture tour	8	45	360	3 600
Koitere Lake tour	4	80	320	3 200
Total variable costs, tours				**17 505**

Table 7 shows the estimated variable costs per customer in euros, the total variable costs per tour, and the total variable costs for all the tours. The highest total variable cost is 4900 euros for the Nature Trail tour, with 20 projected tours at seven average customers per tour and a variable cost of 245 euros per tour. The lowest variable costs are for the War Road tour, with variable costs of 186 euros for a single tour. With projected 14 tours with eight average customers, the total variable costs of the War Road tour are estimated at 2605 euros. The total variable costs of all tours for the first year are estimated at 17 505 euros.

Table 8. Variable costs of rentals

Rental	Average time per rent (days)	Variable cost per rent (EUR)	Total variable costs (EUR)
Bikes	2	4,00	960
Canoes	3	10,00	1 800
Snowshoes	1	2,00	200
Total variable costs, rental			**2 960**

Table 8 shows the variable costs of rentals. The variable costs of rentals include the maintenance directly associated with the rental. The variable costs are estimated at 4 euros for the bikes, 10 euros for the canoes, and snowshoes at 2 euros per rent. The total variable costs of the rentals are estimated at 2 960 euros.

Table 9. Estimated fixed costs of the company, first year

Fixed costs	Yearly costs (EUR)
Office rent	3 600
Insurance	960
Fuel (non-variable)	180
Repairs and maintenance	2 880
Supplies	240
Marketing	3 600
YEL insurance	4 800
Fixed salary costs	25 000
Telephone	240
Internet	240

Fixed costs	Yearly costs (EUR)
Bookkeeping	1 200
Website	1 500
Establishing costs for the company	500
Interest expense	1 802
Loan payback	5 030
Depreciation on vehicles	5 000
Depreciation on equipment	2 860
Total costs (EUR)	**59 633**

Table 9 shows the estimated fixed costs of the company incurred during the first year of operations. Fixed costs include advertising, telephone costs, internet costs, maintenance and repairs, new equipment, rent for office (mainly used for storage), and depreciation for vehicles. The total salary costs of the entrepreneur for the first year are estimated at 25 000 euros. The statutory YEL (self-employed person's pension insurance) pension scheme is estimated at 400 euros per month for a total of 4800 euros for the first year. This sum is based on the estimated yearly YEL income of 25 000 euros and includes a 22% discount for new entrepreneurs (Ilmarinen 2023). Total fixed costs for the first operating year are estimated at 59 633 euros. The depreciations on vehicles and equipment is based on the Finnish tax rules in effect at 25% of the value of the vehicle and equipment per year as maximum depreciation expense allowed (Vero 2023).

Table 10. Assets purchased, first year

Vehicles and equipment	Purchase price (EUR)	Amount purchased	Total purchase price (EUR)
Minibus	20 000	1	20 000
Canoes	1 500	4	6 000
Snowshoes	80	8	640
Bikes	800	6	4 800
Total			**31 440**

As indicated in table 10, the company will purchase a minibus for customer transportation during tours. A boat for lake tours will also be purchased. In the beginning, four canoes, eight pairs of snowshoes, and six offroad bikes are purchased. These will be available for rent. The minibus is estimated to cost 20 000 euros. The canoes are estimated to cost 1500 euros each, the snowshoes 80 euros per pair, and the bikes are estimated to cost 800 euros each. Total purchases for the first year of operations are estimated at 31 440 euros.

4.4 Guided tour package cost structure analysis

The following will present a detailed break-down of the cost structure and cost-volume profit analysis of the War Road tour. As discussed in Chapter 4.2, the tour is priced at 100 euros per person. The estimated average number of customers per tour is eight. The targeted operating profit is 5 000 euros. The author of this thesis calculated the variable and fixed costs, as well as contribution margins, operating income, break-even point, target operating income, and analyzed decisions such as should the tour be more heavily advertised, and performed a sensitivity analysis by calculating a margin of safety.

Table 11. War Road tour variable costs for an eight person tour

Item	Total costs (EUR)
Lunch costs	64,00
Greeting drinks	40,00
War Road pin	8,00
Entrance fees	48,00
Fuel	26,05
Total	**186,05**

The variable costs are presented in table 11 as total costs. Fuel costs are estimated based on the following assumptions: average consumption of fuel 11,1 liters per 100 kilometers and the cost of fuel per liter at 2,20 euros, kilometers driven during the tour estimated at 80 kilometers. The total variable costs of a single tour are 186,05 euros. The fixed costs of the tour are estimated at 8 271,12 euros (see Appendix 2). The contribution margin of a single tour with eight average customers is 800 euros – 186,05 euros = 613,95 euros and the contribution margin ratio of the tour is 75,74%.

The breakeven point of the tour can be calculated by dividing the fixed costs by the contribution margin. Thus 8 271,12 / 613,95 = 13,47. The breakeven point of 13,47 shows that for the tour to

break even, more than 13 tours would need to be sold. To calculate how many tours are required to be sold to reach the target operating profit of 5 000 euros, the following calculation is used: (Fixed costs + target operating profit) / Contribution margin, thus: (8 271,12+5 000) / 613,95 = 21,62. To reach the target operating profit of 5 000 euros, 22 tours would need to be sold. As the sales projections assume that 14 tours would be sold, the target operating profit is not reachable based on the calculations. This is because fixed costs are considerably higher during the first year of the operations, as the fixed costs include items such as establishing costs and high deprecation costs during the first year.

Table 12. Contribution income statement, War Road tour

Revenues	11 200,00
Variable costs	2 604,67
Contribution margin	8 595,33
Fixed costs	8 296,75
Operating income	298,58

Table 12 is the contribution income statement for the War Road tour with the assumed number of tours sold at 14. The contribution income statement shows that the total revenues are 11 200 euros, the contribution margin is 8 595,33 euros, and the operating income is 298,58 euros. This is 4 701,42 euros less than the target operating profit of 5 000 euros.

The sales assumptions are careful in their estimations, as it would be risky to be overly optimistic with the sales projections as that could lead to negative operating profits. To determine how risky the current assumptions are, margin of safety calculation was performed. The margin of safety for the tour is the budgeted revenue of 11 200 euros – breakeven revenue of 10 810,94 euros = 389,06 euros. The margin of safety percentage is 389,06 / 11 200 = 3,47%. This analysis implies that if the sales drop by even 3,47%, the tour would operate at a loss. In practical terms this means that if 13 tours are sold instead of the budgeted 14, the tour operates at a loss.

Table 13. Decision to advertise, CVP analysis

	14 tours with no advertising (EUR)	16 tours with advertising (EUR)	Difference (EUR)
Revenues	11 200,00	12 800,00	1 600,00
Variable costs	2 604,67	2 976,77	372,10
Contribution margin	8 595,33	9 823,23	1 227,90
Fixed costs	8 296,75	8 796,75	500,00
Operating income	298,58	1 026,49	727,90

Should this possible risk be offset by marketing the tour more heavily? Table 13 shows that if by spending 500 euros on advertising the tour the number of tours sold would increase from 14 to 16, the contribution margin of the tour increases to 9 823,23 euros and the operating income of the tour would improve by 727,90 euros. The calculation in table 13 indicates that advertising is a good decision as the operating income would increase. The author of this thesis is of the opinion that an increase of two tours is not an unrealistic estimation, but the growth is dependent on other factors aside from marketing.

4.5 Financing sources for the business

The company can be financed in many ways. The 2022 Guide: Becoming an Entrepreneur in Finland (2022) lists three funding sources that are used in most cases, the entrepreneurs own funding, loans, and possible grants. Own funding generally refers to investing one's own savings or other assets into the business. Loans are granted by banks, pension insurance companies and other financial institutions. Possible grants include The Centre for Economic Development, Transport and the Environment (ELY) business development aid or business financing for rural areas. The entrepreneur can also apply for a start-up grant, designed to secure the entrepreneur's livelihood as a new entrepreneur.

To finance the purchase of assets, that is the minibus and the rental equipment for a total cost of 31 440 euros, a bank loan is needed. The loan will be 25 152 euros or 80% of the amount needed to purchase the assets, the remaining 20% will be collateral provided by the entrepreneur. The

loan term is five years, the cost of credit is estimated at 7,35%, including margin and a Euribor rate. The repayment plan is equal amortization.

4.6 Budgeted Income Statement and Balance Sheet

The budgeted income statement and balance sheet for the first year of operations are based on the calculations presented in chapters 4.2, 4.3, and 4.4. The revenue for the first year can be considered optimistic, however there is real demand for specialized tours and rental services. The costs for the first year are high, but the costs can be expected to go down in future years as the depreciations are smaller each year, assuming no new assets are purchased. Additionally, the interest expense on the loan will decrease as payments on the loan are made due to equal amortization.

Table 14. Budgeted Income Statement, first year of operations (EUR)

Income Statement	
Net sales	**80 500**
Cost of sales	20 465
Gross profit	**60 035**
Selling, general and administrative expenses	52 800
Operating income	**7 235**
Interest and loan expense	6 833
Income before taxes	**402**
Income tax expense	80
Net income	**322**

Table 14 shows the budgeted income statement for the first year of operations. The net sales are estimated to be 80 500 euros and the cost of sales is 20 465 euros. The gross profit for the first year is 60 035 euros. The selling, general, and administrative expenses are 52 800 euros. The operating income for the first year is 7 235 euros. The interest and loan expenses are 6 8323 euros. The income tax for the profit earned is 80 euros and the projected net income is 322 euros.

The contribution margin ratio for the first year's operations is 20 465 / 80 500 = 74,58%. The breakeven point for the first year can be calculated by using the euros of sales as the volume measure. Thus, the breakeven point is 59 633 (total fixed costs) / 0,7458 = 79 958 euros.

Table 15. Budgeted Balance sheet, end of first year of operations

Assets	**EUR**
Cash	800
Vehicles	15 000
Equipment	8 580
Total assets	**24 380**
Liabilities & Shareholder´s Equity	
Current liabilities	
Accounts payable	1 856
Current portion of long-term debt	5 030
Income taxes payable	80
Long-term liabilities	
Bank loan	15 091
Total liabilities	22 058
Share capital	2 000
Retained earnings	322
Total Liabilities & Shareholder´s Equity	**24 380**

Table 15 shows the budgeted balance sheet at the end of the first year of operations. Assets include the minibus and rental equipment purchased for the operations as well as a small cash reserve. The low amount of cash in hand is a risk. The liabilities include the accounts payable estimated at 1856 euros, the current portion of the five-year loan (that is the loan amount which will mature in the next 12 months) at 5030 euros, and the income tax payable. The long-term liabilities include the portion of the bank loan at 15 091 euros which will not mature during the next 12 months. Shareholder's equity includes the small share capital of 2000 euros (that is money the entrepreneur invests in the company at start) and the retained earnings for the past year at 322 euros. Total balance is 24 380 euros. The return on assets for the first year is 322 / 24 380 = 1,32%. The return on equity is 322 / 2 322 = 13,87%.

Table 16. Income statements, first three operating years

Income Statement	**1st year**	**2nd year**	**3rd year**
(All figures in EUR)			
Net sales	80 500	88 550	97 405
Cost of sales	20 465	22 511	24 762
Gross profit	**60 035**	**66 039**	**72 643**
Selling, general and administrative expenses	52 800	52 127	53 210
Operating income	**7 235**	**13 912**	**19 433**
Interest and loan expense	6 833	6 309	5 939
Income before taxes	**402**	**7 603**	**13 493**
Income tax expense	80	1 521	2 699
Net income	**322**	**6 083**	**10 795**

Table 16 shows the predicted income statements of the company in the first three operating years. The revenue is estimated to grow from the first year's 80 500 euros to 97 405 euros in the third year for a total growth of 21%. The operating income would grow from 7 235 euros in the first year to 19 433 euros in the third year for a total growth of 168,6%. The operating income would thus more than double in the first three years. This is because the fixed costs of the company are estimated to grow less than the revenues, resulting in higher operating income. The deprecation of the vehicles and equipment plays a large part in this. The net income would grow from 322 euros in the first year to 10 795 euros. This is in large part due to the aforementioned deprecations and the interest costs being lower due to the loan repayment plan being equal amortization.

While growth in the first three years of operations is possible and even likely, it must be stated that the estimates presented in Table 16 are optimistic. They should be viewed with some caution. The growth potential of Ilomantsi as a tourism region is limited. It is entirely possible to reach a stable and profitable state for a company, but growing beyond an entrepreneur-run small business can be difficult.

5 Conclusions

5.1 Key findings

The key finding is the significant risk of running a tourism operator company in Ilomantsi. This is due to many reasons. One key reason is the low number of international and domestic tourists in Ilomantsi. Another reason which especially hinders growth potential is the lack of available workforce. The company can reach sustainable levels to enable one person to earn a relatively comfortable living, but to grow beyond would require growing the business to other areas. The company incurs high fixed costs during the first year of operations, but the situation should remedy itself if the number of customers stays stable or grows. There is a significant risk of not making a profit during the first year. This is not uncommon for new enterprises.

At the time of writing this thesis, a major shift in the landscape of North Karelia's tourism industry is happening. Visit Karelia, the main destination marketing organization run by the municipalities of North Karelia is undergoing major restructuring, including the resignation of the current chief operating officer Annamari Kärki (Perkkiö 2023). The discontinuation of Visit Karelia is also being discussed (Virolainen 2023). This introduces a significant risk factor into the calculations presented in this thesis. It is at present time impossible to evaluate what impact the possible discontinuation of Visit Karelia might have on the tourism industry in North Karelia and Ilomantsi. It is, however, more likely that a possible discontinuation has more negative than positive effects on the development of tourism in Ilomantsi.

The pricing of tours and rental equipment plays a key role in the success of the company. Competition is limited in Ilomantsi and North Karelia region, but customers might not be interested in paying a premium for a guided tour. This is especially true of domestic and self-guided international tourists. It is vital for the success of the company to ensure proper marketing is done to reach the maximum number of potential customers, especially internationally. Partnering with other operators could provide the needed marketing capacity to reach a wider range of customers. The company runs the risk of attracting negative attention from other tourism industry companies should they perceive the company as a threat to their business model. In a small municipality such as Ilomantsi, this might have unforeseen consequences as false news travels fast in a small community. Thus, care must be placed in maintaining good relationships with potential partners and rival companies.

The industry analysis provided in this thesis is not meant to be an exhaustive study of the tourism industry in the Ilomantsi region. The calculations presented in this thesis are then subject to possible miscalculations, especially the potential revenues are at a risk of being overtly optimistic. To mitigate this risk, further studies on the viability of the business plan should be conducted. A pilot tour to test the business model and potential interest in the guided tours would be a good starting point.

5.2 Recommendations

The author of this thesis recommends conducting a detailed market analysis and a marketing plan to increase the viability of the business. A study of the international tourists' spending patterns, key interests, and barriers to travel to Ilomantsi and North Karelia would provide further insight into how best to develop the region further. A study of North Karelia in general as a viable region for tourism operators could also provide further knowledge and reveal potential business opportunities.

A pilot project to test the guided tours is recommended. The company might apply for a grant to fund the project if such grants are available. Due to the remoteness of Ilomantsi, moving the company's activities closer to North Karelia's hub city of Joensuu is advisable. This has the added benefit of reaching a potentially larger group of customers. On the other hand, reaching the suggested tour sites in Ilomantsi incurs larger transportation costs for the company.

5.3 Reflection on Learning

The author of this thesis has learned about conducting and writing a thesis study, which will prove useful should further education and a higher degree be pursued. The author gained new insight into the possibilities and problems of tourism in North Karelia. Creating the financial calculations for the business plan has a direct impact on the author´s current occupation as an accounting specialist and knowledge gained from writing the thesis could be directly applied to the work. On a deeper level, an understanding of one's limitations and facing the realities of why sometimes writing a thesis might seem a lot harder than it actually is the hardest and the best lesson.

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Appendices

Appendix 1. Business Model Canvas

Key partners	Key activities	Value Proposition	Customer Relationships	Customer segments
Ilomantsi municipality Visit Karelia Visit Finland Other tourism operators in Ilomantsi	Guided tours Equipment rental **Key resources** Employees Rental equipment Tour structure and ideas	Unique, tailored, guided tours High-quality rental equipment Tours in different languages Tours catering to different needs	Direct contact with customer Personalised service **Channels** Website Online store	International tourists Domestic tourists Interests: War, history, culture, food, nature, off the beaten path style of traveling
Cost structure Value-driven for tours, cost-driven for rentals Low variable costs			**Revenue streams** Tour sales Rentals	

Appendix 2. Financial calculations for the business plan

Tours	Number of tours	Average no. Customers per tour	Price per customer (EUR)	Total price per tour (EUR)	Total sales (EUR)
War Road tour	14	8	100	800	11200
Nature Trail tour	20	7	125	875	17500
Nature Trail tour overnight	10	4	270	1080	10800
Karelian food and culture tour	10	8	140	1120	11200
Koitere Lake tour	10	4	170	680	6800
Total sales tours					57500

Rental	Number of times rented	Price per day	No. Days rented	Total sales (EUR)
Bikes	120	50	2	12000
Canoes	60	50	3	9000
Snowshoes	100	20	1	2000
Total sales rental				23000

Tours	Number of tours	Average no. Customers per tour	Variable costs per customer (EUR)	Total variable costs per tour (EUR)	Total variable costs (EUR)
War Road tour	14	8	23,26	186,05	2604,67
Nature Trail tour	20	7	35,00	245,00	4900,00
Nature Trail tour overnight	10	4	80,00	320,00	3200,00
Karelian food and culture tour	10	8	45,00	360,00	3600,00
Koitere Lake tour	10	4	80,00	320,00	3200,00
Total variable costs, tours					17504,67

Rental	Number of times rented	Average time per rent (days)	Variable cost per rent (EUR)	Total variable costs (EUR)
Bikes	120	2	4,00	960,00
Canoes	60	3	10,00	1800,00
Snowshoes	100	1	2,00	200,00
Total variable costs, rental				2960,00

Fixed cost allocation based on profits			Revenues (EUR)	Percentage of revenues
War Road tour	8296,75	13,91 %	11200	13,91 %
Nature Trail tour	12963,66	21,74 %	17500	21,74 %
Nature Trail tour overnight	8000,43	13,42 %	10800	13,42 %
Karelian food and culture tour	8296,75	13,91 %	11200	13,91 %
Koitere Lake tour	5037,31	8,45 %	6800	8,45 %

Rentals			Revenues (EUR)	Percentage of revenues
Bikes	8889,37	14,91 %	12000	14,91 %
Canoes	6667,03	11,18 %	9000	11,18 %
Snowshoes	1481,56	2,48 %	2000	2,48 %

	Total revenues	80500	

Fixed costs (EUR)	Year one
Office rent	3600,00
Insurance	960,00
Fuel (non-variable)	180,00
Repairs and maintenance	2880,00
Supplies	240,00
Marketing	3600,00
YEL insurance	4800,00
Fixed salary costs	25000,00
Telephone	240,00
Internet	240,00
Bookkeeping	1200,00
Website	1500,00
Establishing costs for the company	500,00
Interest expense	1802,46
Loan payback	5030,40
Depreciation on vehicles	5000,00
Depreciation on equipment	2860,00
Total costs (EUR)	**59632,86**

Vehicles	Purchase price (EUR)	Amount purchased	Total purchase price (EUR)
Minibus	20000,00	1	20000,00
Equipment			
Canoes	1500,00	4	6000,00
Snowshoes	80,00	8	640,00
Bikes	800,00	6	4800,00
			31440,00

Income Statement (All figures in EUR)	1st year	2nd year	3rd year
Net sales	80 500	88 550	97 405
Cost of sales	20 465	22 511	24 762
Gross profit	**60 035**	**66 039**	**72 643**
Selling, general and administrative expenses	52 800	52 127	53 210
Operating income	**7 235**	**13 912**	**19 433**
Interest and loan expense	6 833	6 309	5 939
Income before taxes	**402**	**7 603**	**13 493**
Income tax expense	80	1 521	2 699
Net income	**322**	**6 083**	**10 795**

Item	Total costs (EUR)
Lunch costs	64,00
Greeting drinks	40,00
War Road pin	8,00
Entrance fees	48,00
Fuel	26,05
Total	**186,05**

Revenues	**11200,00**
Variable costs	2604,67
Contribution margin	**8595,33**
Fixed costs	8296,75
Operating income	**298,58**

	14 tours with no advertising	16 tours with advertising	Difference
Revenues	**11200,00**	**12800,00**	**1600,00**
Variable costs	2604,67	2976,77	372,10
Contribution margin	**8595,33**	**9823,23**	**1227,90**
Fixed costs	8296,75	8796,75	500,00
Operating income	**298,58**	**1026,49**	**727,90**

Item	Revenue per tour	Contribution margin per tour	Total revenue	Contribution margin	CM percentage
War Road tour	800,00	613,95	11200,00	2604,67	23,26 %
Nature Trail tour	875,00	630,00	17500,00	4900,00	28,00 %
Nature Trail overnight tour	1080,00	760,00	10800,00	3200,00	29,63 %
Karelian food and culture tour	1120,00	760,00	11200,00	3600,00	32,14 %
Koitere Lake tour	680,00	360,00	6800,00	3200,00	47,06 %

Net sales	80500,00
Cost of sales	20464,67
Gross profit	**60035,33**
Selling, general and administrative expenses	52800,00
Operating income	**7235,33**
Interest and loan expense	6832,86
Income before taxes	**402,47**
Income tax expense	80,49
Net income	**321,98**

Assets	
Cash	800
Vehicles	15000,00
Equipment	8580,00
Total assets	**24380,00**
Liabilities & Shareholder´s Equity	
Current liabilities	
Accounts payable	1855,93
Current portion of long-term debt	5030,40
Income taxes payable	80,49
Long-term liabilities	
Bank loan	15091,20
Total liabilities	22058,02
Share capital	2000
Retained earnings	321,98
Total Liabilities & Shareholder´s Equity	**24380,00**

Loan interest calculations	
1st year	5030,40
25152,00	154,06
24732,80	151,49
24313,60	148,92
23894,40	146,35
23475,20	143,79
23056,00	141,22
22636,80	138,65
22217,60	136,08
21798,40	133,52
21379,20	130,95
20960,00	128,38
20540,80	125,81
20121,60	123,24
	1802,46
2nd year	
19702,40	120,68
19283,20	118,11
18864,00	115,54
18444,80	112,97
18025,60	110,41
17606,40	107,84
17187,20	105,27
16768,00	102,70
16348,80	100,14
15929,60	97,57
15510,40	95,00
15091,20	92,43
	1278,66
3rd year	
14672,00	89,87
14252,80	87,30
13833,60	84,73
13414,40	82,16
12995,20	79,60
12576,00	77,03
12156,80	74,46
11737,60	71,89
11318,40	69,33
10899,20	66,76
10480,00	64,19
10060,80	61,62
	908,93