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.

VILA GALÉ HOTELS' INTERNATIONALIZATION TO CAPE VERDE

INÊS DOS SANTOS ÂNGELO NEVES TEIXEIRA – 1940

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03/06/2015

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Abstract

The intent of this paper is to assess the most suitable internationalization strategy for Vila Galé Hotels into the Cape Verdean market (namely into Sal Island), under an investment on a 5-star resort with an all-inclusive system. First, the company’s historic moves onto opening new business units, its corporate strategy triangle and its brand communication channels were studied. Afterwards, the macroeconomics, the hotel industry and other relevant trends of the country at stake were analysed in order to understand the best positioning for Vila Galé in the market as well as the most fitting plan for the project. Finally, it was shown that building a 5-star resort is the most appropriate mode of entry into this market.

Keywords: Vila Galé Hotels, internationalization, hotel, Cape Verde.

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List of Abbreviations

GDP – Gross Domestic Product

HDI – Human Development Index

UN – United Nations

CVE – Cape Verdean Escudo

WTTC – World Travel and Tourism Council

IMF – International Monetary Fund

DMC – Destination Management Country

F&B – Food and Beverages

NPV – Net Present Value

FDI – Foreign Direct Investment

ECOWAS – Economic Community Of West African States

VAT – Value-Added Tax

1. Vila Galé Hotels

1.1 Group Characterization

The Vila Galé Hotels (Vila Galé, hereafter) group was founded in 1986. Throughout almost 30 years of knowledge and expertise, Vila Galé was capable of achieving the second position in the Portuguese hotel market **[1]** and increasing revenues and profits across the years, as shown in *Appendix I – Vila Galé's Revenues and Profits*. Today, the company is held by four shareholders: Jorge Rebelo de Almeida, José Lavrador, Maria Helena Jorge and the company Caixa Capital (detained by the Caixa Geral de Depósitos group), which holds, only temporarily, 10% of the group **[2]**. Vila Galé holds 20 accommodations, in Portugal, and 7 accommodations, in Brazil. See *Appendix II* for *Vila Galé's Business Units*. These accommodations can take the form of hotels, apart-hotels and rural hotels **[3]**, accounting for 6,410 rooms with the support of 2,400 employees **[4]**. Even though the analysis will be centred on the hotel industry, the group also holds two other companies: Casa Santa Vitória (in the wine and olive oil industry) and Santa Vitória Frutas (fruit production) **[2]**.

In 1988, the first hotel unit operated by Vila Galé started its business in the south of Portugal (Algarve) with the Hotel Vila Galé Atlântico. During the following seven years, four new business units were launched in the same region of the country. Afterwards, the group decided to move into new Portuguese destinations such as Cascais (1996), Porto (1999), Beja (2001), and Coimbra (2010). The most recent hotel units opened last month in Évora and Douro, both in Portugal **[4]**.

In Portugal, with the exception of the Hotel Vila Galé Collection Palácio dos Arcos, all the hotels have a rating of 4 stars (price range: €60.00-€220.00; average margin per room:

35%[1]). This is mainly explained by three factors: a positioning option of the brand since Portugal has never been a 5-star destination; required additional investment on this type of offer; and in fact, the worldwide demand for 4-star hotels is much higher than the one for 5-star hotels **[2]**.

Meanwhile, the group did not disregard international opportunities and it has been expanding its businesses into Brazil since 2001, which represents already 50% of the group's revenues (price range: €63.00-€208.00; average margin per room: 28%[2]). This move has been allowing the group to reach different tourist markets, since 92% of the guests are Brazilian. Moreover, given that the European and Brazilian markets take opposite economic and financial cycles, it has been possible to overcome the losses from the current European crisis and to diversify the businesses' risk. In this market, Vila Galé also benefits from being one of the first movers into the resort type of product, offering all-inclusive services **[2]**.

1.2 Corporate Triangle Description

Second Collis and Montgomery (1997) **[5]**, even though there is no one right strategy for all corporations or for each industry, it is possible to build a consistent corporate strategy. The coherent integration of the five elements of the Corporate Strategy Triangle, as shown in *Appendix III* for *Corporate Strategy Triangle*, generates corporate advantage and therefore, economic value creation. Under this theory, Vila Galé's corporate advantage results from its vision alignment with the company's foundations of corporate advantage (resources, businesses, and organization), which in turn ought to be motivated by the right goals and objectives.

[1] Prices and average margin per double room, with breakfast.
[2] Prices and average margin per double room, with all-inclusive service.

Vila Galé's vision is driven by the slogan "*Always close to you*". Indeed, the company intends to be recognized in the hotel industry among all its stakeholders (customers, partners, suppliers and employees) for its product quality and its teams' professionalism. Also, the group moves towards a sustainable economic growth, with a social and environmental sense of responsibility. Aligned with the company's vision, it is necessary to explain that even though Vila Galé does not state its quantitative goals clearly, the company's main milestone is to always surpass the previous year's results, by identifying room to grow on two variables: prices and volume **[2]**. In order to keep this path on its current and new markets, Vila Galé establishes three main objectives (qualitative): the expansion of the Collection sub-brand into Lisbon's downtown (Collection hotels are designed as small business units located in recovered old buildings, complementing the group's supply on beach tourism while it is seen as a differentiating tool by taking advantage from the parent brand image); propagation of Vila Galé's resorts into new exotic destinations; and a minimum threshold of 80% on customer satisfaction levels on each business unit, rated on booking websites (minimum threshold of 90% for the Collection sub-brand hotels) **[2]**.

Regarding organizational capabilities, the group has three main resources that are of paramount importance for its corporate advantage creation. Firstly, the shared contract with the company *Soft Concept* allows all of the group's employees to access the same platform with centralized information, updated minute-to-minute. This software was created exclusively for Vila Galé 6 years ago, when *cloud systems* were not yet as developed as they are nowadays **[2]**. Secondly, the back office processes' centralization has allowed the company to build efficient cost and people structures. This way, all hotel units are merely operational centres with cheaper management structures. See *Appendix*

IV for *Vila Galé's Hotels Management Structure*. Last, but not least, the human resources department and systems should also be recognized as a value driver. Focusing its action on the selection, recruiting and motivational processes, Vila Galé's human resources department does not deal with administrative or rewarding issues. Its training and development systems are composed of four main axes: to discover (training actions to new employees and product refreshments to older employees), to feel (behavioral and interpersonal training), to ensure (technical training on several subjects), and to evolve (training for employees with foreseen career path development) **[2]**. Furthermore, in order to motivate and involve Vila Galé's employees into social responsibility issues, they are integrated in charitable associations' suggested programs and have the freedom to suggest specific programs.

When analysing the businesses' side of the triangle, one should clarify that the group complements its main value creator unit (Vila Galé, representing 98.6% of the group's turnover) with its two other business areas: Casa Santa Vitória, producing the remaining 1.40%; and Santa Vitória Frutas, which has not yet begun its sales activity **[2]**. Besides the good strategic positioning of the company explained above, one must assess the attractiveness of its industry. In order to better evaluate the industry's attractiveness, one can resort to the five forces analysis suggested by Porter M. (1979) **[6]**. However, this model is somehow limited by the different weights of stakeholders' powers across geographies and therefore, the following conclusions may only apply to Portugal. The suppliers' power is considered to be **low**: suppliers are not concentrated due to belonging to different industries (furniture, F&B, machines, etc.); hotels purchase in large quantities and therefore, are able to benefit from scale economies; and the resources of Vila Galé's two complementing business areas (wine and olive oil, and fruits) allow the group to reduce suppliers' bargaining power. Also relatively **low** is the threat of entry since there are very high entry costs (associated with both construction and government issues). It is not easy to achieve economies of scale for a new player, and it would be difficult to compete with brand identities such as Pestana or Vila Galé. However, hotels may pay attention to hostels' action in the market since these have much lower costs in an industry in which it is easy to compare prices and services. For this reason, the threat of substitute products and buyers' bargaining power in the hotel industry are **high**. Indeed, there are several channels providing information to buyers. Thus, customers have low switching costs and are very price sensitive. Vila Galé's move towards this issue was the creation of Vila Galé loyalty cards, in 2006. On the other hand, buyers' concentration is relatively low, since, in 2014: 68.12% of room nights were sold to individuals; 28.19% were sold to groups; and 3.69% were sold to *time-sharing* customers. Overall, the hotel industry is very atomized since the top 20 Portuguese hotel chains represent only 29.50% of the total hotel offer **[1]**. Besides low concentration, low switching costs, and no informational complexity, there is seasonal overcapacity, product differentiation, and exit barriers. Swinging all the indicators, the hotel industry competition is **medium**.

Finally, it is important to understand the role of the corporate office and the main organizational features of the company. 62 employees compose Vila Galé's corporate office, following the structure presented in *Appendix V*, where centralized plans and strategies are developed for all business units in what concerns the back office departments **[2]**. However, these strategies are flexible to each unit's context and therefore, Vila Galé develops different pricing strategies according to the hotel typology and to the existing competition in each geography. As explained above, business units can focus their action uniquely on their operations and each hotel might have a maximum of 7 management positions. Moreover, some activities such as basic services or complex hotel maintenance are outsourced when facing occupancy rates peaks **[2]**. This centralized structure, very well monitored by a unique computer software, allows for a more efficient back office organizational structure, reducing costs and improving processes' flow within the company. Furthermore, the most important systems of the company overlap with the resources aforementioned.

Overall, Vila Galé has been able to keep a good positioning in the hotel market through distinct elements at both levels, corporate and business unit. See *Appendix VI* for *Top 4 Group Hotels' Positioning, in Portugal*. At the corporate level, the back office system ensures extreme cost efficiency while providing quality services and ensuring its team's professionalism. On the other level, one can emphasize the hotels' infrastructure quality and location, the rooms' design and comfort, and the availability and kindness of all hotels' staff. Indeed, these two levels complement each other and therefore, Vila Galé's customers point the price-quality equilibrium as a differentiation mark. Both corporate and individual customers note this competitive advantage point. Apart from customers' perceived value and from sustainable economic growth coming from the hotel units, some synergies between the group's three business areas should also be seen as corporate advantage drivers.

1.3 Brand Communication and Partner Agents

Besides its own hotels, Vila Galé uses other communication channels in order to promote its own services: website; social networks; e-mail and mobile marketing; and its quarterly magazine, "Feel", which is distributed on each hotel room, travel agencies and partner companies. Concerning third-party channels, Vila Galé counts with the promotion of its partner agents: *Main Partner Agents* presented in *Appendix VII*. Creating the most of its value in four clusters (Lisbon, Oporto, Algarve and Madeira), Vila Galé sells its products to four main customers' nationalities: Portuguese, German, British, and Spanish. See *Appendix VIII* for *Vila Galé's Guests by Nationality*. Therefore, it is extremely important to advertise Vila Galé's hotels in those and other countries, which is possible through the services provided by Vila Galé's partner companies, such as tour operators and travel agencies. This way, Vila Galé explores its products' communication through two different marketing strategies: pull strategies, which are directed to the final user and developed by the marketing department, and push strategies that the commercial department exercises over its partner agents. Besides partners' promotions, Vila Galé benefits from its incoming partners sharing its customers' portfolio with their own international partners in order to attract tourists from foreign markets. This is known as DMC. Furthermore, Vila Galé is used to advertise its openings when they are still a simple hypothesis through press releases and then by inviting journalists in order to photograph and film the new facilities once their constructions start to take form. In what concerns social and environmental responsibility, the company prefers not to share its initiatives with the general public. **[2]**

2. Cape Verdean Market

The Republic of Cape Verde is composed of 10 main islands and, among African countries, is an outstanding country in developmental terms. In 2013, the Cape Verdean GDP was $1,955 billion **[7]** and, in 2014, it had a population of 518,470 **[8]**. Portugal was a decisive influence for this country, leaving deep structural marks in the country such as its official language and their strong diplomatic relations. For this reason, and due to geographical convenience, Europe is the largest source of tourists entering Cape Verde. Still, when comparing Cape Verdean to European infrastructure, it is obviously not as developed as the latter, which leads to some deficiencies on water and electricity supply. Even though the country is not among the most popular exotic destinations, it has experienced a strong development in its tourism sector. Given that this development has been more pronounced since 2012, some lack of planning can be noted. However, Cape Verdean government has been making some improvements on the country's attractiveness. One example of this can be the *Turtle Foundation*.

Before deeply studying the receptor market, it is of paramount importance to justify the Sal Island selection for Vila Galé's implementation. When thinking of Cape Verdean tourism, Sal is the island that comes to one's mind. As it will be analysed further in this section, most accommodation offers take the form of resorts, due to their reputation among tropical destinations. During the first semester of 2014, the island received 109,451 tourists, being responsible for around 40% of the Cape Verdean tourism. This represents already more than half of the guests received by the island during the whole year of 2013, which is a positive sign since it does not include high season guests. **[9]** Thus, there are reasons to believe that this is a promising market for Vila Galé.

2.1 Macro-Environment Analysis

The PESTLE framework will be conducted as a mean to assess the Cape Verdean market's attractiveness through a macro-environmental analysis.

Political: Cape Verde is a stable multi-party democracy and it has been registering significant progress regarding its market's openness and negotiating freedom **[10]**. Currently, the African Party for the Independence of Cape Verde rules the country. Given its corrupt continent reality, Cape Verde is surprisingly well positioned in what concerns property rights and corruption levels **[11]**. Although the country has gained its independence from Portugal in 1975, the countries have signed several bilateral agreements, among which **[12]**: “Agreement on Investments Promotion and Protection” (1991), “Economic and Business Cooperation Protocol” (1993), “Convention for the Avoidance of Double Taxation and the Prevention Fiscal Evasion with respect to Taxes on Income” (1999) **[13]**, and “Treaty of Amity and Cooperation” (2012).

Economical: The severe economic disparity between Cape Verdean citizens was the main driver for the Human Development Index (HDI) drop between 2013 and 2014 **[14]**. However, Cape Verde has been considered a developing country by the UN since 2007 **[15]**. By January 2014, it had registered a 12-month unemployment rate of 16.4% **[16]**. These two factors combined confer a substantially low purchasing power to Cape Verdean families. Due to the Exchange Cooperation Agreement signed with Portugal, the inflation rate has been kept relatively low (0.31%, in 2014) and the wages’ alignment with the inflation rate evolution is another factor for the purchasing power decrease **[17]**. The minimum wage, in effect since January 2014, is €110 **[18]**. Currently, the agreement enables an exchange rate of 1 EUR = 110.265 CVE **[19]**. Although, rural Cape Verdean population represents 40% of the total, there are low production levels and therefore, the country depends heavily on imports. Given this scenario, it is important to say that service activities represent 75% of GDP **[7]**. Among these, tourism is the main driver of value, which is closely tied with the euro zone economies. Indeed, Cape Verde was recognized worldwide as the 11th country in terms of relative importance of the tourism sector in the economy and the 10th in what concerns growth expectations for the sector, in 2014. In the same year, the WTTC forecasted an average annual increase of tourism revenue of 6.5%, for the next 10 years. **[15]** According to IMF, this evolution, complemented with the increase of FDI and the oil prices reduction, allows one to forecast a quick economic growth **[20]**. This way, the government develops attraction plans for foreign investors in order to diversify its economy and to mitigate unemployment levels. An example is the decline in the interest rate of the country carried out by the Bank of Cape Verde to 4.25% (even though, it is still above the Portuguese rate) **[21]**.

Social: Although its age pyramid is considerably young, it is expected that the Cape Verdean population will grow at a 1.39% rate **[7]**. The heavy emigration to European countries during the 20th century leads to the fact that there are more Cape Verdean expatriates than those living inside the country **[22]**. This way, the net migration rate of the country is negative as well as its balance of payments. Furthermore, the Cape Verdean social environment is strongly marked by a deep musical and artistic culture, amazing its tourists with their sounds and dances. Although criminality can be identified as a social offset given its increase of 1.74%, Sal Island is not the most affected one **[23]**. Simultaneously, the decreased adult population does not represent a qualified workforce and therefore, it results in a *Low Cost Labor Supply in Cape Verde* detailed in the *Appendix IX* **[24]**.

Technological: Nowadays, more and more tourists book their holidays online, representing already 57% of the world's travel reservations **[25]**. In Europe, the gross online travel reservations accounted for more than €250 billion, in 2013, and an annual growth rate of 8% is expected until the end of 2015. Also, mobile devices are gaining expression and it is expected that, by the end of the year, it will represent one fifth of the overall online bookings **[26]**.

Legal: Cape Verde is ruled under Portuguese civil law and the ECOWAS is the identity that regulates its custom duties **[27]**. In the hotel and accommodation industry, companies should count with a Value Added Tax of 15%. Foreign investors benefit from the same conditions on imports as locals and therefore, these are exempted from customs duties on the imports of construction and operational materials for hotels and resorts. **[24]** Concerning FDI, the agents can take advantage from a 5-year tax obligations' exemption, followed by a 10-year 50% reduction **[28]**.

Environmental: The Cape Verdean islands benefit from a strategic geographic location due to their alignment with the north-south sea routes and from being close to Europe **[7]**. The country experiences only two seasons: dry season (between November and July) and rainy season (between August and October) **[24]**. Overall, it presents warm temperatures, rounding an annual average of 25ºC, and even during the rainy season, precipitation is meager and erratic. Due to its arid climate, Cape Verde attracts many European tourists every year. This leads to increasing numbers, year after year, as presented in the *Appendix X*. In general, the amount of tourists increases during the rainy season due to higher air and water temperatures. Complementing the good weather conditions, Sal Island benefits from long beaches of soft and white sand, and from Sahara warm winds. Still, climacteric constraints as water shortages, soil erosion, desertification and abusive use of resources can be identified **[7]**.

2.2 Hotel Industry Analysis

This analysis will be conducted taking into account both sides, demand and supply. It is appropriate to understand the preferred type of accommodation of the country guests' and which portion of it is absorbed by Sal Island. On the other hand, the number of resorts implemented in the island as well as its service type, prices and staff's characterization.

Overall, the number of guests has been increasing over the years, with Sal and Boavista Islands being the most demanded Cape Verdean destinations **[24]**. Concerning the type of accommodation, hotels were the most requested type of establishment, having registered the majority of guests' check-ins (87.77%) as well as the highest amount of bed nights

(92.96%), in the first six months of 2014. Hotels are followed by residences (2.11%) and guesthouses (2.09%), in terms of guests' check-ins. During the same period, Sal Island was the main tourist receptor, registering the highest number of bookings (40.03% of Cape Verdean guests: 109,451) and the highest number of bed nights (763,836, representing 44.94% of all bed nights sold in Cape Verde). More information on *Tourists' Distribution per Establishment Type and per Island* can be found in *Appendix XI* and *XII*. Regarding bed-occupancy rates, Sal Island achieved 71% in the first quarter of 2014 and 46% during the second one. This results in a semiannual bed-occupancy rate of 61.31%, as computed in *Appendix XIII* **[9]**.

Regarding the supply side, Cape Verde has 222 active hotel units totalizing an offer of 9,058 rooms and 15,995 beds. Although only 31 of these units are located in Sal Island, these are larger than those of the remaining islands and provide an outstanding service due to their large touristic demand for resorts. Thus, Sal Island detains 42.2% of rooms and 46.8% of the beds offered in Cape Verde. Among these, it is essential to analyse the 7 units that offer all-inclusive services and benefit from ratings of 4 and 5 stars. As it can be seen in the *Appendix XIV*, apart from the first unit of the island, Hotel Morabeza, there are three main Iberian[3] groups in the market: *Meliá Hotels International*, *RIU Hotels & Resorts*, and *Oásis Atlântico - OA Group*. These 6 hotel units are located in or near Santa Maria city and present a range of *Double Room Prices Per Night, with All-Inclusive Service* from €124 to €239, as shown in *Appendix XV*. Furthermore, lower prices tend to be offered in the months of April and May, while the highest fares are charged in August. This is justified by the high/low season trends on hotel demand. Finally, it is important to refer that Sal Island employs 43% of the tourism sector's employees, 98.6% of whom are rewarded and 89.5% are nationals. **[29]**

[3] Groups with Portuguese or Spanish headquarters and/or management teams.

2.3 Relevant Trends and Opportunities in the Tourism Market

During the last few years, the tourism sector has been playing a crucial role on Cape Verde's economy, not only through the growing flow of tourists in the country but also through the stimulation of the tourism real estate market. Moreover, Portugal is one of the main players in Cape Verdean imports. Among Cape Verde's imported goods, one can emphasize the beverage industry, in which Portugal provides 80%, 82%, 91% and 80% of all imported milk, fruit juices, beer and wine, respectively. **[30]** However, it should be taken into account the high import cost per container: US$925 (€862) **[31]**. Additionally, the transport services industry has also been a target of foreign investors due to its limitations. Although the Cape Verdean air traffic has suffered a 3.40% decrease between 2012 and 2013 (registering 62,753 passengers less), the traffic driven by internationals has increased by 6.20%. In addition, the International Airport Amílcar Cabral[4] has received 612 thousand passengers, which has implied an increase of both domestic and international travelers. **[30]** This industry may suffer some changes on several aspects such as new Portuguese departure points **[32]** and a decrease in the prices of flights due to the possible entrance of low cost carriers in the market, which is supported by the Cape Verdean government **[33]**. Furthermore, one should refer that most Cape Verdean tourists belong to the Sun & Beach segment but there are still growing opportunities on other types of touristic branches: residential, cultural, sportive and oceanic tourism, ecotourism, golf and corporate. Finally, one can highlight the important role of partner agents since there is a coincidence on destinations' promotion. Those who promote Algarve hotels also promote Cape Verdean package solutions.

[4] Sal Island's Airport.

3. Project's Execution

In this section, it is crucial to analyse the conditioning factors of Vila Galé's implantation in Cape Verde, specifically in Sal Island. Assessing the potential market and conducting SWOT and TOWS analyses allows one to understand the most suitable Marketing Mix strategies and operational process. In line with these factors, the investment procedures will be drawn. Vila Galé's new hotel will ideally take the form of a resort and therefore, the financial project must take into consideration land acquisition and construction costs. Some conditions set by management will be used to foresee the operational and financial costs, returns and discounted payback period. Due to future uncertainties, three scenarios will be hypothesized.

3.1 Customers' Potential Market

At an initial stage, it is expected that the first customers staying in the business unit of Cape Verde are Portuguese couples without children **[34]** (age range, in years: 35-45) and families of 3 to 4 elements composed of couples, with 1 or 2 children, which are employed and afford medium/high income levels. These will most probably be current customers of Vila Galé. During the off-season, the segment of guests will be composed of business and senior travelers. Afterwards, other nationalities will also opt for Vila Galé's hotel unit. Besides Portugal (representing 7.17% of Sal Island's guests), other countries are emitters of tourists to the island: United Kingdom (13.81%), Germany (13.17%), Belgium and the Netherlands (11.05%), France (10.90%) and Italy (7.53%). **[9]** The *Appendix XVI* with *Tourists' Distribution per Country of Residence in Sal Island* shows correlation between the number of guests and bed-nights by country. Furthermore, the *Appendix XVII* allows one to conclude that the main tourist senders are also those showing the highest average stays.

3.2 SWOT and TOWS Analysis

In order to better understand the factors that may favor or jeopardize Vila Galé's implementation into Sal Island, the internal and external factors are analysed in the table below (Table 1: SWOT Analysis). Afterwards, one must present the most suitable strategies to maximize strengths and opportunities while undermining and controlling the project's weaknesses and threats (Table 2: TOWS Analysis).

Table I: SWOT Analysis

STRENGTHS	WEAKNESSES
S_1: Vila Galé's brand image among Portuguese tourists mainly built through staffs' kindness; **S_2:** The majority of Vila Galé's customers are European families with medium/high income levels; **S_3:** Vila Galé's developed relationships with several partner agents; **S_4:** Well developed Human Resources Management inside of the company enabling effective training and development and knowledge transfer; **S_5:** Experience in resorts' type of service (all-inclusive) since 2006; **S_6:** Vila Galé's management department reacts effectively to punctual opportunities; **S_7:** Long and trustful relationship with the Santander Bank; **S_8:** Vila Galé's drive for brand and business internationalization.	**W_1:** Large investment needed to new business units implementation; **W_2:** Staff with strong know-how but lack of specific skills (mostly Portuguese/local employees who cannot speak French or German); **W_3:** Included in a market where customers' have high bargaining power; **W_4:** Lack of strategic planning decisions (reactive to opportunities without actively searching for them); **W_5:** Inefficient online booking platform.
OPPORTUNITIES	**THREATS**
O_1: Cape Verde is a familiar market for Portuguese tourists mainly due to the language coincidence; **O_2:** Reach of new tourist markets in this type of offer (namely United Kingdom, Germany and France); **O_3:** The tourism sector is the most significant activity for Cape Verde's GDP and therefore, the government is aware of social responsibility (*Turtle Foundation*); **O_4:** International airport with high traffic rates (passengers and cargo) **[35]**; **O_5:** Growth of Cape Verde's economy;	**T_1:** African market instability; **T_2:** Presence of large and competitive hotel groups: *Meliá Hotels International*, *RIU Hotels & Resorts*, and *Oásis Atlântico - OA Group*; **T_3:** High corruption and criminality levels when compared to European levels; **T_4:** Insufficient accessibilities between Cape Verdean Islands; **T_5:** High import costs of goods and services from

O_6: Government concerned in fostering FDI;	Portugal and the Canary Islands;
O_7: Strategic positioning of the archipelago: near Europe and between African sea route;	**T_6:** Weakly developed Cape Verdean infrastructure, affecting water and electricity supply;
O_8: Low-cost labor supply;	**T_7:** Lack of qualified workforce and resources;
O_9: High tourism attractiveness due to its diversity (sun & beach, ecotourism, cultural, and sportive tourism), tropical weather and strong culture;	**T_8:** Lack of tourism sector planning;
O_{10}: Intense e-commerce development in the sector;	**T_9:** The country is not among the top sun & beach tourism destinations;
O_{11}: Coincidence on destinations' promotion of partner agents (Algarve and Cape Verde);	**T_{10}:** Cape Verdean tourism sector's strong dependency on European economies.
O_{12}: Most tourists traveling to Cape Verde are families and their most valued points are staffs' kindness and room service.	**T_{11}:** High interest rates in Cape Verde.

Table II: TOWS Analysis

MAXIMIZE STRENGTHS AND OPPORTUNITES	MINIMIZE WEAKNESSES AND MAXIMIZE OPPORTUNITES
S_1, S_3, S_8, O_3, and O_6: Establishing early communications and good relations with Cape Verdean state institutions in order to take advantage from its incentives and social responsibility programs. **S_5, S_6, O_1, O_2, O_4, O_5, O_7, O_8, and O_9:** Implementation in the island through a large resort. **S_4, S_5, O_8, O_9, and O_{12}:** Vila Galé can leverage its experience in Human Resources Management by motivating staff's quality levels and creating a strong entertaining team with Cape Verdean employees.	**W_3, O_1, O_4, and O_{11}:** Promoting attractive marketing strategies for Portuguese tourists, taking advantage of its brand image and including promotions through Vila Galé's card. **W_3, O_7, and O_9:** Implementing the Vila Galé's Nep Kids Club and an aquatic activities club exploiting the Cape Verdean warm wind and water. **W_3, O_1 and O_{11}:** Maintaining Vila Galé's image of offering a good price-quality ratio in Cape Verde. **W_5 and O_{10}:** Vila Galé's website improvement.
MAXIMIZE STRENGTHS AND MINIMIZE THREATS	**MINIMIZE WEAKNESSES AND THREATS**
S_4, S_5, T_2, T_3, and T_7: Hiring and providing specific training and development to Cape Verdean employees for management and operational positions. **S_2, S_3, S_8, T_9, and T_{10}:** Practicing strong promotional actions near European and non-European markets.	**W_3, T_5, and T_7:** Searching for Cape Verdean suppliers, especially on agricultural products **[36]**, in order to decrease import costs and promote a more complete cultural experience.
S_7, S_8, T_3, and T_8: Leveraging relations with state institutions and Santander in order to ensure efficient operations on international trade processes and good financial conditions for implementation.	**W_1, T_3, and T_6:** Contracting high quality construction companies from Cape Verde with state referral.
S_8 and T_5: Ensuring efficient commodities ordering processes and celebrating a construction contract with a Cape Verdean company. **S_7 and T_{11}:** Contracting a loan with Santander Bank.	**W_2, T_3, and T_7:** Contact SONASA in order to contract specialized security teams and/or employees.

3. 3 Marketing Mix Strategies

Product: Vila Galé, being a well-developed hotel brand that benefits from a great awareness in the Portuguese market and loyalty from its customers (between 2010 and this year, 25.60% of Vila Galé customers were not having a first-time-experience, as shown in the *Appendix XVIII – Vila Galé Customer Loyalty*), should leverage its brand equity during its internationalization process into Sal Island. In order to create competitive advantage in the receptor market, it is expected that Vila Galé will raise a 5-star resort, which can be named: Hotel Vila Galé Sal. This hotel unit should occupy around 10 hectares, allowing it to embrace 500 rooms (with an average of 2 beds per room), 5 restaurants (3 of them thematic and an *Inevitável* restaurant[5]), 5 bars, 2 swimming pools, 5 conference rooms, a *Nep Kids Club*, a *Baby Copa*, a health club, a *Satsanga Spa*[6] and an aquatic club. It should be noted that only around 40% of the total land area is used for construction. Cape Verde is still seen as an undeveloped country and, therefore, as a lower quality destination. Given the aforementioned hotel industry supply of Sal Island, there are reasons to believe that Vila Galé will opt to compete directly with the *RIU Hotels & Resorts* chain.

Price: Following Vila Galé's pricing strategy, Sal Island's hotel prices will be set taking into account the competitors' price trends. This way, and swinging with the initial expected demand, penetration prices will be practiced until the new unit achieves competitive occupancy rates. During the off-season, Vila Galé will practice lower prices than its competitors, while substantially increasing it during the months of summer. It is possible to forecast that this price will create an average margin revenue per room above 28%, as Cape Verdean operational costs are lower than in Brazil (e.g. labor costs).

[5] Vila Galé's restaurant for Portuguese gastronomy lovers.
[6] Vila Galé's Spa where customers can relax, rest and receive beauty treatments.

Furthermore, customers will pay a fixed amount (initially between 130€ and 160€) for an all-inclusive service, which includes: F&B, free access to Wi-Fi, daily entertainment, Baby Copa and Nep Kids Club[7], sports, and 2 dinners in two of the three themed restaurants.

Place: According to Sal's Municipal Director Plan **[37]**, the geographical areas of Santa Maria and Baía do Algodoeiro are buildable and reserved for residences, industry, tourism and rural activities. Santa Maria is Sal's most touristic city (17 kilometers away from the airport), and concentrates almost all the relevant competitors for the project at stake. However, *RIU* and *Meliá* chains, Vila Galé Sal's direct competitors, are located in the Baía do Algodoeiro. This proves the extreme importance of placing Vila Galé's new unit in this area. Although the *Appendix XIX: Vila Galé's Suggested Location* may suggest that these areas are overloaded, one can still identify some areas (highlighted in purple in the appendix) in which it is possible to develop touristic initiatives with such dimensions as the ones expected for the Hotel Vila Galé Sal. Indeed, the group has already received some sale offers of 3 lots in this area. Furthermore, Vila Galé's points of sale for this new business unit will be the same as those used for the other units: own channels (Vila Galé's website, at the hotels' receptions, by e-mail, and by phone), and third-party channels (travel agencies, online travel agencies, tour operators, and discount and promotional websites).

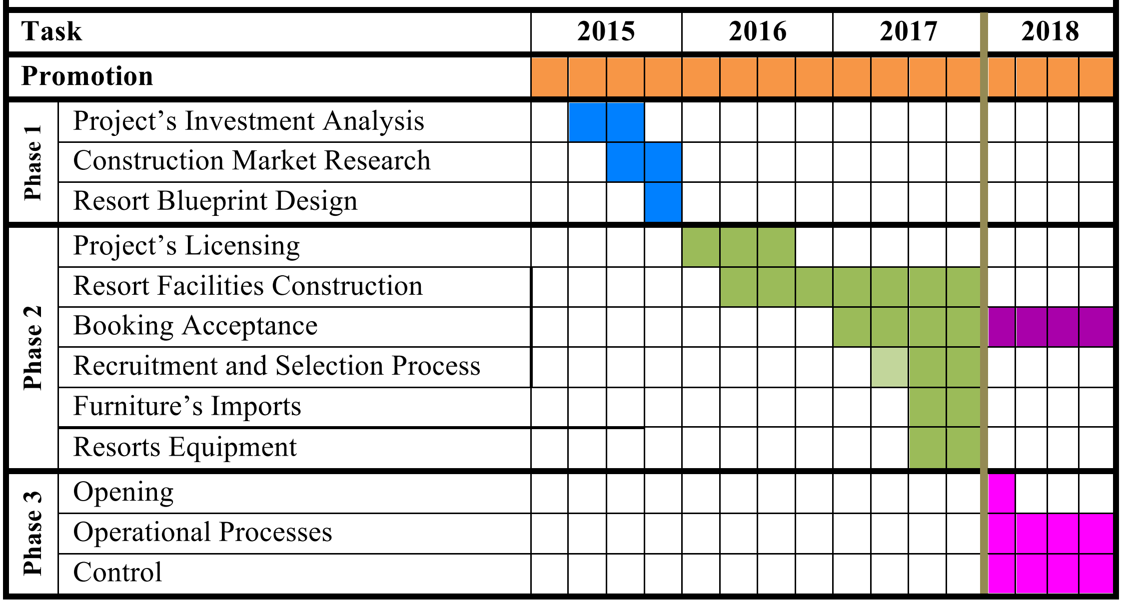
Promotion: As explained above, this Marketing Mix's topic is extremely important since it is the only one that plays a crucial role from the very beginning of the investment analysis. Indeed, the Hotel Vila Galé Sal has already been announced as a possible investment for Vila Galé's group, through press releases **[38]**, which allows one to understand the customers' perceived value of the new opportunity. As a second stage of

[7] Services available for children below 12 years old.

the hotel's promotion, journalists may be invited to record and show to potential customers the hotel's offers, while it is being built. Also, the marketing department plays an important role on the disclosure of this information in social networks, through mobile and e-mail marketing, with updates on its website and by launching a special edition of its "Feel" magazine mainly dedicated to the Hotel Vila Galé Sal. This allows Vila Galé to create awareness near final customers. Some promotional roles of this stage are still delegated to Vila Galé's commercial department, which communicates hotel features and prices with its partner agents. DMC agents should also be contacted. In order to promote customers engagement with the product, it is imperative to pursue all these strategies developed through all the communication channels aforementioned, during the whole project life cycle. All these channels should be in harmony, drawing a sense of friendliness and comfort, in order to boost conversion levels.

3.4 Operational Process

Table III: Investment Process Gantt Chart



Promotion: As aforementioned, promotion is an ongoing process since it allows to take customers from awareness, to engagement, conversion and finally, loyalty.

Phase 1: Under the project's investment analysis activity, it is recommended that Vila Galé starts communications with the several agents already implemented in the market (such as travel agencies, tour operators, and even other resort's managers) to accurately recognizing the industry scenario by asking questions related to the hotels' demand, operational difficulties, recruitment processes and prices. It is crucial to receive the same information from the several agents in order to understand its veracity. Furthermore, public official entities, promotional touristic associations, Portuguese embassies or representations in Cape Verde, and other institutions holding the licensing power should also be contacted before the investment decision. Besides, it is of great importance to find buildable land as the one suggested in the Marketing Mix session, through market research on the construction industry. This will allow one to combine construction cost efficiencies with Vila Galé's new business unit placement in a strategic location in the tourism industry. Once the best deal has been found, Vila Galé's technical department can design the resort's blueprint. This way, one can start planning all the steps included in project's phase 2.

Phase 2: After settling the resort's location in Sal Island, negotiations with the Cape Verdean government will begin in order to settle all the licenses required to the construction project's implementation and subsequent hotel's operation. The first step of this activity is the Foreign Investment Operations Registration in the Bank of Cape Verde **[39]** in order to take advantage from the *Tax Benefits* **[40]** presented in the *Appendix XX*. Simultaneously, it is important to contract the construction company resultant from the second activity of phase 1, which will probably be a company with Portuguese capital and Portuguese government support **[24]**. Moreover, it is expected that the hotel's construction will take almost 2 years to be completed which enables one to foresee the hotel’s opening in the beginning of 2018. This being said, Vila Galé’s sales and commercial departments should start accepting bookings in the beginning of 2017, which is a common practice according to the group’s strategy. Moreover, it is suggested that, up to 9 months before the resort’s opening, a local and non-local recruitment and selection process should be performed for the first and second line direction, direction assistance, and other nuclear areas' chiefs. The early beginning of this process allows for a 2 to 3 months integration period into Vila Galé's operating practices, through a rotation plan across Vila Galé’s existing business units. During the preceding 6 months of 2018, the recruitment and selection process should be executed for all the remaining positions. Even though this activity’s execution will follow the usual Vila Galé search, through internal and, then, external sources, one of the main sources of recruitment should be the Hospitality and Tourism School of Cape Verde **[41]**. Furthermore, it is important to assure that: employees’ labor terms do not exceed the weekly 44 hours; a maximum of 10% of employees are foreign; and that these employees’ contracts are authorized by the government and, for those staying longer than 3 years, by the Emigration and Borders Services **[24]**. Afterwards, the resort’s equipping with both operating machines and furniture has to be performed. This task’s accomplishment period may be as long as an entire semester since some of these products might be imported from Portugal and/or the Canary Islands and the hotel’s decor has to be set with the technical department. Even though it has no cost, companies have to request their import licensing, and each import package will be subject to legal authorization due to tourism industry goods need for sanitary and phytosanitary controls and security **[39]**. Furthermore, one can infer that import costs will be one of the most significant investment headings of the project, delaying its payback capacity.

Phase 3: After being sure that the resort's facilities fulfill the requirements of Cape Verde's Tourism Minister to be considered a 5-star hotel (stated in the *Appendix XXI*), the Hotel Vila Galé Sal should start its operations, receiving its first very welcomed guests **[42]**. In order to control its operational activity's success, Vila Galé will use the following key performance indicators: occupancy rate, average price, gross operating profit, gross operating profit per room, and customer satisfaction through internal surveys and websites classification.

3.5 Financial Predictions

Since this is a project already considered by the company, there are some conditions set by the management and financial departments that should be followed in order to succeed in the business's implementation: the resort will be composed of 500 rooms; assurance of a 0.8 ratio of employees per room; minimum marginal revenue of 28% per room, in the long run; only around 40% of the total land area will be used for construction; the debt-to-equity ratio of the investment should be equal to 1; and an annual interest rate of 2.5% since the loan will be dealt with the Santander Portuguese branch in order to achieve a lower rate. The capital structure condition is possible since the company's profits that are translated in capital are entirely reinvested. Moreover, Vila Galé expects a break even period lower than 10 years due to the project's riskiness. **[2]**

Some assumptions had to be taken into account to compute the project's projections: constant annual inflation rate at 1% (supported in the *Appendix XXII*); the straight-line depreciation method should be applied to construction and equipment; the operational consumption will follow the same structure as the Hotel Vila Galé Cumbuco[8]; each customer will consume an average cost of 15€ of F&B per day; and loan maturity period of 10 years.

[8] Hotel Vila Galé Cumbuco was chosen for these financial predictions due to its dimension and style similarities.

Based on these assumptions, it is possible to build a capital budgeting analysis, including operating and financial indicators. The unique element composing this project's operating revenues is the multiplication of the price[9] by room nights sold since it is not possible to distinguish their origin: accommodations, F&B, garage, or spa. As explained above, the price was computed through competitors' prices analysis, and set slightly below the average of the annual average price of Vila Galé Sal's direct competitors. Prices will reach or even surpass those of its competitors in around 10 years, accompanying inflation effects and stabilizing afterwards.

On the costs' side, it is appropriate to distinguish the project's costs according to its timing: before or after the hotel's opening. Once the hotel is running its core activity, operating costs such as human resources, marketing, F&B, maintenance, energy costs (water, electricity and gas), telecommunications, and fuel should also be considered as detailed in the *Appendix XXIII – Operating Costs* **[24]**. Marketing and maintenance costs are indexed to each hotel's revenue levels at a rate of 2.50% and 2.00%, respectively. F&B costs result from the multiplication between the assumed customers' consumption and the number of customers per year. Moreover, it is important to acknowledge that the associated costs may somewhat differ from the predictions due to the possibility of expatriating Vila Galé's current employees and due to inflation rate fluctuations. Furthermore, the energy, telecommunications and fuel costs are considered immediately before the net income calculations because the accessed information already includes the VAT effects.

After considering the operational approach, it is crucial to understand the financing project's point of view. Therefore, it is time to subtract capital expenditures, to add the previously subtracted construction and equipment's depreciations, and to subtract the

[9] Prices are actualized annually through the inflation rate.

working capital changes. Furthermore, it is of paramount importance to account the debt effects on the project's viability. Non-operating costs are considered after the net income.

Capital expenditures are related to land acquisition (€ 3,000,000 **[43]**), construction, and equipment (€ 6,000,000 **[43]**). The construction costs' information relates to the fiscal year of 2009 **[24]**. Therefore, these were updated to 2016 (beginning of the resort's construction) through the annual inflation rate previously computed, as explained in the *Appendix XXIV – Construction Costs Update*.

As expected, the working capital amount will decrease and tend to the usual inventory valuation (€ 550,000). However, in the beginning of the project, and due to sales inexistence, these indicator should also integrate 3 months of advanced salaries (€ 188,250) as well as a F&B inventory of € 170,000. **[43]**

Then, the equated yearly instalment method was applied in order to calculate the financial expenses associated with half of the project's capital expenditures. Under this method, it is possible to compute an annual fixed instalment (€ 2,169,962.73), representing the debt repayments' present value, and the interest paid each period derived from the previous year's outstanding debt. See *Appendix XXV – Financial Costs.*

Finally, the project's free cash flows are computed by taking into consideration the continuity of the project. This way, the terminal value of the last free cash flow was calculated as a perpetuity, growing at the inflation rate due to the occupancy rate equilibrium.

3.6 Scenario Analysis

Due to future uncertainties, three different scenarios were hypothesized, all presented in the *Appendix XXVI*. The three computed outcomes result from changes in three different variables: bed-occupancy rate, price and number of imported containers. The occupancy rate and price variations are mainly explained by demand and competitors' unpredicted moves. However, the number of imported containers may decrease if Cape Verdean production is able to develop enough during the following years, or if on the contrary, Vila Galé is forced to import products to assure its quality standards. Even though they are not presented in this order, the optimistic and pessimistic scenarios resulted from indicators' variation of the realistic scenario.

Optimistic Scenario: This scenario is a fairly encouraging scenario, in which all the three variables are manipulated as if Sal Island was very welcoming to Vila Galé. In this hypothetical situation, the Hotel Vila Galé Sal would start its first fiscal year with an occupancy rate of 50%, increasing by 2.5% each year and therefore, the new unit would achieve a 70% occupancy rate at year 9. This rate is above the one registered for both Sal Island and Cape Verde's hotels. Also, the penetration price practiced would be € 140 and only thirty 20-feet containers would be imported per year. The combination of these optimistic indicators would provide a positive NPV of € 331,445,128.21, and achieve the break even point at the end of 6 years, 2 months and 13 days. Furthermore, the operating marginal contribution evolves from 29.27% to 36.04%.

Realistic Scenario: As explained above, this was the first computed scenario. The three indicators were adjusted to real data. The starting occupancy rate is 45% and, following the same growing path, at the end of 9 years the rate achieved by the new unit (65%) is very similar to the one calculated for Cape Verdean hotels (64.59%). The actual expected initial price is € 135, which allows the hotel to achieve an annual average price level of almost € 150 within 10 years. The latter average price corresponds to the *RIU Hotels & Resort* price level. Furthermore, predicting the need of 3 containers per month in order to supply the hotel **[43]**, results in the need of 36 containers per year. Equating these indicators' effects, the project would result in a positive NPV of € 245,643,373.89, creating a marginal contribution evolution from 22.73% to 32.22%, and in a discounted payback period of 8 years, 6 months and 3 days.

Pessimistic Scenario: The last scenario represents the most risky project's situation, which results from the worst combination of the three changing elements. Even though the occupancy rate will experience the same trend, it will only achieve the 60 percentage points at year 9. Moreover, Vila Galé would only be able to charge € 130 to its customers and would need to import 42 containers per year. This worst-case scenario would attain its break even point only at the end of 9 years and 17 days, and a positive NPV of € 165,245,332.34. Finally, the contribution margin interval would be registered between 14.63% and 27.78%. Although this scenario's outcome is very less attractive for investors than the previously analysed ones, it proves that this company's internationalization to Cape Verde would still be a profitable move for the group, by achieving approximately the same discounted payback period return of the group's investments in Brazil **[2]**.

4. Further Considerations and Conclusions

Vila Galé has been thinking of expanding its businesses to Cape Verde for at least the past four years. Projects as Hotel Vila Galé Rio de Janeiro, Évora and Douro have delayed the company's negotiations with Cape Verdean agents. However, one can argue that all these successful openings may also be seen as an incentive for moving to new destinations by giving Vila Galé a solid and outstanding reputation. Also, these result in a bigger financial leverage for the group, which may even anticipate the project's conclusion.

Besides some factors like the common language, historical relations with Portugal, and businesses risk diversification, that have driven the group's international expansion to Brazil, Cape Verde can still surpass it by having already a direct contact with the country.

Indeed, one of the other Vila Galé's business areas, Casa Santa Vitória, already exports its products to Cape Verdean agents. Therefore, there are reasons to believe that Vila Galé can leverage its established network on the international move at stake.

Since the resort's construction takes long lengths and it is associated with an impressive investment amount, it is of great interest to plan all the steps before it starts its operations, by not disregarding the creation of good partnerships with local agents (e.g. transfers, cleaning and maintenance services companies). These are mainly justified by the need of outsourcing several specific services during the resort's occupancy peaks. As the project evolves, it will be possible to achieve a more realistic expectation on operations and hotel requirements, which may be translated into changes of several natures. For example, more commercial positions could be needed with the turnover evolution.

Furthermore, it is very encouraging that the project is able to achieve a break even point sooner than those of Brazil (10 year), under a realistic scenario, since its risk will be fully supported by the company. Nevertheless, a close monthly control of the financial marks previously defined as key performance indicators has to be conducted.

By transferring its professional and high quality services mindset, Vila Galé will be able to make its current and new customers trust in Hotel Vila Galé Sal as the destination for their holidays.

As the project succeeds and brings more financial leverage for the company, Vila Galé might want to develop its implementation in the country and therefore, other islands of the archipelago, as Boavista and Maio may also be considered promising investments due to their growing significance within the tourism sector **[44]**.

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