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Illes Balears**

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# Acquisition and refurbishment of a hotel in Platja de Palma

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## Summary

With the growing tourist demand in Playa de Palma, this study aims to analyze the economic viability of a project to reform a 3-star hotel by increasing its category. At the same time, the aim is to create a hotel that will stand out from the competition in this typical sun and beach destination.

The typology of the new 4-star superior hotel will attract a more sophisticated client to the quality of the service, but at the same time it will allow to increase the prices of both the rooms and the additional services. Also, the value of the brand of our hotel will grow. In order to increase the final benefits, techniques such as Revenue Management, Upselling and CRM will be used and a flexible remuneration will be offered, apart from what is established in the agreement of the Autonomous Region, to the hotel staff involved in sales in purpose of their motivation.

The main objective is to de-seasonalize the hotel in order to be open at least 10 months a year. To achieve this, a spa and a MICE event spaces will be installed in the hotel. By means of rigorous and detailed calculations, the aim is to make known all the possibilities of improvement that can be achieved.

### **1. Analysis of the tourism market.**

#### a. Evolution, trends, main magnitudes.

Our hotel will be renovated at the end of the 2019 season. The operation with the hotel already reformed is expected for the beginning of the high season 2020, concretely the month of April.

For this reason, it is necessary to analyze the dynamics of the tourism sector at the global, national and local levels before and during the year 2019. Being aware of all the news will allow us to have more judgement when making significant decisions.

#### Worldwide level

The year 2019 will be remembered by the tourism sector for the bankruptcy of the largest tour operator Thomas Cook, uncertainty over the UK's exit from the EU and some geopolitical and trade tensions, mainly between US and China.

Aside from these incidents, international tourist arrivals added another year of growth above 4% making a total of 1.5 billion, according to the UNWTO "World Tourism Barometer" report. This growth was highest in the Middle East (+8%), followed by Asia and the Pacific (+5%).

Europe recorded a year of stability with slight growth of arrivals, close to 4%. Demand declined slightly as in other advanced economies. France, however, experienced strong growth in tourism expenditure as an outbound market.

Knowing these data, we can point out that French tourism represents a very strong and growing market; our new hotel could take advantage of this opportunity and hire more French-speaking staff.

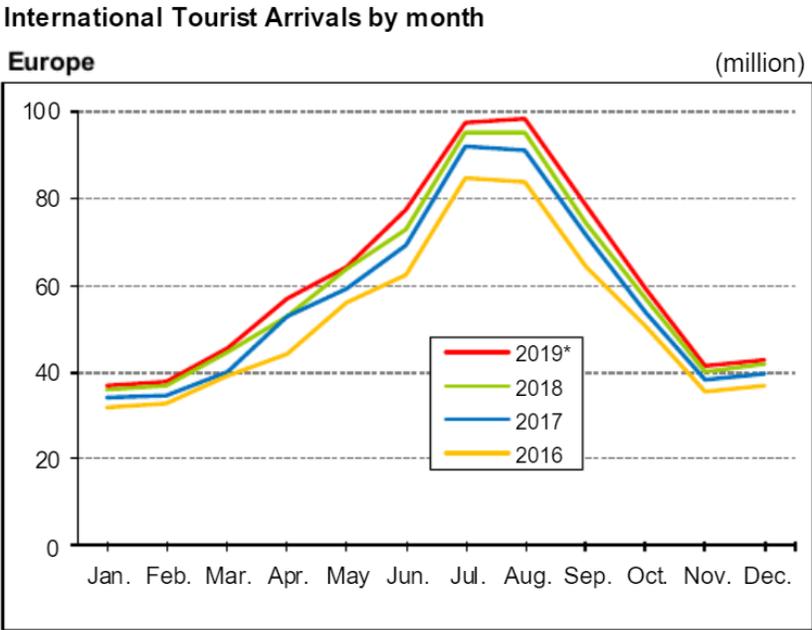
Evaluating the competence that Spain has with other destinations, we could emphasize that of the total of the international arrivals, 304.6 million arrive at the

Mediterranean Europe. That represents nearly half of all Europe arrivals and one fifth of the world's.

Globally, during the last four years, strong growth has been achieved in North America (+50%) and South-East Asia (+100%). Two markets that represent a threat to European arrivals in the mid-term.

In the graph below, we can see the arrivals in Europe in the last 4 years. We can notice a significant increase in the summer months and a considerable decrease in the low season. Seasonality remains a major challenge for the sector, especially between the months of November and February.

With the renovation of our hotel we can offer viable solutions for this, for example the celebration of MICE events and additional services such as a spa specializing in treatments and / or the gastronomic offer of local products.

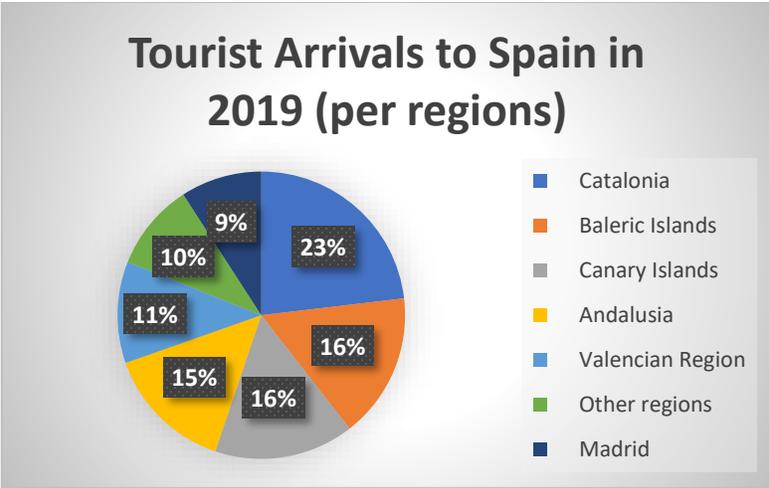


Source: World Tourism Organization (UNWTO) ©

Chart 1.

Spain

Analyzing the international arrivals in 2019 in Spain, the main destination of the Mediterranean region, we observe an increase until November. In total, during 2019, Spain received more than 83 million international tourists. During the second half of the year, the flow of tourists from the main source countries, such as the United Kingdom, Germany, and France, was reduced.



Region	Annual Variation
Catalonia	0.84%
Balearic Islands	-1.23%
Canary Islands	-4.40%
Andalusia	3.41%
Valencian Region	3.91%
Other regions	3.14%
Madrid	6.98%

Chart 2 and Table 1. Source: IBESTAT. Foreign tourists by period and main Autonomous Region destination. Chart and table are self-produced.

Thomas Cook's bankruptcy, which we mentioned earlier, mainly affected sun and beach destinations such as the Balearic and Canary Islands. In these destinations the percentage of hotels that had exclusive contracts with this tour operator was quite high. At this point, we can emphasize the importance of diversifying the distribution channels to reduce the risk of the possible disappearance of one of them. Despite this, there were other source countries that grew during 2019, for example: United States, Russia, Portugal and the Asian markets.

In economic terms, Spain continues to be the European leader by income in the sector, having grown the real value by 3%. In the analysis of income per arrival in 2018, the Mediterranean region accumulated an average of 670€, which is far from the amount obtained by Western Europe's neighbors, about 760€, and even farther from the Americas and Asia and Pacific, 1330€ and 1080€ accordingly. The high values in these regions are mainly due to their geographical remoteness and the longer stays of travelers in these destinations.

**Balearic Islands**

In 2019, the Balearic Islands were visited by almost 16.5 million tourists. 17% represents the national arrivals and the rest corresponds to the international ones. This total is 0.65% less than the previous year.

## Classification by country of residence of foreign tourists' arrivals in 2019

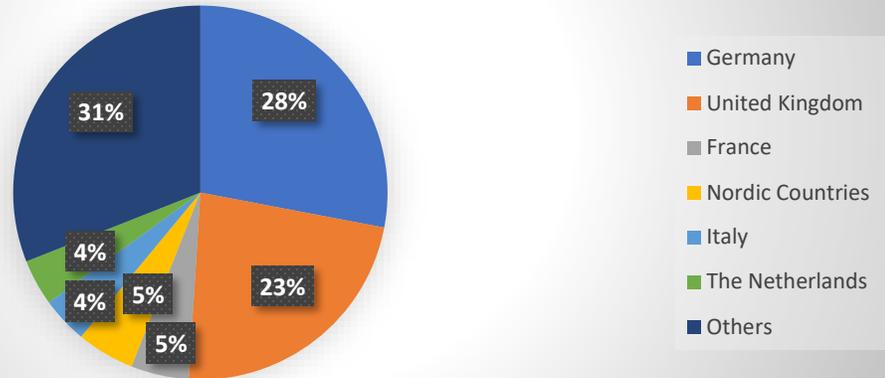


Chart 3. Source: IBESTAT. Tourists with the Balearic Islands as the main destination in 2019 and their country of residence. Chart is self-produced.

Comparing the Ibestat data from the previous year, these are the biggest increases appreciable:

- Russia + 205%
- Rest of the world + 29%
- France + 6%

And the biggest drops:

- Nordic countries - 20%
- Switzerland - 18%
- Netherlands - 4%

The evolution of the last few years can be seen in this table:

	2019	2018	2017	2016
Belgium	257.151	261.872	239.700	226.760
France	757.735	715.952	584.200	634.141
Italy	725.039	752.451	746.773	685.978
The Netherlands	664.486	693.702	601.800	628.504
United Kingdom	3.745.336	3.691.646	3.748.207	3.633.335
Germany	4.540.409	4.662.224	4.828.683	4.615.741
Switzerland	469.981	576.572	535.588	485.458
Russia	119.834	39.173	46.198	76.026
Nordic countries	780.245	975.539	1.002.971	815.846
Rest of Europe	1.147.846	1.115.705	1.083.704	918.760
Rest of the World	472.860	366.761	374.472	276.999

Table 2. Source: IBESTAT. Tourists with main destination the Balearic Islands by period and country of residence. Table is self-produced.

From the above information, we emphasize that the Balearic Islands is a highly demanded destination with stable growth over the last few years with an average European seasonality, as seen in worldwide section.

Main source countries, such as Germany and UK, are providing a stable demand for the sun and beach tourism to which is added the growing interest of others. Analyzing the arrivals by islands, we can calculate that of the total 72% during 2019 went to Mallorca, 19% to Ibiza-Formentera and the rest to Menorca.

By nationality, in Ibiza-Formentera and Menorca the British tourists stand out more, however in Mallorca the Germans. The French tourist is well represented in all of them.

#### b. Visitor characteristics.

Since we already analyzed the nationalities of international tourists' arrivals before, in this section we are going to evaluate the following characteristics: daily expenditure, average occupancy rate of the establishments, months open and touristic hotel spots in Balearic Islands.

Tourist expenditure on the Balearic Islands amounted in 2019 to more than 16.5 billion euros, 73% in Mallorca, 19% in Ibiza-Formentera and the rest in Menorca. In this way, the average expenditure per person was 1,003 euros, being 50 euros lower in Menorca and 20 euros lower in Ibiza-Formentera.

The highest expenditure per person per day on average was recorded in Ibiza-Formentera, 163.75 euros. A little lower in Mallorca, 150.14 euros, and the most economical was Menorca with 133.97 euros.

The average stay of international tourists in 2019 was 6.7 days. Domestic tourists stayed on the Islands for slightly less than 6.3 days.

The month in which there were most hotels open during 2019 was July with 1360 (367590 spots), the month in which there were least, January with 128 (18943 spots).

On average in the high season, from May to October 1286 hotels of different categories were open (349 thousand spots), and in the low season, only 263 hotels (56 thousand spots), which is only 20% of the average in the high season.

The average occupancy rate exceeded 75% in 2019, slightly lower in the five-star hotels, 61%. Among the islands, Ibiza-Formentera showed the highest average of 78% being the most popular category four stars. In Mallorca and Menorca, on the other hand, the most popular was three stars. Since 2016 the average occupation of the islands shows a negative trend decreasing annually. During these four years it has fallen by 4%.

#### c. Analysis of the market in the Playa de Palma area

It is necessary to consider factors such as main market segments, business models, trends, competitors, complementary offer and open months, to understand how to plan the path our renovated hotel has to follow.

Playa de Palma is part of the municipality of Palma de Mallorca, capital of the autonomous region. The establishments open in this municipality sum up in high season between 194 and 225, and in low season between 65 and 156.

In the tourist area of Playa de Palma, between 120 and 161 hotels are open from May to October, and in the low season between none in January and 79 in April. In total there are 110 hotels of three, four and five stars in the area, our direct competition.

The total number of tourist spots in the area in high season is between 35 and 40 thousand in these 110 hotels. This means that there are between 320 - 360 beds per establishment. An average hotel with only double rooms has 160 up to 180 rooms.

The total number of tourists who visited this area in 2019 was more than 1.5 million, 90% corresponding to international tourists. Every second tourist comes from Germany. As for other nationalities, of the total number of non-residents, we highlight the UK with 8.5%, France with 4.3% and Italy with 2.4%. The rest, about 400 thousand tourists, come from other countries with lower percentages.

In this table, we can see the high seasonality of this destination, but it does not deviate from the average of Mediterranean Europe. There is little demand in the low season months, but there is. The main challenge is to achieve a good level of occupancy during these months.

Tourist Arrivals to Playa de Palma in 2019					
Month	Amount	% of total	Month	Amount	% of total
January	n.d.	n.d.	July	235.271	15%
February	16.654	1%	August	250.625	16%
March	48.233	3%	September	223.955	14%
April	123.940	8%	October	151.175	10%
May	227.427	14%	November	32.234	2%
June	243.476	15%	December	24.810	2%

Table 3. Source: IBESTAT. Tourists entered by period, tourist zone and country of residence. Table is self-produced.

Making the comparison between 2016 and 2019, we can see that the trends in arrivals by nationality are as follows:

Germany: + 8% // France: + 37%. // Italy: +60% // United Kingdom: + 140%.

However, both Balearic residents and nationals have not followed this trend and have fallen significantly:

Balearic residents: - 44% // National residents: - 27%.

The average stay is 4.7 nights, being lower for the residents, 2.1 nights, who visit the area during the weekends. Italian tourists stay 5.7 nights on average.

The average annual occupancy rate in 2019 was 81%, and for 3 to 5-star hotels it was 83%. In August, demand peaks, and the average is 90% overall, and for 3 to 5-star hotels 91%.

Among our competitors, the occupancy rate in the low season months is 66% in March, 80% in April and 72% in November. This is an optimistic data, since it means that the hotels that remain open more than 6 months a year get good occupancy if they offer the services that the client looks for in these dates.

The main chains represented in our area are Riu, Iberostar, Pabisa (chain of 5 hotels, all of them in Playa de Palma), Grupotel, Hipotels, Occidental by Barcelo and Melia Palma Bay with Conference Centre, that would be our direct competitor in the MICE segment.

## **2. Strategic plan for the next 5 years.**

### a. Mission, vision, and values of the project.

The mission of this hotel is to provide quality service for visitors. By quality, it is meant that the expectations created in the client when making the reservation, are satisfied during their stay. To make the interaction of the client with the hotel as comfortable as possible, both for tourist and corporate clients at a competitive price. The vision of this project in the medium term, 5 years, is to create a recognized hotel brand in Playa de Palma without being part of a chain. To be known by the locals to boost occupancy in the low season and become a benchmark in the organization of meetings and conferences in the city.

The main values that we want to bring to the brand with this reform are on one hand the categorization of the new hotel as "Adults only" to offer a relaxing space to the tourists and a more formal space to the corporate clients, and on the other hand the use of materials, finishes and the establishment of processes of the "eco-friendly" management to diminish the impact on the environment of our business activity.

### b. Main short, medium- and long-term objectives.

All our objectives are planned from the moment the renovation work is completed.

The main short-term objectives (for the next 12-24 months) are:

- Optimize the workforce according to new needs
- Adapt the CRM for the current hotel's needs
- Diversify sales channels

The main medium-term objectives (for the next 25-60 months) are:

- Improve a loyalty system for frequent guests
- Enhance direct reservations with exclusive advantages
- Gain local recognition and reputation

The main long-term objectives (more than 60 months) are:

- Increase significantly our market share in Playa de Palma
- Offer good return on investment to the stakeholders
- Create a reserve fund for hotel expansion / improvement / refurbishment and repay the ICO loan faster than expected 10 years term

### c. SWOT analysis.

This type of analysis helps to develop strategic thinking and the generation of a global vision of the company. It focuses on both internal and external factors.

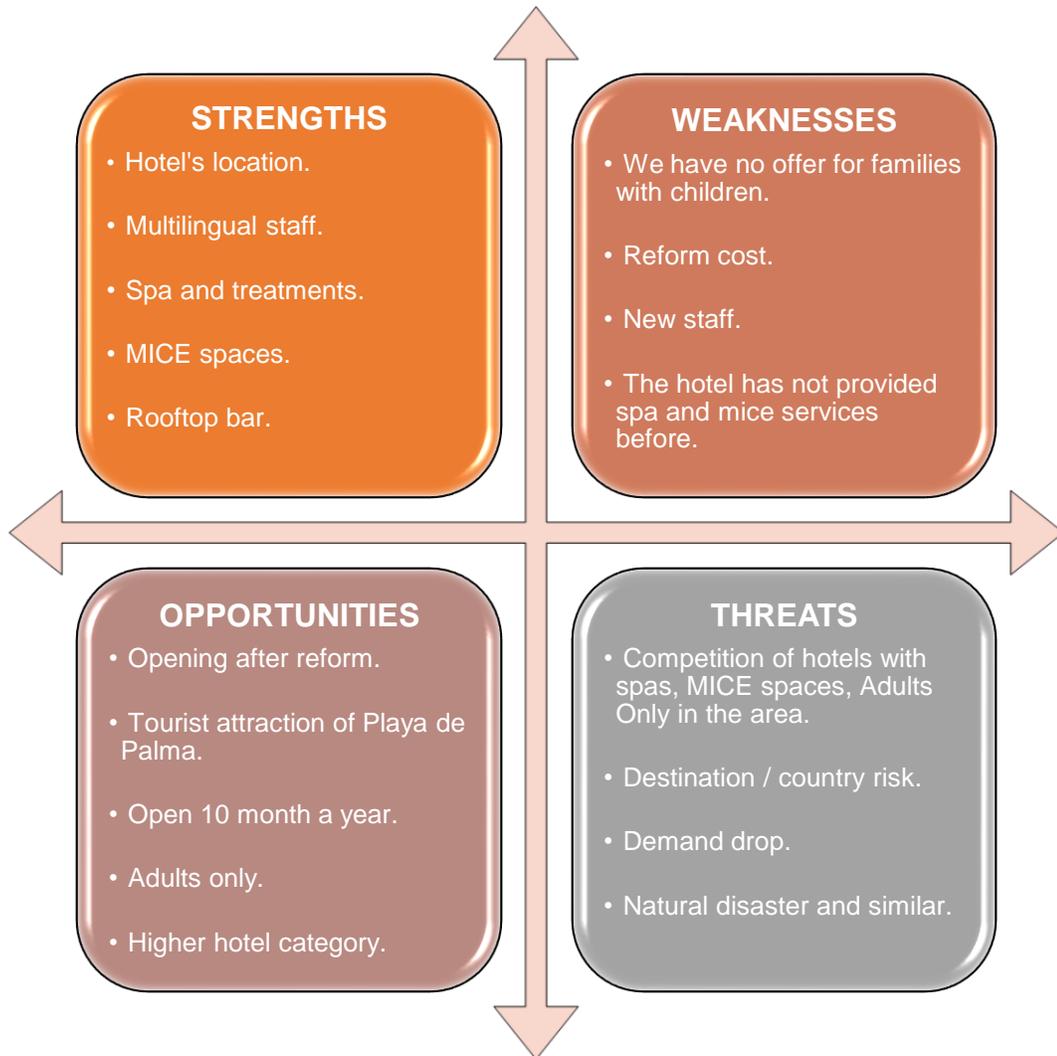


Chart 4. Source: This chart is self-produced.

Below is a brief explanation of the elements that make up this analysis by groups and they appear in the order of the chart.

### Strengths

The location of the hotel is a strong point as all the rooms have a total or partial view to the sea and/or the swimming pool. A multilingual staff that can solve the doubts in the guests' mother languages is a good plus for the promotion of the hotel. The fact that there is a SPA in the hotel is an additional service that cannot be found in all establishments, as well as the possibility of carrying out the treatments. Being new, it is an additional strength. The same applies to MICE spaces. The flagship of this reform is the Rooftop Bar, an additional service that allows to differentiate from the competition and attract external customers.

## Weaknesses

Families with children represent a high percentage of tourists visiting the Balearic Islands. Being a hotel for adults only, it limits our number of potential clients. Carrying out the reform is a complicated and costly process, which involves having all the necessary elements calculated before putting the capital at risk. The number of staff will have to be increased as the range of services expands. This will require proper training and adaptation of new workers in their departments. SPA and MICE are two services that the hotel has never provided before, so it will need qualified staff to implement them properly.

## Opportunities

A renovated hotel is an added value for the guest when choosing. Playa de Palma is the tourist recognized area as a sun and beach destination with good regular and growing demand. By being open 10 months, it covers months that many hotels in the area do not. Being an adult only allows to focus better the offer on this type of customer and to have the opportunity to differentiate from the competition. By increasing the category, the prices and services offered will increase, the customer will be more sophisticated, and the revenues will be higher. This is a good opportunity to increase the final benefits.

## Threats

It is not the only hotel in the area that provides these services, so there is a risk of competition. The fact that the same need of the guest can be satisfied in a nearby hotels. Reasons beyond the hotel's control, but which can be assigned to the destination or country in general, represent a threat for this business niche, such as tax increase or law change. Demand can also fluctuate from one destination to another. If better conditions are adopted in other similar destinations, demand may be reduced. A natural disaster or a pandemic can also happen, and it would be a severe crisis for everyone. It is a circumstance that cannot be foreseen, but it must be considered as a possible risk.

- d. The characteristics of the new establishment.

The evolution of the tourism sector at all levels means that the level of competition is increasing, and this is most pronounced in more dense regions, such as the Balearic Islands and Playa de Palma in particular, as we have seen in the first section.

The differentiation of competition and the improvement of the product can help us to position ourselves better in the market and obtain higher returns in the long term, as we will have the cost of making the necessary changes in the short and medium term.

With a 30-year-old 3-star hotel, we can certainly earn income, but we risk losing occupancy and market share, as the competition will make these changes for us and our potential client will prefer to go there.

Since 2014, the Integral Reconversion Plan for Playa de Palma has been approved by the Environmental Commission and since 2015 also by the Island Commission for Territorial Planning and Urban Development, which has unblocked private investment in the area. The main objective of which is its transformation into a 4-star destination. The island's councilor for urban planning and territorial development, Mauricio Rovira, had commented: "From the Consell de Mallorca we are giving a strong boost to the Playa de Palma to improve its tourist model".

In total, as the Hosteltur website informs, after the approval of the Integral Reconversion Plan, the increase of 4- and 5-star city hotels is foreseen, which means a private investment of 350 million euros in the area. Therefore, we see that the interest in changing the model and sophisticated supply by the competition is growing and we have to take measures to be able to compete with them. This is one of the reasons why we decided to make the reform.

In this renovation we are based on the trends that we see in the current market, such as, healthy lifestyle, decrease of damage to the environment, importance of traveling, resting, creating experiences in the guests and finally, promoting the local product and its history.

The new design will be modern but with Mallorcan roots to reflect a renewed local image. We will hire a local design studio in a furniture manufacturing company, to help us with the furniture needed to make the renovation to our specifications.

As far as branding is concerned, in order to give the guest a more profound experience, apart from the corresponding number, each room will be named by a place, municipality or bay on the island. Correspondingly, in the room the guest will find things associated with this place in its design and brochures in 4 languages. The main characteristic will be to elaborate a photography project to be able to reflect on the wall of the room two photos of the same place, either a panoramic, main square or map of development, from 30 years ago and at present to reflect how the development has been during this time.

It will make the guest understand the importance that tourism has had in the development of the island and emphasize to the client/tourist his/her importance to the hotel. It will invite the guest to get to know other places on the island, as well as underline how time has passed since the last century.

The purpose of our reform is to change the official classification of the establishment from 3 to 4 stars superior. Additionally, we want to reform the 475 square meter event room located on the basement into 5 new spaces: two meeting rooms of 40m<sup>2</sup> and 60m<sup>2</sup>, a conference room, a spa with an indoor pool and a gym.

We would also like to take advantage of this reform to change the use of the rooftop, which is not currently used. In total it has an available area of 475 m<sup>2</sup>. We would like to create two more spaces there, with which we can attract sophisticated clients, such as the 300 m<sup>2</sup> terrace solarium with bar and small swimming pool and a 175 m<sup>2</sup> presentation space (only carcass without walls) with a sliding roof, where events such as weddings and product presentations could be held. The views that we will offer from there, will not leave anyone indifferent. One of the most important reasons for which we make this terrace, is because the rooms do not have them and to go

out to take the sun the guest has to go to the outside swimming pool. Creating this new space on the roof, the time to go to the terrace is only the time to take the elevator.

#### Plan of the building before renovation

The main features we have before the reform are:

- A 7-floor building and a basement with outdoor swimming pool and small parking area.
- Each floor has an area of approximately 550 m<sup>2</sup>, of which 30 m<sup>2</sup> are for the elevator and stairs and between 20 m<sup>2</sup> and 45 m<sup>2</sup> are for the storage rooms located at the ends of each floor.
- Therefore, between 475 m<sup>2</sup> and 500 m<sup>2</sup> per floor are used for the rooms.
- The hotel has a panoramic view and all the rooms have a sea view, totally or partially depending on the floor.
- In total, there are 25 single rooms of 15 m<sup>2</sup> each located between the 3rd and 7th floor in the right wing of the hotel and 150 double rooms of 20 m<sup>2</sup> each, the main room typology.
- Back Office, Reception, Kitchen and Restaurant are located on the ground floor.

#### Plan of the building after renovation

- On the ground floor everything will remain the same structurally. The most worn-out kitchen furniture and machines will be renewed, as will the reception furniture and computer systems.
- In the basement five new spaces will be created, according to the established objectives, two meeting rooms, conference room, gym and SPA.
- The rooms in the left wing will not undergo structural changes, only furniture changes to refresh the image of the hotel and add some design elements.
- In the right wing, structural reforms will be carried out to create a new type of room called "Premium". It will consist of joining a single room with a double room from the fifth to the seventh floor. The reform will be carried out according to the annexed plans. As in the left wing, in each room there will also be a change of furniture and a refreshing of the design about which we will talk in another section.
- Finally, the use of the roof will be transformed, making available to guests and external clients a bar with a terrace next to the solarium and a small swimming pool in the left wing. On the right, there will be an open space but with a sliding roof.
- The facilities located outside the building, outdoor pool and parking, will not be modified at a structural level since those are the necessary uses that these spaces have and there is also no space available around to expand them. However, in order to continue adding the new look to the hotel, the corresponding parking spaces will be painted, and the sun beds will be replaced with new ones.
- As for the number of rooms and their type, it will look like this: 10 single rooms of 15m<sup>2</sup> each, 135 double rooms of 20m<sup>2</sup> each and 15 new Premium double rooms of 35m<sup>2</sup> each. In total the surface used for the rooms remains the same of 3.375 m<sup>2</sup>. The average number of rooms per floor decreases to 23 (from 25).

- The touristic spots freed by the merger of 15 single rooms, corresponding to 15 beds, will be used as possible extra beds for the Premium rooms, if requested by the guests. In this way, we will also be able to market a new product type: Triple room (2+1).

<b>Characteristic</b>	<b>Before</b>	<b>After</b>
Category	3 stars	4 stars plus
Single room	25	10
Single Room Size (m2)	15	15
Total m2 for Single	375	150
Double room	150	135
Double Room Size (m2)	20	20
Total m2 for Double	3000	2700
Premium Double Room	0	15
Premium Room Size (m2)	0	35
Total m2 for PD Size	0	525
Total m2 used	3375	3375
Floors	7	7
Rooms per floor	25	23

Table 4. Source: This table is self-produced.

## Main services

In this section we will explain the main services that the hotel will have once it has been reformed by department.

### Reception - Room management

- Online booking, by phone or in person.
- Single room: 15m2, sea view, shower, TV, sofa and desk.
- Double room: 20m2, sea view, bathtub, TV, sofa and desk.
- Premium double room: 35m2, sea view, bathtub, TV, sofa and two single desks.
- Premium double room with extra bed: 35m2, sea view, bathtub, TV, sofa, two single desks and extra single bed.
- Early check-in: the standard check-in time is 15:00, but if we know the time of arrival of the guests and we have availability, we can offer early check-in for an extra charge.
- Late check-out: the standard check-out time is 12:00, but if we know the guests' departure time and we do not have a check-in for this room on the same day, we can offer the check-out later for an extra charge.
- Concierge: reservations for all kinds of activities on the island, as well as recommendations for visits.
- Currency exchange: from the main currencies to euro.
- Pillow menu: different types according to the guest's preference, if requested and will not be charged. By default, pillows will be standard.

- Wake-up call: call to the room at the desired time.

### Food & beverages

- Breakfast: in the main buffet restaurant from 8 am to 11 am.
- Snacks: at the rooftop bar from 10 am to 6 pm.
- Dinner: at the main buffet restaurant from 7 pm to 10 pm.
- Minibar: light drinks and snacks, various products of the island.
- Special events: catering for meetings, events or weddings.

### Sales

- Groups: reservations of 7 or more rooms, arrival planning, quick check-in, nearby rooms, schedule preparation and necessary assistance.
- Events: hotel promotion for meetings, presentations, conferences, weddings and celebrations, with capacity according to the table below. Planning and assistance before, during and after the event, as well as the preparation of the necessary accessories.

Room type	Sq.m	Room setup						
		Banquet x6	Classroom	Meeting	Theatre	Cocktail	U - form	Convention
Meeting Room 1	40	36	18	10	48	43	12	N.A. <sup>2</sup>
Meeting Room 2	60	54	27	16	72	65	18	N.A. <sup>2</sup>
Conference Room	200	179	90	52	239	215	62	13
Presentation Hall	175	N.A. <sup>1</sup>	N.A. <sup>1</sup>	N.A. <sup>1</sup>	80 <sup>3</sup>	80 <sup>3</sup>	N.A. <sup>1</sup>	N.A. <sup>1</sup>

Table 5. Source: own calculations based on logarithm from es.hotelplanner.com

<sup>1</sup>: On the roof, it is impossible to mount and dismount so much furniture and there is no storage space either. <sup>2</sup>: Limited space to perform convention. <sup>3</sup>: Maximum due to security reasons.

### Spa & Treatments

- Water circuit: 30 minutes inside the indoor heated pool with pressurized water available for guests and also for external users.
- Sauna: high temperature wet steam bath.
- Massages: a menu of massages on request.
- Rituals: a menu of rituals on demand.
- Gym: various machines and space to continue practicing sport while staying at the hotel.
- The spa will be open every day from 10 am to 6 pm and will have its own reception to assist visitors upon arrival and provide them with the necessary assistance.

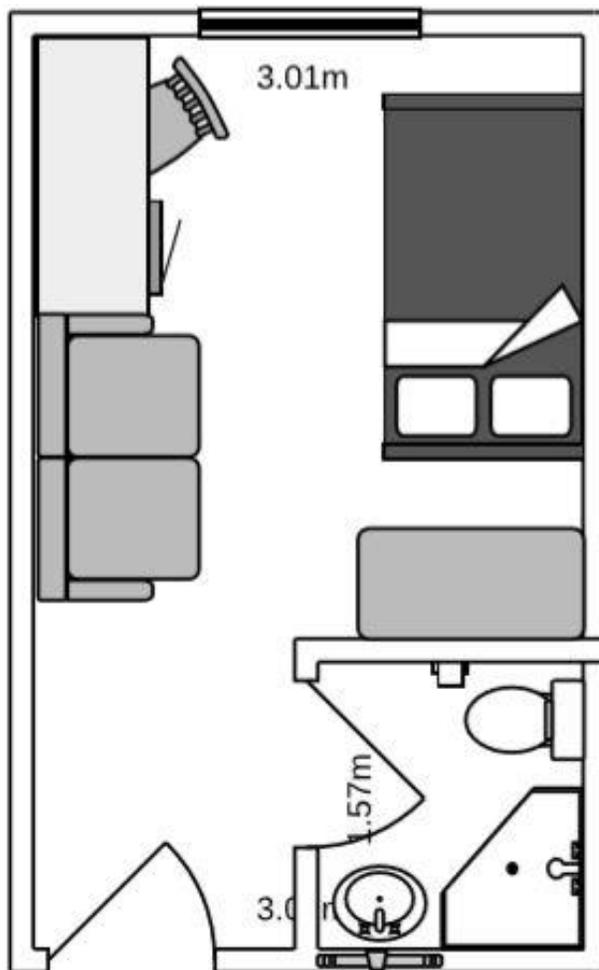
e. Design, reform, and conditioning of the establishment.

In this section we will describe the necessary changes to be made in different areas of the hotel to make the renovation successful, the main materials and furniture and its necessary quantities.

In general, we have to refresh the image of all the rooms since the existing furniture is many years old and does not match the new sophisticated image we want to achieve. On the other hand, the state of the finishes of the walls, floors and windows is good, and only requires some occasional touches. So, we save a large part of the investment in making the most of what we already have.

Below is an example of 2D footage of the 15m<sup>2</sup> single room, 5 meters long by 3 meters wide with one window. Total amount of this rooms in the hotel is 10.

Inventory of the main furniture in the already refurbished room:



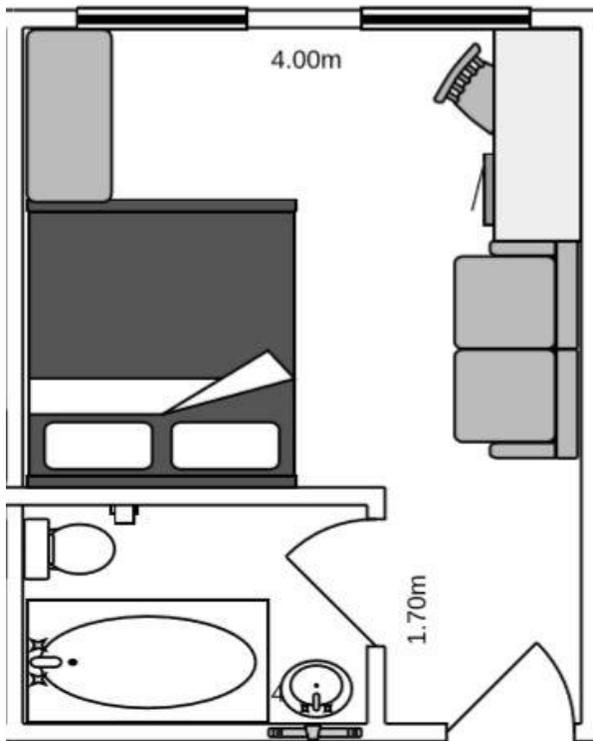
- Desk with minibar
- Chair
- Bed frame
- Individual mattress
- Two-seater sofa
- Mirror cabinet
- TV, phone and decoration

And in the bathroom, the next plumbing is required:

- Toilet
- Shower cabin
- Mirror
- Washbasin with shelves
- Dryer

Chart 5. Source: This 2D footage is self-produced.

Below is an example of 2D footage of the 20m<sup>2</sup> double room, 5 meters long by 4 meters wide with two windows. Total amount of this rooms in the hotel is 135.



- Desk with minibar
- Chair
- Bed frame
- Double mattress
- Two-seater sofa
- Mirror cabinet
- TV, phone and decoration

And in the bathroom, the following plumbing is needed:

- Toilet
- Bathtub
- Mirror
- Washbasin with shelves
- Dryer

Chart 6. Source: This 2D footage is self-produced

On the next page, we see how we proceed to merge two rooms into one. The result is the premium double room. We use the walls of the bathroom to the maximum, leaving its contour intact. We place the double bed right in the middle of the resulting room, facing the windows, which are now three. The TV goes from being on the side wall to being between the windows.

The wardrobe with a built-in mirror is hidden so as not to take up any space in sight and to keep it clear. Two chests of drawers will be placed at the sides of the bed, and new furniture will also appear such as a short shelf in front of the window and an individual desk with a chair and mirror. In the bathroom there is a bidet and extra lighting.

Below is an example of 2D footage of the 35m<sup>2</sup> double room, 5 meters long by 7 meters wide with three windows. Total amount of this rooms in the hotel is 15.

Inventory of the main furniture in the already refurbished room is:

- Desk with minibar, desk with mirror, two chairs, bed frame, double mattress, two-seater sofa, mirror cabinet, shelves, long chest of drawers, short chest of drawers, TV, phone and decoration

And in the bathroom, the following plumbing is needed:

- Toilet and bidet, bathtub, mirror, washbasin with shelves, shelves, lighting and dryer.

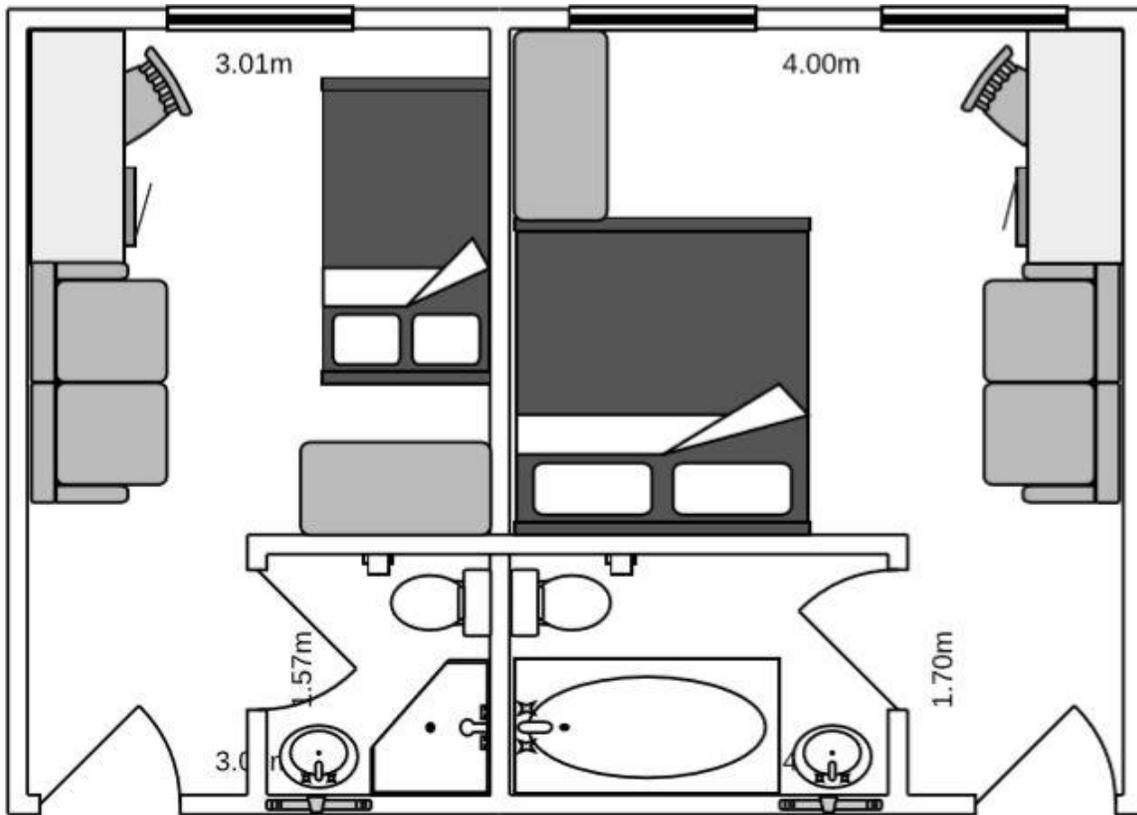


Chart 7. Source: This 2D footage is self-produced.

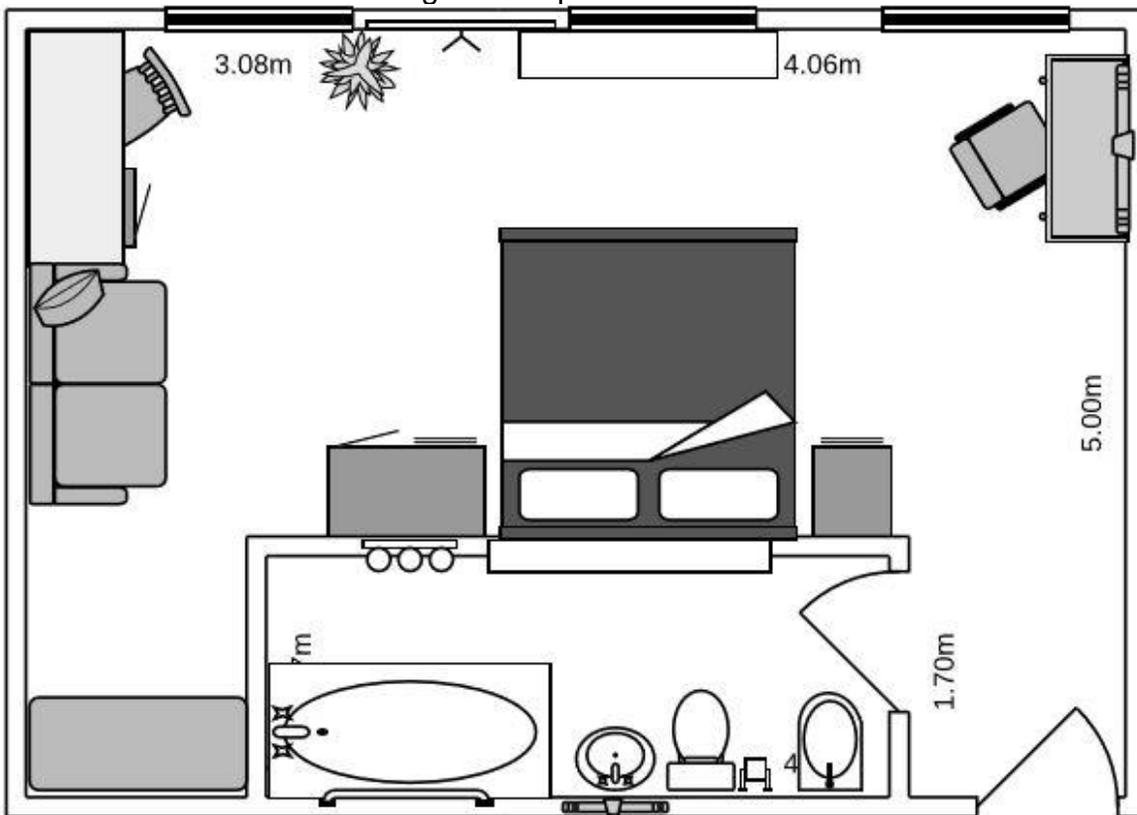


Chart 8. Source: This 2D footage is self-produced.

Therefore, the inventory required for the modification of the rooms and their corresponding approximate prices (incl. VAT) are as follows:

	Room type			Total	Price	Amount
	Single	Double	Premium			
N of rooms	10	135	15			€ 343,609.25
Furniture						
Mirror cabinet	10	135	15	160	€ 309.00	€ 49,440.00
Doors	20	270	30	320	€ 109.00	€ 34,880.00
Bathtub	0	135	15	150	€ 193.00	€ 28,950.00
TV	10	135	15	160	€ 179.00	€ 28,640.00
Double bed frame	0	135	15	150	€ 189.00	€ 28,350.00
Double mattress	0	135	15	150	€ 179.00	€ 26,850.00
Desk	10	135	15	160	€ 150.00	€ 24,000.00
Two-seater sofa	10	135	15	160	€ 149.00	€ 23,840.00
Toilet	10	135	15	160	€ 139.00	€ 22,240.00
Decoration	10	135	30	175	€ 100.00	€ 17,500.00
Washbasin with shelves	10	135	15	160	€ 99.00	€ 15,840.00
Minibar fridge	10	135	15	160	€ 81.70	€ 13,072.00
Chairs	10	135	30	175	€ 45.00	€ 7,875.00
Phone	10	135	15	160	€ 29.99	€ 4,798.40
Dryer	10	135	15	160	€ 29.90	€ 4,784.00
Shower cabin	10	0	0	10	€ 350.00	€ 3,500.00
Long chest of drawers	0	0	15	15	€ 179.00	€ 2,685.00
Desk with mirror	0	0	15	15	€ 149.00	€ 2,235.00
Individual mattress	10	0	0	10	€ 215.00	€ 2,150.00
Bidet	0	0	15	15	€ 47.00	€ 705.00
Lighting	0	0	15	15	€ 39.99	€ 599.85
Shelves	0	0	15	15	€ 25.00	€ 375.00
Short chest of drawers	0	0	15	15	€ 20.00	€ 300.00
Mirror (incl. with washbasin)	10	135	15	160	€ -	€ -
Individual bed frame (incl. with mattress)	10	0	0	10	€ -	€ -

Table 6. Source: This table is self-produced based on prices from online retailers. VAT excluded value is € 283,974.59. When buying in bulk, the supplier gives us a commercial discount of 20%, and the net amount to be paid for the furniture is € 227,179.67. Transport and installation costs of 10% each are applied to this amount. The total to be paid to the supplier is € 272,615.60 plus VAT of 21%.

Through a cost distribution system, we calculate the net unit cost of the transformation per room, thus transforming a single room has a cost of 1,661.82 euros, the double of 1,658.65 euros and the premium of 2,138.64 euros.

Then, we move on to assess the change in the infrastructure of the hotel's common spaces:

#### Back Office

In this area of 140 m<sup>2</sup> are located the internal services of the hotel, as laundry, warehouse, staff changing rooms, technical services and housekeeping. To refresh these spaces, we will use some of the old furniture from the rooms. In general, we budget 100 euros per square meter, 14.000,00 € for all.

#### Service Rooms

Facilities located on each floor of the hotel. They are used to store furniture needed for meetings and conferences, housekeeping trolleys, vacuum cleaners, technical services material and products for the replacement of the minibar. Its interior space does not require reform, but the doors are in sight of the clients, therefore we change them. In total we have 18, and the cost of changing them is 1,556.00 €.

#### Lift, stairs and corridors

The passing spaces are covered with bad looking tiles, so we replace them in the whole building. We do the same with the stairs. As for the elevator, we make a modernization of the same one, since the integral change is very expensive. Additionally, now the elevator will have to reach the roof. For all this, including the work of the workers, we budget 180 thousand euros.

#### Reception

New furniture according to the category of the hotel, unique and tailor-made decoration to create a very good first impression. We will also have to renew the computer systems of the reception, management, sales and reservation departments. Acquiring mobile phones for faster internal communication. The approximate cost is 200,000 euros.

#### Kitchen

Food is the most essential thing in a hotel that wants to gain a high reputation, and it can also become one of the reasons to come back to the hotel after a first stay. Since in the off-season months we will be betting on local tourism, a good restaurant will make the difference. The total reform of the kitchen will help us to have everything ready for the arrival of the chef and his team. The approximate budget is 300 thousand euros.

#### Restaurant

The place for dinners and buffet breakfasts prepared in our kitchen. It is a space for 50% of the guests. The total number of touristic spots we have is 325. Therefore, the main hall should have a capacity of 162 people, this would be the maximum capacity at the same time. We therefore need 20 tables of 4 people and 41 of 2 people, as most of our potential customers are couples. We change the decoration

according to the advice of the local design studio hired. The total budget is 200 thousand euros.

### Spa

The new feature of this renovation will be the spa located on the -1 floor with its own reception, sauna, rooms for massages and rituals, and a swimming pool with different types of hydromassages. As it is a brand-new installation, it will be the most expensive part of this reform, with an approximate budget of 1.2 million euros.

### Gym

Another feature of our hotel will be a small space for those who want to continue practicing sport outside of their usual homes. For this purpose, we will provide a 40 m<sup>2</sup> space next to the spa on the -1 floor. The main investment of this cost center will be the machines and the construction costs. The approximate investment for this space is 50 thousand euros.

### Meeting Room 1

One of the resulting rooms in our break-down party room. We want to create functional rooms for meetings and/or events, equipped with all the necessary technology and with good materials and finishes. The surface area will be 40 m<sup>2</sup> and we are budgeting 500 euros per square meter plus 10 thousand in necessary material. In total, 30 thousand euros.

### Meeting Room 2

This room has longer surface, 60 m<sup>2</sup>. Therefore, the budget is 40 thousand euros.

### Conference Room

It is the main room and the one with the most capacity. Located on the -1-floor next to the elevator and stairs it allows an easy access and exit of the participants. We need furniture according to the table of the sales department to cover all possible variations of the room. As for the small meeting rooms, we will make available to our customers all the most pioneering technological gadgets. The approximate cost is 110 thousand euros.

### Solarium

Another of the key elements in this reform. In the absence of terraces in the rooms, we offer our guests the roof terrace. Therefore, if someone does not want to go to the beach or to our main pool, they can enjoy fantastic views and sunshine just a few minutes from their room. The design of the entire roof will also be carried out by our design studio, which has been contracted to continue in the same line with the image of the hotel. The budget of the reform of the whole roof, except the elevator because we already included it in the previous section, is 1.5 million euros.

### Bar

Drinks and snacks service during the day for the guests who will come to the solarium.

### Rooftop Swimming pool

We will make a small elevation on the floor of the roof to make the pool with limited capacity, maximum 10 people at the same time will be able to use it.

### Presentation Hall

We want to take advantage of this space to set up this lounge. It will allow us to make presentations, weddings, cocktails or events of the hotel itself. For security reasons, although the length of the space allows it, we reduced the capacity to 50%, so the maximum number of people in this space will be 80. The additional budget for the installation of this space will be 50 thousand euros.

### Parking

We paved the space designated for the parking lots and painted the corresponding spaces. In total the car park will have 40 spaces for compact cars. The budget for this area is 100 thousand euros.

### Outside swimming pool area

The space has a large pool and 80 hammocks. We renewed the design of the area and bought 70 new hammocks and in place of the remaining 10 we installed 5 Balinese beds to provide an additional service. We changed the decoration for a more natural one and planted several trees and flowers to create a greener environment. Drinks and snacks will be delivered to this area during the day from the restaurant. The budget for this area is of 500 thousand euros.

### Building front

We painted the front in the same colour and fixed some damage caused by time. The cost of this reform sums up for 100 thousand euros, most of which is the cost of staff.

### Permits, licenses and labor

To make all these changes we need several building permits, administrative and legal advice, as well as subcontracting specialists in different construction sectors. For all these, we budget 150 thousand euros.

### Total cost of hotel renovation:

5.054.676 is the overall budget summed up over all phases. As this is a construction budget, which tends to change upwards once work has begun, we assume an extra 10% margin to complete all the planned work. Thus, the investment needed to carry out the project described will be 5.560.143 euros.

- f. Aspects from the General Law of Tourism of the Balearic Islands that affect our reform.

Our hotel activity is regulated by the law 8/2012, of July 19th, of Tourism of the Balearic Islands. The main aspect affected by the reform in this regulation is the categorization of the establishment. The upgrade from 3 stars to 4 stars superior. For this purpose, the law establishes a score that must be accumulated in order to

apply for one category or another. Before the reform, we therefore had between 300 and 449 points, since accumulating 450 points would already mean having a 3-star superior category. Our goal is to accumulate 650 points to obtain the desired category.

In addition, we should meet all the minimums set for the 4-star column. These minimums should be excluded from extra charges in order to be counted in the final score as well. If these minimums are the same for 3 stars as for 4, we will not have to change them, if they are higher, we will have to improve them as specified.

These are the points to be improved at least:

- Bar (integrated with the guest lounge) + 4 points
- Lobby with seating and beverage service + 5 points
- Luggage service, on customer's request + 2 points
- Laundry and ironing service (delivery before 9 a.m., return within 24 hours, except at weekends) + 2 points
- Double with living room\* + 6 points
- Bathtub and/or shower with screen, or with construction separating the shower space and the sanitary facilities and the toilet + 3 points
- Additional products (hostess items or compliments), min. 2 + 2 points
- Proper control of window noise in the room + 8 points
- Noise absorbing doors or double doors in the room + 8 points
- One seat per spot in the room + 2 points
- Reading light near the bed + 2 points
- In-room Internet access (e.g. broadband, WLAN, Wi-fi) + 8 points
- Fridge with drinks menu on request + 4 points
- Change of bedding at least twice a week + 2 points
- In-room shoe-cleaning tools + 3 points
- Breakfast with a large buffet with service or equivalent a la carte menu, with products from the Islands + 5 points

\*According to this concept, 3 premium room's design will have to be adjusted with separation between the bed area and the sofa and desk area.

All these minimum requirements now add up to 66 points. The rest of the points will have to be obtained from the options provided in the tables. With all the changes we described in the previous section and with the improved and new facilities added is enough to reach 650 points and get the new category. Afterwards, we will have to fill in the self-evaluation sheets and wait for the commission of the tourism council to approve our request for change. Following this, we will change the badge in a visible place at the entrance to the hotel.

- g. HR policy to be followed: organization chart, structure and departments of the hotel, how we will carry out selection, motivation, training, remuneration, determination of the fixed part vs. the variable part.

As we mentioned before, this is an individual hotel that is not part of a chain. For this reason, the organizational chart shows the extensive number of different departments. Many of the functions that in chain hotels are covered by a central office that serves many hotels at the same time, in the case of an individual hotel it must be carried out from the establishment itself.

Departments	Positions					
Management	Manager	Administrator	Accountant*	Assistant*		
Reception	1st Head	2nd Head	Receptionist	Night Audit	Assistant*	Security
Reservations	1st Head	2nd Head*	Agent*			
Sales	1st Head	2nd Head*	Agent*			
Housekeeping	1st Head	2nd Head*	Cleaner*			
Engineering	1st Head	Technician*				
HR	1st Head	Assistant*				
F&B	1st Head	2nd Head	Bartender*	Waiter*	Assistant*	
Kitchen	Chef	Sous Chef	Cook*	Assistant*		
Warehouse	1st Head					
SPA	1st Head	2nd Head*	Assistant*			
GEX	1st Head	2nd Head*	Gardener	Lifeguard*		

Table 7. Source: This table is self-produced.

In this table we see the 12 departments in which the hotel's staff is distributed. The strategic group is made up of the positions in the first column, in which the manager has the highest hierarchical position. The other 3 positions in the management team help keep all the hotel's accounting and finances in order. Not all positions will be covered during the ten months of hotel activity due to demand fluctuation. Temporary or part-time positions are marked with \*.

The table above is the organizational chart of the hotel by department and the professions in each of them. Thus, in the first column the departments can be seen. Manager is the one that controls the rest of the teams. There are no hierarchical differences between the other departments, as they all report directly to the manager. Therefore, the order in which the departments appear in the table is not relevant for that purpose. The administrator, accountant and assistant do not control any department, they report to the manager as well. For all departments, the hierarchy of positions goes from left to the right, being the position on the left (1st Head and Chef) the heads of the department and the further to the right the position is, the less responsibility it has in the department.

The bartender, for example, can receive instructions from 1st and 2nd heads of F&B department, but hierarchically he or she cannot receive them from waiter or assistant. Another example is the security agent, position that can receive instructions from all other positions in the reception department (because it is the most right on the table) and the hotel manager.

### Selection process

In order to proceed with the selection of staff, we need people with experience in this function. Therefore, the first thing we will do is hire a human resources manager and his assistant, through a placement company that will guide us in this process. Once these two people are hired, they will be on charge of hiring the rest of the workers. As a main point, we would have to see how many people, and with how much experience, the hotel had before the reform. Decide which of them will remain in the

new establishment and which will not. For the rest of the available positions, the human resources department will carry out the selection through the use of both public (Palma Activa) and private (Adecco) placement agencies, will attend job fairs (Job Day UIB), and will design a strategy to attract potential workers through the LinkedIn social network.

We are looking for proactive people, with a positive attitude, collaborators and / or leaders who solve the discrepancies in teams, but when necessary know how to take the initiative on their own. Depending on the position you will need to have more or less experience in similar types of job.

As for some functions such as 1st and 2nd Head, a higher education degree will be required. At the level of language skills for the customer service staff, at least one local language, English and a third language are required. Depending on the staff already hired, this may be German, French, Italian or Russian.

More than half of the contracts will be fixed discontinued for 10 months, as we expect to have more than 50% occupancy in the low season. Another 15% will be fixed contracts, for the heads of some essential departments during the two months of closure, such as the manager, head of reservations, administrator, technical maintenance, sales and GEX. The rest will be temporary or part-time.

## Motivation

Hotel work is stressful enough. That is why the motivation of the team is the most important aspect of good customer service. If our staff is happy, this will most likely be reflected in the guest as well.

The main thing begins with the simplest thing, the fulfilment of the contractual conditions. The employee will work the hours specified in his contract, and if overtime is required it will not exceed the maximum legal limit. The heads of each department will try to make the schedule by turns of their staff according to the possible requests of them, to be able to reconcile their personal life with the one of the hotel. In return, an understanding is requested about the holidays, the impossibility of taking them in the middle of the season.

Efforts will always be made to maintain a fixed schedule for the staff as far as possible. Following the obligations of the hospitality agreement, lunch time will be remunerated, and food will be provided by the hotel, as well as the possibility of making some specific purchase from the warehouse. Two staff parties will be held at the beginning and end of the season with prize draws and trips. Finally, the human resources department will look for flexible compensation options, such as discounts on private insurance for the employee and his/her family, on day-care centers, on retail needed on a daily basis.

Another important point of employee motivation is the internal career development plan. Despite being an SME, there are several jobs in each department, and it is important to set the criteria for internal promotion. The first step in rewarding a worker for his/her good performance will be to change his/her contract from temporary to permanent discontinued keeping the same position. Due to the characteristics of the sector, this cannot be done with all positions. The greatest benefit for the company will be the creation of loyalty with the worker and permanence of a person who already has experience in the hotel.

The next step in this rewarding process will happen in the case that a position with greater responsibility is released, it will first be reviewed by the head of department (if head of department is needed, a manager will decide) and the head of human resources who from the staff with lower rank could be promoted. Since it is easier to teach a person who is already in the team to have more responsibility, than to find a new one. This assessment will be made in two parts, one subjective and one objective. In the subjective part, the person will be evaluated, as well as their behavior and performance, loyalty, proactivity and the worker commitment with the company culture. In the objective part it will be assessed whether the candidate for internal promotion has enough experience to promote (minimum of two seasons/years in a position), necessary qualifications if it is the position of head of department and technical skills. Persons from the same department as well as from other departments of the hotel may participate in these processes, as long as the requirements for the position are met. If all these requirements are met, the employee will be considered for promotion.

This professional development process is not guaranteed as it is a SME company. In order that a promotion can occur, a higher rank position has to be released first, and this circumstance may or may not occur, many factors become involved.

For this reason, while providing this possibility, employees will be given a bonus for remaining in the company in the variable remuneration. The reason is that the employee feels valued, and that his or her good performance ends up being better paid overtime. Otherwise, the worker would be tempted to go to another company, as the payment terms are those set out in the collective agreement and its experience would be lost.

## Training

In general, we expect to hire people who are already prepared for the job. Therefore, we will not be training the job itself from scratch. However, all new employees will be given a 4-hour session to learn about the service culture of the hotel, the leisure options available to guests, opening hours, etc. This will help us to ensure that any member of staff can answer a guest's question or can direct them to a department that can help them.

In addition, using state training aid, at the beginning or end of the season we will run language courses for individual departments to strengthen their useful knowledge in their position. Similarly, courses on sales, marketing, operating systems for reservations and others would be useful for the staff most closely related to these topics. For example, in case of Reception, F&B, Sales and Reservations, before starting the season it would be useful to do a course about Upselling opportunities. In all cases, the training will be paid entirely by the company, and the hours spent on it will be during the actual working time. Another plus to the motivation of the staff.

## Remuneration

The remuneration in our sector and place is totally broken down in the agreement of hospitality industry of the Balearic Islands. However, we want to make a difference

between the hotels of the competition by offering, apart from what is legally established, a flexible bonus to our workers.

The aim of this variable remuneration policy is to increase the level of staff involvement in the hotel's business success. For the departments that are directly related to sales, this extra remuneration will serve as a motivation to sell more and earn more income for the hotel. For the departments that are not directly related to sales, this remuneration will serve as a motivation to provide a more sophisticated service expected by the guest.

The main difference is that not many hotels in the Balearic Islands offer this variable part as high, as it can be in this hotel. The aim is to get a more prepared and better working talent than in the hotels of the competition.

In the long term, this policy will make it possible to achieve several objectives, such as a loyal team of workers who share the company's objectives, good customer service provided by different departments as the best professionals from the area work there, a high qualification for quality of service by customers and thus be able to increase their prices, and consequently, income.

We explain it by department:

- Management: an annual target for the benefits achieved.
- Reservations: an annual target for the revenue and occupancy rate will be set.
- Sales: an annual target for the MICE and Group bookings will be set.

For these 3 departments, a minimum limit will be set to be achieved, and from this amount everything that exceeds it will be pro-rated as remuneration to the department by an additional 5%.

- Reception: will be commissions for Upselling of superior rooms or additional sales of hotel services, such as spa or Bali beds.
- Spa: will be commissions for Upselling of additional sales of spa services and products.

For these 2 departments, there will be no minimum to get, the percentage for the department will be 5%.

- F&B: the main source of flexible remuneration will be the tip from our guests and service charge of 7%, charged in all tickets from F&B automatically. This charge will appear on all menus and the guest may request it to be removed.

Among the members of these 6 departments, all these extras will be distributed according to the time worked and the percentage of the standard remuneration established. The percentage will be calculated on the price of the service excluding VAT. For example, if the payroll of the 2nd head of reception is 15% of the department's payroll budget, he will receive 15% of all the extras generated if his seniority in the company is the average for the department. If it's higher he'll receive a little more, if it's lower he'll receive a little less. The maximum percentage that can vary this extra by experience is 5% to plus or minus.

The following departments are not directly involved in sales, but their work is very important for the quality of our service. Therefore, it is important that they also have part of their variable remuneration. Among them it is also important to distinguish between those directly related to the client and the internal departments of the hotel.

The direct ones would be:

- GEX
- Housekeeping
- Kitchen
- Engineering

For them, some minimums will be established to be achieved in the quality surveys that GEX will carry out. Thus, GEX will receive its extra for the total score and the other 3 departments for the questions that affect them. If the target score is met, each person will receive half of an extra salary. Remember that by agreement two extra salaries are already paid in summer and in winter, so this would be half of an additional one.

For example, if for the housekeeping department a target of 9.1 out of 10 is set to be achieved in the average surveys, and at the end of the year the average is 9.15, an assistant who normally receives a gross payroll of 1300 euros per month would receive 1950 euros gross. The payment of this bonus requires that first the hotel has had enough benefits to afford this additional payment and secondly be approved by the management department. It should also be noted that the shareholders of the hotel should also receive a return on their investment and in case of low profits, they would have preference in the payment.

And the internal would be:

- Warehouse
- HR

It is very complicated to establish a type of flexible remuneration for these departments. Therefore, it is up to the manager to assess the performance of the employees in these departments over an appropriate period, for example, every year. And according to that, whether to increase their monthly payroll.

- h. The quality management system that we will use: how quality will be managed in the hotel, quality indicators, ways of evaluating the information obtained, customer loyalty policies.

Quality management is key to knowing the level of customer satisfaction. It allows better adaptation of daily operations and improvement of existing service processes. To control and evaluate the quality of the services provided in the hotel we have created a new department that will take care of it, guest experience (GEX). This department will consist of the head, his/her assistant, the gardeners and the lifeguards.

It is important to have a quality department or people in charge of these tasks in the hotel, because during the stay the guest may find problems with some product or service and make a complaint. Complaint management is becoming increasingly important in the hotel industry, as several studies have shown that resolving a guest's complaint during their stay increases the guest's loyalty to the hotel. By increasing this loyalty, the possibility of a return visit also increases. Previously, the guest must be informed of the existence of this department in the hotel. This will prevent that complaints remain unrecorded despite their existence, just because the guest does not know to whom to address it at the moment.

This management will ensure that complaints are only registered at the hotel and not exposed by the customer on the networks after the stay. Because being a complaint it would lower the average score of our establishment, and that is what mainly is tried to avoid.

The main tools to use to evaluate the quality of the service in the hotel will be the following.

Surveys sent by e-mail to guests after departure.

Dispute resolution during the stay.

The Mystery Guest, full assessment program.

Comments on social networks and pages where the hotel claims its profile (TripAdvisor, Facebook, Instagram).

Knowing the data obtained from these tools, we can analyze it through the following indicators and/or systems:

- The Five Gap Model
- The SERVQUAL Instrument

It is important to understand what the expectations of the clients who come to visit us are, what they expect to receive for their money. Because if the reality results to be less than their expectations, the valuation will be bad. On the other hand, if it results to be higher, the valuation will be very good. If the reality is as the guest expected, the rating will be good.

The function of the department will then be to analyze what expectations our customers come with, in order to adapt our marketing, and what reality they find afterwards. The objective will be to identify how we can match reality to expectations in order to achieve good average ratings.

Apart from the assessment of the mystery guest, which we will emphasize, the quality department will formulate the complete survey of questions to be sent after the stay. It will cover the main services that the guest may have used by department. For the evaluation of the visits of external clients, an e-mail address will be taken to be able to send it later as well.

The survey will include numerical response questions (rate from 1 to 10, with 1 being very unsatisfied and 10 very satisfied) and open response questions, where the guest will be invited to leave a set of comments of their own about the experience received.

As described above, one of our medium-term goals (25-60 months) is to enhance our loyalty program for frequent customers. As we are not part of a chain, it will be more complicated as we cannot offer hotels from the same company in other locations. However, on the one hand we would like to reward customers who repeat with us with discounts on their next reservations or gifts of products and/or services (for this purpose they can identify themselves on our website with their own discount code when making their next reservation) and on the other hand, the sales department will look for programs that the hotel could enter into where guests can obtain points for euros spent and then make the reservation with these points (for example, Travel Club) or directly offer some kind of discount if the group's characteristic is met (Ikea Family Card).

The main objective of these programs is to be able to increase the occupation in low season as well as to sell additional products and services to the client. For example, if a guest has already come to our hotel twice in July, after a few months, we will

send them a newsletter offering an exclusive discount to repeat their stay. The offer will be valid from November 1st to March 30th during the days the hotel is open. Another example would be to offer, according to availability, to regular customers the possibility to come to the hotel's spa for free, by booking a paid massage. The spa's swimming pool is open anyway, but the massage service will give us an extra return.

- i. Selected marketing strategy: definition of our product, target market segments, promotion techniques to be used, CRM (customer relationship management), social network management system.

#### Definition of our product

We offer different products, so let's make a brief description by their types.

Relaxation stay: we offer an environment only for adults to rest and relax with friendly service. Visit our spa for a treatment or massage. Enjoy the sunset in the rooftop lounge.

Formal stay: be able to be attended quickly and efficiently. To have everything necessary to be able to work in the room and if necessary, to reserve a meeting room.

Group stay: have your own reservation advisor who will guide you from the beginning until you check out. To have the rooms nearby and be able to organize a group program both in the hotel and outside (transfers and reservations).

Event space: be able to prepare all the details for a professional event. Be it a wedding, a congress, a meeting, a workshop or a new product presentation. Our team will find an ideal space for your needs and will always support you.

We can see that we have a very diversified product and the objective of the hotel is to make everything work properly without disturbing each other.

#### Target market strategy

Having differentiated products, the target markets are also differentiated, but not much:

For a relaxation stay: we target our offer mainly, but not limited to, couples between the ages of 20 and 50. We can attend to customers in English, Spanish, Catalan, German, French, Italian and Russian, so we do not limit our offer to any particular country, but are happy to receive customers who speak these languages.

For formal stay: we target our offer to entrepreneurs and businessmen who have some work to do in Palma de Mallorca and want to be close to Palma and the airport at the same time.

For group stay: we expect to receive groups looking for a comfortable place in Palma to hold an event or meeting together. Mainly, we are looking for companies that want to make events longer than a day, so they can spend the night at the hotel.

For event space: we can hold events for up to 240 people at the hotel. They can be weddings, workshops, conferences among others. For this product we are not only looking for corporate clients, but also for private clients.

Promotion techniques to be used

The hotel has 30 years of history during which many people have been able to know it. Our goal now, when it comes to promoting it, is to announce its great renovation and modernization. Practically as if it were a new hotel. We must emphasize that we have just renewed it so that the first potential guests will understand that it is new, and they will be the first to stay. For now, we have accumulated thousands of email addresses from our previous guests to which we will start sending newsletters notifying the reopening.

The second step in our promotion is to adapt our website to the current offer. Renew the multimedia, the descriptions, the calendar and the prices of the products. The price per night of the rooms can be consulted through the page, as well as the menu, the prices of Bali beds and spa, however for the reservations of more than 7 rooms or to book a space a contact form will be available to ask for a customized budget. Another contact channel will be the phone, which can be attended by the reservations department, sales or on holidays and weekends by the reception team. The third step is to decide the price at which we will sell our products / room nights. Due to the reform, modernization and characteristics of our establishment in front of the competition in the area and on the island, the price will be 20% higher than the average for individual room, 30% higher for double room, 40% higher for premium room, 60% higher for double room for 3 Pax and 80% higher for premium double room for 3 Pax.

Additionally, this price will be increased by 15% if it is a holiday and by 20% if it is a weekend day. We will offer 3 types of board, self-catering, bed and breakfast and half-board. By booking the room, breakfast can be added for 10 euros per person per day, and half board can be added for 30 euros per person per day.

If the guest wishes to be able to cancel the reservation without charge, this can be done 48 hours before arrival by mail, telephone or on the web; this type of rate will be called "Pay at the hotel" and will have a price 15% higher than the "non-refundable" rate.

If the guest cancels the reservation during the 48 hours prior to arrival, the first night of the entire stay will be charged to the credit card provided at the time of booking. If the client with this rate, were no-show until the next day after the day of arrival, one night would be charged and the reservation would be cancelled.

For instance, if a couple wants to stay in a premium room from September 21 to 28, 2020 with breakfast and they choose a non-refundable rate, the price will be:  
 $167*5+200*2+7*2*10 = 1.375,00 \text{ €}$  (98,00 € per person per night).

All prices for months and possible modifications have been calculated in the attached excel.

Being the most economical and at the same time the most relevant advertising channel for us, the Internet, we will carry out several campaigns with Google AdWords with the help of a professional company. The ads will redirect users directly to our site, which will invite them to register for a 10% discount on the next booking, only for non-refundable bookings.

The fifth step in our promotional listing will be advertising in local magazines in the off-season. We are committed to the visits of local people in these months, therefore, the advertising of our offers in this medium seems to us coherent. Besides, people who read magazines are usually considered to have a higher purchasing power.

The last step of our first promotional measures would be to arrange visiting days (Fam trips) with several travel agencies, tour operators and bed bank representatives in order to get to know the hotel better and see all its features in person. This promotion tool will help the hotel to improve the sales with through these companies.

CRM (customer relationship management)

Customer Relationship Management, CRM, is the base tool to centralize the information we know about our customers, which is constantly updated. It is the system that stores all the data about a guest and offers a very personalized treatment to them. If we want to achieve our medium-term goal of customer loyalty, digitalization and correctly used CRM will help us as an effective tool.

By obtaining the data and behavior of our customers with this system we will be able to better focus our advertising campaigns. Other benefits are better customer understanding and market segmentation into different niches.

The departments that would use it in the day to day would be reservations, sales, GEX and reception. All of them should undergo additional training to get the most out of the tool and increase its profitability. To obtain good satisfaction from the hotel with this program, it should be linked to the hotel's reservation system and not be a separate program.

In the program, it would record all the interactions that the client has with the hotel, from the call to reserve a room to loading a ticket from the rooftop bar. In this way it would be recorded what the customer consumed during his stay, and if later in the satisfaction survey the customer rates very well the service and the quality of the products of this bar, we will know that it is a point of influence on him.

Later, and only if we are authorized, we could send him the following very personalized message:

"Dear James,

Do you remember the Aperol Spritz you took 30 days ago?

Would you like to repeat it?

Next week at our hotel we'll have live music starting at 7:00 p.m.

Click here to get your free invitation."

At least our customer will be surprised. Even if he can't go, he'll remember the good time he had in our bar. And if he can go, he most certainly will not go alone.

Another example, very simple but very effective, could be the following. The client has arrived earlier than expected and his room is still not ready and there is no more availability. Therefore, he is asked to wait or if he prefers, he can give us his phone number and we will notify him with a message when it is ready. In the meantime, he can do his own things or go somewhere else. We load the system with his phone number and write the order to send the message when the room status is changed. That way, as soon as the room is ready, the client will know it. Maybe he won't use it right now, but he will know that he can go there whenever he wants.

### Social network management system

The networks will be essential to promote us, that is why we describe it in a separate section. They will be managed by the GEX department, which, through thematic publications, will pursue the following objectives:

- Transmit a positive image of the hotel
- Inform about the variety of our services
- Attract potential customers
- Interact with received feedbacks
- Manage the hotels reputation by responding to questions and/or comments

We selected the networks where we will be represented and have divided them into two types: opinion and communication networks. The opinion ones will be TripAdvisor and Google Reviews and the communication ones will be Facebook and Instagram.

The quality department will frequently review the opinion networks, in order to be able to respond to the comments left about the hotel and our service. If a positive comment is found, the user will be thanked for having contributed their vision and will be invited to return as soon as possible. If we recognize the customer who has left the comment, our response must be personalized.

If a negative comment is received, an internal management process will be started to find out from those involved what had occurred in order to have enough information about what happened. A response that is either apologetic or more informative will be formulated accordingly. In case of proven error of the hotel, the client will be asked to give us a 2nd chance, so that he can improve his vision about us.

In the communication networks, we will do what its name indicates, communicate. We will have active profiles, which generate daily content of at least 1 daily publication in both. Important events, product presentations, menu descriptions and room photos will be our main content. GEX will also try, with prior permission, to upload photos of happy and joyful customers enjoying our facilities.

For all our followers, there will be a permanent promotion with the link in our profiles to redirect the user to the booking page, which will consist of a 10% discount on any calendar date for non-refundable rates, if available.

- j. Sales strategy: distribution channels to be used, sales prices in each channel, commissions.

Create a good product is essential, but it is also important to generate income from it. Our main distribution channels for the rooms booking will be the followings:

- Traditional Travel Agencies (TTA)
- Online Travel Agencies (OTA)
- Bed banks (BBK)
- Tariff Aggregator - Meta Search (AGG)
- Direct sales from our website (WEB)

We have already described our prices in the attached excel for all types of room, date, board and rate types; these are the prices that will be published on our website. In no case, not even with the special promotions of the sales channel, this price can be lower. The absence of this condition would allow the other channels to sell our

room cheaper than we do, thus reducing their commission in exchange for better sales.

Therefore, the prices on all pages must be either equal to or higher than ours. This is mainly done to balance the channel options against the price search engines. The prices indicated in our template are final for the consumer, they already include 10% VAT. If the channel offers the room in a currency other than the Euro, the applicable exchange rate must be correlative without being able to attribute discounts for payment in another currency.

For TTAs (B the Travel Brand), with the possibility of completing the fam trip, a minimum slot contract will be signed. A slot will be established for the agency on specific dates and at a price 25% lower than ours, which will be the base.

The payment condition established will be in the form of a deposit. Before the start of the season, the travel agency will pay one quarter of the price of the total annual slot. As reservations are made, our reception department in collaboration with the administrator will deduct from this deposit the total to be charged for these reservations.

When the deposit is used up, the TTA will pay another quarter and so on. Reservations not covered by the deposit will not be accepted. If, after the deposit has been paid, no reservations are made to cover it, the charges for blocking the slot will be deducted (25% of our rate), and the rest will be returned to the TTA. The slot offered will be between 1 and 5 rooms per night, depending on TTA's demand.

For OTAs (such as WebJet), with the possibility of completing the fam trip, will be no minimum slot contract. There will be a partnership agreement via XML connection of our booking system to its channel. There will be a maximum limit available, which will change depending on the occupancy of the hotel, of 20% of the total available. If a single reservation (for many rooms) exceeds the percentage available, our reservations department should be contacted directly to manage the timely extension. If a single reservation (for many rooms) exceeds the percentage available, our sales department should be contacted directly to manage the timely extension. The price for OTA would be 15% less than ours.

For BBKs, there would be a meeting with its contracting department, as for OTAs will be no minimum slot contract. There will be a partnership agreement via XML connection of our booking system to its channel. In this way we boost the speed of the computer system and the possibility of more bookings being made increases. The maximum percentage for sale will be 30% of the remaining available rooms. Extendable if there are less than six rooms left for the same night. Most BBKs have their own group department, which will be put in contact with our sales department if there is demand. The percentage discount on our price will be 18%.

The main reason to make this percentage higher than OTAs is the competition in rates. Most OTAs are also connected to BBKs, if an OTA has a lower rate than the hotel connected to the same BBK, by the "Cheapest rate available first" algorithm, the travel agent will release the reservation with us, which would not benefit us. In fact, we would be losing 3% for each reservation, but at the same time we would be strengthening the reservations with the bed bank, which in the long term would give us good benefits. These are digital wholesale companies that over the last few years are taking a good share of the market to attract travel agents from all over the world. The best-known examples are HotelBeds and WebBeds. The payment method could

be the same as for the OTAs, a virtual credit card for the net price (our price minus 18%) chargeable on the day of arrival.

For the AGGs (Booking.com or Expedia), no fam trip is necessary, we will request the registration of our hotel in the aggregator system and connect it with our reservation system. It is the most expensive sales channel; we should reduce our price by 30%. The sales potential is quite good, but because of the commission, the maximum available for this channel will be 15% of the remaining available. The charge with the aggregator would be credit at 30 days to be received after the day of departure.

Last but not least, it is our own direct sales channel. As it is ours, it is not subject to any commission and is suitable for both online bookings and passers-by. We describe it in detail in the promotion section.

Our percentage of sales over the total would be from 30%, since the maximums offered to intermediaries, except for TTAs, are calculated from the remaining value. Our main mission is to make this sales channel grow, since it means a very high savings in commissions. To do this, it is essential to strengthen our loyalty program. It is better to give a regular discount to a repeating customer (10% of the price) than to receive a new one from an aggregator (30% of the price).

The room prices to be taken into account as a reference for the first year after opening can be seen in the annex of the estimation for revenues and costs on sheet number 4 "Prices". For the 4 future years, as an estimation calculation, the average rate per room and type will be increased by 1.5% in relation to its value for the corresponding month of last year. Thus, for example, the average price of a double room in April 2020 is 200.32 euros, for the month of April 2021 it will be  $200.32 * 1.015 = 203.33$  euros.

To increase the number of external visits to the hotel, we will promote the hiring of intermediaries such as Hotelbreak, who will help us to assemble day pass packs for the rooftop sunbeds and/or spa.

To strengthen MICE sales, our sales department will include our hotel in most meeting room search engines like Spaceon to make our offer known there, directly compared to our competitors.

- k. Financing system that we will use for the hotel.

#### Financing of the renovation

The amount we need for the reform is 5,560,143 euros. We will use 60,143 euros from our voluntary reserve and for the rest, 5.5 million, we will ask for an ICO credit with a variable interest for 10 years. During each year we will pay it back in 12 monthly quotas. The APR of the expected operation, contracting the loan with a grace period of one year, will be 4.524%. Therefore, the amount of 5.5 million will be received on 01/10/2019 and the first monthly payment will be done on 01/10/2020 (after the first season with the hotel reformed). During the grace period time the amount to return will grow up to 5,748,820 euros (we sum up an interest for one year of having 5.5 M €). Therefore, the monthly payment will be 59,646.39 €. The total interest of these operation if we don't pay it back before will be 1.4 million euros. The final payment is scheduled to be on 01/09/2030. As one of our long-term goals is to

repay this loan faster, we hope to return it before this date and thus save interest costs.

#### Financing of certain elements of the hotel via renting or leasing

Due to the renovation and purchase of all new machinery, we think that at the level of profitability it is better to opt for the fiscal amortization of this machinery, than for its leasing. Once the amortization period is over, we will consider other alternatives.

#### Financing of credit line or treasury state

We have a enough reserve so that we do not have to hire a credit line. The main reason is that the bank would charge us a rather high commission even when we do not use the money borrowed through this line. Therefore, we believe that it is better to design an effective collection policy, than to have to charge our balance with more expenses.

Cash flow is crucial to meet all our payment obligations. For this to happen we must first have a clear collection policy. Point-of-sale earnings such as spa and restaurants are easier to receive, as they are instantly charged to our bank account. We must therefore concentrate on the collection of payments for stays, groups and events.

#### Collection from clients

For stays, we have two types of rates: non-refundable and payment at the hotel. With the first one, we make sure to collect the invoiced amount at the time of booking, sometimes long before the client arrives. With the second one, we would receive the payment if the client does not cancel the reservation 48 hours before, finally he comes to the hotel and pays the bill when checking in. During the stay, if the guest provides us with a debit or credit card, he may have an open account where he can charge the services used in the hotel with a limit of 1,000 euros. For stays made through our intermediaries, for these reasons of treasury state, we prefer virtual credit cards or deposits rather than credit invoice terms.

For groups and MICE, we also will request a pre-payment or deposit of the budgeted amount, normally distributed by 40% when booking and 60% at check-in date or start of the event. Following these rules, we try to obtain the collection of our invoices as soon as possible.

#### Payment to suppliers and bills

Our suppliers will be paid on regular basis 15 days after providing us with the corresponding invoice for their services. Unless we agree on a payment date for direct debit services such as supplies (electricity, water, internet, telephone) or insurance. For the payment of the taxes to which the hotel is obliged, the deadline is set independently from us, so the hotel will follow the deadline set by the tax authorities.

#### Payment of salaries to staff

The payment to the staff will be made on a monthly basis between the 1<sup>st</sup> and 5<sup>th</sup> of the following month. As provided by law, the summer bonus will be paid along with the June's payroll and the Christmas bonus will be paid along with the December's

payroll. The variable commission will be paid one month after it has been generated for most departments, that is, the commissions generated in F&B during the month of March will be paid in the April's payroll. This is due to the time required by the hotel administration to balance and calculate everything.

In the case of non-regular employees, at the end of their contract or their discontinued service, any outstanding annual leave and remuneration will also be paid.

Some commissions can only be calculated at the end of the fiscal year. For example, the hotel's extraordinary earnings commission for the management department. This payment is a deductible expense before paying the corporation tax, therefore, it has to be taken into consideration.

#### I. Application of new technologies in the hotel.

We believe it is still early for the introduction of robots in the hotel sector, at least for now. We think that this is not what a client wants to receive, preferring however a more personal treatment. New technology can help to improve this treatment, it can serve as a good tool. Therefore, our new technology will be digitalization.

During the development of this plan in different sections we have already introduced some examples of modernization of the hotel based on new technologies of digitalization. To sum up at this point:

- CRM
- Website with advanced booking system
- XML connections
- MICE equipment
- Sliding Roof in Presentation Hall

#### m. Which services are we going to outsource and why?

Outsourcing is a good tool for saving fixed costs. It occurs when the staff working in our facilities is hired from a third company. This company is a specialist in providing this type of service, and already has people on its team that are prepared and experienced. The professions to be subcontracted are those that do not influence the long-term development of the business as such. These are professions where timetables and shifts are important, and it would be complicated and costly to set up the whole process otherwise.

Security: we need a security agent from 11 pm to 7 am in the morning to support Night Audit. Monitor the establishment and its facilities. Trablisa Company could help us with this.

Lifeguard: watch over the safety of guests near and in the pool. We need 1 person every day from 10 am to 6 pm. Aquatas, will be the company that can help our help with that.

Catering: in some events we will be asked to perform this service in others not. It is not viable to always have people hired for this. Therefore, in case of request we will contact Tiberi Catering.

### 3. Estimated revenue and costs for the next 5 years.

Our calculations will be made from a monthly perspective, as most of the costs are generated during this time period.

#### a. Initial reform costs.

The cost of the reform is estimated at 5,560,143.00 € and the reform is expected to take place between November 2019 and March 2020. Its financing is reflected in capital return (for the amortization of capital) and in financial expenses (for the payment of interests generated). The sum of these two concepts is the same every month. If in the future we want to repay part or all of the outstanding debt, we should look at the outstanding capital value.

#### b. Annual costs for the next 5 years.

##### i. HR fixed costs (Hospitality agreement).

Our 4-star superior establishment is classified as A, according to the hospitality agreement. For this reason, we take as a reference the remuneration values for this category in base salaries, transport, maintenance, 2 extra pays, holidays and vacations not enjoyed. In addition, we must add to the sum of these concepts the 30% of employer's contribution.

We distribute in the vertical column the professions and in the horizontal column the months of the year. In orange we mark the months when the hotel is closed, in blue the months of low season and in green the months of high season. According to the month, we put how many people we need from each profession. Thus, in the resulting table we cross the data of number of people, expenditure per person and month. We do the sums by department for management information, and the total sums by month. These totals are the ones that will appear in the main table as fixed costs of HR. The variables will be calculated partly from sales.

Additionally, we calculate the payment for the holidays not enjoyed by the people hired not all year round. In the general table, we provide for the payment of this amount at the end of the season, the month of November.

Over the next 4 years, we will update the values obtained for these twelve months to a percentage of 1.5% per year. For all other expenses, we will also include 1.5% for annual inflation.

##### ii. Management.

Made up of 4 people during the year, it accounts for 7 % of the total annual salary budget. The manager and the administrator are hired throughout the year, the accountant for 8 months and the assistant for half a year. All positions are reflected in the hospitality agreement, except for the manager, which amounts to approximately 40 thousand euros gross per year. The company's social security contribution is 12 thousand euros. The monthly extra expense budget for this cost center is 600 euros.

iii. Reception.

Made up of 8 people in high season, it represents a total expenditure in the first 12 months of 13.25%. The head and the second head of reception work the whole year. There are always 3 receptionists to cover the 24-hour shifts, together with the Night Audit. The remaining shift is covered by the second reception manager. The assistant, with a split schedule, is hired only during the high season months. The security agent works all year round in the hotel, while open he does the night shift, and when closed he does the day shift. The monthly extra expense budget for this cost center is 900 euros.

iv. Reservations.

3 people work in this department, employing 5% of the salary budget. The reservation manager works all year round, due to the closure the second manager works only 10 months, and the agent does not work the months of minor operation. The extraordinary budget of this department is 200 euros per month.

v. Sales.

The composition and salary budget is identical to that of the reservations. The difference is in the extraordinary budget, due to the need to make fam trips and attend some conferences and fairs, monthly we calculate that it will be 2000 euros.

vi. Housekeeping.

One of the most important departments of the hotel, total salaries account for 16%. In the months of highest demand, 12 people work there. When the hotel closes for guests, the head of housekeeping and one cleaning lady remain at work. For the purchase of the necessary cleaning material and the amenities for the rooms, we budget 2500 euros per month on average.

vii. Engineering.

Two people work all year round to keep all the facilities up to date. Due to the increase in demand, during the high season, a second technician is incorporated for 6 months. The department has an extra cost of 300 euros per month, not counting the cost of spare parts as this will be included in a separate section.

viii. Human Resources.

It is composed of the head of department, who works all year round for the daily operation of the hotel with its workers. During the months of hiring and firing, an assistant is additionally hired, 3 months in spring and 3 months in autumn. For extra expenses, attendance to job fairs, merchandising, hiring of employment agencies among others, the department has 1400 euros.

ix. F&B.

14 people work in this department during the peak months. 19% of the annual budget, corresponds to this department. During the closure of the hotel, only the head of the department and his assistant remain working. There are 4 waiters who are permanent and discontinuous and 1 bartender with the same conditions, and the others are hired as temporary workers. The additional budget is 500 euros per

month, not counting the cost of the material used for the food and drinks, which will be calculated according to the occupancy rate.

x. Kitchen.

Spending on payroll is 11% of the annual total. Chef and Sous Chef work year-round, except for the closing months. 1 cook is permanent all year round, preparing food for the remaining staff in the closing months. 2 cooks are permanent and discontinuous. Additionally, 2 temporary cooks are hired in high season months. The extra budget is 300 euros.

xi. Warehouse.

One person works in our warehouse all year round. The annual expenditure is 40,000 euros. In addition, there is a monthly budget of 50 euros for own department expenses.

xii. SPA.

Three people work in this department while it's open. All persons share administrative tasks with their own spa tasks. The own budget is 400 euros per month.

xiii. GEX.

8% of the overall budget. 5 people work in high season. The lifeguard is outsourced only when the hotel is open. The rest of the department's staff work all year round to manage the operation itself. Additionally, an extra gardener is hired from May to October. The extra budget, especially for the garden, is 700 euros per month. During the year, the external audit "mystery guest" will be done, it cost is 1500 euros, we budget it for April of each year.

xiv. General services supply: water, electricity, gas, phone and internet.

Water supply: it is estimated per each square meter occupied 0.35 euros of cost.

Electricity supply: it is estimated per each square meter occupied 1 euro of cost.

Gas supply: mainly used in the kitchen of the hotel, it is estimated 150 euros cost monthly in low season and 250 euros in high season. When the hotel is closed, just 50 euros.

Phone supply: phone connection has an unchangeable rate monthly of 300 euros. If some guest will call an extra charge number (another country), the charge will be paid by him when check-out.

Internet supply: high quality wi-fi connection is essential, moreover if we wish to sell MICE products and services. It is estimated a 0.9 euros of cost per each square meter of the hotel, whether it's occupied or not.

xv. Hotel events, entertainment and advertising.

We would like to use our Solarium and Presentation Hall for some events for our guests. During the low season there will be two per week, at a cost of 500 euros each and during the high season 4 per week with the same unit cost. For further years, the inflation rate of 1.5% was also applied.

In order to boost our direct sales in front of other sales channels, we will spend 15,000 euros the first month with increase of 0.5% every further month, going in 5 years from 15,000 euros budget to 20,000 euros budget.

xvi. Insurances.

It is necessary that we possess civil responsibility insurance, its annual quota is 24,000 euros, we report 2,000 euros as a monthly expense. An inflation rate of 1.5% was applied.

xvii. Costs incurred in the closing months.

The main cost when closing a hotel is the staff payment obligations for not enjoyed vacations. For the first season closure, this cost is 48 thousand euros. It was included in the "HR Fixed Cost" breakdown for each November.

xviii. Replacement of furniture.

It is expected that the cost of replacement of furniture, only for accidents since by antiquity it cannot be as our furniture is new, will be 5% of its value in the annual reform. If the reform cost us 5.5 million, 5% is 278,000 euros, monthly will be 23,150.

xix. Cost of material F&B.

Having the number of reservations for each type of pension and knowing that on average there are two people per reservation we calculate the total costs of these services. Each breakfast per person costs us 4 euros, and each dinner 10 euros in material. Additionally, the cost of drinks and meals served at the rooftop bar and main pool will be 40% of the price paid by the guest.

xx. Cost of material SPA.

The cost of materials and products used in our SPA for circuits, treatments and rituals represents a 20% of the revenue received for these services.

xxi. Variable Remuneration.

In order not to proceed to a departmental calculation of the commissions per sale and taking into account that the average commission was 5%, we will make the calculation by multiplying by this percentage, the total monthly income excluding VAT and afterwards by multiplying it by the employer's contribution of 30% as it is considered payroll.

c. Annual income for the next 5 years:

i. Occupation per open month, and closing months.

We estimate the occupancy rate according to Ibestat's average data for 2019. As it is a reopening with a renovated hotel and the possibility of holding MICE events; we add 5 percentage points to this average. To calculate the ratios for future years by month, we update the ratios with a positive rate of 1%.

## Room Nights

If we assume that the hotel is 100% full, we would have occupied during the month of April '20  $(10+135+15)*30 = 4800$  room nights. This is the formula we have used to calculate "Room Night Occ" by room type, putting all types in the same occupancy ratio. Depending on the month, the days available have also changed, between 28 and 31.

Then we add up all the "room nights occ" and get the total number. It is assumed that the duration of each reservation is 7 nights on average, so we divide and get the total number of reservations made in the month.

## Room Average Rate

Since we have previously calculated many rates and alternatives, we now average all possible rates in one per room type.

## Revenue

It is calculated by room type, multiplying Room Nights by Average Monthly Rate. We then add the three figures together to get the total revenue for rooms with different types of boards and lodgings. Finally, as a data to be used later, we remove the 10% VAT from these incomes.

### ii. Average daily rate (ADR) per month.

In the absence of more detailed information, we have calculated the ADR as follows:  $(\text{Number of rooms of each type} * \text{Average rate of each type}) * \text{Occupancy rate}/160$ .

### iii. Distribution of sales.

As anticipated, we will use the percentages established with each sales channel to calculate the root of the revenue.

For TTAs: The slot offered will be between 1 and 5 rooms per night, depending on TTA's demand. On average 3 rooms, one of each type, per night, 90 room nights in April. It's assumed they've sold out. Our discount for them were 25%.

For OTAs: its maximum was 20% of the available rooms. Our discount for them were 15%. It's assumed they've sold the 20% of occupied room nights.

For BBKs: its maximum was 30% of available rooms. Our discount for them were 18%. It's assumed they've sold the 30% of occupied room nights.

For AGGs: its maximum was 15% of available rooms. Our discount for them were 30%. It's assumed they've sold the 15% of occupied room nights.

Direct channel is calculated as a difference of the previous 4 channels with total revenue. Taking the month of April as a reference, the percentage of direct sales were 33%.

To get better this rate, we will adapt an increase in our advertising campaign in social networks to boost the direct sales in comparison with other channels.

### iv. Extraordinary income.

The sources of extraordinary income in our hotel are the followings:

- Parking: the price per night is 10 euros all year round. We expect it to be occupied in the same rate as the whole hotel.

- Bar Sales: it is a service that depends on occupancy rate. We expect that at least 40% of our guests will use our bar service with average ticket of 12 euros per person.
- Spa Circuit Sales: the price of this service is 20 euros per person for 3 hours. It can be booked in the main reception and in the spa reception. It is assumed that 25% of our guests will visit at least once our spa. Since the majority of them are couples, it's assumed that they will go there together.
- Spa Treatments Sales: the price of this service is 80 euros on average. It is assumed that 5% of our guests will visit at least once our spa.
- Spa Rituals Sales: the price of this service is 100 euros on average. It is assumed that 5% of our guests will visit at least once our spa.
- Minibar Sales: minibar is installed in all the rooms, but not all the guests will use them. It is assumed that 20% of the bookings will buy something in the minibar on average for 8 euros.
- Safe Deposit Box Rentals: safe is installed in all the rooms, but not all the guests will use them. It is assumed that 40% of the bookings will rent it for 15 euros per stay.
- MICE Events (MR1, MR2, CR and PH): in terms of revenue calculation we will use the square meters of our rooms. It is expected that each square meter will generate us 20 euros in low season and 40 euros in high season.
- Daypasses, such as Spa + Dinner and Breakfast + Bali Bed: in the low season we expect to receive 10 visits per month for each daypass, their price is 100 euros each for two people; and in the high season we expect the amount of visits to be 30 per month for each daypass.
- Upsellings: we expect that our experienced, well trained and motivated staff aside of giving a good customer service, will provide good additional sales of 10% on average. The departments involved are SPA, Sales for MICE and Reception.

d. Costs and revenues per board type (SC, BB or HB).

In this estimation, we've calculated the average rate and the total amount of bookings per month giving to our rate types the same proportion. In that way, the average rate already has some of these F&B services included in the revenue. Therefore, the proportion to calculate the variable costs will be: 1/3 of bookings with SC, 1/3 of bookings with BB and 1/3 of bookings with HB.

d. Taxes (Value Added Tax and Corporation Tax).

In these estimations we consider 2 main taxes that affect our business, VAT and CT. Value added Tax is paid quarterly and corresponds to the difference between Reported VAT and Sustained VAT. For all amounts, 10% reduced VAT has been applied, with the exception of remuneration to employees that are exempt. It can be to compensate or to return, and to pay, but in our case, the 19 declarations are to pay.

Corporation Tax is paid annually and corresponds to the difference between Tax Income and Tax Expenditure. Its amount is calculated from the EBIT. During this estimation we made 5 declarations, all of them with benefits.

#### 4. Project's viability.

The viability of the project has been calculated considering all the parameters given in the Annex. Revenues and costs have been calculated excluding the 10% VAT from the total as it is a neutral tax for the company. Amortization has been calculated on a straight-line basis, dividing the initial investment by 60 months. The monthly amortization figure is 96,816.05 euros.

To calculate better the corporate tax, given that the project starts in April 2020, the months of January, February and March 2025 have not been taken into account because there is no tax presentation obligation yet. Therefore, 3 months of the initial investment would still be pending amortization, amounting to 290,448.15 euros.

During the five fiscal years, the hotel's net profit was 8,384,751.81 euros.

a) Estimation of the net annual income for the next 5 years.

<b>Business Overview</b>	<b>2020*</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>
<b>Revenue excl. VAT (10%)</b>	€ 7,167,390.89	€ 8,223,160.81	€ 8,448,068.83	€ 8,679,279.57	€ 8,927,588.50
<b>Costs excl. VAT (10%)</b>	€ 3,897,556.19	€ 5,170,882.72	€ 5,198,757.51	€ 5,225,930.36	€ 5,254,177.89
<b>Amortization</b>	€ 871,344.45	€ 1,161,792.60	€ 1,161,792.60	€ 1,161,792.60	€ 1,161,792.60
<b>Annual EBIT</b>	€ 2,398,490.25	€ 1,890,485.49	€ 2,087,518.72	€ 2,291,556.61	€ 2,511,618.01
<b>Corporation Tax (25%)</b>	€ 599,622.56	€ 472,621.37	€ 521,879.68	€ 572,889.15	€ 627,904.50
<b>Net annual income</b>	€ 1,798,867.68	€ 1,417,864.12	€ 1,565,639.04	€ 1,718,667.46	€ 1,883,713.51
<b>An interannual growth rate</b>	€ -	-21.18%	10.42%	9.77%	9.60%

\*: 2020 data is not for 12 months as all the rest of the years.

Table 8. Source: This table is self-produced.

b) Calculation of the annual cash flows, the project Net Present Value and the Internal Rate of Return.

The initial expenditure needed to proceed with this investment was 60,143 euros from our treasury and the need to borrow 5,748,820.00 euros. In total 5,808,963.00 euros. We have used the IRR of 4.5%, summing up to the effective rate of money for the Treasury (Hacienda) in 2019 (which was 3%) the risk premia of the hospitality industry that is considered to be 1.5%. The cashflows can be seen in the table above. These have been calculated from the EBITs, once discounted the corporation tax, adding the corresponding amortization in each year. The NPV corresponds to the sum of all the updated CFs from which the initial expenditure has been deducted.

	Cash Flow	Updated CF by IRR
<b>2020</b>	€ 2,670,212.13	€ 2,555,226.92
<b>2021</b>	€ 2,579,656.72	€ 2,362,268.92
<b>2022</b>	€ 2,727,431.64	€ 2,390,039.09
<b>2023</b>	€ 2,880,460.06	€ 2,415,442.46
<b>2024</b>	€ 3,045,506.11	€ 2,443,869.56

<b>IRR</b>	4.5%
<b>Net Present Value</b>	€ 6,357,883.95
<b>Initial Expenditure</b>	€ (5,808,963.00)

Table 9. Source: This table is self-produced.

The NPV is positive and quite high, therefore, it is recommendable to proceed with the investment. This hotel renovation project is scheduled to last 5 years. For this reason, and taking into account this final NPV calculation, the maximum purchase value of the hotel for renovation is 6,357,883.95 euros. Adding to this investment for purchase the initial expenditure for renewal this project is considered viable. The final return on investment will depend on the final price the hotel will have after 5 years of renovation.

c) Scenario analysis. expected case, pessimistic case, and optimistic case.

Scenarios	Pessimistic	Expected	Optimistic
Revenue	€ 33,156,390.88	€ 41,445,488.60	€ 45,590,037.46
Costs	€ 29,696,765.60	€ 24,747,304.67	€ 22,272,574.20
Total EBIT	€ (2,058,889.57)	€ 11,179,669.08	€ 17,798,948.41
Corporation TAX	€ -	€ 2,794,917.27	€ 4,449,737.10
Net Income	€ (2,058,889.57)	€ 8,384,751.81	€ 13,349,211.30

Table 10. Source: This table is self-produced.

This scenario analysis has been carried out by increasing and reducing the possible income and expenses for undertaking this activity. The expected scenario is the one described in the previous section. In the pessimistic scenario, it has been proposed to decrease the figure of possible income by 20% and to increase possible expenses by 20%. This case could occur in the event of a fall in demand and an increase in the costs of hiring staff or supplies. As a result, the investment is not recovered in the established time frame.

In the optimistic scenario, on the opposite, as its name indicates, the option has been taken to increase possible profits by 10% and decrease possible expenses by 10%. This could be the case in a situation of economic boom and growing demand. A very positive result would be achieved.

Detailed information about all the calculations made can be found in the annex, Estimated revenues and costs for the next 5 years of the project.

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