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GROWTH STRATEGIES IN TOURISM ENTERTAINMENT INDUSTRY – A PRACTICAL APPLICATION –

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ABSTRACT

In the past few years, prompted by the globalization and the quality and ease of travel, the world has witnessed a boom in the tourism sector. The forecast is that this tendency will continue in the upcoming years, representing a set of opportunities for companies operating in this business area. Boost Tourism operates in the tourism entertainment industry. Its revenues growth has been exponential so the founders decided that it was time to take it to new heights. This Work Project aims to study three alternative growth strategies and, based on a comprehensive analysis of the industry and the market, provide recommendations to outline the optimal expansion path.

Key words: SME, Young Company, Growth strategy, M&A, Internationalization, Tourism entertainment

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1. PROBLEM STATEMENT

Tourism is a rising industry all over the world and, increasingly, one of the main driving forces of Portuguese economy.

Boost Tourism, Lda (from now on Boost) is a company that operates in the tourism entertainment industry in Lisbon and has just started operations in Madrid. It has been growing exponentially, in line with the market trend, and its founders are looking for new opportunities to continue this expansion. The questions which therefore arise are: Is this growth sustainable? What should be the next expansion steps?

Bearing this in mind, a deep external and internal analysis is presented in order to find the key factors that led the company to its current success and substantiate this sustainability; followed by the thorough study of three potential growth strategies. In the end some conclusions are drawn and an insight into the wider implications and future developments is provided (for methodology see Appendix 1.1).

2. SITUATION ANALYSIS

2.1. INDUSTRY & MARKET ANALYSIS

2.1.1. TOURISM IN PORTUGAL

The tourism industry is growing globally and Portugal is benefiting from that. The forecasts indicate that tourism around the world will grow 3.3% per year until 2030, which means an additional 40 to 45 million tourists per year, representing a huge potential of the industry for the next years (see detail in Appendix 1.2).

In Portugal, the importance of tourism has also been growing and tourism is considered one of the main strategic sectors for the country's development. Its contribution to the Portuguese GDP is increasing sharply, particularly since 2009 (see detail in Appendix 1.3). The country enjoys several favourable conditions that are making it a trendy destination, thus contributing to the substantial increase of the number of tourists visiting every year, namely: a unique seaside location along Europe's southwestern coast and the Mediterranean entry, attractive Mediterranean weather, friendly hospitality, safety conditions, modern infrastructures, high quality services, low prices level, tasty and traditional food, history and culture. Traditionally, Portugal's enchantment was linked to a single-product: the beach. Nowadays it is becoming widely known as a cultural and historical destination, mainly in the largest urban centres (Lisbon and Oporto), due to the panoply of flights at competitive prices (low cost) and the political and safety problems in competing markets, such as Northern Africa.

According to INE, in 2014 Portugal received 16 092 millions of travellers, of which 9 316 million international guests.

Visitors 2014			
	Total	**% of Total**	**∆ 2013/2014**
Portugal	6 776 000	42%	11.6%
Foreign	9 316 000	58%	12.2%
Total	**16 092 000**	**100%**	**12%**

Figure 1: Visitors in Portugal 2014 (Source: INE, www.ine.pt)

The number of visitors has been increasing and according to a study made by "*Turismo de Portugal*[1]" in 2014, 86% of the respondents said they were really satisfied and 93% intend to return in the next 3 years. Tourism industry investments also grew, especially after 2012, when the country started recovering from the economic depression (see detail in Appendix 1.3). The areas with higher demand are Lisbon (the capital and a starting point for most tourists who want to visit other places) and Algarve, representing in 2014 around 30.4% and 22.4% of the total demand, respectively.

The year of 2015 was really important for the sector. In the first six-month period the number of guests increased additional 7.3% and 9.9% relatively to 2014, in the country and in Lisbon, respectively; and, considering that the second semester includes July and August which are the months with greater volume of tourism, the observed numbers will be even higher.

[1] Sample of the study: 814 tourists

2.1.2. Tourism Entertainment Industry

The tourism entertainment industry comprises all the companies involved in providing recreational activities diverse in nature, from games to sightseeing tours. This market is complex and difficult to analyse given that all the players are private companies with no disclosed data and tendency for tax evasion which contributes to the lack of transparency even when there is some information available.

In this industry, as in any other industry, products and services go through different phases. There are four main stages in an industry lifecycle: introduction, growth, maturity and decline. In the introduction stage, companies start introducing their products and services. The growth stage happens when the competitors become stable and the number of customers increases exponentially. Companies already understand how the market reacts to the product and start devising ways to take advantage from economies of scale in order to reduce costs. When the product or service has reached its full capacity, the industry reaches the maturity stage. The sales growth rate stabilizes and companies tend to compete heavily in prices, reducing the profit margins. The last stage is the decline stage where revenues and profits decrease, this is usually caused by new trends or new products.

Presently, the tourism entertainment industry is at the growth stage almost reaching maturity, the market is growing and sales are high, however competition is fierce and every company wants to increase its volume and market share and improve customer relationship to retain clients. In this industry trends have a strong influence on demand and on companies' success. The investments on assets tend to be high and the fact that the technological innovation strongly affects the business makes it fundamental to understand the products lifecycle before deciding whether it makes sense to invest or to wait for the next technology.

2.1.3. Porter 5 Forces Analysis

The Porter 5 forces analysis is a framework that helps to analyse the level of competition within an industry. Through this analysis, companies become aware of the competitive intensity of an industry and therefore its attractiveness. As for the Tourism Entertainment industry:

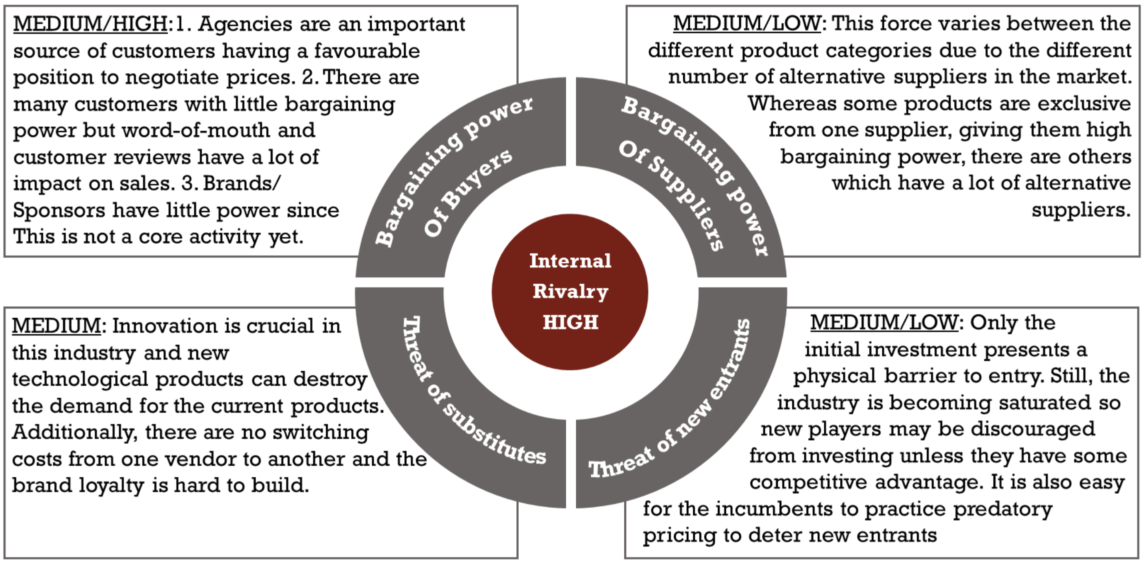


Figure 2: Porter 5 Forces Tourism Entertainment industry (Source: Desk research)

It is worth mentioning that it all boils down to the rivalry among competitors which is strong here. There are no switching costs for customers and there are many small competitors offering similar services (figure 3), hence individuals can easily change from one player to another so the vendors have little room to change prices and they may face a transference of profits directly to the customers. The fixed costs are considerably high and it is not easy to maintain high margins in the short term, reducing the profit potential for each company.

Competition	GoCar	Segway	Tuktuk	Bike	Motorbikes	Buggies	Vintage Cars	Escape Game	Corporate Events
# of competitors[2]	0	5	12	17	5	0	1	11	7
Strength	N/A	Medium	High	High	Medium	N/A	Low	High	Strong

Figure 3: Tourism Entertainment market companies in Lisbon (Source: Desk research)

Despite the level of competition in the market, the players are mainly focused on one product and have to resort to outsourcing when they need to include other products in their proposals, which means that the different products are disperse from different companies which makes it

[2] Approximation based on TripAdvisor "Outdoor activities, Tours and Games"

difficult to diversify services and apply cross-selling strategies. Concerning teambuilding activities and other corporate events, there are some strong competitors in the market and diversification and innovation are crucial for companies to succeed (see detail in Appendix 1.4).

2.2. Company Analysis

Boost was founded in Lisbon in 2008 by João Paiva Mendes and Leonel Soares and currently, while still a small enterprise, it is one of the biggest companies in the industry with a supply that includes the most diverse ludic services. It aims to ally innovation, transports and technology in order to deliver exclusive and high quality experiences to its customers. The company's mission is: Upgrade the tourism entertainment industry, offering a unique service for both corporate and individuals who are looking for an adventurous and exclusive "living Lisbon" experience, ultimately promoting the Portuguese image around the world; while its vision is to become the leading tourism operator in Portugal, being the first and obvious option for both Portuguese and foreigners offering services worldwide.

2.2.1. Business Model

In order to get a better picture of the internal structure of Boost, the Business Model Canvas framework was adopted (see detail in Appendix 1.5). The "business model canvas describes the relation of how an organization creates, delivers and captures value" (Alexander Osterwalder & Yves Pigneur, 2009) and it defines how the company plans to make money around four main dimensions: customers, supply, infrastructure and financial viability. The framework is divided into the nine blocks summarized below:

A. Customer Segments

Customer segments concern the definition of the groups of individuals or organizations whose need the company wants to satisfy. This dimension is essential since customers are the company's source of business. In Boost case, its customers are divided into three segments: individuals, groups and brands/sponsors.

Individuals are the customers who wish to rent Boost's products or enjoy from its tours. This target involves people doing a "city break" who want to explore the city and become acquainted with its history and secrets through adventurous tours or organized group activities. This segment usually comprehends ages between twenties and forties, depending on the services (for instance customer segment of Escape Hunt is different since most customers are Portuguese people in their twenties to thirties who are looking for a different experience).

Groups segment includes all the entities that may be interested in team building, group activities or events. The customers with higher potential are big companies, MICE (Meetings, Incentives, Conferences and Events) tourism agencies, DMC agencies (Destination Management Companies) and event organization agencies.

The last group is the least significant in terms of revenues but is still important. Since most of Boost's products are means of transportation, they have considerable visibility around the city. Therefore, companies are interested in using them to advertise its brands. All the companies which are looking for a mobile and different way of advertising have the opportunity to "decorate" Boost products with its name, slogan or campaign.

B. Value Proposition

The value proposition explains what the company is offering to create value for its customers as well as the company's advantage over the others which explains the customers' preference. Boost stands out in the tourism entertainment sector by providing daring and exclusive experiences and continuously innovating the supply, combining high quality technology with competitive prices, but mainly due to its cross selling capacity (see table on Appendix 1.6). It delivers an extensive range of services (private renting, private tours, group tours and corporate events) and, by controlling the entire experience, it guarantees satisfaction. The company is always one step ahead comparing to its competitors, trying to find new opportunities to create new trends and needs that will assure business sustainability.

Considering specifically the groups segment, the company has an unrivalled operational capacity, providing customized events for groups with more than 30 persons, simplifying the process for the client and giving strong emphasis to its absolute satisfaction.

In order to have the best technology, the coolest rides and deliver the best experiences Boost has, in Portugal, a range of eight products under eight brands: GoCar Tours, Lisbon by Segway, Global tuk tuk , Bikes & Company, The Scooter Solution, Red Tour, Lisbon By Beetle and The Escape Hunt Experience (see Appendix 1.6).

The GoCar is the first-ever GPS-guided Storytelling car and it is exclusive to one company per city which is a source of advantage. Its innovative concept allows tourists to visit the city alone without missing out on cultural side. This product is also the most profitable product at the corporate level, as will be shown in financial analysis. According to Instituto de Turismo de Portugal, GoCar was elected one of the best things to do in Portugal. Boost currently owns 40 GoCars, representing a capacity for 80 people simultaneously.

Lisbon by Segway is the only Segway tour company sponsored by Turismo de Portugal and it is an official Segway authorized company. The product acceptance tends to be high and it is the product with higher demand at the individual customers' level. The company owns 30 segways and outsources an average of other 10 from an external supplier.

Tuk tuks are a product that has recently gained awareness in Portugal due to its small size. The company has 10 tuk tuks – 8 in Lisbon and 2 in Algarve – with capacity for 6 people each.

Bikes are a healthy way to visit a city. There is a route by the river that is ideal for a bike ride. At the moment, Bikes&Company is the largest rental service in Lisbon, with different styles of bikes suited to clients' needs and capacity for large groups (30 bikes available).

Scooters are not currently being commercialized but the company owns 10 of them. They are currently used for operational purposes as guides or staff transport during the events.

Nonetheless, many customers go to the offices in Lisbon and ask for scooters to rent, what may signal a gap in the market.

The buggies are a great solution and may become fundamental when considering the environmental restrictions in the city. The company has 10 buggies under the brand Red Tour, 7 for 4 people and the other 3 for 2 people.

Lisbon by Beetle proposes an adventurous, young and glamorous way to visit a place. There is a gap in the market since there are no old cabriolets in rent a car companies. Boost owns 13 old restored convertible VW Beetle.

The Escape Hunt Experience is a global entertainment franchise offering unique "escape the room" adventures all over the world. The brand has a global presence from Singapore to Sydney, Brussels to Bangkok and Lisbon to London. In Lisbon, it is increasing its awareness, with three rooms and two in construction. Each room has the capacity for a maximum of 5 people at the same time.

C. CHANNELS

Distribution channels describe the way Boost's products reach the clients and how they are integrated in the company's structure. For individuals, the store is the most important channel, therefore a privileged well studied location is essential. It is located in a busy street in Downtown Lisbon with a great influx of tourists to raise its visibility. There are also other critical channels such as online resellers, discount coupons (for instance "Odisseia"), the company's website, the local tour operators and street sales.

For groups and brands/sponsors, the contact with each client directly is fundamental to effectively sell the service. Whereas for groups the most relevant channels are the agencies, DMCs and direct sales force that contact directly with the customer, for Brands the main channels will be Media Agencies who communicate directly with them.

Reaching the clients faster and more efficiently than the competitors, making it easy for them to find the products and instantaneously buy the service may be translated into a competitive advantage.

D. CUSTOMER RELATIONSHIPS

This segment defines the connection between the company and its customer segment, and the way the company gets, keeps and grows customers. At the individual's level, the company invests in Google AdWords, in the social networks and in websites with promotions as MyGon. Boost also invests in a strong personal assistance and customer service, training its employees to be totally customer oriented. Considering the groups and brands segments, a close relation with the customer becomes even more crucial. It is fundamental to have one person responsible for managing this relation and continuously send customized proposals and promotions.

E. OPERATIONS

This dimension refers to the back office of the company. It involves the definition of the key resources, partners and activities which are vital for the company to guarantee the delivery of the value proposition to its customer segment.

The key resources consist of the most important assets needed to efficiently deliver the company products and services. For Boost, the fundamental resources are the products: the municipal licenses required for renting and for passengers' transport, the funds necessary to invest, the facilities (stores and warehouses) and human capital (creative architects and designers and logistics employees who assure daily operations).

The key partners are the external entities supporting Boost's operations: Strategic suppliers that will supply the company with a number of key resources; Hotels, hostels and other accommodation establishments which will help in the company promotion and may work as prescribers for its services; Local Tourism agencies and tour operators that can be promoters of the company; wineries, restaurants, surf schools, ONGs and other complementary operators that will allow the company to create exclusive tours; and Online platforms as Viator or Trip Advisor (critical for the promotion), word-of-mouth and customer's reviews. Many of Boost's tours have complementary activities which depend on other companies.

Finally, as a tour operator, the company's main activities involve the maintenance of the products, the public relations, the high capacity and Sales volume, the R&D (especially for Escape Hunt), the hospitality management and the Marketing efforts.

F. FINANCIALS

After analysing the opportunities and the potential it becomes paramount to dissect the figures, not only to corroborate this positive progression but also to warrant that the firm has the necessary funds to invest (see graphs in Appendix 1.7).

Capital Criativo SA, an important Portuguese venture capital fund, has just invested €1,000,000 this not only means no liquidity constrains but also enhances Boost growth potential.

According to Boost's financial statements, in 2014 its gross margin rose to, approximately, 60% which is high but in accord with the rest of the companies in this industry. The company´s EBITDA became positive in 2010 and expectations are that this upward trend will remain in the future, in 2015 sales grew 90%.

Sales have been growing steadily for the past years, from €31,500 in the first year of operations to €886,000 in 2014, according to the company's auditing report. The volume increased exponentially in 2014 mainly due to agencies and corporate customers. "Other activities" represented the highest profit contribution, these include events involving more than one product segment reinforcing the perks of providing several activities. In the future, the goal will be to gradually reduce the dependence from this segment, enlarging the number of individual customers probably through cross-selling.

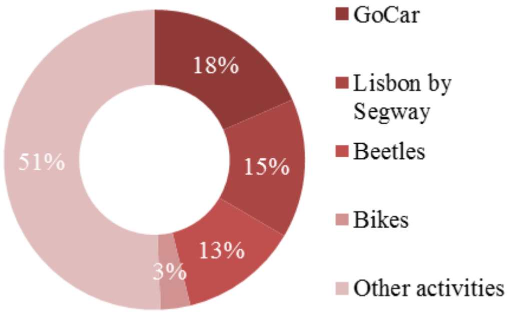


Figure 4: Groups 2014

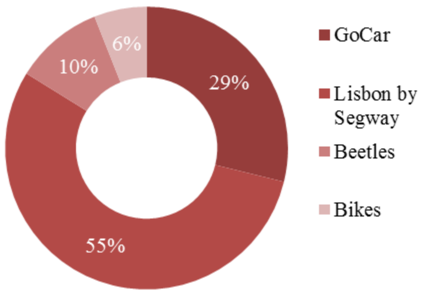


Figure 5: Individuals 2014

Regarding individual clients, in 2014 the most sought service was "Lisbon by Segway" followed by "GoCar". Tuk tuks were not part of the business at that time but in the end of 2015 the sales of this line of business amounted to €120,000, sustaining its profitability and consequent growth.

The firm forecasts show that sales will continue to soar substantially, corresponding to a compounded annual growth rate of 41% between 2008 and 2018. These forecasts were based on four main factors: growth strategies that the company will follow in the years to come, European crisis recovery, Portugal as the new trendy country for tourism and the rising concern with human capital which leads to more team building programs.

Regarding cost structure, naturally, as a services provider, the highest costs relate to payroll expenses and overhead costs. Hence, the costs needed to generate revenues must be paid regardless of how much the firm is selling, which means that Boost can easily suffer operating losses. On the other hand, in boom periods the costs will not increase that much, a firm with a fixed cost structure benefits from a cost leverage that will lead to higher profitability in expansion periods.

2.2.2. Key Success Factors

In light of the above, there are some key factors which are responsible for Boost's success and must be considered and maintained. The main points of distinction of Boost are the following:

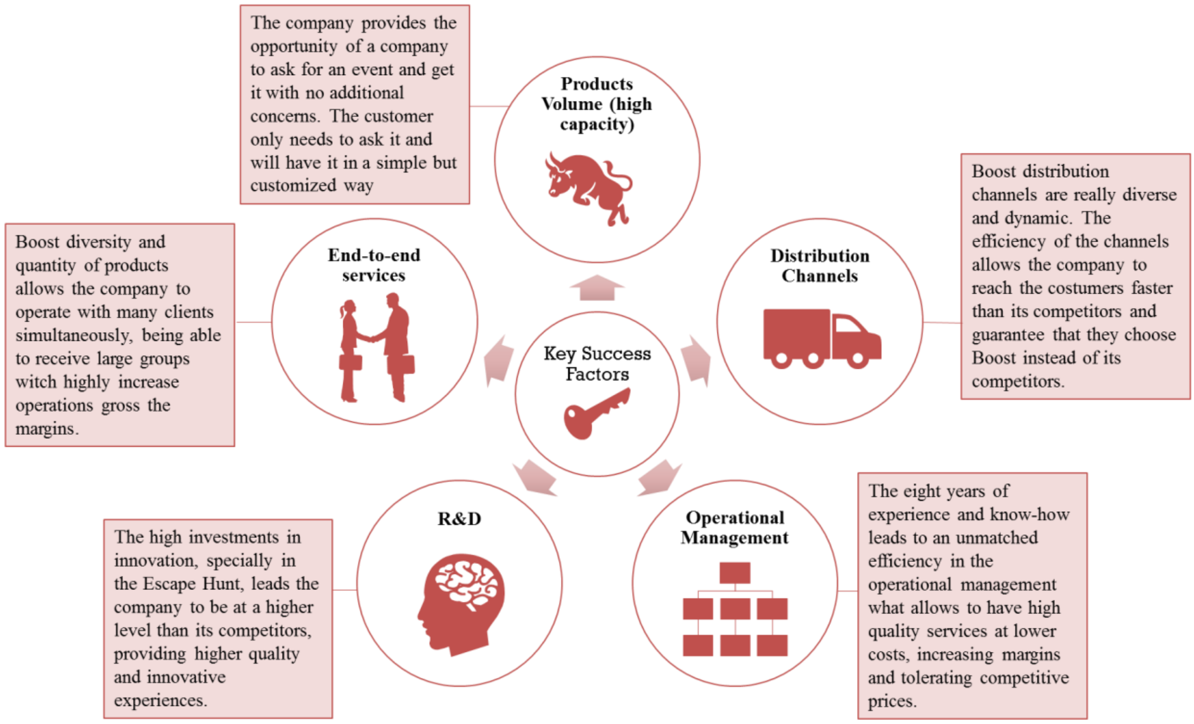


Figure 6: Key Success Factors (Source: Desk Research)

3. EXPANSION STRATEGIES

3.1. Literature Review

There are different-growth strategies that can be followed by a company. The organic growth strategy consists of growth accomplished by a firm "on its own", the firm uses existing strengths or resources as a weapon. A market-oriented approach may involve changing or improving marketing mix, in an attempt to attract new customers and retain the existing ones, as well as exploring new geographies. On the other hand, efficiency-oriented tactics imply new technologies, new operating systems, as a route to motivation and improvements at different levels of the supply chain. This growth strategy focuses attention on a company's core competencies and on the talent of its human capital, however, it may yield only a fraction of the company's potential.

"A properly executed external growth strategy can help you realize maximum growth potential at the right pace-particularly when internal growth opportunities are limited by financing or other constraints, or are not the best choice in terms of strategic opportunities or shareholder objectives.*"* (D. Lucky, 2007)

External growth should also be explored and it is normally achieved through mergers, acquisitions and strategic alliances. Despite sharing the same final objective with internal growth strategies, the maximization of shareholders' value, it involves new revenues, new talents, new assets, new capital and an opportunity to develop competencies and strengths. These tactics are generally quicker and, by adding new resources and knowledge, offer huge competitive advantages in an industry, such as easier financing, market share and economies of scales. Notwithstanding, some problems may arise: cultures may clash, synergies may fail to emerge, assets may be obsolete and managers may lose focus from internal development; so, it is critical for this strategy to be studied meticulously before being embraced.

3.2. STRATEGIES EXPLORED

In order to analyse Boost's future expansion strategies, the Ansoff's Growth Matrix (Igor Ansoff, 1957) was used as a strategic planning tool that provides a framework to map strategic product market growth according to four alternatives. In the next pages the strategies indicated in figure 7 will be analysed.

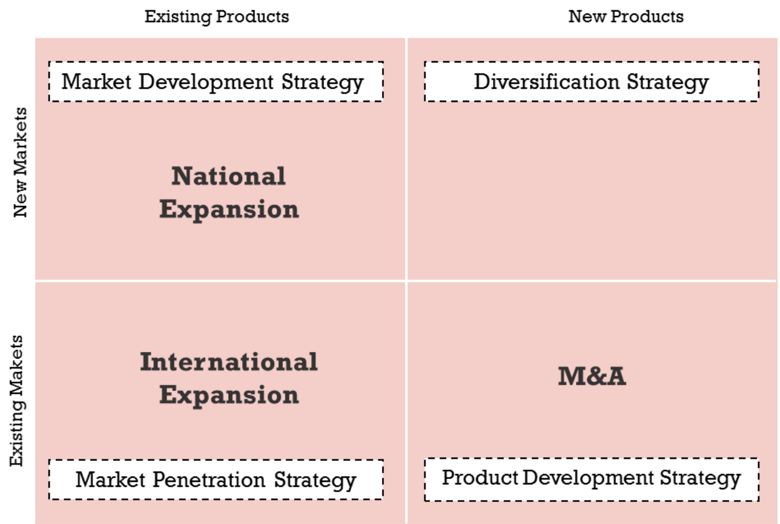


Figure 7: Ansoff Matrix Boost case (Source: Desk research)

3.3. STRATEGY I: M&A

The next chapter aims to analyse acquisitions as an engine for growth, answering the following questions:

1) Should Boost consider acquiring a particular competitor (Eco Tuk Tours)?
2) What acquisition structure is more suitable?
3) How much should Boost be willing to pay for the target company?

Before starting, just a quick note: as you go through this chapter several issues should be kept in mind: first, there is no perfect universally-accepted methodology for valuing long-term investments; second, the acknowledgement of our inability to predict the future with certainty leads to better decisions; and finally, valuation needs to be kept in perspective, different investors seek different opportunities and prioritize different value drivers.

3.3.1. CONTEXT AND METHODOLOGY

Acquisitions are used by companies at all levels as an instantaneous strategy to expand. The keyword that explains the rationale behind it is synergies, the whole is greater than the sum of the two parts. These days, it is a worldwide phenomenon in which companies look for a combination of products/services, people and pipelines that will not only add scale to its business but also take it to new levels.

An acquisition can be a source of competitive advantages but acquirers must have specific, well-thought value creation ideas and must take a disciplined approach in order to avoid the problems mentioned in chapter 3.1.

In Boost Portugal case, the challenge was to analyse the potential acquisition of Eco Tuk Tours. While trying to estimate a fair value for the target, some questions arose and, by perusing literature in search of answers, it became clear that these young private companies represent what A. Damodaran has metaphorically named the "dark side of valuation" where "paradigm shifts happen, new metrics are invented, the story dominates and the numbers lag" (Damodaran, 2000). So the idea emerged of designing a Simplifying Tool for Experts and Probationers - STEP for M&A - which takes into account the best practices and adjusts and complements them according to other elements that are not usually considered and are sources of value as well.

The methodology adopted (see Appendix 2.1) was based on a comprehensive study of the internal and external context and on the consultation of academic articles and papers as well as several technical books, as presented in the bibliography.

The two major sections were divided into three topics: a) a literature review on the existing models that were revised and incorporated; b) the explanation of the mechanics; and c) the analysis and application of the model to this case. In the end considerations are drawn regarding both the viability of this strategy and the generic application of the aforementioned tool.

3.3.2. The Eco Tuk Tours case

Starting from January 2017, due to legal constraints, only electrical tuk tuks will be permitted to circulate in Lisbon. Therefore, in order to be able to maintain this line of business and continue growing it, Boost needs to replace its gasoline-powered vehicles for electric-powered ones. The company faces two options: invest in assets or acquire a company already operating with this kind of vehicle.

Eco Tuk Tours, an early stage private company, is the Portuguese pioneer in the electrical tuk tuks' business, the only firm that has a 100% electrical fleet of 10 motorcycles, offering to its customers a cultural and ecological experience. Since last year, the founders want to exit the business so they are looking for a buyer and Boost was one of the approached firms.

"Valuing a company is always a mix of science and art, especially for start-ups" (Bill Aulet, 2014).

Given the essence of an initial stage firm and the specificities of this industry, it is crucial for a decision like this one to be based largely on strategic aspects rather than focused exclusively on the financial perspective.

Irrespective of the area of activity, young private companies, like Eco Tuk Tours, are opaque assets due to its characteristics: little or no history which means few data available, low predictability of cash flows, small or no revenues, low debt use with a majority of equity financing, difficult risk assessment, uncertain exit possibilities, low survivability, illiquid investments, most of them are not publicly listed and most transactions result from the relationships between founders/investors. Early stage ventures are about potential rather than hard assets and cash flows.

There are a myriad of theories on young companies' valuation but no single method is globally accepted and used. The selection of the best approach has to be tailored to each case as well as to each type of investor. For a financial investor the firm is seen as a stand-alone entity, its value comes from the risk-adjusted expected financial returns. On the other hand, for a strategic investor, there is always additional value, normally coming from synergies. Hence, a financial investor will typically place a lower value on a company than a strategic investor.

Bearing these daunting estimation challenges in mind and given that the acquiring firm is a strategic investor, the decision model was built involving one strategic part that drives the answer to the first raised question and one financial that responds both to the second and third one. STEP was then applied to this case.

Before starting the analysis of the target, the study of past acquisitions, is also relevant for the success of the integration. An understanding of what went wrong can avoid the problems that arose from it. Likewise, an acknowledgement of achievement drivers can serve as a role model. Last April, Boost invested in its first deal. "After a long process of screening and after some lost negotiations with other potential targets, we closed the deal with Red Tour, growing our business by adding one line of service, buggies, and expanding other, Segways." – Leonel Soares. Red Tour was a competitor that offered two main different services: buggy tours and Segway tours. The transaction consisted of the acquisition of the target's assets for €90,000 (estimated market value plus adjustments). According to Boost's founders, there were some positive synergies, the most beneficial was the substantial decrease in costs, approximately €25,000 per year, as the firm no longer needs to subcontract Segways to satisfy the demand. The rationale behind this decision was similar to the one being analysed here.

STEP FOR M&A

This model (see Appendix 2.2) is an interactive dynamic decision tool developed for M&A deals between public or private companies from different industries, sizes and life cycle stages. It consists of a framework divided into two major components, one strategic and one financial. While the first tries to analyse the suitability of the target according to distinct drivers, the second focuses on the estimation of the fair value.

There were two main goals behind the creation of this tool: 1) combine a financial perspective with other value drivers that usually are not quantifiable and may be just as relevant factors for the decision and make it as flexible as possible so that it can be applied to a big variety of firms; and 2) simplify, automate and summarize the decision making process, making it perceptible for everyone, from probationers to experts (as the acronym in the name evidences).

STRATEGIC SECTION

LITERATURE REVIEW

Literature suggests that there are three major approaches which take into consideration the peculiarities of young companies: (1) Berkus method; (2) Scorecard valuation methodology; and (3) Seven domains framework.

The Berkus method was first introduced in the mid-1990's by Dave Berkus, founder of Berkus Technology Ventures LLC. This method resides in the recognition of non-revenue components (idea, prototype, management team, strategic relationships and product rollout) as sources of value and advocates that companies with these attributes should worth more than those without. It relies on a qualitative assessment that corresponds to a monetary value (see Appendix 2.3).

The second approach, the Scorecard valuation methodology, was originally built in 2001 by Bill Payne and later expanded in 2010 to use in valuation of early stage companies. The model compares the target firm to other similar ventures in the same region that have recently been funded and adjusts the average value to estimate a pre-money value[3]. The adjustment is made by multiplying the weighted average score of the value drivers considered (strength of management team, size of the opportunity, product/technology, competitive environment, marketing/sales channels/partnerships, need for additional investment and other) by the average value of the comparables (see Appendix 2.3).

Finally, the Seven domains framework came into being when an entrepreneur, John Mullins, launched his widely acclaimed book *The New Business Road Test* in 2003. John argues that a new business venture can be divided into seven major domains responsible for its success. Four of the domains are concerned with the market and industry while the other three are related to the company/team that operates the business. At first, the framework seems to simply outline common and general knowledge about evaluating opportunities but upon close examination three usually overlooked and crucial distinctions fall into place: markets and industries are not the same thing, both macro and micro level considerations must be contemplated and the credits of a team may not be directly found on résumés (see Appendix 2.3).

Despite its significant contribution to young companies' valuation literature, the above-mentioned models one by one present some limitations. All of them clearly involve a degree of subjectivity and each one ignores significant factors which may lead to biased conclusions. They are seen as a complement to other analysis and in fact they complement each other. In an attempt to undermine some of these problems, these models were shaped together into the first integrant part of the designed tool.

[3] Value of a company or asset prior to an investment or financing

The STEP for M&A Framework: STRATEGIC PART

To appraise if a target's acquisition is a commendable choice, distinct aspects have to be taken into account, both micro and macro. To scrutinize these elements and materialize their influence on the decision, the strategic component was developed.

The value drivers were organized under three broad dimensions: internal, external and exposure, respectively. The first one includes the items related to the company's nature and procedures; the second one refers to the extrinsic conditions; and the last one regards other issues that may also have an impact. Then, for each dimension two sub-groups were defined: company and marketing, market/industry and macro environment, and upside potential and downside risks. The key ingredients that form each group resulted from the combination of the three literary models together with four other academic papers[4]. Later, they were validated in an interview with Boost' founders, Leonel Soares and João Mendes, and in discussions with other stakeholders associated with the world of entrepreneurship and venture capital. Since adaptation for specific conditions is key, for each group there is a space for an additional customizable variable, if needed.

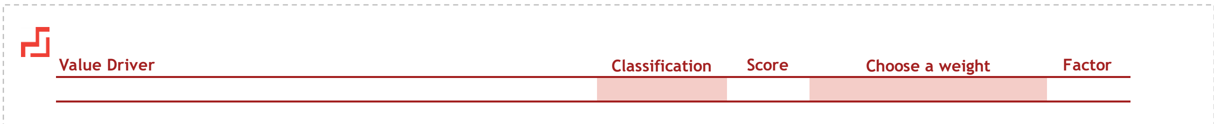


Figure 8: Excerpt from STEP for M&A strategic section

To run this part of the program, as figure 8 illustrates, the appraiser classifies and assigns a weight to each value driver, automatically generating a weighted average score.

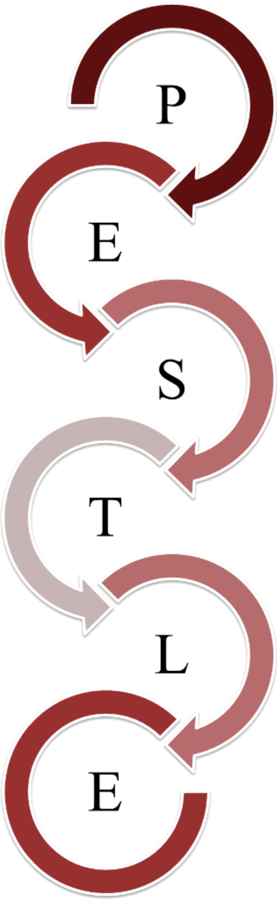
Analysis and Application

A business valuation process starts with an analysis of both macro situation and industry and market conditions (see Appendix 2.4 for the corresponding model application).

[4] See Appendix 2.3 for a table making the correspondence between the variables chosen and the papers used

- External analysis: Macro environment

For the macro contextualization, the approach adopted was PESTLE framework, a strategic analytical tool useful for environmental scanning which breaks this context into six factors, as the acronym stands for: political, economic, social, technological, legal and environmental. The figure below describes its application to this case.



Portugal lives unstable political times, with a left coalition majority government formed against the right parties coalition that won the elections without majority, and a presidential election in January that will play a fundamental role in the next months stability.

Portugal, after a profound financial crisis, exit its bailout programme in May 2014 and has been going through a cyclical upturn, keeping pace with the global trend. Real GDP this year is projected to expand 1.5%, mostly due to the increase of private consumption, and forecasts suggest that this positive cycle will continue, slightly slowing down from 2017 onwards. The near-term, as aforesaid, will be shaped by the government's measures to bring sovereign debt levels under control.

People are starting to care more and more about culture and social life and companies are encouraging this by promoting team building activities. Also traveling is becoming part of the life style of a huge percentage of world population. Finally, Portuguese demographics are aligned with the rest of Europe's, according to Index Mundi, the 25-54 age group is the largest one. Population is getting older but for firms that have this group as the target segment, like Boost, this situation turns out to be positive.

Technology has been revolutionizing traditional production and selling systems. This goes beyond the technological development of products, there has been a shift towards online transactions and online advertisement. Currently the competitiveness of a business relies significantly on the capacity of accompanying this trend, although the degree of dependence varies from industry to industry.

The legal insight turns out to be vital to consider as the volatile core activity of the target company will suffer a huge transformation consequence of the introduction of regulatory rules and procedures. Lisbon's city council has announced that, besides the prohibition of fuel tuk tuks, operating hours are limited (9am-9pm), they are not allowed into the old historical areas of the city and they have designated places to park. This poses a risk to the sustainability of the business as there won't be space for everybody in the market.

Everyone is going green, both governments and consumers are becoming increasingly health-conscious and waste disposal and pollution are two of the major topics. For businesses in which the weather has impact, Portugal in general and Lisbon in particular offer perfect conditions.

Figure 9: PESTLE analysis (Source: Desk research)

It should be noted that the macro atmosphere needs to be adapted to an industry and company's scale and features. For a young firm operating in a market niche, a broader outlook makes little sense, world macro environment influence is limited when compared to large firms.

- External analysis: Industry and market overview

Both the supply and the demand for touristic activities have been growing in line with tourism global trend, as analysed in chapter 2.1.

A tuk tuk (see Appendix 2.4), also known as auto rickshaw, is a three-wheeled motorized vehicle. It first appeared in Italy as a cheap way to reconstruct urban transports system after the devastation of the Second World War only to become popular in Asia and Africa due to its price, size and easy manoeuvrability. Nowadays these means of transport are also used for sightseeing tours and for advertising purposes all over the world.

In Lisbon the first company in this business, Tuk Tuk Lisboa, was founded in 2012: "The first time I saw a tuk tuk I almost instantaneously associated it to our streets, to the fact that Lisbon is a city with seven hills and narrow streets and that it deserved a project like this to create a different perspective" (Paulo Oliveira, founder of Tuk Tuk Lisboa). In the last three years the market boomed and now there are around 300 tuk tuks in the Portuguese capital, belonging to more than ten companies and unreckonable private investors, nevertheless according to some players this activity is starting to stall.

As this is still a non-regulated market, it is very difficult to quantify. In an attempt to compile the most accurate estimates, a survey (see Appendix 2.4) was conducted on a sample of 30 tuk tuk drivers. In addition, answers regarding prices and number of tuk tuks per company were confirmed by a simulation of an event booking. The results confirmed the market dimension and its recent surge and showed that prices charged by the players are the same, differences come only from the existing margin for negotiating.

As a complementary instrument to assess the size of the opportunity TAM (total available market), SAM (served available market) and SOM (serviceable obtainable market) were computed following a bottom up approach that, in contrast to top down which is more applicable to world scalable companies, is more conservative and applicable to typically local businesses. TAM corresponds to the total market demand for a product or service, the combined revenues of all companies in the sector. SAM refers to the share of TAM that a specific solution can fulfil within a geographical reach. SOM expresses the percentage of SAM a particular company currently serves.

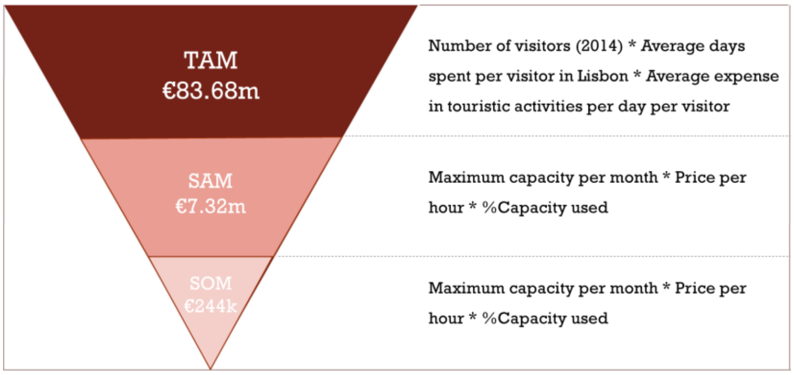


Figure 10: TAM, SAM & SOM analysis (Source: Desk research)

TAM calculations were based on data for the year of 2014 provided by Turismo de Lisboa[5]. According to the results of the questionnaires, the months between June and September correspond to the high season and the remaining to the low season. As expected, numbers are unequal for these two periods: during the warm months the drivers work on average 9h, full capacity and each one sells around 4 tours per day (average tour=1h) while in the remaining months they work around 6h, 50% of the capacity (only half of the tuk tuks working) and sell about 1 tour per day. First of all, to estimate the maximum capacity per tuk tuk it was assumed that of the 12h per day of operation permitted by the government, 8h of tours is the upper limit given the time between tours and the breaks. Considering an average of 30 days per month and the resources restraints (number of tuk tuks), the maximum capacity of the market is 72,000h per month while Eco Tuk Tour's is 2,400h per month. The capacity used in high season is 50% (4h/8h) while in low season is 6.25% (50%*1h/8h). By multiplying these percentages by the maximum capacity, the corresponding number of months and the price, which is €40.65[6], the result is the total annual revenues for the market and for the seller. These figures, summarized in figure 10 and explained in more detail in Appendix 2.4, although not very accurate, show the potential market that can still be explored, substantiating the investment.

Following the same line of thought and in order to understand if this unexplored potential is reachable, another survey (see Appendix 2.4) was conducted in downtown Lisbon on a sample

[5] Touristic activities include expenses in tours, rentals, tickets, cultural experiences
[6] 50 € VAT included

of 60 consumers, 37 tourists and 23 residents, to evaluate the "real image" of the business, the level of acceptance and attractiveness. The results foster the continuation of this activity. However, what tourists want and what residents need is not always the same, some residents have been complaining about the noise and pollution and taxi drivers see this invasion as disruptive and unfair competition. This dispute led Dr. Fernando Medina, president of the city council, to institute some rules for this activity: "Running a city is about managing conflicts and finding the right balance between a good tourism service and the rights of the people who work and live in this city".

Notwithstanding, this is a highly cyclical, seasonal and trendy service. As it is a superfluous need it leans highly on the level of prosperity of economy. Similarly, being an outdoor activity it is more solicited in the warm months, as the survey demonstrated. At last, given the current upward trend in the industry the market is always receiving new players with new ideas for entertainment causing the hotness of each service to be temporary.

For a deeper understanding of the industry, Porter's Five Forces Model was applied. This analysis was already presented in chapter 2.1.3, the only particular aspect worth mention here concerns the power of suppliers: as these are electrical motorcycles they are not dependent on suppliers for daily operations, the central suppliers are the sellers of the vehicles and its spare parts (power chargers, batteries). At the moment there is only one specialized and skilled manufacturer in Europe, Tuk Tuk Factory, so there is a monopoly and if the prices change there will be a value transfer from the business operators to the product provider, the price maker.

INTERNAL ANALYSIS[7]: COMPANY

Even though the firm doesn't have patents and the assets are not new, this target goes in accordance with the acquirer's strategic goals as: the sales team and staff are experienced, reducing the operational risk; the assets are well-maintained and in this business customers care

[7] See Appendix 2.5 for corresponding model application

about novelty and originality, not about the age of the assets; the brand image is well positioned both in trip advisor and in google; the seller has some partnerships that can be explored; the loyalty in this business is more on a word-of-mouth basis so the customer portfolio is linked to the reputation which is strong; the market share is around 3% so it is not that significant to call it consolidation, nonetheless it means one less competitor, an increasing market share for Boost, that will become the third largest operator, and a fleet of 20 vehicles which conforming to historical numbers matches the maximum capacity needed and will be of great value mainly for the corporate segment by cutting the expenses with outsourcing; acquiring a company that operates in the market for three years now avoids all the expenses and time spent in the assembling process. Additionally, as previously observed, there is only one producer and the prices have been increasing in the past months so, by buying this firm, Boost avoids the expensive prices practiced by the suppliers, the investment in dubious second-handed products and it minimizes the pre-processing lead time[8].

INTERNAL ANALYSIS: MARKETING MIX

"Marketing mix consists of the set of controllable tools that the firm blends to produce the response it wants in the target market, so it consists of everything the firm can do to influence the demand for its product." (Kotler and Armstrong, 2004)

It represents an elementary step towards effective strategy as it comprises the four pillars on which the marketing success of an organization stands. Figure 11 summarizes its application to this case, it should be noted that in terms of placement there are still some segments to explore and it can be done through alternative promotion actions and differentiating channels.

[8] Amount of time it takes to have the required resources to fill an order from the market

Figure 11: Marketing Mix analysis (Source: Desk research)

EXPOSURE ANALYSIS[9]: DOWNSIDE RISKS

The company being studied is not publicly traded so it is difficult to liquidate the position (high liquidity risk) and the investment is riskier than in a publicly traded firm (high unquoted investment risk). As this acquisition was agreed with Capital Criativo, it will not strain their investment (low capital risk). As mentioned above, the sector is just starting to be regulated (high regulatory risk). This industry is completely unregulated and companies don't meet their tax obligations by not reporting everything, if this suspected tax evasion and avoidance is confirmed the losses may be drastic. Also, the appraiser benefits from a license that lowers its VAT rate from 23% to 6%, these circumstances may change thereby damaging the business' profitability and sustainability (high tax risk). Valuation risk comes from the not so objective part of valuation and the lack of credible disclosed information (high valuation risk). Additionally, the seller's employees' salary is lower than that of the acquirer's employees and by joining the teams it may cause conflicts (low agency risk). The competition for finding reasonably-priced investments is low (low competitive environment risk). Lastly, as Boost is not diversifying diversification risk is not applicable and the same holds for market risk which includes long term changes in interest rates, exchange rates and other market risks.

[9] See Appendix 2.6 for corresponding model application

Exposure analysis: Upside Potential

When entering into a business the planning of an exit strategy is critical, yet it is generally overlooked. A clever exit strategy that suits the characteristics of the business and market improves the probability of success. It may happen that things do not go as the investor expected or that the investor simply finds another opportunity and wants to sell, either way, preparing an exit strategy in advance is half the battle. The higher the number of exit strategies compatible with an investment, the more appealing the business becomes as it ultimately symbolizes liquidity. Similarly, the possibility of a follow-on investment or a strategic alliance boosts the potential and value of a business.

In this case, Boost is one of the largest competitors in the industry, there are few others with the size required to be a party in a similar deal so the probability of a horizontal integration is low. Also given the dimension and the characteristics of this business the chances of a vertical integration and an IPO are very low. On the other hand, this is an asset-based activity where fixed assets never have zero market value, so the liquidation potential is relatively high. Financial investors (venture capital, private equity) given its essence, may be interested in this business if it keeps on growing. Finally the potential for both a strategic alliance and a follow on investment, in this case from Capital Criativo S.A, is high.

Summing up this extensive study, as figures 12 exhibits, from a strategic perspective the acquisition of Eco Tuk Tours is favourable, being consistent with the firm's goals (see Appendix 2.7 for graphs like figure 13 for each group of variables).

STRATEGIC OUTPUT			
Dimension	Weight	Classification	Factor
External	60%		1.32
Market and Industry	30%	favourable	0.62
Macro Environment	30%	favourable	0.71
Internal	30%		0.73
Company	20%	favourable	0.51
Marketing Mix	10%	favourable	0.22
Exposure	10%		0.14
Downside Risks	5%	neutral	0.06
Upside Potential	5%	neutral	0.08
Final Score	2.19	favourable	Proceed to the financial valuation

Figure 13: Output of the strategic part of the model

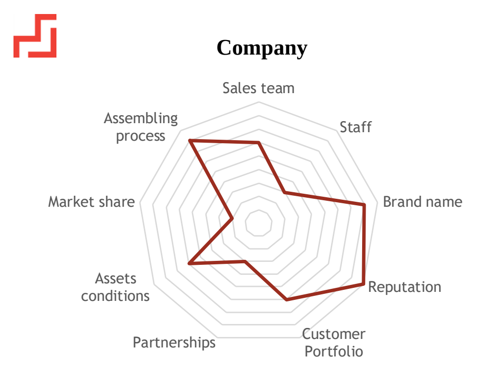


Figure 13: Illustrative graph of company dimension

Financial Section

Literature Review

Valuation is the process of estimating the economic value of a business or company. The topic is covered by academics and practitioners. Literature proposes three prevailing approaches (see Appendix 2.8): 1) Discounted cash flows (DCF); 2) Relative valuation; and 3) Cost approach.

The DCF method relies on the forecast of the expected annual post-tax free cash flows which are then discounted at a rate that reflects the investors' required return to arrive at a present value of the income stream. Within this generic approach it is possible to value debt and equity separately or the firm as a whole, but in the case of a private company the second approach is simplest as it avoids the problem of determining debt and equity rates of return. The free cash flow measures the cash available to secure financing after all operating expenses, taxes, and necessary investments in working capital and property, plant and equipment are paid. While it is the most theoretically correct and it is fundamentals-driven, it fails to consider market perceptions, can be long and arduous and is highly sensitive to the inputs, like the hurdle rate and growth rate used to find a proper terminal value (from now on TV)[10].

Relative valuation's underlying principle is to estimate value by looking at comparables thus giving a pretty good indication of the price the market is willing to pay. It comprehends two approaches: trading multiples and precedent transactions. Multiples are based on public information from traded companies. Here, the value comes from the market price of companies engaged in similar business activities and that share similar risk-return characteristics. Likewise, recent transactions concerning similar or equal assets may provide a good indication for value (Caselli & Gatti, 2004). Both approaches, though quick and straightforward, do not capture true intrinsic value and are easy to manipulate. Sound judgement should drive its use.

[10] The anticipated value of a company on a certain date in the future

The third methodology assesses the cost of recreating the business from scratch. Two methods were considered: reproduction cost which takes into account the book value of all the assets needed to start a replica of the business and adjusted book value which analyses the market value of a company's assets to determine the company's value. Being bottom-up methods, the quality depends on how the value of the whole relates to the sum of the parts. Although the cost approach may provide a reasonable estimate and can be useful as a "sanity check" for other valuation methods, it fails to account for the future, rather it is based on the past.

THE STEP FOR M&A FRAMEWORK: FINANCIAL PART

This part of the model entails two steps:

To begin with, the appraiser should understand which deal structure suits him better. For that purpose, he needs to go through a shorten list of questions, selecting an option and assigning a weight according to the relevance of each item for the case. A recommendation is then automatically engendered.

The second step concerns the valuation itself. By filling the inputs tab (see Appendix 2.9), the enterprise value will be automatically computed in accordance with each valuation method and the infamous football field graph[11] is generated. Financial score valuation comes from a comparison of valuation results with the ask price[12].

ANALYSIS AND APPLICATION

Once the motives for the acquisition are set, the strategic analysis is performed and the answer to the first question is affirmative, a more numerical perspective is in order.

ACQUISITION STRUCTURE

In a merger or acquisition, the appropriate value is determined not only by the way the acquirer will operate the business but also by the acquisition structure. An acquisition structure refers to

[11] A graph that shows a company's implied value across different methodologies and assumptions
[12] The lowest price a seller is willing to accept

the overall framework of the transaction. There are two main formats: assets purchase and stock/company's acquisition. While the first involves buying specified assets from an entity, which may or may not encompass all of its assets and the assumption of specified liabilities, the second implies buying the complete business entity (inclusive of future liabilities), the target company remains intact but with new ownership.

To come to a decision about whether to buy the assets or the company as a whole, some issues ought to be contemplated. As a general rule, it will be in the seller's best interest to sell the firm but in the buyer's best interest to purchase the assets. On that account, different considerations have to be discerned, some are restrictive immediately excluding one option, some are specific to the business or the corporate goals and others are more general in nature. Assuming both proposed structures are viable, the choice will be depend entirely on the circumstances.

Prior to any calculations, a brief internal-focused financial due diligence (DD) was conducted, in accord with the list of considerations from accounting tools website[13], and the irregularities found were discussed and clarified with the entity's founders. Since Boost already operates tuk tuks, a comparison was made as well: even though the seller receives government grants, the cost structure is similar and differences in revenues come from the brand and experience in the market (due to confidentiality constraints firm's financial statements are not presented). Apart from tax risk, no other legal issues were detected.

The succinct DD along with the contact with people that work in the field and a deeper knowledge of the market indicated some tax anomalies and as tax authorities are already investigating the major player in the field, buying the company poses a colossal risk. This risk is not quantifiable provided that once the authorities prove tax evasion in respect of one competitor, they will probably investigate the others and if breaches are found they can tax the companies through indirect methods assuming values that might be wrong but would be very

[13] http://www.accountingtools.com/due-diligence-checklist

hard to contest given the credibility loss. Although there are some ways to circumvent this (e.g. in the selling purchase agreement or by discounting the price), the recommendable structure is the assets purchase (figure 14). This deal creates new tax basis but it cannot impact fair value.

Fill in the light red cells and then click to proceed

Drivers to be considered	Answer	Structure	Weight
Are there any significant tax risks?	yes	1.00	70%
Are there any other relevant risky liabilities?	no	0.00	0%
Are there any governmental permits or other agreements not transferable with the assets?	no	0.00	0%
If there are relevant synergies, do they come from the assets or the company?	assets	1.00	10%
Are there any tax benefits arising from buying the assets or the company?	assets	1.00	5%
Company prestige/notoriety: Relationship with the market	positive	1.00	15%
Reputation/Credibility: Financial institutions, suppliers, partners	positive	2.00	0%
Process quickness and complexity	relevant	2.00	0%
Is the stock widely held and the company is not publicly traded?	no	0.00	0%
Are there any kind of interesting incentives attributed to the company?	yes	2.00	0%
Weighted average			1.00
Recommended structure	Assets Purchase		Proceed to valuation

Figure 14: Acquisition structure guide table

VALUATION

Valuing a company is intellectually challenging, it requires not only a thorough understanding of economic and financial principles, but also a deep understanding of the company, its accounting conventions, the industry and the economic environment at the time of the appraisal. Generally, there are three distinct sources of value that can be used in the estimation of fair price for a company: current financial statements (a data record of the recent reported financial indicators), historical information (numbers that help understanding the cyclicality and past performance) and peer groups' data (financials from other public similar companies). The assessment of the three approaches described in literature review is meant to cover these points.

As Damodaran recalls, a thorough company's evaluation has to be based on more than one method.

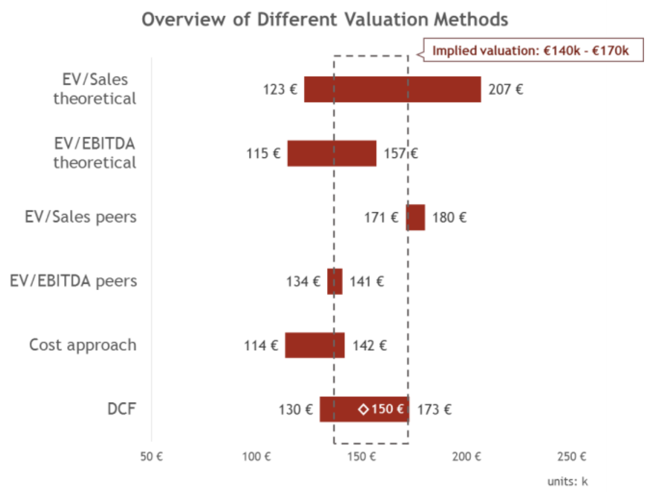


Figure 15: Football field graph for Eco Tuk Tours

Eco Tuk Tours is a small private company operating in a volatile sector so determining an accurate value becomes harder, however decisions must be made.

Finding the intrinsic value (DCF) of a private company is a tricky task which involves calculations and assumptions based on industry and company statistics. Given the industry life cycle stage and the future uncertainties, a relatively conservative stance was adopted. The main assumptions can be found in Appendix 2.10 but it should be highlighted that: 1) in compliance with this stance, TV forecast was assumed to be the liquidation value; 2) due to lack of rigorous and trustworthy data SOM value was used as sales for 2015 and the discount rate estimation was given by the required number of years to recover the investment (see Appendix 2.10).

Secondly, since there are no publicly traded competitors nor information about competitors' recent transactions, relative valuation becomes very difficult. However, as a guideline, two multiples were computed. The chosen ratios (EV[14]/EBITDA - most commonly used - and EV/Sales) were EV multiples as these allow for comparison of different firms, are normally less influenced by accounting differences and are proper for the deal structure. For the peer group, car rental companies were used as the most comparable business and a size and liquidity discount were applied (see Appendix 2.11). Also, theoretical average ranges were regarded and just out of curiosity, an online business value calculator was used (see Appendix 2.12). Regarding reproduction cost and adjusted book value methods, as expected, these yielded the

[14] Enterprise value

lowest values and were used as a valuation floor since typically companies have greater value as a going concern than they would if liquidated (see details in Appendix 2.13).

These values don't consider the value of synergies resulting mainly from the subcontracting expenses that won't be needed anymore (€25,000) and other gains associated with this transaction such as the improved net profits due to the lower VAT rate and the increased growth through greater negotiating power with distribution channels. By including these numbers in the forecast, the walkaway price (maximum possible bid price) can be determined.

"The appropriate framework is free cash flow valuation. The value of a company depends on the free cash flow it is expected to generate in the future and which is available to distribute to investors." (Higson & Briginshaw 2000)

To obtain a ballpark valuation all the methodologies were combined and, taking into account the synergies and the DCF's results as the most precise, the implied valuation range was designated, as marked in figure 15.

Still, the model presents some caveats that must be recognized: garbage in garbage out, the output is totally dependent on the scepticism applied to inputs; it ignores the fact that one value that is currently 0 may be positive or negative in the future; it ignores the possible gains from the financing of the deal which can affect the decision (but never the valuation); discount rate assumed to be the same for every year of the projection period; equivocal comparability of the peers selected; and finally, as every theoretical valuation is fallible as it relies on future perspectives and forecasts.

3.3.3. Recommendations and conclusions

At this point every question raised in the beginning of the chapter was answered: strategically Boost should consider acquiring Eco Tuk Tours through an asset purchase for a price between €140,000 and €170,000; but what should the final decision be? The final decision algorithm is given by a weighted average of the strategic and financial scores. After assigning a weight of

70% to strategic component and 30% to financial, target's closing score yielded 2.13/3 meaning that this transaction satisfies Boost's best financial and strategic interests.

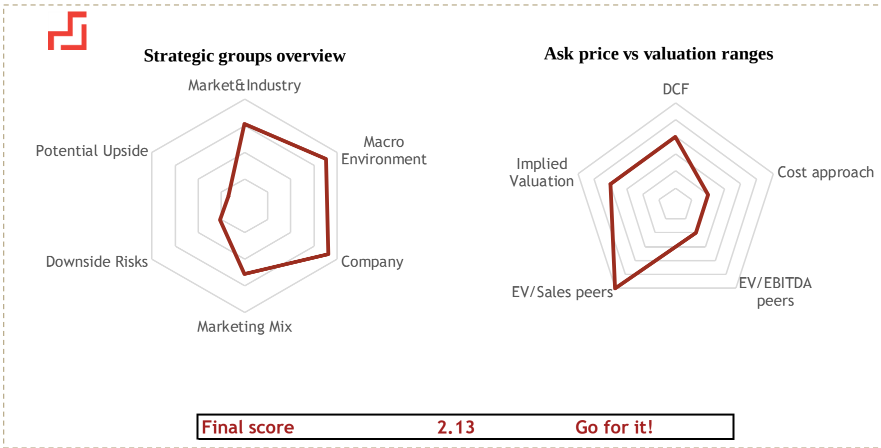


Figure 16: Final Dashboard - Recommendation

The other option would be to buy tuk tuks, the investment would range between €80,000 and €200,000 depending on its age but strategically the acquirer would not have the benefits of a well-established brand nor any other advantages depicted above and given Boost's vision those benefits have a key influence so the first option should be favoured.

Beyond the academic background and the deep study of the sector and the target company, the highlight of this chapter is the extremely practical excel tool developed and applied, STEP for M&A. The model described tries to simplify the decision process while covering every important detail. The most powerful attributes are as follows: 1) it is a combined approach with two large building blocks, one strategic that converts non quantifiable issues into value and one financial that compiles the best practices to estimate value; 2) it is dynamic and flexible, thus better fitting the risky essence of every kind of business; 3) it is easy to use for everyone with or without a degree in finance as it is full of hints, explanations and instructions (see Appendix 2.14); and 4) it helps structure the study and can serve as a checklist for the relevant considerations.

In the future the goal is to continuously adjust it increasing its applicability to different cases and add a valuation methodology that can be very useful for small private companies, the real options.

3.4. STRATEGY II: NATIONAL EXPANSION

3.4.1. INTRODUCTION

To set up any new location abroad, it is vital to conduct a precise analysis of local conditions, cross-referencing them with the company's own skills and plans (Eberhard Abele *et al.*, 2008). The second development proposal involves geographic extension. When the founders thought about expanding at a national level, Oporto came up as a promising bet. The city is the second biggest urban area in Portugal, its popularity as a tourism destination is increasing, it has lately been in the top world and European rankings and has been receiving a number of awards[15]. In order to study the potential of the city, this chapter aims to answer to the following questions[16]:

1) How promising is Oporto's Market compared with Lisbon's?
2) Which is the most adequate Strategy for Boost to enter Oporto's market?
3) How should the company implement the Strategy?

3.4.2. DESTINATION ANALYSIS

A. OPORTO OVERVIEW

Located in the north of the Portugal, the city is the capital of the Oporto District and is the most important industrialized urban area in the north region. In order to evaluate Oporto's potential, it was built a model where some key dimensions are compared with Lisbon. This framework, named Key Factors for Destination Analysis (KFDA), is designed in the following table[17]:

Table 1: Key Factors of Destination Analysis (Source: Desk research)

KFDA	Lisbon	Oporto	Comment
Geography and Demography			
Area of City	100.1	41.4	Oporto is 58.77 smaller than Lisbon
Residents	520,549	224,894	The number of residents in Oporto is approximately 57% less than the number of residents in Lisbon. The population is decreasing in both cities.
Gender Distribution	M:46% F: 54%	M: 45% F: 55%	In relation to gender, the population is almost perfectly distributed (2014) in both cities.

[15] http://www.jornaldenegocios.pt/empresas/detalhe/Oporto_eleito_melhor_destino_europeu_2014.html
[16] For Methodology see Appendix 3.1
[17] Source: Pordata

Age Structure	[0-29]: 27% [30-59]: 39% [+60]: 34%	[0-29]: 26% [30-59]: 40% [+60]: 34%	Most of the population is over than 30 years old (74%) which reflects the population ageing problem.
Income and Employment			
Monthly Average Wage	€ 1,383.60	€ 1,074.20	The level of income in Oporto is around 22% lower than in Lisbon.
Employment	11%	16%	The unemployment is decreasing with the economic recovery since 2013 in Portugal in general.
Weather			
Days Without rain	256 days	213 days	On average, in the last 5 years, Oporto had 42 days of rain more than Lisbon.
Average Temperature	17.7 ºC	15.6 ºC	Situated in the North of the country, Oporto is colder than Lisbon (average of the last 5 years).
Companies			
# Companies	114,510	64,626	In 2014, the number of non-financial companies in Oporto was around 44% less than in Lisbon.
Tourism			
Total Visitors	3,086,589	1,047,747	In 2013, the number of visitors in Oporto was around 34% less than Lisbon's.
Total Foreign tourists	819,777	691,243	Considering the foreign visitors, Oporto received 16% less foreign visitors than Lisbon in 2013.
Seasonality	June - September	June - September	The months with higher number of Tourists in Oporto and Lisbon are the same: between June and September (the summer).

The comparison between Lisbon and Oporto's geographical area, number of residents and age distribution suggests that the local demand should be narrower, since Oporto is smaller and has fewer residents. The weather of the city is colder and there are more days with rain than in Lisbon what can negatively influence the demand, especially in outdoor activities where good weather conditions are decisive. Considering the number of visitors Oporto received around less 34% tourists than Lisbon, however when studying the nationality of visitors, it is interesting to observe that most of Lisbon guests were Portuguese (73%) whether in Oporto the majority were foreign visitors (66%). Doing the math, even if Oporto had less 2,038,842 guests than Lisbon, it only had less 128,534 foreign visitors, which means that Oporto's foreign tourists market is only 16% less than Lisbon's. Since foreign tourists are the main target for Boost, this fact has a huge weight when measuring the potential of Oporto. Most of the visitors prefer the summer season and the months with higher affluence are June, July, August and September.

It is also curious to compare some of the variables per square meter. The number of residents, the number of companies and the number of foreign visitors, when divided by the number of square meters of the relevant city, provide interesting results. Oporto has 232 residents, 417 companies and 8507 foreign visitors per square meter more than Lisbon, which means that there is a lower dispersion in Oporto that may facilitate access to the potential customers.

B. INDUSTRY ANALYSIS IN OPORTO

The industry of tourist entertainment has a huge potential in Oporto, especially when looking at growing number of tourists that visit the city in the past years. Following the Porter five forces analysis built for Boost in Lisbon (see topic 2.1.3), in Oporto the situation does not vary dramatically given the similarities observed. The purchasing power of customers is exactly the same as in Lisbon, high for the agencies, medium for the individuals and low for the brands. The bargaining power of suppliers is on average, medium. It is high in some products as GoCar and low in others as e-bikes. The threat of substitutes is medium since there are always new, more developed and innovative products. The threat of new entrants, mainly at the same scale as Boost, is medium/high due to the complexity of the logistics, the economies of scale and learning and the high investments required. Finally, considering the previously dimensions' analysis, the competitive rivalry is also high since there are many and strong operators.

The number of players in the market is lower than in Lisbon but the market is smaller as well, calling for a more profound analysis before rushing to conclusions.

Table 2: Oporto's Boost Competitors (Source: Desk research)

Competition	GoCar	Segway	Tuk tuk	Bike	Scooters	Buggies	Vintage Cars	Escape Game	Corporate Events
# of Competitors	0	2	3	10	5	0	1	2	5
Strength	N/A	Fierce	N/A	Fierce	Medium	N/A	Low	Fierce	Medium

When analysing the table (and consulting the Appendix 3.2), it becomes clear that there is a complete lack of GoCars and buggies in Oporto's market. As for Tuk tuks, there are two big operators in the market – Tuktour and Tucking People. Inside tours also sells Tuk tuk tours but uses Tucking People' Tuk Tuks. Only Tuktour has Electric Tuk tuks.

Regarding the Segways market, only Blue Dragon has Segways and the other operators who sell this service, as Inside tours, use Blue Dragon's products.

There are many bike operators: around ten companies rent bikes and bike tours. Blue Dragon controls two of them and also works with Inside Tours. There are three companies that provide electric bikes: L&L, North Road and Fold'n Visit. As for motorcycles which can compete with GoCars, there are some important competitors. There are four main competitors in motorcycles: Vieguini, North Ride and Rental motorbike, which rent scooters and other motorcycles, Oporto Share which rent *Vespas,* and Side Ride, which rent side car tours.

Regarding classic cars that can substitute Boost's Beetles, there is Classic Oporto, which rent classic automobiles for private tours and events. This company charges premium prices, around 5 times above the prices charged by Boost Lisbon when renting Beetles.

Finally, there are two escape games in Oporto: Oporto exit game and Oporto Escape Challenges. The concept is similar to the Escape Hunt but the demand is much lower.

Studying Boost customers' profile, it is also important to consider competitors that, even though not offering the same services, offer different activities that satisfy the same needs. Oporto is surrounded by amazing landscapes and geographical conditions that invite outdoor and adventurous activities. There are many companies who organize tours and offer these activities to both, private tours and corporate events and team buildings. Activities like rafting, canoeing, trekking, surf, waterfall, paintball, slide, rappel or climbing are really attractive to these customers. There are five big competitors at the corporate level. Inside Tours and Blue Dragon have a similar business model than Boost's, even though they don't provide the same diversity of products.

Oporto Adventures, Cooltour Oporto and Latitude 41 also organize team buildings and other events but their activities are more directed at extreme sports and activities as slide, rappel, rafting and paintball.

3.4.3. Strategy

After collecting and examining all the available information, it was possible to better understand how the variables that will affect the performance of the company in Oporto will behave and define a strategy for Boost's entrance in the city. Checking the Oporto's Business Model Canvas (see Appendix 3.3), it is possible to have a clear picture of this strategy as a whole.

A. Customer segments

When moving to Oporto, who will be the customers? How will these customers evolve in the following years? Are there enough potential clients in Oporto to justify the entry of Boost? As previously defined, Boost has three main types of customers. These three clients' categories should be studied separately.

Oporto's tourists profile was analysed based on quarterly studies made by IPDT (Instituto de Planeamento e Desenvolvimento de Turismo) in partnership with ERTPNP (Entidade Regional do Turismo do Oporto e Norte de Portugal) and the "Sá Carneiro" airport for the years 2014 and 2015. The percentages presented are relative to the third quarter of 2015, once it is the most recent report available.

Table 3: Oporto's tourist profile (Source: Desk research)

Segments	Tourist Characteristics	Visit characteristics

Vacations & Leisure - 39%
• Short break – 22%
• Gastronomy & Wine – 16%
• Touring – 12,3%
• Relax and rest – 12,3%
Visit family & friends – 38%
Business motives – 23%
• Business meeting – 42%
• Sales or other services – 28%
• Conferences/congresses– 17%
• Fairs – 13%
	Age
	• [0;25]: 13%
	• [25;50]: 62%
	• [+50]: 25%
	Marital status
	• Married or in Civil union – 69%
	• Single –23%
	• Other – 8%
	Travel Partners
	• Alone – 25%
	• Accompanied – 75%
	  • By a partner – 47%
	  • By family – 32%
	  • Friends – 8%
	  • By a business colleague – 13%
		Planed the travel:
		• Through the internet – 32%
		• Through a tourism agency – 26%
		• Through the company – 23%
		• Through Family and friends – 19%
		Main activities practiced
		• Gastronomic and wine experiences – 97%
		• Car tours – 81%
		• Enjoy landscape – 63%
		• Enjoy nightlife – 54%
		• Monuments/museums – 38%
		• Visit Douro – 37%

		Accommodation • Hotel establishments – 57 % • Particular houses – 43% **Time of stay – 5,31 days** • V&L – 5.48 days • F&F –10.24 days • BS –1.31 days **Amount spent per person - €500** • V&L – €592 • F&F – €480 • BS – €442

Some of these facts must be taken into consideration when outlining the business model of any company in the tourism entertainment industry. As the first column of the table above shows, the majority of tourists vacationing in Oporto were looking for a short break, for gastronomic and wine experiences, wanted to tour or to relax and rest. Travellers who visited Oporto on business, 30% did so to attend conferences, congresses or fairs. In the second column it is important to highlight that most of visitors are between 25 and 50 years old and that most of them travel accompanied by a partner or by family. The last column is about the visit characteristics and it is essential to underline that most of tourists book their trip through the internet or through an agency, the tourists value the gastronomic & wine experiences, the car tours, the monuments and museums and the Douro. Finally, the average time of stay is 5.31 days and the average amount spent per person rounds €500. These facts reflect the distribution, interests and behaviours of tourists and must influence the type of activities provided and how the business will be announced.

In order to forecast the percentage of these tourists that may actually be Boost Oporto's customers, it is necessary to understand the main factors that will influence the demand. There are three main variables: the number of visitors, the competitors and the weather. Since Boost's Lisbon has already been in operation for 8 years, it already has viable forecasts for the sales and revenues of the following three years. When comparing Lisbon and Oporto's number of tourists, number of competitors and number of rainy days, it is possible to have an idea of how Oporto will behave in the following years based on Lisbon's forecasts.

Table 4: Oporto's Customer Forecast for Boost (Source: Desk research)

Variables	Lisbon	Oporto	Oporto as % of Lisbon
Guests in 2014	354,397	1,081,448	31%
Days without rain (average of the last 5 years)	255.6	213.4	83%
Competitors (tours and activities operators)	321	96	30%

Based on the number of visitors in 2014, it was possible to conclude that the number of Oporto visitors is about 31% of Lisbon's, meaning Oporto's demand should be around 69% less than Lisbon's. Considering the increase of Oporto's popularity since 2014, this percentage should change in the next years, shrinking the difference between the cities.

The same rationale can be adopted with the weather conditions. Considering the last five years and assuming that when it rains there are no clients, Oporto will work only 83% of the days worked in Lisbon. The rain will affect Oporto's demand in nearly 17% comparing with Lisbon's.

Group events are a really important part of Boost's business. In 2014, events summarized €655,384 in revenues, around 74% of the revenues of the company. The margins in this business increase considerably with volume and for that reason events represent a crucial profit resource. Currently the company has some dependence in tourism agencies to capture clients but it is not deeply exploring the local corporation's potential. Most of companies that are Boost's customers are foreign companies so it does not make sense to compare the number of companies in Oporto and Lisbon to measure the value of this market. One hypothesis to measure this market potential and understand its size in Oporto is to count the number of international conferences, congresses, meetings and other corporate events that happen in the city. According the International Convention and Congress Association (ICCA), in 2014 Oporto hosted 57 international meetings and occupies the 43rd position in the World Ranking of number of events per city and the 24th in the European Ranking. Lisbon, on the other side hosted 109 events and ranks 12th and 11th in the world and European ranking respectively (see Appendix 3.4). Considering these numbers, Oporto's market is around 52% of Lisbon's.

In Brand sponsorships segment, it is hard to compare Oporto and Lisbon because it is really volatile, unpredictable and not related. Since it is not the central source of profit, it will also not influence the way of entry significantly.

B. VALUE PROPOSITION

After defining to whom Boost will sell its products and services, it is necessary to define what the company will sell: what products should Boost take to Oporto? In order to evaluate which products would have better results in the implementation and penetration in Oporto, four main variables were defined: resources requirements, operational complexity, expected results and external threats.

The ease of implementation will depend on the amount of resources required (investment and people) and the operational complexity (maintenance and amount of employees required during the service). On the other side, to gauge the ease of penetration the expected results (demand and profits) and the strength of external threats (Fit with Oporto characteristics and competitive intensity) were studied. Each product was evaluated according to all variables on a scale from one to three, with three being favourable to the company and one not favourable to the company (the score attribution is justified and explained in the Appendix 3.5). The following table illustrates the scores.

Table 5: Product Decision Matrix (Source: Desk research)

	Ease of Implementation				Ease of Penetration						Total		
	Resources requirements			Operational	Expected Results			External Threats			Ease of Implementati	Ease of Penetration	**Total**
	Investment	People	**Average**		Demand	Profit	**Averag**	Fit with Portc	Competition	**Average**			
Segway	2	2	2	**3**	3	3	**3**	3	2	**2,5**	**2,5**	**2,75**	**5,25**
GoCar	2	3	**2,5**	2	3	3	**3**	3	3	**3**	2,25	**3**	**5,25**
Tuk tuk	1	2	1,5	2	2	2	2	1	2	1,5	1,75	1,75	3,5
E-Bike	3	3	**3**	**3**	3	2	2,5	2	1	1,5	**3**	2	**5**
Scooter	3	3	**3**	2	2	2	2	3	1	2	**2,5**	2	**4,5**
Beetle	2	2	2	2	2	3	**2,5**	3	3	**3**	2	**2,75**	**4,75**
Buggy	1	2	1,5	2	1	3	2	1	3	2	1,75	2	3,75
Escape Hunt	1	1	1	1	1	2	1,5	2	2	2	1	1,75	2,75

With these results, to better understand each product situation, a diagram was drawn up according to the two chosen variables: ease of implementation and ease of penetration.

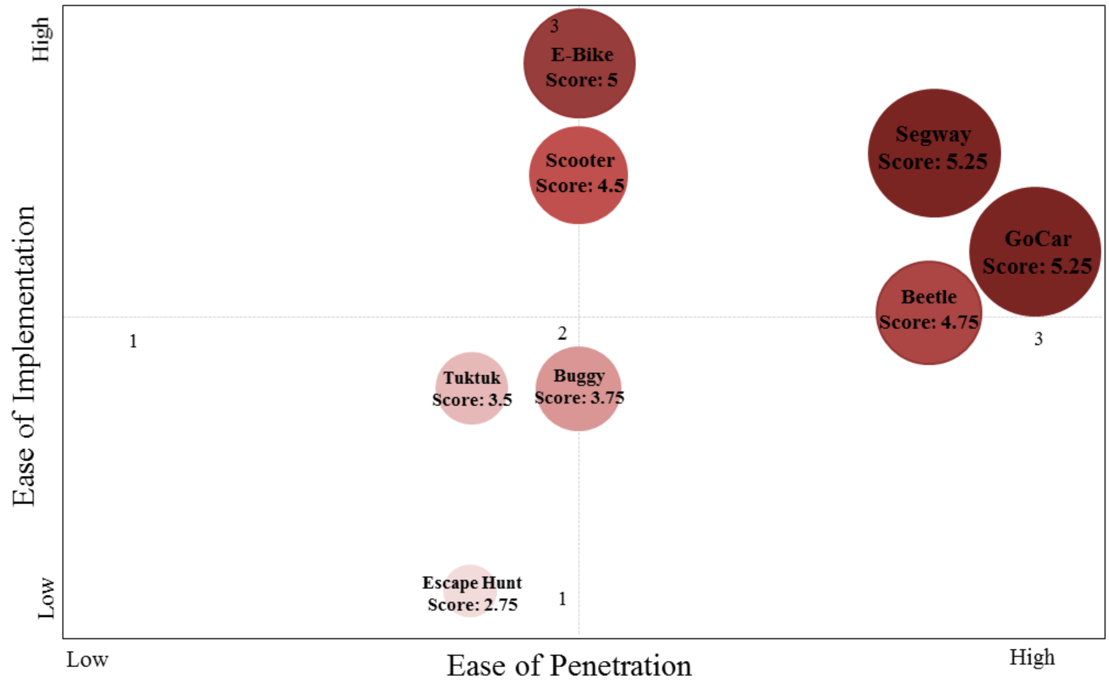


Figure 17: Decision making diagram (Source: Desk research)

From figure 17, it is clear which products should not be integrated in Oporto: The buggies, the Tuk tuks and the Escape Hunt. The Segway and the GoCar are those with a higher score followed by the e-bikes, the Beetles and the Scooters. These five products have a considerable potential to be integrated in Boost Oporto.

The Segway and the GoCar are two products with huge potential having low operational costs and high profits. In Lisbon they are those which bring higher profit to Boost in the individuals and groups segments, respectively. It is likely that these products will have similar results in Oporto due the cities similarities, even if in a smaller scale. The electric bike is a product which requires a really low initial investment and even if there is a lot of bike operators in Oporto, when segmented to electric bikes the competition substantially decreases. This is a high rotation product which considering its low costs associated is attractive for Boost to have in Oporto. The Beetle is also a product with high potential. It is a classic and appealing product which does not require to be warehoused in a central store, which reduces the costs associated with it.

Considering Oporto Douro and its natural landscape one of the main attractions of Oporto, the Beetle is ideal for these longer distance tours. Beetles has special potential in the corporate market, thus enabling to charge higher prices and make high revenues from it. Finally, with a lower score, are the scoters. This is a product that is not entirely explored by Boost in Lisbon but has many clients that ask for them there. Given Oporto's irregular ground, this product fits really well with the city and should be implemented at a later stage, as will be better explained in the recommendations.

Considering the five chosen products that will be implemented in Oporto, in the following graph it is possible to understand Boost Oporto and its competitors positioning in relation to two variables: the diversity of products provided and the diversity of targets (private renting, private tours, corporate events, teambuilding and others).

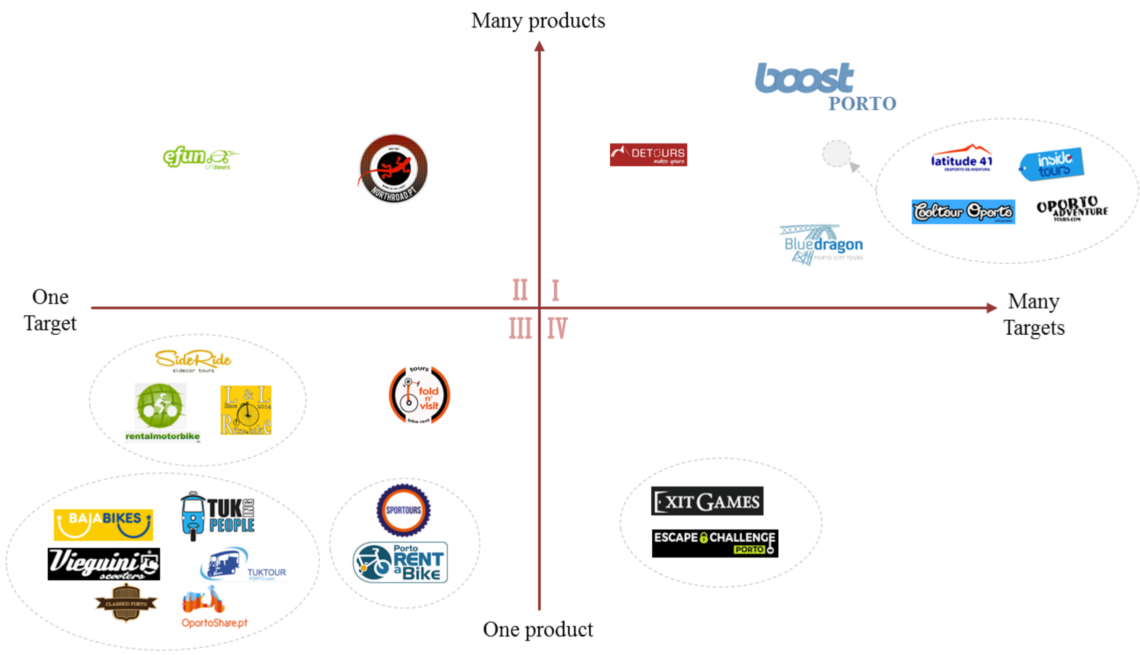


Figure 18: Boost Oporto Positioning Map (source: Desk research)

Based on the observation of figure 18, it can be seen in the third quadrant that most of Boost's direct competitors provide only one or two products and are focused on one or two targets. Boost Oporto is positioned in the first quadrant, providing a diversity of innovative and high quality tourism experiences, from private renting to tailored events. This distinctive positioning highlights the company main source of advantage that is to be able to offer a complete package of products and an efficient, practical and customized service. In this way, a customer-based positioning must be adopted, with most efforts directed at customer satisfaction and relation with the company.

Finally, the prices for each of the five products should be discussed individually and adapted to the client and to the program. The prices at the individuals are stated according the local competitor's prices (see Appendix 3.6) or in GoCar situation, where there is no competition, the prices should be the same as Lisbon's. The following table shows the ideal prices for Oporto.

Price per Segway	1h	2h	3h
2-4 pex	€50.00	€65.00	€75.00
5-6 pex	€45.00	€60.00	€70.00
7-10 pex	€40.00	€55.00	€60.00
>15 pex	€35.00	€50.00	€55.00

Price per Scooter	6h	1d	2d	3d	extra day
	€20.00	€35.00	€55.00	€75.00	€20.00

Price per GoCar	1h	2h	4h	6h
	€29.00	€49.00	€60.00	€89.00

Price per E-Bike	6h	1d	2d
Price per Bike	€16.00	€20.00	€35.00
With Tour	3h tour	6h with lunch	6h with dinner
4-7 pex	€25.00	€80.00	€90.00
8-16 pex	€20.00	€75.00	€85.00
>16	€15.00	€65.00	€75.00

Price per Beetle	2h	4h	6h	Gastronomic Pack
1-3 Beetle	€80.00	€140.00	€240.00	€300.00
3-6 Beetles	€75.00	€135.00	€235.00	€290.00
7-10 Beetles	€70.00	€130.00	€230.00	€280.00

Figure 19: Boost Oporto's prices (Source: Desk research)

C. Channels

Distribution channels represent how Boost will be selling and distributing its products and it answers the question: "how will Boost products get to Boost's customers?". As the distribution channels are one of Boost's Key Success Factors, Oporto should follow the same strategy of Lisbon (see topic 2.2.1 – C or in Appendix 1.5).

D. Customer Relationships

Since Boost operates directly with customer and intends to be customer oriented, the customer relationship management is a crucial dimension. They key of building a strong customer relationship is to deliver high quality products or services and guarantee clients satisfaction.

The first step to enter the Oporto market is to attract customers therefore the promotion plan of the company should be carefully defined. The Internet is increasingly important: the IPDT study's results for the third quarter of 2015, shows that 48% of visitors used the internet to obtain information about the trip, clearly indicating that online marketing is indispensable. Offline marketing is also really important to be visible and announced in key places. The following table presents the most important marketing strategies that the company should follow.

Table 6: Attract clients (Source: Desk research)

Measures to attract customers
Online Marketing • **Invest in Social Networks:** have paid advertising in Facebook, Instagram, YouTube other social networks; • **Have someone in charge of managing** the company's pages in social networks and other important websites as Trip Advisor or Viator and for sending newsletters and promotions by email to the customers; • **Presence in discount websites** as MyGon and Groupon; • **Invest in Google Adwords and SEO (Search Engine Optimization)**: SEO is the optimization of the Website according some important factors considered by Google and other search engines in order to increase its visibility without paying. This is really important once it is a cheap and efficient way to promote the company and increase its online relevancy; • **Invest in Retargeting**: this type of online marketing is a way to invest in customers who visited the company's website. After the customers leave the website the customers will see Boost's commercials in the banners of social networks and other websites what increases the customer visibility of the company and increases the conversion rate[1]; • **Advertise in Tourism agencies websites and in Oporto local tourism pages.**
Offline Marketing • To have **promotional flyers** in key hotels and tourism information points; • **Presence** in offline media as **Newspapers and Magazines**; • **Invest in campaigns** in July and August, distributing flyers in a shape of a key (representing the key for GoCars, for Beetles, for e-bikes or for Segways) in the streets with discounts and information about the tours. • **Communicate directly with big corporations**, making many proposals of possible activities and events for the company.

After acquiring customers, it is really important to retain them, especially in the events segment. Actions as personal assistance and customer service are crucial to guarantee the customer satisfaction. Studies show huge differences in loyalty of customers who are less or more satisfied and also say that even a small decrease in a customer satisfaction may lead to a high drop in its level of loyalty (Gary Armstrong, 2009). In this connection, there are some important measures to take:

Table 7: Retain Clients (Source: Desk research)

Measures to retain customers
• **Create a customer database**: it is necessary to know the company's customers and create a database especially for groups and brands, in order to be constantly adapting to them. • **To have a well-trained person in charge of personal assistance** who will guarantee customer satisfaction and solve any particular problem when needed. • **To have a person in charge of managing** the reviews and comments of Trip Advisor, Viator and other social networks and of creating digital loyalty. • At groups' level, it is important to have a **key account manager** who is responsible for maintaining contact with the companies or agencies, sending tailored proposals and creating trust. • To **create incentives for customers to return**, as discounts in repetitive visits or consecutive events.

Apart from acquiring and retaining customers, the customer relationship management may help the company to increase its share of customer (Gary Armstrong, 2009). According Boost CEO, João P. Mendes, to "go viral" is not easy but it is a strong weapon when accomplished. The word-of-mouth has more influence in tourism decision making than most of enterprises propagation (Mohammad Jalilvand and Neda Samiei, 2012). For this purpose, Boost Oporto must follow the next initiatives:

Table 8: Motivate Clients (Source: Desk research)

Measures to motivate customers to spread the word
• Use social networks to **incentive users to share** and be connected with the company, offering discounts and creating contests for members who share the most. • Target **individuals with influence** in the community who will comment and share Boost's activities in the social networks. • Create discounts for customers who **bring friends.** • **Incentive customers** to left reviews in key points as Trip Advisor or Facebook.

In conclusion, Boost Oporto must concentrate its efforts on the customer relationship management once it will improve customer satisfaction, which will increase loyalty and loyal customers tend to give the company a larger share of their business and to spread the word to others.

E. Operations

The next step of the implementation strategy is to define what the company requires to make everything work. The back office is a really important part of the company. Issues as the key resources and key Partners should be defined to answer to the questions: "what are the most important assets the company needs to make it work" and "who are the key partners and suppliers the company needs to make it work".

Boost's operational management is one of the Key Success Factors of the company, therefore in Oporto it will follow the same operational strategy as Lisbon's, with exception to some key partners that must be local. The company needs to find local restaurants, wineries, surf schools and ONGs in order to enrich its tours and local accommodations establishments and tourism agencies and tour operators that will be part of the channels and promotion of the company.

3.4.4. Recommendations and Conclusions

"The key to a successful production network is a perfect planning" (Eberhard Abele *et al*, 2008). The positive results of Boost in Lisbon definitely encourage the company to expand. When considering a national expansion, Oporto is undoubtedly an ideal option given its similarities with Lisbon and its recent growth in tourism studied above. However, it is essential to meticulously define every step of the implementation to guarantee its success.

A. Boost Oporto

"A successful brand is an identifiable product, service, person or place, augmented in such a way that the buyer or user perceives relevant, unique added values which match their needs most closely" (Jim Blythe, 2005).

The brand is a strong weapon to empower a company position in a new market. Boost Tourism has undeniably a great image associated with it, especially at the corporate and agencies level where retaining customers is more important.

Physiological studies demonstrate that nowadays customers are so overloaded with information that they are always looking for a way to minimize the amount of thinking and searching (Douglas Holt, 2002). Following this reasoning, companies must put all the efforts in communicate with customers in a simple and effective way. A brand "can lend credibility to product efficacy and provide an assurance of quality, letting consumers know what they can expect when they buy a product" (Nielsen company, 2015). This will reduce the time required for a customer to understand the company and therefore facilitate and influence customers to select the company. Taking this fact into account, it is suggested to enter Oporto with one strong brand instead of introducing a different name for each product.

The company should enter Oporto as Boost Oporto. This would transfer the value and the quality linked to the company in Lisbon to Oporto, on the one hand, and increase the general brand value on the other, since it would automatically provide all Boost's clients a new place to have its activities.

B. Organizational Structure

At the initial stage, Boost Oporto has to start as a small company. The functional structure is the one that better fits with small companies, being flat, simple and around the key functions of the firm (Tammy Pitts, 2000). The organizational structure of Boost Oporto can be viewed in Appendix 3.7. It has only three hierarchic levels: the first level is composed by one director who reports to Boost's CEO; the second level in composed by three managers: a financial manager, an events manager and a store manager; the third level is composed by 3 tour guides and a mechanic that report to the store manager and by an employee who reports to the events manager. Therefore, the company requires nine employees to start the operations. The director is responsible for managing the company in Oporto and make sure that everything is aligned with Lisbon. The financial manager is responsible for controlling the accounting and analysing the financial numbers. The store manager is responsible for the individual clients, for managing the guides and the mechanic and to guarantee the success of the operations. The event manager is responsible for the attracting, managing and satisfying the groups and brand clients and guaranteeing the success of the activities. The guides are responsible for conducting tours of any product or staying at the store attending to clients, as needed. The mechanic is responsible for the maintenance of all the products and the events employee is a “task-guy” responsible for helping the events manager in the events functions.

C. Budget

When building the strategy, the products with higher potential to implement in Oporto were established/decided/determined. Among these five, the scooter is the product with the lower score, mainly due the number of competitors and uncertainty about its future demand. However, this is without a doubt a product with huge potential. Taking this into consideration, the recommended solution is to implement only GoCars, Segways, e-bikes and the Beetles in an initial phase. Scooters should be implemented in a second phase, when Boost Oporto stabilizes and starts growing.

According to the Boost’s CEO, the minimum capacity to be able to serve at the corporate level is 30 persons. For big groups the products will be combined in a system of rotation in order to guarantee the required capacity without purchasing 30 units of each product. Then, Boost in Oporto will have 15 GoCars, 15 Segways, 20 bikes, 10 Beetles and 20 Scooters.

Based on the Lisbon’s sales and costs forecasts and considering the differences between Oporto and Lisbon, a P&L of the company for the following six years (see Appendix 3.8) was built. A few assumptions were used in order to achieve these results: the first four years were estimated based on Boost in Lisbon forecasts and for the following two it was considered that the sales and costs will grow at the inflection rate of 1.5%[18]; the depreciations were calculated according to the straight line method[19].

[18] Source: BMI research, country risk report 2015)
[19] Depreciation = (Cost - Residual value) / Useful life

Based on the P&L, the company will need to invest in Capex €221,500 in 2016 and €30,000 in 2017 (see Appendix 3.9). The payback period is approximately three years and eight months, which means that the value of the value of the investment will be recovered in November of 2019.

D. TIMELINE

One of the reasons for inefficient production is the confusion over schedule priorities (Eberhard Abele *et al.*, 2008). For the implementation to be successful, it is then necessary to clearly define timeline objectives in order to avoid misunderstandings and avoid overlooking some important step. The timeline proposed for the first year and a half is represented in figure 20:

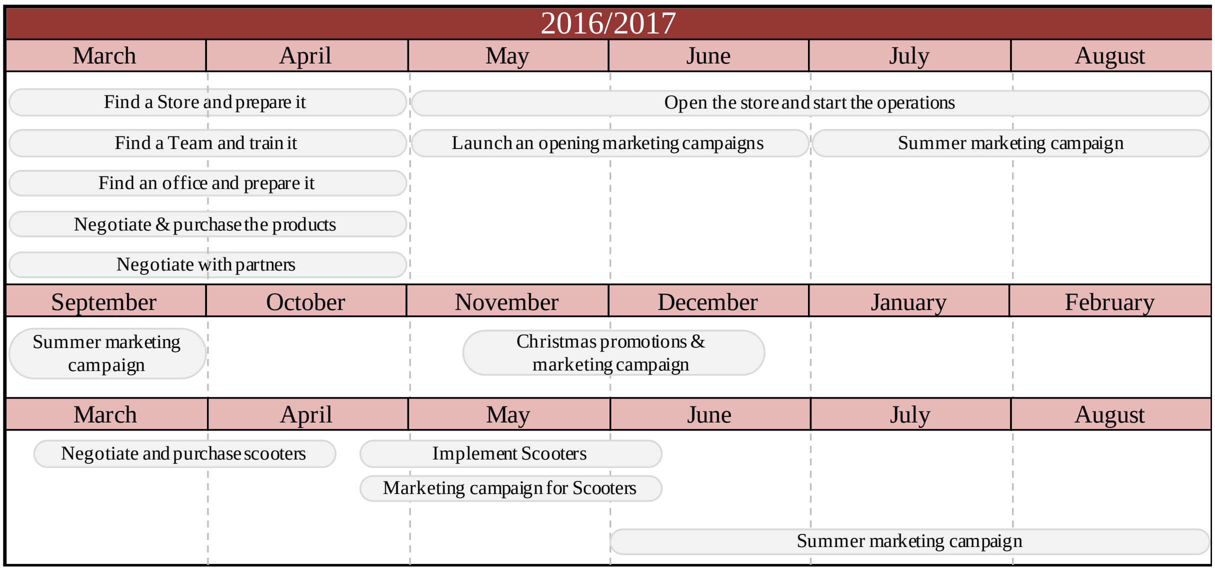


Figure 20: Boost Oporto Implementation Timeline (Source: Desk research)

In brief, the most important steps of the implementation take place between March of 2016 and August of 2017. March and April of 2016 are focused on preparing the start of the operations. Approximately two months will be required to obtain the GoCars, so one of the first things to do will be to contact the supplier. The other products are faster to get. It is also fundamental to build a strong team, to find an office and a store and prepare them, as well as find and negotiate with partners. Based on the schedule, in the month of May, the operations may start with four types of products and a marketing campaign may be launched to present Boost to the city. Finally, the second phase of the implementation must start in May 2017, when the company should implement the scooters. In this phase, it is really crucial to guarantee that the scooters will be available during the summer, during the high season of the city.

E. Final conclusions

As mentioned above in this chapter, Oporto meets many favourable conditions for the expansion of Boost, however, it is also imperative to consider that the increase in the attractiveness of Oporto's market represent a threat of new entrants. The competition in Oporto is lower than in Lisbon but the fact that the tourism in the city is increasing is an incentive for new players to arrive according to "the principle that profits attract entrants (Besanko *et al.*, 2013)". It is difficult for a company to build competitive advantage and it is even harder to maintain that competitive advantage in the long run once competitors are always benchmarking and copying the market leaders' procedures. (Michael Porter, 1996). It is then essential that Boost Oporto guarantees it differentiates in a way that is hard to imitate. The know-how of the company in Lisbon must be transferred for Oporto in order to guarantee it enjoys from the same operational efficiency.

Another relevant fact to consider in Oporto is that it is the second city with most companies in Portugal[20]. Apart from the international companies, there is a huge market to explore in the national companies. The company must invest in building a portfolio of corporate clients interested in teambuilding and other corporate events and may attempt to establish itself as their principal supplier in this area.

Looking for the activities preferred by tourists who visit Oporto there is one interesting fact which may represent an opportunity for Boost. Vale do Douro is considered by many tourists one of the main attractions of Oporto and 62% of the respondents who are visiting Oporto on vacation answered that they intend to visit the Douro River. Currently Boost has no boat tours but it would be a nice complement to Boost's services. There are around seven agencies which

[20] Source: Pordata

provide boat tours in Douro River and this represents considerably high competition. At a later stage, it could be interesting for the company to study this specific market and understand whether or not it is may be a profitable product for the company.

Finally, the company in Oporto will allow the creation of important synergies such as the possibility to transfer products from Lisbon to Oporto when required, economies learning and higher diversity of programs and geography for the group activities. In the end, the expansion to Oporto have potential to not only increase the total value of the company but also increase the quality of the products and services that it provides.

3.5. STRATEGY III: INTERNATIONAL EXPANSION

The next chapter aims to analyse international expansion as a growth strategy for Boost, answering to the following questions:

1) What are the main drivers for expanding company's operations into a foreign market?
2) What is the most adequate strategy to accelerate Boost's international growth?
3) How should the company implement this strategy in order to succeed?

The primary objective is to draw up a strategy for the company that attains optimal equilibrium between risk and return on investment. Thus, it is crucial to start by understanding why a company should consider going international[21].

3.5.1. DRIVERS FOR INTERNATIONALIZATION

"Geographic expansion, more precisely internationalization, is crucial for company growth, especially for SMEs, whose business scope has been geographically confined" (Barringer and Greening, 1998). Internationalization is a strategy that is becoming increasingly important for small companies since it is perceived as an opportunity to accelerate growth and decrease risk. Generally, the main driver of SMEs international expansion is the access to new and bigger markets, along with growth motives and knowledge related motives. SMEs are searching for new growth opportunities to leverage core competences across a broader range of markets and achieve higher returns on their resources (Zahra, Ireland, and Hitt, 2000).

As a promising SME and early stage company, Boost aims to have a strong and sustainable international presence with operations in different foreign markets. In the next pages an overview about how the company initiated its internationalization process (in Madrid, Spain) will be displayed followed by an analysis of the different strategies it can pursue in order to accelerate growth and increase sales performance and market.

[21] For Methodology see Appendix 4.1

3.5.2. Boost in Madrid

GoCar Madrid opened its first store in April 2010 with a fleet of 20 GoCars. In the beginning the strategy was focused on selling to individuals through a small store in a strategic location to attract tourists and to groups over a direct sales force focused on making proposals to team building and other corporate events. In 2012, GoCar Madrid increased the expenses, renting a garage to park the GoCars and hiring two new employees. However, sales decreased 37% which resulted in a huge loss in the company's EBITDA (see detail in Appendix 4.2). Since 2011 GoCar Madrid registered a loss in sales to individuals (decreasing 76% from 2012 to 2013 and 33% in the following year), these values reflected a decline of 59% on company's total revenues from 2012 to 2014.

Despite the bad sales performance in the individual customers' segment, sales to groups remained above the €50,000 since 2011 and in 2014 represented 87% of total sales.

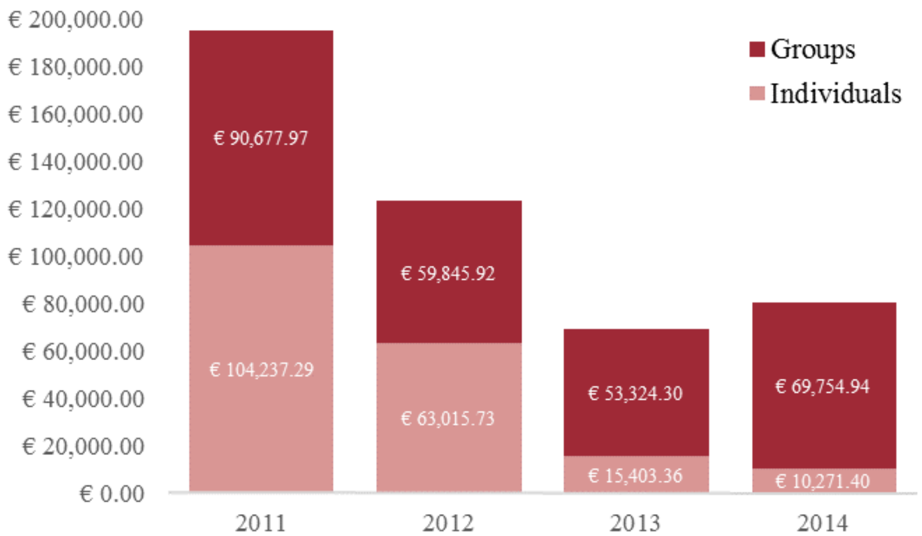


Figure 21: GoCar Madrid - Total Sales

In July 2015, given the bad financial situation of GoCar Madrid, the company was looking for investors and Boost seized the opportunity to internationalize, buying 70% of the company for €120,000. This was the chance to enter the market and to start establishing a position in Madrid's tourism entertainment market while the company was still defining its expansion strategy on this market.

At the moment, Boost is facing an important challenge in Madrid in order to reinforce its presence in the market, which makes it crucial to define the most adequate path. It all comes down to the way the company will establish itself in this new marketplace. In order to be able to outline the possible strategies, the first step is to know the local market and the environment and to understand its opportunities and threats.

First of all, a destination analysis will be discussed, comparing some key factors of Madrid with Lisbon, followed by an industry overview. Afterwards, the alternative strategies for Madrid will be suggested along with an explanation of the decision process and a suggestion about which strategy to choose. Based on this, recommendations for Boost's operations in Madrid will be given.

3.5.3. Destination Analysis

A. Madrid Overview

To better understand Madrid destination's potential and extract valuable information the framework of the Key Factors for Destination Analysis was applied (as described in the previous chapter on point 3.4.2 – A). These factors were defined based on interviews to the founders and to a few industry stakeholders, namely other tours operators. The examination revealed some differences between these two cities which are resumed in table 9.

Table 9: Key Factors for Destination Analysis (KFDA) Framework

KFDA	Lisbon	Madrid	Comment
Geography & Demography			
Area of City	100 km2	605 km2	Madrid is six times bigger than Lisbon
Residents	520,549	3,165,235	The population in Madrid increased until 2012 but suffered a decrease around 40,000.00 inhabitants in the last 2 years.
Gender Distribution	M: 46% F: 54%	M: 48% F: 52%	Both cities have similar rates near the 50% with more females than males.
Age Structure	[0-29]: 27% [30-59]: 39% [+60]: 34%	[0-29]: 29% [30-59]: 46% [+60]: 26%	Both cities have similar age structures and in Madrid, the Youth Index – percentage of people under the 16 years old – was 17% in 2015.
Income & Employment			
Employment rate	33%	54%	Although it has been decreasing, it is one of the highest rates in Spain, higher than national average, 47%. In terms of employment, the services sector represents 64% in Madrid, 13% more than in Lisbon.

Unemployment rate	13 %	16%	In the 3rdQ of 2015, unemployment rate in Madrid dropped to 16%, compared to 18% in the 3rdQ of 2014[22].
Monthly average wage	€1,383.60	€2,272.70	Monthly average income in Madrid is €889.10 higher when compared to Lisbon.
Weather (average last 5 years)			
Days without rain	256	281	Madrid comes under the Mediterranean climate. The winters are cold due to city's altitude of 667m above sea level and distance to the sea with minimum temperatures below 0 ºC and summers are warm with maximum temperatures in the reaching the 38 ºC.
Average Temperature	17.7 ºC	15.4 ºC	
Companies			
# Companies	114,510	921,375	In both countries, the services sector is crucial for business. In Madrid, services SMEs represent 78% of total business as in Lisbon they represent 62%.
Tourism in 2013			
Total visitors	3,086,589	7,520,834	As a bigger city, Madrid receives much more travellers than Lisbon, both international and Spanish.
Foreign tourists	819,777	4,227,479	
Seasonality (best months)	From June to September	September, October, May	Tourism seasonality is different since Madrid is not a typical summer destination due to its climate.

Source: INE Spain (www.ine.es) and INE Portugal (www.ine.pt)

It was possible to conclude that Madrid is not just a bigger city with more population and companies, but the level of life in Madrid is higher than Lisbon's. Moreover, it is relevant to highlight that Madrid is located in the centre of Spain, in the middle of the Iberian Peninsula, near many historical and cultural destinations with touristic interest which makes the city a reference.

Also, Madrid's city lifestyle is modern maintaining some traditional customs, culture and art, local people are open and welcoming. All these features, together with Madrid's cultural and geographic proximity – just 5 hours away from Lisbon – and the non-existence of trade barriers between Portugal and Spain make Madrid's market very interesting and appealing to explore and constitute the rationale for the investment made by Boost in July 2015.

B. Industry Overview

Tourism in Madrid

The tourism sector is a key sector for Madrid's economy since it generates 7.1% of GDP and 151,000 jobs (of which over 60% are direct)[23]. According to the Institute of Tourism Studies

[22] National Labour Market Survey (EPA), INE Spain (www.ine.es)
[23] Madrid Strategic Plan for Tourism 2015-2019 by THR and Tourism Association of Madrid

(IET) in 2014, Madrid received over the 8 million travelers (both international and domestic), a record figure that reflects a recovery after a decrease from 2011 to 2013. Besides, the spending by tourist has been increasing and in 2014 the amount spent per tourist was €1,205 with an average stay of 7 nights. In 2015, from January to September, the number of foreign tourists already reached 4 million travelers, according to IE (*Instituto de Estadística*), which reflects a good improvement compared to the 3.5 million tourists that were in Madrid in these same months in 2014 (see detail in Appendix 4.3).

Given the importance of the tourism sector, in order to consolidate its growth, a new public-private entity was created – the Tourism Association of Madrid. This new association, along with THR – *Innovative Tourism Advisors*, developed a 5-Year Strategic Plan for tourism in Madrid from 2015 to 2019, a new management model for Madrid as a tourist destination. According to Madrid's major, Ana Botella, the main objective of this plan is to achieve the goal "30-50-20" in 2019: "30% increase in the flow of visitors and better occupancy rates; 50% increase in the tourists spending and 20% decrease in seasonality"[24].

Tourism Entertainment Market in Madrid

As mentioned above, the tourism animation industry is relatively difficult to analyse and to describe in objective numbers due to the lack of available information. However, some aspects should be emphasized to comprehend the major differences when comparing to Lisbon.

Firstly, as is the case with Lisbon, it is important to point out that the market is in the growth stage almost reaching maturity, given that all the products Boost have in Lisbon are being marked in Madrid by one or more competitors. There are big players in the market with large investments in assets and financial capacity to eliminate new players by reducing prices.

Secondly, Madrid's seasonality of demand is slightly different from Lisbon and Porto. The months with highest recorded number of tourists are September, October and May as can be

[24] Strategic Plan for Tourism 2015-19, January 2015 Press Release

observed in figure 22, from the hotel occupation rate. This information is in accordance with the sales record in the last 3 years of GoCar Madrid, showed in figure 23, with its highest values.

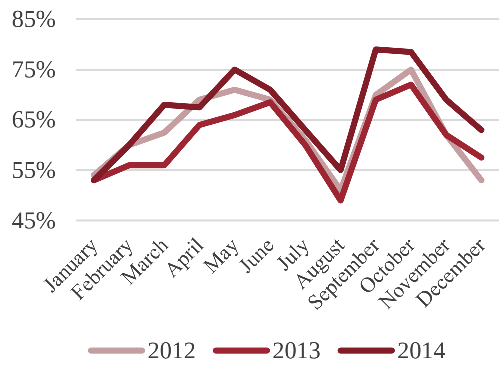


Figure 22: Hotels Occupation Rate in Madrid (Source:"La ciudad de Madrid en cifras 2014"- INE Spain, www.ine.es)

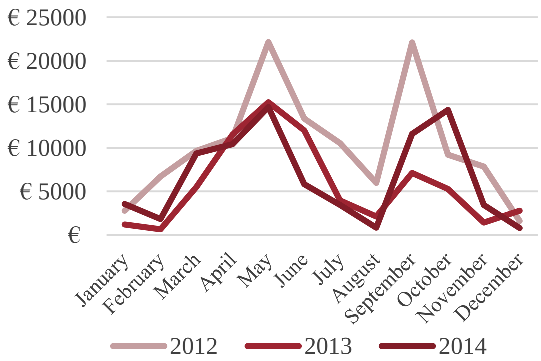


Figure 23: GoCar Madrid Sales (Source: Boost)

Porter's Five Forces Analysis

The Porter's Five Forces analysis regarding Madrid's industry is similar to Lisbon. However threat of new entrants is lower: In Spain there are more legal barriers (e.g. tuk tuks are not allowed by law) and big incumbents have the financial capacity to eliminate new entrants which are in a vulnerable position given the high costs associated to the entry processes (see Appendix 4.4). Therefore, the industry's internal rivalry in Madrid is medium/high.

Analysing Madrid's competition it is possible to observe that the market is occupied in almost all products offered by Boost in Lisbon (see detail in Appendix 4.5), meaning that there is one or more competitors in each product line.

Competition	Gocar	Segway	Tuk tuk	Bike	Motorbikes	Buggies	Vintage Cars	Escape Game	Corporate Events
# of competitors	1	12	0	11	3	0	2	8	10
Strength	N/A	High	N/A	High	Medium	N/A	Low	Medium	High

Figure 24: Boost Madrid's Competitors (Source: Desk Research)

Competition at the corporate events level is high with numerous events companies on the market. However most of these event planning companies focus their offer on cultural and traditional programs, lacking innovation and creativity. Boost has the opportunity to differentiate itself from competitors by offering totally new programs with its adventurous products and its latest technology.

Overall, and as is the case with Lisbon, there are a lot of companies with different products, services and shares in the market but also with different target and operating strategies.

Many competitors are small, and have no capacity to provide services for big groups (from 20 people), and the majority of competitors just have one product to offer to its customers. This makes them resort to outsourcing when groups ask for other experiences or services making them very dependent on procurement (outsourcing suppliers) and either they lose margin or they are forced to charge higher prices. When asked for proposals for groups, competitors focused the entire service on one product, lacking innovation and value added to the experience.

In conclusion, the market is reaching the mature stage and competition is established, being difficult for a new player to enter the market in a traditional way with the same products as competitors. Although the majority of companies are similar, there are four companies that must be distinguished due to their strategy and position in the market. Those companies are Segway Trip, MadWay to Madrid, Trixi Madrid and EasyMobile (SegwayFun & EventPoint). The reason these companies stand out among the others is the fact that, although they only have one product to sell, they provide the same services as Boost in Lisbon: private rental, private tours, group tours and corporate activities. These competitors operate with competitive prices and customers are satisfied with their services, giving them good classifications and comments on trip advisor. However, although these companies target different customers' segments, providing diverse services, it is unusual to see cross selling in their proposals and, when they do it, they have to resort to outsourcing, combining it with walking tours and other experiences like tapas, cooking classes, wine-tasting, flamenco classes among others.

C. Key Opportunities

After analysing Madrid as a destination for Boost operation's expansion and growth and observing competitors' behaviours and strategies, it was possible to identify some opportunities in the company's environment that are crucial for strategy definition and must be clarified:

1. GoCar Madrid has potential to grow: Due to bad management decisions and lack of strategic vision, GoCar is underperforming. It became clear that the product has the potential to grow and gain market share given the strength of the brand and the positive way customers react to it. With the know-how gained by Boost in Lisbon there are some strategic and operational improvements that must be made in order to maximize the company's profits in Madrid.
2. Boost have exclusive offer: The company portfolio in Madrid is innovative and exclusive: GoCars, that have no similar competitor product. Besides, Boost can have competitive advantage with their exclusive tablets GPS guided tours, its know-how in teambuilding activities and portfolio of 150 different programs. By taking advantage of this exclusiveness and investing on innovation, Boost can gain new customers and increase its market share.
3. Lack of integration and innovation within competitors' products/services: Although the market is occupied, competitors lack diversification and innovation among its products, wasting cross-selling advantages and the opportunity to create innovative and exclusive experiences to its customers. As Boost has a lot of knowhow in providing innovative and exclusive packages to its clients, this is a key opportunity for the business to growth.
4. Madrid council efforts to increase tourism sector in Madrid: One of the three main objectives of Tourism Association of Madrid is to increase the number of tourists in the city in 30% until 2019 and one of the main targets pointed by the association are the city break and MICE tourists, both part of Boost customer segments. Boost is familiar with these customer segments as City Break tourists is one of the main targets in Lisbon, therefore it can be an opportunity to increase sales to the individual segment.

3.5.4. Strategy

With regard to strategy definition, the next pages will be organized in three steps: 1) Identification of market opportunities and possible expansion strategies; 2) Creation of a decision-making matrix which evaluate alternatives and lead to a final decision; 3) Characterization and development of the chosen strategy.

A. Alternative International Growth Strategies

After understanding the market, identifying the key variables that will influence Boost's growth in Madrid and taking into account Boost's Key Success Factors (KSF) described in **section 2.2.2**, the decision was made to focus on the same customer segments as Boost in Lisbon. These segments are the following: Individuals (city break tourists; Local customers looking for innovative experiences); Groups (agencies or companies looking for "out of the box" group activities for MICE tourists or teambuilding experiences); and Brands/Sponsors (companies who want to advertise on Boost's products). Thus, since the internationalization process has already begun with the purchase of GoCar Madrid, three strategic opportunities for the company were identified:

I. Maximize GoCar Madrid's potential

The first option is to increase GoCar's potential, empowering the business with the technology for the tablets used in Lisbon to add value in the existing experiences – GoCar tours and walking tours. As mentioned above, in the last 3 years the company almost abandoned the individual customers' segment (with a decrease in sales to individual segment of 90% from 2011 to 2014), however, there is space to grow and regain market share. Using the know-how acquired in Lisbon in developing group and teambuilding activities and also by bringing in the 150 programs offered in Lisbon, sales to the segment of groups can increase. As in Lisbon, the company must increase direct sales force efforts making proposals and keep companies and agencies aware of Boost Madrid innovative and exclusive services.

Furthermore, it may be necessary to complement the fleet of 20 GoCars with 8 Segways to be able to meet some customers' demands (mainly individual customers).

II. Operating strategy similar to Lisbon

The second alternative for the company's growth is to enter the Madrid's market replicating Boost's strategic and operational model in Lisbon. By doing that the company will enter the market with its own brands and products, showed in figure 25.

Figure 25: Products decision matrix (Source: Desk Research)

As Boost in Lisbon uses to integrate company's diverse products and services in its proposals and some of its KSFs are the great distribution channels and operations management this may be an interesting strategy to pursue. Also, as there are few competitors with diverse products and implementing a cross-selling strategy, this may be the chance to become known in the market as an exclusive experiences company with innovative activities. However, this solution implies an investment with high degree of risk and the company has no previous experience and reputation in this market. Moreover, given the stage of the market, a strategy evolving this degree of risk is a dangerous move and can compromise the firm's operations abroad since it is easier and safer to be implemented at an earlier stage of the ILC, when there is a lot of space to conquer and when the entry barriers are low, as it happened in Lisbon.

III. Joint Venture to consolidate the market and accelerate growth

Last but not the least, a viable option is to create a strategic partnership, more precisely a Joint Venture (JV), with one or more competitors and. Through the creation of a JV instead of a partnership agreement, both parties will be committed to profit maximization without partial interests. This way, Boost can eliminate big competitors, consolidate the market and, at the same time, create opportunities to accelerate growth by integrating different services. Through this partnership, Boost gains access to local know-how at the same time as the local partners gain new growth opportunities (Grönroos 1999, 294). This creates a win-win situation for both firms, as it opens up the opportunity to increase profits and to diversify services and knowledge. Moreover, entering into a JV can result in risks being shared or spread between partners. For that, trust between parties is critical, and partners carefully chosen. All parties should be transparent about the value of contributions and expectations.

In a partnership, Boost should look for a partner that would contribute with the Segways, bikes and human capital, but also with the know-how gained through the past experience in this specific market and its position in the market. On the other hand, Boost would enter with the GoCars, the GPS guided tours technology for the tablets, the 150 teambuilding programs and the know-how specifically in the tourism entertainment market, with experience in all types of activities, instead of just Segway tours.

B. Decision Process

"Decision processes influence the strategic choices managers make, which in turn influence the outcomes affecting a firm" (Dean and Sharfman, 1996). Strategic decisions are crucial for any business growth and in order to follow the right strategy it is crucial to define a decision-making process beyond more superfluous analysis as the determination of each option pros and cons (see Appendix 4.6). Therefore, a decision-making matrix was conceived to compare the strategies based on a few key drivers of decision and structure a decision (see figure 26).

First of all, the key decision criteria (drivers), chosen according to Boost's strategic priorities and based on interviews made to the company's founders, was defined. Then, as these drivers have different importance for the entrepreneurs, different weights were assigned (in percentage points). Finally, in each strategy a score was attributed to these drivers on a scale from 1 to 3, with 1 being the least favorable option and 3 the most favorable option (see Appendix 4.7 for score attribution guidelines).

	Resources			Operational Feasibility		Potential			Risk		
Boost Madrid	Investment needed	Know-how gained	HR needed	Velocity	Complexity	Market Share	Sales	Growth	Operational	Financial	**Total**
Weight >>	8%	10%	5%	10%	8%	8%	8%	13%	15%	15%	100%
I. Maximize GoCar Madrid's profits	3	1	3	1	3	1	1	1	3	3	**2.02**
II. Operating strategy similar to Boost Lisbon	1	1	1	3	1	2	3	3	1	1	**1.7**
III. Joint Venture with strategic partners	2	3	2	2	2	3	2	3	2	2	**2.31**

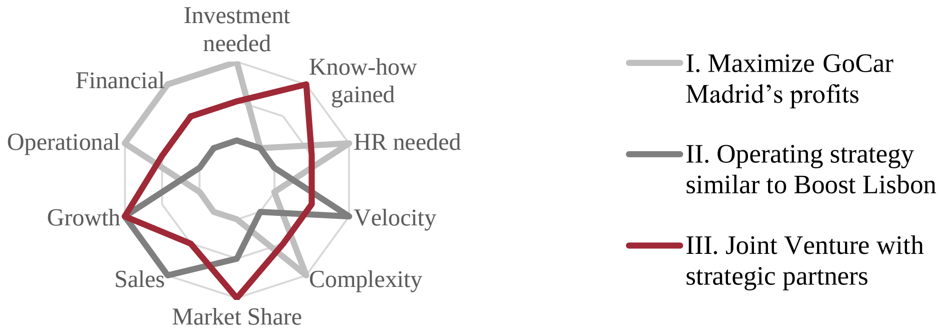


Figure 26: Decision-making Matrix (Source: Desk Research)

After analysing the implications of the three expansion strategies and with the help of this decision matrix, it will be recommended to create a Joint Venture to consolidate the market and accelerate the company's growth (7). Therefore, in the next topics, an analysis of Boost's expansion to Madrid will be developed according to this strategy and its implications.

C. JOINT VENTURE TO ACCELERATE GROWTH AND CONSOLIDATE MARKET

"A good way of formal cooperation between SMEs is to form alliances and networks" (Barringer and Harrison, 2000). A Joint Venture is an entity that is created when two or more firms pool a portion of their resources to create a separate jointly owned organization. It is a separate entity apart from the parties' other business interests, however inside the venture, each party is responsible for JV's profits, losses and costs.

In tourism entertainment, where international activity is driven by a need for access to know-how and technology, the likelihood to delineate an expansion strategy through alliances or JV instead of simply creating subsidiaries[25], increases. As already mentioned, knowledge about the foreign market is critical to SMEs' success abroad. Although it is possible for the firm to acquire local knowledge and develop new organizational capabilities internally, "this learning-by-doing process takes time and can result in mistakes" (Dierickx and Cool, 1989). Local partners are more familiar with local consumers' needs and tastes as well as have more information about local competitors. Moreover, "they have local networks and an established reputation in the market which can alleviate the local knowledge deficiencies and help overcome its liability of foreignness" (Hymer, 1976). "Despite the clear advantages of JVs, the change in the balance of the bargaining power between local and foreign partners can lead to its instability or even dissolution" (Inkpen and Beamish, 1997). Thus, the choice of the right partners as the discrimination of each parties' responsibilities and advantages in the agreement in order to avoid major challenges, minimize risks and provide a win-win situation overtime are the key to success in a JV.

D. BUSINESS MODEL CANVAS FOR MADRID

Since the aim of this chapter is to develop a growth strategy for Boost, the same business model of Lisbon will be adopted with some exceptions. In the next topics the strategy for Madrid will be described, highlighting the differences as a consequence of it being a new market with a different *modus operandi* (see Appendix 4.8).

CUSTOMER SEGMENTS

Regarding target market, in Madrid, Boost will target its products and services' communication at the same customer segments: the Individuals (tourists in a city-break or locals) looking for innovative and exclusive experiences through renting or private tours; the Groups (from eight people), corporations and agencies looking for group tours or original activities and/or teambuilding activities; and Brands/Sponsors which want to advertise on Boost's products.

[25] "Internationalisation of SMEs" – Observatory of European SMEs, 2003, No. 4

Again, these three segments will be separated in the Business Model since they have different needs and value different things.

Individual customers: After some years of a downward trend, the number of tourists visiting Madrid have been increasing in the last two years, reaching 8 million in 2014. Following the same approach of Boost Porto's predictions, three main variables were considered to forecast the number customers in Madrid: the number of travelers, the number of days without rain (since it directly affects our demand, especially in Madrid with just one product) and the number of competitors. In the table below it is possible to compare both cities' values.

Table 10: Boost Madrid's customers forecast I (Source: Desk Research)

Variables	Lisbon	Madrid	Madrid as a % of Lisbon
Total visitors 2014	3,543,968	8,384,302	237%
Days without rain (last 5 years average)	256	281	110%
Competitors[26]	321	136	42%

Given the superior size of the market (with more than twice the number of tourists) and given the smaller size of competition, sales to individuals in Madrid have a lot of potential to be larger than Lisbon and there are a lot of consumers to conquer. However, it is crucial to be aware that Boost in Madrid will operate in a different strategy and it can be harder to gain and retain customers. This non-integration of products may result in a loss of competitive advantages.

Moreover, in order to confirm this customer segment's potential, an extrapolation was made. In 2014, Boost in Lisbon rented 3,308 GoCars to the individual segment, which represent €63,800 in sales. Considering Madrid's total visitors and assuming the same penetration rate, the number of rentals in Madrid has potential to reach the 8,986 GoCars, €173,304 in sales.

Companies and tourism agencies: As aforementioned, events represent around 74% of Boost's revenues and it is in this segment that the company can increase margins given the possibility to integrate diverse products and services and the high volume of demand. In order to estimate the demand for corporate events it is crucial do compare the number of events in Madrid with

[26] Prevision based on TripAdvisor "things to do – outdoor activities, tours and games" in Lisbon and Madrid

the number in Lisbon. In 2014, Madrid received 12,455 corporate events (2,266 congresses; 2,585 conventions and 7,604 journeys and seminars)[27] while Lisbon received 466 corporate events (from a total of 1,048 events)[28], this means that Madrid's corporate groups market is twenty six times bigger than Lisbon's. Moreover, Madrid is in the 3rd position in both European and Worldwide rankings as Lisbon ranks 12th and 24th places, respectively[29]. According to these numbers, Madrid's corporate events market has a great potential and Boost has an opportunity to increase its sales to the groups segment by capturing costumers from corporate events. Although competition is fierce in this segment, in Madrid there are much more events and if in Portugal Boost gains a lot of clients from this congresses, in Madrid the potential is even bigger.

Brands/Sponsors: With regard to this companies who want to advertise on Boost's products the same strategy of Boost in Lisbon will be applied. Given the higher number of companies and financial capacity, this segment can bring high returns for the company and help spread awareness within companies which consequently can positively influence the groups segment.

VALUE PROPOSITION

To describe Boost Madrid's value proposition it is crucial to understand the competitors' positioning. To do that, two variables were considered: the diversity of products provided and the diversity of services offered: tours, teambuilding, private renting and events. Figure 27 shows the position of Boost competitors in relation to the firm's aimed positioning.

Boost's competitors are mainly positioned in the third quadrant. The only competitors positioned in the first and first quadrant are the walking and events agencies and one competitor with 3 products – City Madrid Tour. Although other competitors resort to outsourcing of other products, the majority of them focus only on one product and one service – tours. Boost Madrid aimed positioning is in the fourth quadrant, with one product – GoCars – and diverse services

[27] Source: "Turismo de Reuniones en Madrid". 2014. Madison Market Research to Madrid Convention Bureau
[28] Source: "Meeting Industry LISBON CITY". 2014. Observatório – Turismo de Lisboa
[29] Source: "ICCA Statistics Report". 2014. International Convention and Congress Association

– rental, tours, events and teambuilding activities – including in all the experiences tablets with the latest technology developed by Boost Lisbon to improve consumers' experience. The long term objective is that, Boost Madrid, together with the Joint Venture partners move its positioning to the first quadrant with as many products as possible and all these diverse services. This way, the JV can take advantages form the diversification and integration of products and services.

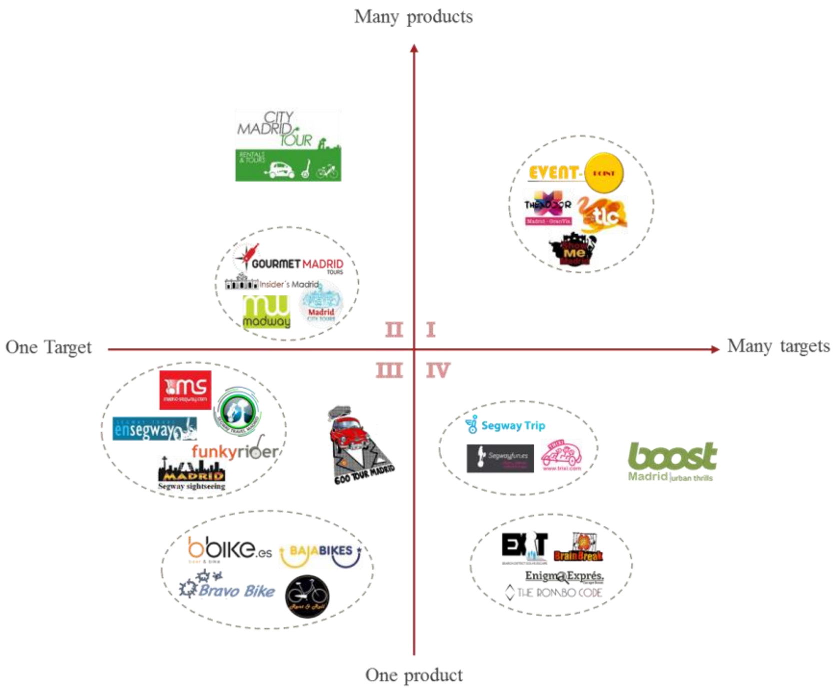


Figure 27: Positioning Map - Madrid's Tourism Entertainment Market (Source: Desk Research)

Therefore, in the long-run, Boost's value proposition in Madrid will be similar to Lisbon, providing its customers unique, exclusive and innovative experiences at a low price. For groups, the company will offer an "end-to-end" service, simplifying the process and assuring the best quality, customization and innovation (for instance through the technology embedded experiences and the constant development of new teambuilding and events programs). These value proposition will be delivered to Boost's clients through GoCar tours and groups, teambuilding and corporate events and the price will not be changed at the individual customers' level nor at the groups and events level. For brands/sponsors, the value proposition is the same as in Lisbon and will be translated into advertising with high visibility in Madrid.

Channels

Regarding channels, which is one of Boost's strongest competitive advantages, the same strategy will be applied for each customer segment. Therefore, the main goal is to reach as many clients as possible, investing a lot of efforts and attention in this topic. Madrid's market is much bigger and mature than Lisbon's, so it is crucial that the company be aware that it will not be that simple to conquer customers. Boost cannot neglect this aspect, otherwise the company will miss out the opportunity to improve reputation and increase its sales and market share.

Customer Relationships

As already mentioned, there are three crucial steps in customer relationship: Attract customers, retain them and motivate them to spread the word. In figure 28, each phase and the corresponding efforts were described in line with the same strategy followed in Lisbon but increasing efforts given the importance of this dimension for Boost in Madrid, where competition is fierce and it is crucial to pay attention to all phases in the customer relationship process.

Figure 28: Customer Relationship - Measures to Attract, Retain and Motivate Customers (Source: Desk Research)

Operations

Given the huge importance of the back office dimensions in the implementation of a strategy, it is essential to emphasize some aspects that will differ from Lisbon's operations:

<u>Key Resources</u>: The key resources will basically be the same, since they respect to the main inputs that Boost needs in order to create its value proposition, service its customer segments

and deliver the product to customers. However, the future synergies between Madrid and Lisbon regarding programs development and other core activities must be considered.

Key Partners: Key Partners are alliances that the company needs to have to perform its key activities and deliver its value proposition to its customers, these include the network of suppliers and local partners that make the business model effective. The big difference when comparing to Lisbon, is that in Madrid the JV partners must be included since they are key for the success of this future strategy.

3.5.5. Recommendations and Conclusions

For most companies, going global is a great opportunity to grow into new markets and strengthen their competitiveness. Moreover, by accessing JV partners' local knowledge, SMEs can accelerate their learning process and minimize mistakes (Lu and Beamish, 2006). However, there are substantial risks involved in this expansion process and it is of the utmost importance to carefully prepare the implementation, as well as the operations abroad to avoid future surprises and internationalization failure.

Therefore, the following recommendations were selected to help Boost Madrid to effectively accelerate its growth as well as succeed in this new market.

I. Prepare strategy implementation with clear steps:

For the implementation process to be successful and provide the company with a sustainable growth, it is critical to prepare it carefully, defining the different steps and clarifying the risks and opportunities associated with each phase of the expansion process.

The first step is to prepare for the expansion process. To do that, Boost Madrid must improve internal processes; develop or bring from Lisbon new activities and programs; and recruit and train the employees engaging them with company's culture and future strategy. Moreover, it is crucial to choose a rigorous project manager to guarantee operational excellence and staff training. This last detail is very important, since it may determine success of the whole process.

By choosing an assertive manager, with intercultural and good soft skills, able to maintain healthy relationships with local partners, local suppliers, staff and customers, the company can prevent some JV's failures (Eberhard Abele *et al*. 2008).

The second step is to choose the JV partners. It is true that local partners can support operations abroad in many different ways and contribute with knowledge about customers and foreign market, however, partnerships must be carefully selected and legally safeguarded to prevent unpleasant surprises. There are three main reasons why joint ventures fail: the first is the divergent and unrealistic expectations among partners; the second is when local partners do not keep to agreements; and the third is the lack of commitment from one party, for instance when the partner provides personnel with inadequate qualifications or little support for sales. For this reasons, Boost should meticulously analyze possible partners and understand their interests in the alliance, prior to establishing the partnership. It is essential to create a win-win situation if collaboration is to be successful. Otherwise, financial losses may be incurred, weakening the company's market position (Eberhard Abele *et al*. 2008).

After analyzing Boost's competition, there were some tours operators that stood out as possible partners for the company in Madrid. The companies are Segway Trip, MadWay to Madrid and Rent & Roll and they may be a good option to create a partnership since these companies already have a significant dimension and good awareness and reputation in the market.

The third step is to set goals and define the key performance indicators (KPIs) that enable the company to measure the success of these established objectives. Companies that have KPIs based on its performance objectives, integrated on company's vision and mission, and monitor, control and optimize them regularly have better probabilities to achieve sustainable growth (Eberhard Abele *et al*. 2008). Thus, aligned with Boost Madrid growth strategy, the following KPIs where chosen to measure company's performance over the time: Net profit; Return on investment (ROI); Percentage of income that comes from return customers; Classification on

TripAdvisor; Yearly growth rate; Number of events & number of GoCar tours. These KPIs not only measure company's financial performance, but also customer satisfaction and preferences, which is a crucial dimension for the company and must be constantly evaluated.

The fourth step is to implement the JV and start integrating the all parties' operations. With prior preparation, this should be an easy step to implement since the entire company is prepared to engage in a partnership as well as committed to the future growth and success. Yet, it is critical to carefully control this process in order to avoid mistakes, losses or failure. The fifth step is to measure and evaluate performance and to adjust operations do the necessary changes. With the previously defined KPIs, it is easy to assess the performance and to understand if the JV is adding value to the company or not. Since the aim of KPIs is to bring about improvement to the strategy, it is very important to measure them regularly in order to avoid surprises and situations of loss.

II. Develop a strong network (local and international)

In the context of internationalization of SMEs, "a network is the relationships between a firm's management team and employees with customers, suppliers, competitors, government, distributors, bankers, families, friends, or any other party that enables it to internationalize its business activities" (Zain & Ng, 2006, p.184). Business Networking is a really valuable way to expand the firm's knowledge, learn from the success of others, attract new customers and create awareness. Thus, when considering expanding operations abroad, the firm should create and maintain local network relationships on the local market, as it could be a determinant factor for the company's success and hasten the firm's internationalization. These networks can be increased by developing international networks which, for innovative SMEs, may provide answers to globalization challenges as they may offer a less costly alternative for obtaining access to local knowledge around the world and speed up the internationalization (Falize & Coeurderoy, 2012).

4. FINAL CONCLUSIONS AND RECOMMENDATIONS

Based on the exhaustive analysis carried, Boost has enormous potential and its expansion must be done organically, through an expansion to Oporto and Madrid, and non-organically, through the acquisition of a competitor. The company should expand to Oporto with the same business model but in a smaller scale and to Madrid restructuring its current strategy through a Joint Venture with a strategic partner; and should acquire Eco Tuk Tours for the ask price, enjoying from the competitive advantages. Still, since the success of this process highly depends on a close monitoring and evaluation by the company's founders, it is recommended to structure the implementation process in different phases, having regard to the importance of the timing.

In this report, the framework used to map the strategies was Ansoff's Matrix. One of the growth alternatives was not considered: the diversification blueprint. Even being the riskiest tactic as it implicates introducing new products into new markets, it is also a promising strategy to stand out among competitors and enjoy from early mover advantages. With this in mind several opportunities were spotted, namely:

During the research it was possible to recognize an upward trend in the tourism sector in Azores, the demand increased 23% in the first semester of 2015 prompted by the liberalization of the aerospace. As this is just emerging as a desired destination, the competition is low and there is a lot of potential to be explored.

Moreover, in the market research it was identified a gap that may also represent an opportunity. In spite of representing a large share of the tourists in Portugal, Chinese people are not currently a segment of the tourism entertainment firms. Understanding if this is related to consumer preferences or if it is simply a lack of communication might reveal interesting outcomes.

In conclusion, the output of this dissertation is not only valuable for the outcome of study performed but also for the three structured frameworks that can be applied to other imminent similar expansion strategies.

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