

## **DEVELOPMENT OF PROJECT ISA OF TOURIST BRANCH LATVIA - RUSSIA**

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### **Introduction**

The idea of creation of joint business is based on following basic preconditions and principles of motivation and the organization of joint international business.

#### **1. Presence of an opportunity of growth of demand for a product:**

- there is steady enough demand of the order of 18 thousand person in a year on a tourist product of Northwest region of Russia with tendencies of growth about 10 %-15 % a year. [1, 2, 3]

- however this demand for 80% realizes independently without the participation of the tourist firms of Latvia and Russia. [1, 2, 3]

The cost of stage in the firms for 75% of these tourists is high (according to the estimations of users on their 20 - 25 Ls higher than economic possibilities by this journey).

- there is a potential dissatisfied demand, caused by the low purchasing power of the separate segments of Latvian users. These are schoolboys, students and pensioners. For these categories potentially of tourists the cost of this stage according to their estimations must not exceed 50 Ls. By estimated characteristic of the capacity of this segment to 5000 people per year. [4]

#### **2. Existence of the elasticity of demand on the price of product.**

The analysis of the market characteristics of demand (price) shows, what the decrease of the price of product of 20-25 Ls (order 33%) will make it possible to draw to the organized tourism to 80% of independent tourists. Reduction in the price to 50 Ls will allow attract more users, which are not used to travel to northwest generally.

Thus, the first potential segment of 6-8 thousand man, this 80% of independently traveling tourists, the second - 5 thousand man (schoolboys, students, pensioners). The

possible potential increase in served demand tour agencies of Latvia on northwest region of Russia - 12-13 thousand person means, that in 3-5 times on an investigated tourist product exceeds the existing volume of services of the Latvian tour agencies.

### **3. Presence of an opportunity of reduction of price on tourist services in Russia.**

Analysis of strategy of price formation and study of the structure of the prime cost of the production of the Russian producers of tourist services, like world experience, it showed, that retail and small-scale wholesale prices of 30-50%, and sometimes especially in the period of the off-peak job load of firm - to 80-100% more than market wholesale prices.

Thus, the conducted investigations showed, that the price of the Russian producers of transport, hotel and excursion services can be with the negotiated attitudes of partners for the common purposes of business lowered by 50-70% (hotel services to 80%, excursion - 50-80%, transport to 50%). In the conclusion it is necessary to note, that the potential of reduction in the prices of the tourist product of the northwestern region of Russia is plotted in the demands of the user of this product in Latvia.

### **4. Motivational characteristics**

Pre-calculations have shown presence of an opportunity of an increase in the load of the production capacities of Russian firms on the average to 30%, especially during May, September- October.

- the possibilities of an increase in the volumes of the production of Russian and Latvian firms - first step of 6-8 thousands of people, the second - 5 thousands of people.

Specifically on I see services.

a) hotel services to 28,0 thousands - 48 thousand people per year.

b) excursion services before 4-8 thousand excursions per year.

c) transport services - general dispatches to 26 thousand people per year (there 13,0 and vice versa 13,0).

These motivational categories must be confirmed by calculations by exponents, evaluating the effectiveness of owner's activity. At a positive estimation there is a motivation of creation of the international strategic alliance for seasonal alignment of non-uniformity of loading of the enterprise. As have shown tentative estimations, a gain have arrived (effect) from this organizational action will make 120 - 300 thousand Ls a year.

### **5. Structural characteristics (organizational forms of business)**

For obtaining the maximum or close to them results of effect (increase in the profit) motivational characteristics must be reinforced by organizational (by forms of business) lawful and distributive (profit or by the results of business) mechanisms, stimulating confidential relations. On the permission of these problems employing the procedure examined

above we devote this division: the "development of design MSA".

### **6. Mission (destination) of the created alliance**

Alliance is intend for the rendering of tourist services, the directed toward the satisfaction recreational needs of Latvian tourists, traveling on northwest of Russia for the purpose of leisure, knowledge, entertainment.

Alliance produces the following works and render the following services:

- the organization of journeys;

It enters into this activity:

market research, the needs of users, consumer behavior, the economic possibilities of tourists, duration and the periods of journeys, the organization of the sale of product, the systems of communication by users. Latvian side renders this form of activity, since work is produced in Latvia.

- the transport services;

this form of services can render as Latvian, so Russian side. The analysis of the quality of Russian and Latvian users showed, that the quality of Latvian side is insignificantly above, although transportation means of identical comfort. However, the prime cost of the services of Russian side is considerably below, on the average to 30%. This is caused by cheaper fuel 1,6 - 2 times, by expenditures for personnel for the operation and the maintenance of transportation means 1,2 - 1,3 times, and by other expenditures on the operation of motor transport.

Therefore on the criterion the Russian side renders the cost of this service in the alliance:

- the service of stay;

On the possibility of rendering Russian side produces this service.

- the service of the knowledge (excursion maintenance);

Potentially (with a presence of license) this service can render Latvian side, however, this possibility is connected with the large organizational and economic expenses. Russian side will render this service, because the cost of the services of excursion maintenance is already lower by 30-50%. However, the thesis of Russian or Latvian sides in the organizational form of the alliance: "joint enterprise" does not have a sense, because any side automatically becomes Russian, if firm (SP) is registered in Russia. Therefore the basic criterion of work assignment is economic – prime cost also of services and expenditures of taxation.

- the service of nourishment.

*On this criterion Russian side will render this service, because it will be held on the territory of Russia.*

## **7. Motivation of sides and the agreement of purposes of partners**

a) Motivation of sides.

Purposes of Latvian sides:

- possibility of an increase in the volumes of business;
- elimination and the softening of competition in the interests of parquets from the side of Russia;
- overcoming commercial and investment barriers from the side of Russia.

Purposes of the Russian side:

- reduction in the risk, an increase in the load of hotels, transport, excursion bureaus and other tourist services;
- savings for the expansion of the scales of production;
- assistance to international expansion - taking communication (propagandistic and advertising) measures;
- the softening of competition in the interests of Russian partners and Russian tourist product;
- reduction in the risk in the load of production capacities.

b) Agreement of purposes.

The expansion of business satisfies both sides and is called "basic".

Other purposes have as the capabilities, as danger - strong and weak sides. An increase in the volumes of services is connected with reduction in the price of services, therefore Russian side bears the specific risk of possible losses in case of errors in the prognostication of demand. Therefore the agreement of purposes is based on the economical and optimization calculations, connected with the forecasts of demand, by the elasticity of demand on the price, and the corresponding model of the forecast of the volume of sale - the price of product and profit - the price of product. Calculations make it possible to find maximum profit and volume of production, with the "best" price. However, reduction in the price decreases the profitability of business. And the question immediately arises: how "to divide" the obtained optimum profit between participants in the alliance? "Best" profit appears not at the expense of an increase in the volume of sales, but at the expense of reduction in the price of product, which is "invested" by participants in the alliance. Therefore for the "fair" distribution of arrived incomes they must use savings. Problem appears, as to establish savings and the "author" of its appearance, whose contributions are not about savings. This is already the estimated problem of the contribution of sides.

## 8. The mechanism of distribution of profit under "contribution" of the parties

As already it was considered above, contributions of the parties - a major factor at definition of a share of incomes and the profits, received from activity of ISA. Therefore the primary goal to define not charges of participants, and economy of charges. In the given work there is offered a simple scheme. The economy is defined by a difference of a market price of service and by calculations of the same service of participants of an alliance in joint structure. Definition of a share of each participant in formation of profit of the joint venture pays off as economy of the price of the participant to the general economy of the price of round. In the formalized kind the share of each participant is defined on following expression.

## 9. Mechanism of the distribution of profit

The portion of each participant is determined by the following expression:

$$\Delta = \frac{(C_{market_i} - C_{cp_i}) \cdot n_i}{\sum_{i=1}^m \sum_{i=1}^n (C_{market_i} - C_{cp_i}) \cdot n_i} \cdot 100\%$$

where

$\Delta$  - share of the participant of an alliance in products %;

$C_{market_i}$  - market price of this service for the period in realization i - that service in rubles;

$C_{cp_i}$  - the calculation price at formation of the reduced price of an end-product, realization

i - service in rubles;

$n_i$  - quantity rendered i - services for a year

m - type of services.

Thus, the idea of "interest" of participants of joint business in reduction of price of service consists (in return of economy) of decrease in the form of an additional share of profit through a share of the participant in distribution of incomes due to growth of sales volumes.

## 10. Expected financial result from the creation of joint business

Before the creation of alliance with the price of "basic" stage 80 - 90 Ls demand for the tourist services 1,3 - 2,0 thousand people, that correspond to the volume of sales 117,0 - 160,0 thousand Ls. Taking into account embedded 15% profit of firms (operators and agents) and taxation and contra accounts with the firms by partners by the producers of services the expenditures compose 130,0 thousand Ls, and the profit of 19,5 thousand Ls. From the "expenditures" of Russian partners in 130,0 thousand Ls their profit composes  $(65,0 - 37,8) * 2,000 = 55,0$  thousand Ls.

After the creation of alliance, demand for the tourist services becomes 10,0 thousand man. As a result, the volume of sales grows up to 600,0 thousand Ls, the prime cost of stage is reduced due to the establishment of strategic purpose and rules of the establishment of the portion of the participation of the parameters to 37,8 Ls and expenditures compose ~ 450 thousand Ls, and the profit of 150,0 thousand Ls.

The comparison of results shows the positive result:  
 $150,0 - 19,5 = \sim 130,0$  thousand Ls and  $130,0 - 55,0 = \sim 75,0$  thousand Ls It is the "additional" profit which is a subject distribution, caused by growth of demand and accordingly growth of sales volumes of rounds to Russia.

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**Čhlaidze V. Tūrisma nozares projekta izstrāde Starptautiskā stratēģiskā aliansē „Latvija – Krievija”**

*Piedāvātais raksts „Starptautiskais Stratēģiskais Alians tūrismu sfērā (Latvija – Krievija) projekta izstrāde” aplūko abpusēju biznesa veidošanu, pamatojoties uz tā priekšnosacījumiem un motivāciju principiem. Rakstā ir aplūkoti pētījumu rezultāti, pamatojoties uz tūrisma pakalpojumu cenu pazemināšanu, kā arī atspoguļots peļņas sadales mehānisms un sagaidāmais finanšu rezultāts.*

**Chlaidze V. Development of project of the International Strategic Alliance of tourist branch Latvia - Russia**

*Presented article «Development of the project of the International Strategic Alliance of tourist branch Latvia - Russia » considers the idea of creation of joint business, being based on its preconditions and principles of motivation. In article results of research of the demand, based on decrease in price characteristics on offered tourist services are considered. Also in article the mechanism of distribution of profit under "contribution" of the parties is displayed and the expected financial result is given.*

**Члaidze В. Разработка проекта Международного Стратегического Альянса туристской отрасли „Латвия – Россия”**

*Представленная статья «Разработка проекта Международного Стратегического Альянса туристской отрасли Латвия – Россия» рассматривает идею создания совместного бизнеса, основываясь на его предпосылках и принципах мотивации. В статье рассмотрены результаты исследования спроса, основанные на снижении ценовых характеристик на предлагаемые туристические услуги, а также отображён механизм распределения прибыли по «вкладу» сторон и предоставлен ожидаемый финансовый результат.*