Jan Derco

Financial position of the tour operators in the Slovak Republic

Abstract

The aim of this research note is to analyse the development of the organised travel market in the Slovak Republic. By way of a case study, an analysis has been made of the revenues of tour operators and travel agencies, the structure of these revenues, the number of clients and days of stay during the period 2000-2016. For the purposes of evaluating the financial situation of tour operators, the medians of financial indicators (Profit margin, Debt to total assets ratio, Cash ratio, Acid test ratio, Current ratio, ROE, Average payment period) for the years 2012-2016 were processed. They demonstrate a positive development of the financial situation of these businesses. Despite the development of new subjects (online travel agencies) and a shift of the market towards direct distribution, no significant decline of tour sales commissions (in case of indirect distribution) has been recorded in relation to tour sales revenues.

Key words: financial analysis; package tours; travel agencies; tour operators; Slovak Republic

Introduction

The growth in the number of tour operators (Johnson, 1995) and the increase in competition meant that these subjects ended in the red in the 1990s in Slovakia. This is explained in detail by Pachingerova (2001) based on the analysis of medians/quartiles of financial indicators (ROA, ROE, Profit margin, Acid test ratio, Current ratio, Debt to total assets ratio, Debt to equity ratio, Average payment period, Average collection period) of tour operators for the years 1995-1999. Not surprisingly, a number of Slovak tour operators went bankrupt or ceased their activities (e.g. Pozgay Tour, Pasha Tour, Alfa Tour, Neptun). The Act No. 281/2001 on Tours, Business Activities of Tour Operators and Travel Agencies determined the legal framework of their operation by transposition of the Directive No. 314/90/EEC and the consumer protection was determined by e.g. compulsory insurance of tour operators (or a bank guarantee) in case of their insolvency. Subsequently, the Directive No. 2015/2302 of the European Parliament and of the Council on Package Travel and Linked Travel Arrangements introduced a mutual recognition in the event of the tour operator's insolvency and rules for the administrative cooperation among EU member states. Economic recovery and rising incomes led to increased demand for more organised package holidays to a wider range of destinations and there was the expansion of organised tours provided through tour operators (Williams & Baláž, 2002). At the same time, the number of tour operators and travel agencies declined in 2014-2016. While in 2014 there were 960 businesses operating at the Slovak market, in 2016 it was 867 businesses. None of the so far published works (e.g. Baláž, 2007; Ivy & Copp, 1999; Janockova, Jablonska & Timcak, 2012; Kučerová & Makovník, 2014; Mihajlovic, 2013; Pavlíková, 2014; Pompurova, Marakova & Simockova, 2015) evaluated the development of the organised travel market in total. The aim of this article is, therefore, to analyse the development of the performance of tour operators and travel agencies operating in the Slovak Republic during the period 2000-2016. It also analyses the impact of this development on the financial situation of tour operators during the period 2012-2016.

Jan Derco, PhD, Professor, Technical University of Kosice, Slovakia; E-mail: jan.derco@tuke.sk

Methodology

Of the various methods of analysis available, a case study approach was considered to have the key requirements for our line of inquiry as it illuminates the complex processes surrounding economic aspects and subsequent impacts on the tour operators. The analysis of the performance of tour operators and travel agencies is based on the data from the Statistical Office of the Slovak Republic for the years 2000-2016 (Table 1), that is obtained by means of the Annual report on selected services in tourism. This statistical survey covers all tour operators and travel agencies. It includes data on arrivals of foreign visitors and departures of Slovak citizens (persons and days of stay) and revenues of tour operators and travel agencies (inbound, outbound and domestic tourism). These revenues are broken down into tour sales revenues, tour sales commissions and other revenues.

For the purpose of evaluating the financial situation of tour operators, the medians of financial indicators (Profit margin, Debt to total assets ratio, Cash ratio, Acid test ratio, Current ratio, ROE, Average payment period) for the years 2012-2016 were processed (Table 2). Financial indicators are based on the data from the Register of Financial Statements processed by FinStat, l.l.c. The Register is legally obliged to publish financial statements prepared as of 31 December 2013 and subsequent years. The Register also contains incomplete financial statements for the period 2009 - 2012. Therefore, the medians of the financial indicators Debt to Total Assets and Return on Equity for 2012, or for the years 2009-2011, could not be presented. Data from 200 tour operators were processed in 2012 and from 363 (year 2013), 414 (year 2014), 411 (year 2015), 428 (year 2016) tour operators in subsequent years.

Results and discussion

Total revenues of tour operators and travel agencies increased year-on-year during the period 2000-2016, with the exception of 2001 and a significant fall in 2009 (Table 1). The decline in revenues in 2012, 2015 and 2016 was caused by the development of the EUR/USD exchange rate. The outbound tourism is a dominant segment of Slovak tour operators. This segment showed a favourable development in the period considered, with the exception of crisis years after 2008. The year-on-year decline in revenues in this segment was recorded only in 2001, 2009 and 2016. The decline in revenues (shown in Table 1) in 2012 and 2015 was caused by the development of the EUR/USD exchange rate. The average length of the stay of Slovak citizens abroad ranged from 7.6 days (year 2014) to 9.5 days (year 2004). The significant decline in the number of clients and days of stay was however recorded in domestic tourism in 2008 and subsequent years. The inbound tourism experienced a shorter average length of stay. While in 2000 the average length of stay was 4.3 days, in 2016 it was only 1.5 days. In terms of the structure of revenues from individual activities, no significant decline of tour sales commissions (in case of indirect distribution) has been recorded in relation to tour sales revenues. The favourable trend of revenues and the number of clients was also reflected in the financial indicators of tour operators. The median value of the Profit margin and ROE indicators rose during the period 2012-2016. At the same time, the liquidity indicators showed a positive trend and the debt level of these subjects was also stable. However, the debt collection period increased in the period concerned (Table 2).

Table 1

Structure of revenues of tour operators and travel agencies in the Slovak Republic (in thousand USD), number of clients and days of stay in 2000-2016

	2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	
Revenues from inbound tourism	19,305	20,458	18,957	29,707	35,348	30,792	30,971	41,085	42,632
	35,015	29,869	34,153	24,732	28,532	26,854	27,531	35,181	
Revenues from outbound tourism	213,678	207,064	255,080	338,977	391,809	425,300	457,842	563,054	701,577
	475,241	534,386	575,868	571,563	601,820	668,714	600,899	589,914	
Revenues from domestic tourism	20,861	13,554	11,411	17,803	21,503	20,833	19,989	22,522	22,929
	21,596	21,692	24,591	14,951	14,145	13,820	13,305	15,879	
Total revenues	253,843	241,075	285,448	386,487	448,661	476,925	508,803	626,660	767,138
	531,852	585,947	634,612	611,246	644,496	709,402	641,735	640,974	
Out of which revenues from individual activities:									
Tour sales revenues				176,159	234,685	262,763	284,316	375,132	474,849
	327,124	359,443	398,383	386,435	369,605	384,556	363,742	336,409	
Tour sales commissions				50,090	14,715	35,897	17,299	24,564	30,417
	27,390	30,191	39,435	26,126	21,868	26,134	29,314	35,320	
Other revenues				160,238	199,260	178,265	207,188	226,965	261,873
	177,338	196,313	196,794	198,686	253,023	298,712	248,680	269,245	
Number of clients in inbound tourism	119,517	108,469	110,776	111,286	152,271	133,095	107,038	135,294	175,203
	156,139	76,620	177,090	157,872	169,484	153,091	176,650	311,561	
Days of stay in inbound tourism	517,308	406,582	433,887	380,903	545,872	460,528	670,042	543,331	512,308
	387,754	279,067	418,985	285,978	339,817	319,064	342,483	463,046	
Number of clients in outbound tourism	388,366	373,368	437,045	407,571	456,543	486,161	485,977	578,978	631,034
	527,655	581,781	618,738	582,024	561,148	593,432	624,695	591,793	
Days of stay in outbound tourism	3,205,485	3,196,796	3,755,814	3,556,224	4,352,045	4,401,522	4,341,062	5,067,612	5,671,565
	4,578,228	5,099,320	5,199,420	4,775,844	4,662,367	4,517,129	5,526,159	4,997,966	
Number of clients in domestic tourism	208,230	199,048	183,871	300,757	271,829	251,830	203,795	160,601	61,197
	61,496	57,711	57,101	57,462	59,714	57,226	58,291	54,051	
Days of stay in domestic tourism	728,504	611,639	614,212	653,716	594,722	503,922	440,900	361,268	264,846
	254,577	271,151	252,940	251,897	228,645	223,610	245,436	259,287	

Source: Statistical Office of the Slovak Republic

Table 2

Medians of selected indicators of tour operators in the Slovak Republic

Indicator	**2012**	**2013**	**2014**	**2015**	**2016**
Profit margin (%)	0.28	0.53	0.58	0.68	1.09
Debt to total assets ratio		0.79	0.78	0.78	0.78
Cash ratio	0.00	0.47	0.51	0.49	0.65
Acid test ratio	0.61	1.05	1.09	1.10	1.15
Current ratio	0.67	1.08	1.12	1.14	1.17
Return on equity (%)		1.85	5.86	7.12	14.71
Average payment period	47.42	64.47	82.62	85.21	92.67

Source: Prepared by the author based on the data provided by FinStat l.l.c.

Conclusion

A market concentration, reduction of space for smaller service providers, reinforcement of consumer protection and a shift of market towards direct distribution can be seen in the analysed years (Palatková et al., 2013). The development of new subjects is also present - online travel agencies (e.g. Verne.sk, invia.sk), discount portals offering tours, platforms of metasearch sites and sharing economy (Christodoulidou, Connolly & Brewer, 2010; Zelenka, 2009). A wider range of tours offered by Czech and Austrian tour operators and their marketing activities on the Slovak market is another factor influencing the business of Slovak tour operators. The dissolution of the Slovak Tourist Board as of 31 December 2016, which was responsible for the marketing presentation of Slovakia as a tourist destination, is also seen as a negative factor.

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