

A Work Project, presented as part of the requirements for the Award of a Masters Degree in Management from the NOVA – School of Business and Economics.

FIELD LAB IN SME COMPETITIVENESS: INTERNATIONALIZATION  
STRATEGY OF ALTIS HOTELS TO MADRID, SPAIN

JOANA RAQUEL AUGUSTO NUNES

882

A Project carried out on the Management course, under the supervision of:

Professor Sónia Dahab

Professor Filipe Castro Soeiro

January 7<sup>th</sup>, 2013

# Index

---

Executive Summary .....	2
Description of the company .....	3
Country Selection .....	8
Competitive Analysis .....	10
Porter’s Five Forces .....	10
Spanish Market .....	12
Market Structure .....	13
Boutique hotel segment .....	15
Market Growth and Opportunities .....	17
Mode of Entry .....	19
Implementation Plan .....	22
Conclusion and Recommendations .....	25
References .....	26

## Key-words:

Altis Hotels; Hotel industry; Internationalization Strategy; Spain

## Glossary:

**HVS:** Company that offers consulting and services focused on the hotel, restaurant, mixed-use, shared ownership, gaming, and leisure industries.

**INE España:** *Instituto Nacional de Estadística de España* – Spain’s National Institute of Statistics.

**MadridEmprende:** Economic Development Agency, part of the Economic and Employment Department of Madrid City Council.

**TAP:** *Transportes Aéreos Portugueses* – Portuguese Airline

## Executive Summary

Altis Hotels Group is a successful family owned hotel group that holds a portfolio of several hotels in Lisbon, Portugal. Despite the success in the Portuguese market, aspects

such as the current economic crisis led Altis to consider the option of internationalizing and exploring opportunities in new markets. Initially, the company's competitiveness in the Portuguese market was analysed in order to understand whether it has the necessary skills to pursue internationalization. This analysis was followed by a macro-environmental study of the country of destiny - Spain, and an analysis of characteristics of the hotel industry as well as opportunities to be explored in the city of Madrid. In the end, taking into account all of the previously mentioned analysis, an implementation plan is proposed.

### **Description of the company**

Before analysing possible countries of destiny and existent opportunities, there was the need to extensively study the company and the Portuguese hotel industry so as to understand Altis' operations in the Portuguese market. The study of Altis started with a description of the company and its portfolio of hotels (*Annex 1*), it was followed by the analysis of the hotel group's Value Chain (*Annex 2*) and an Industry Mapping (*Annex 3*) arranged to comprehend Altis' differentiation features and the company's positioning regarding its competitors. Afterwards, the VRIO model (*Annex 4*) was used to assess if and where the company has a competitive advantage, and finally the Portuguese hotel industry was examined using the Porter's Five Forces Model (*Annex 5*), a SWOT Analysis (*Annex 6*) and a TOWS Matrix (*Annex 7*)<sup>1</sup>.

Altis Hotels is a Portuguese family owned hotel group founded by Fernando Martins and his sons in the 70's and is nowadays one of the biggest hotel groups in Portugal. The group is managed by the family and its business strategy is based on family values, leading to an incomparable hospitality that characterizes this group and that is very common in the Portuguese culture.

---

<sup>1</sup> For a more detailed and extensive analysis please consult the Annexes 1 to 7.

Nowadays, Altis Hotels has already 6 hotels but it all started in 1973 with the opening of the group's first hotel: **Hotel Altis**, a five star Conference and Business hotel located in Rua Castilho, right in the centre of the city of Lisbon. This Hotel has 300 rooms and 18 event rooms, and it went through a renovation in the year of 2011, the hall and 200 rooms were fully renovated. In 1994, **Altis Park Hotel** was opened, a four star Conference and Business hotel located in Olaias, ten minutes away from the airport. It has 300 rooms, 11 meeting rooms and an auditorium. Fourteen years later, in 2008, **Altis Suites** was added to the group, a four star family hotel with 42 suites located next to Hotel Altis and is most suited for long stays. This opening was followed by **Altis Belém Hotel and Spa** in the following year of 2009. With an excellent location, by the Tagus river, this five star design hotel has 50 rooms. In March of 2010, the fifth hotel was inaugurated, a five star boutique hotel, **Altis Avenida Hotel**, located in Praça dos Restauradores. This hotel has an urban chic decoration inspired in the 40's and offers 70 rooms that are described as cosy, sophisticated and glamorous. In September of the same year **Altis Prime** was born. A four star home business hotel with 78 luxury apartments, located in Rua Rodrigo da Fonseca, a main financial area in the city of Lisbon. This hotel is described to have a sophisticated, urban atmosphere.

Altis Hotels has been investing and growing in the past years and is planning to use the gained experience to expand, not only inside the country but even further to international markets.

Altis doesn't have a defined vision. Here follows a proposal: *'Altis Hotels aims to deliver to its guests a unique city experience with the best quality provided through a service of excellence and supported by years of experience and knowledge of the city.'*

The strategic objectives of the company are<sup>2</sup>: To grow 32% in total sales in the next four years; To improve the ratio between operational revenue and sales from 25% to 35% in the next five years. Both these objectives were set for the internal market: Lisbon. They don't include the internationalization.

The **Value Chain Analysis** (Michael Porter, 1985) provides a description of a company's performed activities and links these same activities to the competitive position of the company. It assesses how much value each activity adds to the service provided by Altis. However, given that the hotel industry has several particularities that differentiate it from other industries, this value chain had to be adapted to better fit the activities of an hotel group. Examining Altis' value chain leads to conclude that Procurement and Human Resources are the activities that represent the higher percentage of the company's allocated resources. Also, the margin is 25.04%.

By observing the **Industry Mapping** (*Annex 3*), it is possible to see that Altis has two types of suppliers: direct and indirect. The direct suppliers are Makro, Hotelshop, Nespresso and Delta, and the indirect suppliers are the architects and interior designers that vary from one hotel to another. It is also possible to observe that Altis approaches its customers by two means. The first one is a direct approach, when the customer goes to a hotel and checks-in for a room, and the second is through various distribution channels: Representation companies, TAP, Tour Operators, Web Sites, Soft Brands, and Travel Agencies. Altis also develops partnerships with other companies, two examples are TAP and Amorim Turismo, a Portuguese group that holds the brand Blue & Green. Through TAP, the guest gets 3 miles to spend in the airline's flights for each euro spent at the hotel and through the recent partnership with Amorim Turismo, Altis will be able to enter a new market: resorts, and to offer city/resort packages. Regarding competitors,

---

<sup>2</sup> Information provided by Altis

as it was stated above, each hotel has different characteristics aiming to target different types of customers, and so each hotel has different competitors. Heritage, Avenida Palace, Bairro Alto Hotel, Sofitel, and Internacional Hotel are the competitors of Altis Avenida Hotel; Tiara, D.Pedro, and Sheraton are the competitors of Altis Hotel; and Pestana Palace, Bairro Alto Hotel, Ritz, and Jerónimos 8 are the competitors of Altis Belém Hotel.

Furthermore in the **VRIO** Framework, the resources of the Altis Group were analysed regarding its Value, Rarity, Imitability and the fit in the Organization. There are some main points that can be made after observing this framework. Even though Altis recently opened three hotels, representing a high investment, the older hotels are already paid for which provides Altis a strong position regarding its financial resources, something that is not common in the Portuguese industry nowadays. A very important aspect about the hotels in Altis' portfolio is their location, as they are all located in valuable different areas of the city. Moving further, it is significant to mention innovation: each hotel had innovative aspects when they first opened. Last but not least, the reputation of the company has allowed Altis gain trust among its customers, increasing not only the loyal customers but also its brand notoriety.

Moving on to the analysis of the Portuguese hotel industry, the **Porter Five Forces Model** allowed measuring the strength of the forces in effect in this industry. The bargaining power of customers is medium as there is easier access to information nowadays and it is easy for the customer to look for a hotel on-line and book it. As for the bargaining power of suppliers, it is low given that Altis wouldn't have high switching costs and it would be easy to find new suppliers as there are many substitutes available. The threat of substitutes is medium given that there is the possibility of renting an apartment or staying with friends, however if the customer is looking for a

luxury accommodation, he will still prefer a five star hotel. The threat of new entrants depends on the mode of entry, but considering the most common mode of entry in the Portuguese market, which is hotel owned property, it is low as it requires a very high initial investment and it is harder to get financed nowadays than it was before the crisis. These forces lead to the conclusion that the industry rivalry is high, as there are numerous competitors and the market is not growing as greatly as it was before, meaning that the players will fight harder to assure their customer volume.

The main conclusions that can be withdrawn from the **SWOT** Analysis were used to create the **TOWS** matrix. In this matrix, the Strengths, Weaknesses, Opportunities and Threats of the company were linked to each other to formulate possible strategies to maximize Altis' opportunities using its strengths, to minimize the threats by taking advantage of the strengths, to minimize the weaknesses by enhancing the opportunities and finally, to minimize the impact of the threats and weaknesses. Two main extrapolations can be taken from this matrix. First, taking into consideration Altis' reputation and credibility acquired mostly due to its consistent quality, the company can take advantage of the external demand for luxury hotels. Secondly, given that this industry is so labour intensive and a great part of a hotel's success is dependent of its employees, Altis should carry out efforts for the improvement of Human Resources practices with the purpose of improving the performance of the employees in the quality of service provided to the customers in this luxury segment.

The goal of this analysis was to assess if Altis has a competitive advantage and if that competitive advantage can be used in the internationalization process. Although Altis is a successful group in Portugal, it has never expanded to a different city, not even in the same country which leads to conclude that Altis may not have all the necessary and

recommended skills to pursue an internationalization strategy and should carefully work on these skills in order to effectively expand to a new market.

## **COUNTRY SELECTION**

The choice of the country and city to where Altis would internationalize was based on the analysis of Spain and Madrid and its hotel industry.

Due to the current economic crisis, services that involve culture (such as tourism) are the only services that have a positive growth forecast, as opposed to insurance and financial services. The direct contribution of Travel & Tourism to the Spanish GDP was EUR57.6bn (5.4% of total GDP) in 2011<sup>i</sup> and the total contribution of Travel & Tourism to GDP was EUR159.9bn (14.9% of GDP) in 2011<sup>ii</sup>. Spain was the 2nd tourist destination in the world with 57 million visitors in 2008<sup>iii</sup> and the country is the 7<sup>th</sup> world exporter, accounting for 3.6% of world total<sup>iv</sup>. Also, in 2011 the income per room in Spanish hotels increased 8.9%<sup>v</sup>. The city of Madrid has a very important airport, the Barajas Airport, through where 52 million people travel each year and the city is a business centre for expanding countries in South America, being one of the advantages the sharing of the same language.

Further, the Political, Economic, Social, Technological, Environmental and Legal issues were analysed in the **PESTEL Analysis** of Spain.

- **Political** issues: Spain is a Parliamentary Monarchy, the monarch is the head of state and the prime-minister, Mariano Rajoy, known as the ‘‘President of Government’’, is the head of the government<sup>vi</sup>. There are various political parties, being the predominant party the Spanish Socialist Workers’ Party (PSOE) and the People’s Party (PP). The country has various regions and seventeen autonomous communities and there have been Nationality debates over the independence of some regions. Also, Spain is a part



of the European Union and uses the Euro currency. International trade is very important in Spain, it accounts for more than half of the country's GDP, but there is a trade deficit of 3,145 Million Euros in August 2012<sup>vii</sup> as imports are higher than exports.

- **Economic** issues: In 2012, the unemployment reached a level of 24,2%<sup>viii</sup>, and the interest rate established by the European Central Banks in September was 5,91%<sup>ix</sup>. The GDP in 2011 was 1,048.057 Million euros and the projections of percentage growth for the following years are: -1.8% in 2012, 0,1% in 2013, and 2.4% in 2017<sup>x</sup>. The inflation increased 2% in 2010, 3.1% in 2011, and 1.9% in 2012<sup>xi</sup>.
- **Social** issues: Spain has a population of 46,125 Million and there has been an ageing in the country's population. Also, people are having less children and are waiting longer to have them, leading to a new trend of older couples with children. Regarding income distribution, the percentage of the population at risk of poverty in 2011 was 21.8%<sup>xii</sup>.
- **Technologic** issues: The internet has added new ways to communicate, is being used as a marketing tool, and has introduced a new trend, the increase in the use of mobile phones with applications accessible through internet use. In the hospitality industry this plays an important role because it allows for on-line booking, in-room internet connection and teleconferencing, important for the business segment.
- **Environmental** issues: There is a trend for people in general to be more interested in environmental issues and to prefer environmentally friendly companies. The current issues regarding the environment in Spain are: the pollution of the Mediterranean Sea from raw sewage and effluents from the offshore production of oil and gas; water quality and quantity nationwide; air pollution; deforestation; and desertification<sup>xiii</sup>. More specific to the hospitality industry, there is Environmental Quality Management under the ISO 14001 and certified hotels have recorded higher gains than non-certified<sup>xiv</sup>.

- **Legal** issues: The hospitality industry is very labour intensive so changes in employment law will have a great impact in the industry. There is a new law, a Royal Decree Law 3/2012 that makes it easier and cheaper for employers to lay off workers, which will provide incentives for employers to hire younger workers<sup>xv</sup>.

## COMPETITIVE ANALYSIS

In order to be successful in the hospitality industry, there are specific characteristics about this market that should be taken into consideration. To better understand these characteristics, the Porter's Five Forces in the Spanish hospitality industry were analysed.

### Porter's Five Forces

The Five Forces are: Bargaining Power of Customers, Bargaining Power of Suppliers, Threat of Substitutes, Threat of New Entrants, and Industry Rivalry. Starting with the **Bargaining Power of Customers**, this force is **Medium-Low**: the number of customers in hotels is quite large so each of them doesn't have much power. Also, in the luxury segment, the service offered is not standardized, it is in fact very differentiated which makes it tougher for the customer to find other option that matches his expectations, since a customer that seeks luxury hotels is concerned about quality and is looking for a high level of comfort and a good location that will not be found in lower ranked hotels. Nevertheless, nowadays there is easier access to information online, such as services offer and price, and it is easier to book a hotel on-line, creating some bargaining power for the customers.

Suppliers can be divided into several categories: Architects, Designers, Food and Beverage, and Cleaning. The **Bargaining Power of Suppliers** is **Medium** as the number of available suppliers for each category is high and there are substitutes available, though there is an exception regarding Architects and Designers as the

number of suppliers for these two services are lower. Also, the volume of sales to the hotel industry is quite high, which makes the industry important for those suppliers. Moreover, when the hotel changes suppliers there are switching costs in which it incurs.

The **Threat of Substitutes** is **Low**. An alternative for a stay at a hotel could be renting an apartment or staying with friends but, as it was mentioned above in the bargaining power of customers, when a customer searches for a stay at a five star hotel he is looking for a certain level of comfort and services that these two other options are unable to offer.

Moving on to the **Threat of New Entrants**, this force depends on the mode of entry (the analysis of different modes of entry will be developed further). Since the initial capital investment required to enter the hotel industry is very high and because, due to the current economic environment, it is hard to get financial aid, there is a trend of increasing Management Contracts. Although there is this trend, it is still a small part when compared to other modes of entry so this force is **Medium-Low**. One other cause for this force to be Medium-Low is the fact that there is an expected retaliation from the incumbent firms since they tend to fight back to keep new entrants out of the market.

This analysis leads to the conclusion that the **Industry Rivalry** is **Medium**. Although the industry growth is lower due to the crisis, it is still growing. There are high exit barriers due to high fixed costs. Furthermore, there are other five star hotels in Madrid but they are in much lower number when compared to the four star hotel segment (Table 4), and the high level of differentiation in the luxury segment allows for variation and distinction between hotels in this segment.

## Spanish Market

In 2008, due to the crisis, there was a contraction in the Spanish tourism industry. The consequences of this contraction were perceived in the reduction of tourist arrivals, their spending and the length of the stay.

Table 1: International tourism, number of arrivals in Spain<sup>xvi</sup>

Year	2007	2008	2009	2010
Number of arrivals	58,666,000	57,192,000	52,178,000	52,677,000

Furthermore, the industry itself faced some new trends: 1) travel agencies had to make some changes in its structure, and 2) there was a separation between the ownership of hotels and the management of those hotels, increasing the number of management contracts. The investors were generally Japanese companies that were pursuing investment strategies.<sup>xvii</sup>

Albeit the crisis, Madrid is still a city with opportunities of investment for foreign companies due to its infrastructures, airport, and great geographical location in the centre of the Iberian Peninsula, making it an important hub for other European destinations, mainly from Latin America. Also, in comparison with other European capitals, Madrid offers a lower cost structure, not only regarding construction and maintenance costs, but also in license fees and operating costs of running the business<sup>xviii</sup>. These characteristics allowed for Madrid to be able to still have high tourism inbound, despite the decrease felt in Spain. As shown in the following table, the number of tourists in Madrid has been quite constant<sup>xix</sup>.

Table 2: Number of inbound tourists in Madrid

Years	2008	2009	2010	2011
Number of tourists (millions)	4.616	4.820	4.635	4.607

Source: INE España

The average occupancy rate per room per year is 68.26%, considerably higher when compared to the country's average occupancy rate, which is 55.03%.<sup>xx</sup> Regarding the prices, the average price for a 5 star hotel was 150€, which is below the average when compared to other European capitals like Paris, Rome, London or Berlin. This is an opportunity because there is more room to grow, increasing the rates without damaging occupancy rates, as opposed to these other cities where the price is already near its limit.

Table 3: Average price per room, in Madrid<sup>xxi</sup>

Category (stars)	5	4	3	2
Price (€)	150	93	82	64

### Market Structure

In 2009 there were 357 hotels in the city of Madrid, summing up to 40.000 rooms.

There were 24 5 stars hotels with a total of 10.826 beds. In 2011 the hotel offer in

Madrid could be described by the following numbers:

Table 4: Existing room supply in Madrid (2011),

Category	Room supply	% of Total
1-star	457	1%
2-star	1.780	5%
3-star	6.249	18%
4-star	22.389	64%
5-star	4.059	12%

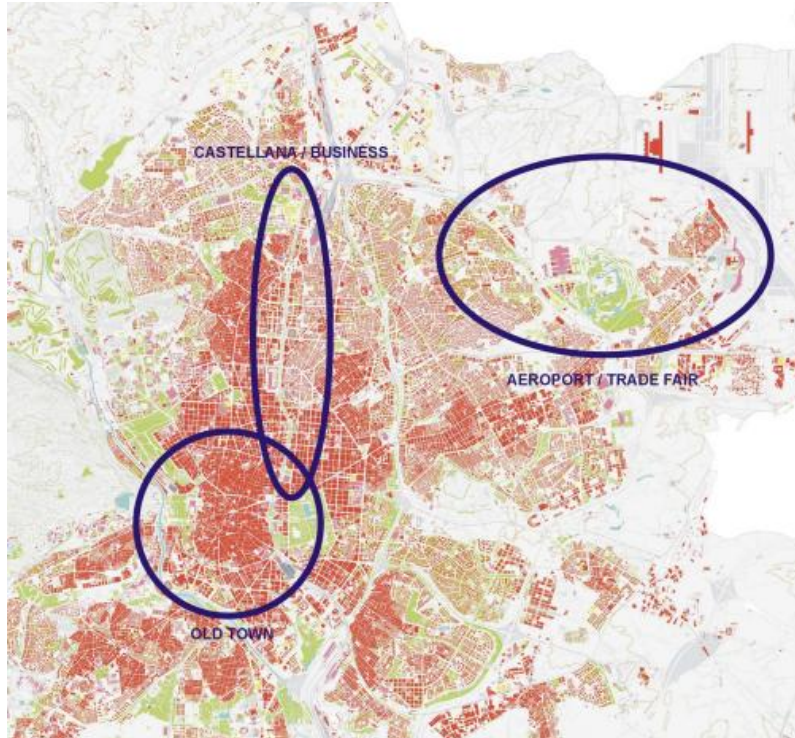
Source: HVS

Madrid does not have a big presence of international main hotel chains. In fact, 80% of the hotel offer in the city doesn't belong to any of the major hotel chains. However, there are several international chains present in Madrid. They are the following: Orient Express: Ritz Hotel; Sodim SGPS Group: Villamagna Hotel; Accor hotels: Sofitel,

Novotel, Ibis; Hilton: Hilton Madrid; Six Continents: Holliday Inn, Holliday Inn Express; Intercontinental: Intercontinental Madrid Hotel; Westin hotels and Resorts: Palace Hotel; Best Western: has 5 hotels in Madrid; Travelodge: Las Rozas, 20 km away from Madrid. About international Spanish chains, they are much more internationalized than Portuguese chains: there are 22 Spanish enterprises in foreign markets which account for 400 hotels in four continents, and 60% of these hotels are located in Europe and Caribbean<sup>xxii</sup>.

Regarding location, there are three main areas of activity, hotel wise. First, there is the business area ‘‘down town’’ located around ‘‘Paseo de la Castellana’’. Secondly, there is the city centre that comprises the ‘‘old town’’, an historical area. Lastly, there is an area where there are many congresses, near to the airport.

Image 1: Map of the city of Madrid



Source: MadridEmprende

There are new openings scheduled for Madrid for 2012 and 2013, and only one of the openings is for a 5 star hotel with 81 rooms, NH Mejía Lequerica.

Table 5: Hotel openings scheduled for Madrid

Name of the hotel	Rooms	Category (stars)	Planning Opening Date
Ibis Madrid Aeropuerto T4	300	-	2013
Suite Novotel Madrid Valdebebas	126	3	2013
Etap Madrid Ventas	100	2	2013
Hotel Barquillo	70	4	2012
Indigo Madrid	89	-	2012
NH Mejía Lequerica	81	5	2012
Travelodge Julián Camarillo	98	1	2013
Oikos Recoletos	80	-	2012
<b>Total</b>	<b>944</b>		

Source: HVS Research

As we can see from Table 4, that describes the hotel room offer in Madrid in 2011, there is a clear lead in the offer of 4 star hotels, which means that this may not be the best option as the market is either in or reaching full capacity. The expected move would be to invest either in the 1 and 2 star hotels that offer a low cost service in the luxury segment with 5 star hotels. Given that Altis operates and shines in the luxury market, the strategic move is to focus on this upper segment. However, there are several options in the 5 star hotel segment that Altis can choose given its portfolio of hotels in Lisbon, Altis has three 5 star hotels: Hotel Altis in Rua Castilho, Altis Belém and Altis Avenida, a Boutique hotel.

### **Boutique hotel segment**

A Boutique hotel is usually a small hotel that offers a luxurious yet intimate environment and targets an upscale segment of customers. Additionally, this type of

hotels typically has an offer of cultural services and can be described as custom made, unique, and individual.<sup>xxiii</sup>

There has been a trend of a higher demand for Boutique hotels, this hotel segment grew 5.9% in 2009 in Europe<sup>xxiv</sup>, and the occupancy rates, average price per night, and the return on each room have shown to be higher than in the other hotels. In the United Kingdom, these hotels have performed better than the overall hotel sector regarding the Average Daily Rate (ADR) and the Revenue per Available Room (revPAR) in the past seven years.<sup>xxv</sup> Furthermore, in London, Boutique hotels have been growing steadily since 2004, regardless of the recession. From 2004 to 2007, their occupancy rate rose from 74% to 80%.<sup>xxvi</sup>

After an on-line research, it was possible to find three 5 star boutique hotels in Madrid: Hotel Adler, Hotel Orfila, and Hotel Unico Madrid. These three hotels share some features: they all have 5 stars, the number of rooms varies from 32 to 45 rooms and the prices start from around 190€. A more detailed description of these hotels can be found in *Annex 8*.

Given the past, current and forecast of good results held by Boutique hotels, the fact that this segment has not been widely explored in Madrid, and the know-how that Altis has in the segment, due to its Boutique hotel in Lisbon, Altis Avenida, it is the best segment for Altis to explore in its internationalization to Spain.

One other option that could be explored is the apart-hotel segment, taking advantage of business tourism long-stays coming from South America, but on the other hand there has been a stagnation of this segment in Madrid.



## Market Growth and Opportunities

It is important to note that there are signs of a comeback in the tourism industry in Spain shown by data from the first ten months of 2012. There was an increase of the spending by inbound tourists of 6.4% compared to 2011, summing up to 49.87 billion euros. Also, the average spending per tourist increased by 3.2% and the average daily spending increased by 6.8%.<sup>xxvii</sup>

Moreover, data from October 2012 shows that there was a 3.2% decrease in the number of inbound tourists. However, the spending of inbound tourists during that month was 4.76 billion euros, similarly to the previous year, which means that although there were fewer tourists, the average spending per person increased, and it did so by 3.3%. There was a rise in the average daily spending as well, it increased by 4.3%.<sup>xxviii</sup> This data can lead to the conclusion that while there might be fewer people travelling, those who still do spend more money in their trips, which may mean an increase in the demand for the luxury market.

Now follows a SWOT analysis, where the Strengths, Weaknesses, Opportunities, and Threats of the expansion of Altis to Madrid were considered.

- **Strengths:** The Spanish culture has similarities with the Portuguese one and internationalizing to Madrid would be an intelligent strategic move to later pursue opportunities in South American markets. Furthermore, adding to the fact of having many years of experience in the hotel industry, Altis has one boutique hotel in Lisbon, the Altis Avenida Hotel, which provides know-how to the company in this segment. It is important to note that Altis Avenida has been presenting a good performance, as its occupancy rate is 75% as opposed to a 60% average occupancy rate of the Group. This high occupancy rates have led to the project of expanding the hotel by adding 40 more

rooms.<sup>3</sup> Moreover, there is a trend for growth in this segment and, due to the fact that competition in this segment is low in Madrid (given that there are only three 5 star boutique hotels in the city), Altis would have an advantage of being one of the first to take benefit of this estimated growth. The Group could use this advantage to strongly establish its hotel in the market, differentiating the offer using several elements, such as gastronomic, cultural, and historical components.

- **Weaknesses:** Labour contracts are not flexible which affects considerably this industry since it is so labour intensive. Also, the Spanish market is not homogeneous and each region has different and specific characteristics. Moreover, the crisis has had some consequences over the hotel industry in Madrid, as there has been a decrease in the value of the buildings, and Tour Operators and Touristic groups such as Marsans and Uniplayas have been closing due to bankruptcy.
- **Opportunities:** Spain is an important market to explore by internationalizing to, experimenting this market first, before moving to Latin-American markets, as they share some cultural aspects, namely the language. These Latin-American markets have been increasing their level of imports and they have become very relevant in the world context<sup>xxix</sup>. Due to instability in countries like Turkey and others in the North of Africa, the tourists have been replacing them by choosing Spain as a destination. Also, Madrid has all the characteristics to offer attractive packages for the weekend, the “city breaks” and it can take advantage of short-distanced trips between Spain and Portugal, that are covered by many airline connections (Ryanair, TAP, Sata, and Binter). Even though the city of Madrid already has a big offer regarding hotels, there are still some segments to be explored, being one of them the Boutique hotel segment.

---

<sup>3</sup> Information provided by Altis

- **Threats:** There is an uncertainty regarding how the country's economy will recover in the future and how long the recession will hold, which leads to a reduction of the consumer's buying power and confidence in the future. Additionally, Spanish people are considered to be a little 'nationalist' in the sense that they privilege relationships with national companies and have suspicion and doubt regarding foreign companies as they are not aware of the services' quality and reliability. Finally, there is also foreign competition from other countries in the centre of Europe that offer city breaks.

## **MODE OF ENTRY**

When a company considers an international expansion, there are several tactics that it can rely on. Each option has different characteristics that should be analysed by the company in order for it to choose the one that fits best, taking into account the company's characteristics, strategy and objectives, costs, financial risk, profit potential, control, and the surrounding environment. The choice between tactics entails a trade-off between cost and financial risk, and between profit potential and control.<sup>xxx</sup>

In order to choose the best option for Altis to internationalize, Foreign Direct Investment such as Joint Ventures and Acquisitions were set aside from the beginning due to high risk and uncertainty, and lack of financial resources due to the fact that the firm is currently in a lot of debt following the last investments. Four tactics were analysed: Leasing, Licensing, Franchising, and Management Contracts. Even though Altis mentioned in one of our meetings that they would use Management Contracts when facing international expansion, it is important to study more alternatives to better understand what fits best and justify the choice.

Starting with **Leasing**, in this kind of agreement, the hotel company runs the business and pays the owner an agreed fee. The major downfall in this type of agreement is the fact that Altis would have to undertake the operating risk. In **Licensing**, Altis would sell

the right for its brand to be used in the foreign market. This would not allow Altis to have control over the hotels and if those hotels wouldn't be managed in accordance with the group's values, it would be negative to the brand image. In **Franchising**, although Altis would have control over the business, it would not operate it themselves, posing the same problem of being able to provide the quality that the group has been providing ever since it started.

A definition of a **Management Contract** can be the following: "an arrangement under which operational control over an enterprise which would otherwise be exercised by the board of directors or managers elected or appointed by its owners is vested by contract in a separate enterprise which performs the necessary managerial function in return for a fee" Pugh (1961, 49). This contract would have two players: Altis and the owner. Altis Group would play the managerial task and provide the know-how, while the owner would pay a fee to Altis in change for these services.

The fee paid by the owner varies accordingly to the negotiation between the two parties and it can consist of three core components: First, a Basic Fee charged for the basic management service and it can be fix or variable, depending on the company's activity. Secondly, an Incentive Payment related to the profitability of the management company, usually a share of the profit, which provides incentives to perform better and present the best potential results. And finally a third element, Additional Services Payments, when the management company charges for "additional services" that can be related to marketing or to human resources training.<sup>xxxix</sup> The duration of the contract varies but it is common to witness a renewal when the outcomes are being successful, Sharma (1983).

Considering the present case of Altis' Internationalization to Spain, the Management Contract option seems to be the most suitable for several reasons: First, for the owning company, this is the way to get the know-how and skills necessary to enter the market. It is a good opportunity for building companies that want to enter the market but don't have the skills or the know-how. Secondly, Altis lacks the financial leverage required for the initial high investment of opening a hotel. In this type of contract, the owning company incurs in the costs and so takes in the financial risk. Also, when entering in a new foreign market, it is important to have a connection, making it easier to enter the market and to be accepted by the local population. This factor is especially important in a country such as Spain, where the population tends to prefer national companies.<sup>xxxii</sup> Furthermore, by entering the market through a Management Contract, Altis is able to acquire knowledge about the Spanish market and understand whether there are further opportunities to be explored and if so, it already has the relationships necessary to pursue them.

Nevertheless, some risks should be taken into account: it is important to assure that the owning company has the financial power since it is fully responsible to provide the initial investment and the further resources needed. Moreover, there can be a misalignment between the expectations of both parties involved, regarding, for example, the roles of each player and the outcomes. In order to prevent this, the rules should be set clearly from the beginning. Other problem can arise from the Altis Human Resources department, given that Altis must be prepared to expatriate employees to the new location.

During the implementation period, it's essential to maintain a good relationship between the two parties, as problems can arise and they should be handled promptly and efficiently. In the case of a successful relationship, the Management Contract can be

extended and even turned into a joint venture, increasing the commitment between Altis and the owning company.

Nowadays in Madrid, only around 1 and 2% of the current agreements between management companies and owning companies are Management Contracts<sup>xxxiii</sup>. However, it is believed that these types of contracts will be seen more often, especially in 5 star hotels<sup>xxxiv</sup>. The most widely used contract was Leasing, but due to the high competition in the market, leasing agreements are becoming less beneficial, therefore opening the way for Management Contracts. One other reason contributing for the increasing popularity of Management Contracts in Spain is that the international management companies that enter the market, are more used to this type of contract rather than Leasing.

## **IMPLEMENTATION PLAN**

The development of the implementation plan was based on the 4M's Model, that comprises Men, Money, Minute, and Memo and on an analysis of the Marketing-Mix: Service, Place/Distribution, Price, and Promotion.

### **4M's**

**MEN:** It is very important to assure that the Human Resources are adequate given that this is a crucial department in a hotel. In the beginning, there has to be a strong presence of Portuguese staff that will be progressively replaced with Spanish workers. This will happen gradually so that the Spanish workers had time to be trained and are prepared to perform the work assigned to them. Altis must be prepared to expatriate a General Manager that will coordinate the hotel opening and manage the hotel after the opening. Additionally, training staff will go to Madrid for a short period of time with the purpose of training the labour force and of doing the follow up, and also of assessing whether

there is a need for specific training. In order to assure that the guest's opinions are taken into account, there will be someone responsible for the customer satisfaction analysis. Last but not least, Altis will also expatriate an Operations Management to coordinate the supply chain in Spain. This will represent an estimate cost of 106,000 €/per year for Altis.

**MONEY:** This depends on the Management Contract and on the agreed fees discussed above in the mode of entry. Since the partner has not been found yet, these fees will be estimated based on previous contracts with similar characteristics to the proposed one. There will also be costs related to Marketing actions, such as advertising.

#### MINUTE

		2012			2013				
		Oct	Nov	Dez	Jan	Feb	Mar	Apr	
Pre-entrance	Market Study								
	Development of business project								
	Find a Partner								
	Legal requirements								
	Definition of the team to expatriate								
Entry	Further develop partnerships								
	Evaluate guests' satisfaction								
	Advertisement								
	Employee's training								
Post-entrance	Develop new partnerships								
	Analyse guests' satisfaction								
	Improve guests' satisfaction								
	Increase offer of extra services								

#### MEMO

The Memo is used to describe the initiatives that need to be taken in order to achieve the objectives. By using these measurements, Altis is able to monitor and achieve the specific targets inherent to the objectives of the company.

Strategic Theme	Objectives	Measurement	Target	Initiative
Financial	Increase Sales and Revenues	Sales Volume: Rate of occupancy	68% occupancy rate after one year	Increase volume by marketing strategy and partnerships with foreign institutions and organizations
Customer	Raise Brand Awareness and increase Brand reputation	Questionnaires to guests; Market Share	Achieve customer satisfaction of 90%, increase customer retention	Participate in tourism related events, fairs, conferences and increase promotion
Internal	Create local partnerships with travel agencies	Number of partnerships developed	Partnership with important players in the market	Search strategic partners and manage current ones
Learning	Create international reputation; Acquire knowledge about the market	Evaluate service's Efficiency and Effectiveness	Increase brand reputation both internally and internationally	Involvement in international events; Increase the partaking of native employees in strategic decisions

The **Marketing-Mix** starts with the **Product** or, in this case, the **Service**. The hotel that Altis will internationalize will be a Boutique hotel, as Altis Avenida Hotel, filling in a gap in the hotel offer in the city of Madrid. This will be a 5 star custom-made hotel inspired by the architecture and design of the 1940's and the Urban-chic concept, resulting in a unique charming environment full of glamour. It will be located downtown, have around between 60 to 80 rooms and similarly to Lisbon, the rooms will be equipped with TV LCD Full HD, Wifi Internet, minibar, an electric safe, air conditioning and 24-hour room service. There will also be a high-tech meeting room, a Business corner and Wifi in the whole hotel and free Airport shuttle. Concerning location, the hotel should be located in the city centre, in the historical area (old town).

Continuing with the **Distribution Channels**, the ones that are going to be used are the following: the partnerships developed such as travel agencies and tour operators; the



internet, through the hotel web-site and on-line booking websites; and finally tourist fairs and events.

Moving on to **Price**, similarly as it is done in Lisbon, the price will be set accordingly to the competitor's prices and their rates of occupancy. Looking at the competitor's prices (*Annex 8*), the average price per night is 194€, so following the strategy used in Portugal, the price per night in Madrid should be around 190€.

Last but not least, there is the **Promotion**. Following the strategy used in Portugal, the hotel will be promoted through Internet advertisements and reviews web-sites, the media, billboards, press releases, tourist fairs and events, conferences and finally word-of-mouth from satisfied customers.

## **Conclusion and Recommendations**

The initial analysis of the company to understand its competitive advantage posed some challenges as it was sometimes difficult to obtain the detailed information needed regarding operations and/or methods used by the company, either because we could not have access to it or because this information was not in an accessible form (written), making it difficult to understand what Altis should improve in order to gather all the skills needed for an internationalization process. Moreover, the analysis of the Spanish market led to the finding that there is a gap in the boutique hotel segment in Madrid. Altis owns a successful boutique hotel in Lisbon and so it has the know-how needed to operate a hotel in this niche market, even though it needs to adapt to the country of destiny. The main struggle will be to find a suitable and reliable partner for Altis to perform the Management Contract with, and so the company should explore the market and take advantage of its networking to find the appropriate partner. Nonetheless, this is a good opportunity for Altis to grow by taking advantage of opportunities existent in foreign markets and to start to increase its relevance in the global market.

## References

---

- <sup>i</sup> WTTC
- <sup>ii</sup> WTTC
- <sup>iii</sup> MadridEmprende
- <sup>iv</sup> AICEP
- <sup>v</sup> AICEP
- <sup>vi</sup> <http://www.tribunalconstitucional.es/en/constitucion/Pages/ConstitucionIngles.aspx#i1>
- <sup>vii</sup> <http://www.tradingeconomics.com/spain/balance-of-trade>
- <sup>viii</sup> <http://www.imf.org/external/pubs/ft/weo/2012/01/pdf/text.pdf>
- <sup>ix</sup> <http://www.ecb.int/stats/money/long/html/index.en.html>
- <sup>x</sup> [http://www.imf.org/external/pubs/ft/weo/2012/02/weodata/weorept.aspx?sy=2009&ey=2017&scsm=1&ssd=1&sort=country&ds=.&br=1&pr1.x=69&pr1.y=4&c=184&s=NGDP\\_R%2CNGDPPC%2CPCPI%2CPCPIPC%2CTM\\_RPC%2CTX\\_RPC%2CLUR%2CLP%2CGGXW DG\\_NGDP%2CBCA\\_NGDPD&grp=0&a=#download](http://www.imf.org/external/pubs/ft/weo/2012/02/weodata/weorept.aspx?sy=2009&ey=2017&scsm=1&ssd=1&sort=country&ds=.&br=1&pr1.x=69&pr1.y=4&c=184&s=NGDP_R%2CNGDPPC%2CPCPI%2CPCPIPC%2CTM_RPC%2CTX_RPC%2CLUR%2CLP%2CGGXW DG_NGDP%2CBCA_NGDPD&grp=0&a=#download)
- <sup>xi</sup> <http://www.imf.org/external/pubs/ft/weo/2012/01/pdf/text.pdf>
- <sup>xii</sup> [http://www.ine.es/en/prensa/np743\\_en.pdf](http://www.ine.es/en/prensa/np743_en.pdf)
- <sup>xiii</sup> [http://www.indexmundi.com/spain/environment\\_current\\_issues.html](http://www.indexmundi.com/spain/environment_current_issues.html)
- <sup>xiv</sup> <http://www.hotelschool.cornell.edu/research/chr/pubs/reports/abstract-15959.html>
- <sup>xv</sup> <http://www.crossborderemployer.com/post/2012/06/06/Spaine28099s-Employment-Law-and-2012-Labor-Reform.aspx>
- <sup>xvi</sup> [http://data.worldbank.org/indicator/ST.INT.ARVL/countries/ES?order=wbapi\\_data\\_value\\_2009%20wbapi\\_data\\_value&sort=asc&display=default](http://data.worldbank.org/indicator/ST.INT.ARVL/countries/ES?order=wbapi_data_value_2009%20wbapi_data_value&sort=asc&display=default)
- <sup>xvii</sup> MadridEmprende
- <sup>xviii</sup> MadridEmprende
- <sup>xix</sup> <http://www.ine.es/jaxi/tabla.do>
- <sup>xx</sup> INE España
- <sup>xxi</sup> MadridEmprende
- <sup>xxii</sup> MadridEmprende
- <sup>xxiii</sup> <http://www.prweb.com/releases/2012/1/prweb9130863.htm>
- <sup>xxiv</sup> MadridEmprende
- <sup>xxv</sup> <http://www.hospitalitynet.org/news/4024857.html>
- <sup>xxvi</sup> <http://www.hotelnewsnow.com/articles.aspx/6945/Boutique-evolved-5-key-trends>
- <sup>xxvii</sup> <http://www.eurasiareview.com/29112012-spain-inbound-tourists-spend-49-87-billion-euros-in-year-to-date-up-6-4/>
- <sup>xxviii</sup> <http://www.eurasiareview.com/29112012-spain-inbound-tourists-spend-49-87-billion-euros-in-year-to-date-up-6-4/>
- <sup>xxix</sup> AICEP
- <sup>xxx</sup> Harrison, Jeffrey S.; Enz, Cathy A. *Hospitality Strategic Management: Concepts and Cases*.
- <sup>xxxi</sup> Welch, Lawrence S.; Benito, Gabriel R.G.; Petersen, Bent. *Foreign Operation Methods: Theory, Analysis, Strategy*.
- <sup>xxxii</sup> MadridEmprende
- <sup>xxxiii</sup> MadridEmprende
- <sup>xxxiv</sup> MadridEmprende