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IWP Strategy – SME Competitiveness  
Altis Hotel and its Internationalization to São Paulo-Brazil

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## **Glossary**

**Blue&Green-** Blue&Green is a brand of Amorim Tourism that seeks a new strategic positioning, targeting the segment of five-star resorts. In its umbrella are found The Lake Spa and Resort, Vilalara Thalassa Resort and Troia Design Hotel. This new commercial partnership favors Altis as it complements the experience provided to its guests in Lisbon, offering them a package which they can benefit from Portuguese resorts.

**KPI-** Key Performance Indicators which consist in parameters which indicate the performance and functioning of the hotels. Each hotel has a level that ought have. An example of a KPI is the ratio revenues/ personnel costs that must be between 3-3.5%.

**HRM-** Human Resources Management

**GDP-** Gross Domestic Product

**MICE-** Meetings, Incentives, Conventions and Exhibition

**RevPar-** or revenue per available room, is a performance metric in the hotel industry, which is calculated by multiplying a hotel's average daily room rate (ADR) by its occupancy rate.

**TO-** Tour Operator

**Valor Especial-** Brazilian Magazine

**Keywords:** *Altis, Hospitality, Internationalization, Management Contract, São Paulo, Brazil*

## **Abstract**

This thesis aims to study the internationalization process of Altis Hotels to Brazil. Altis is currently facing high financial leverage due to its hotels construction and renovation, nonetheless the geographic market served by the enterprise is narrowed only to Lisbon and with the economic crisis Portugal is facing, its internationalization becomes an imperative solution. Indeed, it has already had some management contract proposals to Rio de Janeiro and Luanda. Hence, the first part of this study is concentrated on Altis' competitive advantages on the national market, on the analysis of the business situation among other pertinent subjects. The second part regards Brazil's attractiveness, in which a deeply study of the country's macro environmental context and São Paulo hospitality industry is provided. Brazil evidences a good opportunity that Altis must pursue, being 2013 a good time of entry due to the future mega events to be realized. Afterwards, some suggestions and recommendations about Altis internationalization process were given in what concerns the entry mode, the best way for the enterprise to operate in São Paulo and to take advantage of its resources and capabilities, in order to strive in the foreign market. It is important to notice that **Exhibits in appendix** are extremely important to this thesis comprehension and appraisal, since they are **highly linked with the study conducted**.

## **Methodology**

This thesis was made through data provided by Altis and the analysis of São Paulo hospitality industry was made based on my own research through data scattered in several sites and institutions, recommended books and articles referred on references. Furthermore, interviews with Professors Francisco Moser and Ruben Paula, General Managers of Altis Hotels, Sofia Nobre, Marketing and Public Relations, Rui Silvestre, Consultant of Altis Administration board, and Raul Martins, Hotel Altis Administrator, were fundamental to understand the enterprise.

## **Altis Group Description**

Created in 1973 with the opening of Altis Hotel, the Group includes, currently, six Hotels with unique characteristics and privileged locations that total 1250 beds. During these years, Altis has been actively growing by increasing their hotel capacity and modernizing its infrastructures, by

creating luxury hotels within its own structure and consequently, solidifying its presence in Lisbon- **Exhibit 1** epitomizes Altis Group description. Indeed, by coping with consumers' changing preferences and by offering a range of hotels that are tuned up with those preferences, Altis is able to meet increasingly focused niches of the Lisbon market- **Exhibit 2** evidences Altis Hotels average price and RevPar budgeted with the real ones, in 2011 and 2012.

As Professor Rúben Paula, said: “ *Altis is neither a set of independent hotels nor a chain, but a collection of hotels. Each hotel has its own target and strategy, with its own distinctive personality, albeit sharing common family values and standards of excellence. It is as if every hotel is a SBU, each one has its own competitive advantage. The thread is conducted by its top management leadership, in areas of finance, HRM, external resources, marketing and social relationship*”. Altis follow a **focus through differentiation strategy** and consequently, the enterprise provides services that are preferred by the customers within a specific niche of the market. Altis' focused strategy on clients allowed the creation of a new service concept which could meet the specific needs of travelers and capture new markets: by combining higher and lower category hotels under its Group umbrella, in which each hotel targets a different segment with different stay periods-**Exhibit 3**. Altis is a very traditional hotel and in the last years have been improving quality and innovating, being awarded for that. Even though it is installed in a growing competitive industry, mainly due to international chains entrance, Altis is currently reaching its maturity phase and represents a credible niche, constructed with family values which embrace the Lisbon quotidian life. In what concerns Altis' keys to success are mainly high investments in marketing, highly standardized services and high standard accommodations (surveys in TripAdvisor and Booking.com), excellence in restaurants being one of them awarded with a Michellin star; great selection and qualification of managers and careful staffing.

### **Perspective on Business Mission and Objectives**

Managed by Fernando Martins and his children, the Altis Group represents one of the largest hotel groups in Lisbon, gaining space, notoriety and prestige over 35 years of activity. Faithful to what characterizes the most authentic form of Portuguese everyday life, the Altis Group have always embraced family values as corporate philosophy. The " Soul of Lisbon" is the chain

signature that over time has been associated with extensive range initiatives that give life to the city and that is where Altis' **mission** relies on: *Altis Hotels aims to deliver to its guests a unique city experience with the best quality provided through a service of excellence and supported by years of experience and knowledge of the city - Taste and pride in receiving guests, and sharing and transmitting the Soul Lisbon.* Regarding Altis' short-term strategic objectives, Altis aims to grow 32% in total sales in the next four years; take advantage of Altis Blue&Green (please consult the **Glossary**) new commercial partnership, in order to complement the two groups products and join efforts to retain new customers; and to improve the ratio of operating profit on sales of 25% to 35% in next 5 years, by increasing sales through an increase in occupancy and average room price sold. For this will also need to continue to invest in remodeling their hotel unit which is the main Altis Castilho.

### **Management of Competences and Resources**

The corporation holds and performs a personalized management of all its hotels, all of them located in Lisbon. Although each hotel has its own competitive advantage, one can generalize it to the Group. Hence, tangible and intangible assets provide Altis strategic advantages over its competitors. As one can see in **Exhibit 4- VRIO framework**, the ones which had value, are rare, non-imitable and organized are the location and financial assets, in what concerns the tangible resources, and the organizational structure, innovation, top management profile, reputation and social network (know-who), regarding the intangible ones. Moreover, according to the questionnaires answered by guests- **Exhibit 5** -service and staff have positive opinions from those answered. Thereunto, one can assume that another key competitor of Altis is its personnel development program in which the enterprise provides orientation and training to its hotel staff. As Francisco Moser said “ *We give our people encouragement to make suggestions in order to make them feel they are a part of the company. We want employees to realize how they contribute to Altis sustainability and we make a lot of investment in training*”. The recruitment is made through the competition, universities, online platforms ads and employment fairs in order to recruit the best. For each position exists a job profile- **Exhibit 6** provides an

example- in accordance with the job description that the employee must follow strictly in order to attain the KPI of the hotels. When a new employee is hired, he/she is firstly induced to the work position and to the Group, having usually a tutor that provides such monitoring. Then, the enterprise (usually Altis but it may outsource external trainers) provides training within its annual training program- theoretical training in accordance with Altis' procedures and practical training monitoring their departmental and individual work. The experience of the employee influences his operational training, as they are positively correlated. Cross-training is only usual when the function that the staff will perform has to interact with the various sections, so that he can understand the functioning of each department (eg.: guest service, group coordinators and banquet).

### **SWOT and TOWS Analysis**

As Francisco Moser stated, *“Benchmarking per room levels are good and have been improving with sales growth. Benchmarking are good also in terms of results, growing faster than the market due to the large investment, that is mandatory in this position to provide an appropriate level of service.”*(**Exhibit 7** provides a benchmarking with the competitors in terms of occupational rate, average price and RevPar). *However, we need to be faster to react: people must be predisposed to change and employees are not satisfied”*. Indeed, employees still lack satisfaction and motivation mainly due to their remuneration. Adding to Altis' weaknesses remains its limited presence in Lisbon, the fact that some hotels are still perceived as old fashioned- as one can see in **Exhibit 5**, in which the bedrooms and services complementary to the hotel represent the highest negative commentaries- and the lack of a clear strategy. As a threat one can name the highly leverage of the company due to new hotels investments and reshuffle- for a more detailed **SWOT analysis** please consult **Exhibit 8**. Thus, in order to take advantage of external opportunities and internal strengths, by minimizing the internal weaknesses and external threats, (please consult **Exhibit 9 TOWS Analysis**), Altis could pursue the following strategies: *“Maxi-Maxi” Strategy*- with a consistent quality and strong reputation

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<sup>1</sup> Source: Associação de Hotéis de Portugal, AHP monitor, 2011

Altis can take advantage of the external demand for luxury and innovative hotels<sup>1</sup>. With the Blue&Green partnership (please consult the **Glossary**), Altis can avail the expansion for other Portuguese markets and to other targets, by offering packages that complement its city experience with resorts; **"Maxi-Mini" Strategy**- with a consistent quality and innovation, Altis can provide experiences that improve customers' loyalty such as the provision of smart card in which all the information such as guest history, profile, likes, dislikes, requests and preferences are disclosed. The latter will allow the connection with customers in an emotional level, customizing their experience; **"Mini-Maxi" Strategy**- Altis could focus its efforts on improving HR practices, so that its employees feel more satisfied and could perform a better service to this niche market (luxury tourism); **"Mini-Mini" Strategy** - Altis could consider selling Altis Park so that people can perceive as a more cohesive group.

#### **Analysis of Business situation**

In what concerns the industry mapping that include the key drivers in the hospitality industry, the main operators are epitomized in **Exhibit 10**. An industry analysis according to Porter is disclosed in appendix- **Exhibit 11**. Each Altis hotel has its own competitors, which are fully described in the **Exhibit 12**. Moreover, an adaptation of Porter's value chain for the hospitality industry is applied, as inbound and outbound logistics and service represent insignificant costs compared to hotels' total costs. Hence, primary activities consist in Marketing&Sales and Distribution Channels (4.2% and 20%, respectively), After sales service (0.6%), and Procurement (30%). The secondary activities are Technology Development (which represent insignificant costs), HRM (43.1%) and Firm Infrastructure (2.1%). According to information given by the firm the margin reached in Altis chain as whole is 25.4%, which is high. **Exhibit 13** entails the description of these activities and **Exhibit 14** represents the income statement in which some costs were drawn.

### **Brazilian Hospitality Industry Attractiveness**

Currently, Brazil is the 35th most popular global tourist destination<sup>2</sup> and according to WTO is the country most visited in South America. Many incentives have been given by the Ministry of Tourism and Embratur to stimulate the Brazilian tourism industry. A list of the programs for tourism promotion and its main characteristics can be found in **Exhibit 15** in appendix. Among them it can be found measures to foster the quality improvement, modernization and expansion of existing hotels, encouragement of credit and financing really advantageous concerning interest tax rates, repayment deadlines and availability, tax relief, among others. Nonetheless, there are inhibiting and unfavorable factors to the industry growth and development such as the increased competition as a result of new entrants in the market; the Brazilian cost of credit for the international investor; the high rotating rate of labor and the lack of qualified people; the actual land price, especially in São Paulo (SP) and Rio de Janeiro (RJ); and the slowness of new hotels construction process due to its rising costs, shown in **Exhibit 16**, and to the bureaucracy of public legislation (municipal and state).

The emergent country's international importance and competitiveness as a travel destination is increasing as it will be hosting the FIFA World Cup in 2014 and the Olympic Games in 2016. An opportunity to hospitality enterprises can be found as Valor Especial<sup>3</sup> forecasted a lack of beds for this period, as displayed in **Exhibit 17**. However, the infrastructural problems regarding airports, poor quality highways and small railway network remains a concern on the country's ability to follow the forthcoming growth. Indeed, 70% of the revitalization work set to be done in airports will not be ready before the 2014 World Cup<sup>4</sup>.

For a more detailed **SWOT of Brazilian Hotel Industry Analysis** please consult **Exhibit 18**. A detailed macro economical analysis is also displayed in **Exhibit 19 and 20 - Criteria of Country Selection and PESTEL Analysis**.

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<sup>2</sup> Source: Minister of Tourism- Brazil Investment Guide Q4 2012

<sup>3</sup> Source: [http://www.dk-export.dk/media/The\\_Brazilian\\_Hotel\\_Sector\\_August\\_2010.pdf](http://www.dk-export.dk/media/The_Brazilian_Hotel_Sector_August_2010.pdf)

<sup>4</sup> Source: Euromonitor- Travel and Tourism in Brazil according to the Institute of Economic Research (IPEA) published in 2011

### **São Paulo - Major characteristics of the hospitality industry**

São Paulo is known as a business and events destiny but its profile has been changing over the years, with a crescent number of leisure tourists. The city has 2.5 million square feet of area for lease and has a plethora of service providers to organize conventions. São Paulo concentrates 75% of the Brazilian market fairs. The capital registered 90 000 events per year, which generate almost R\$4B of revenue. In São Paulo an event is held every six minutes, which makes the city the 12th destination in the world for international events. The city won in 2012, the website Mice (Meetings, Incentives, Conventions and Exhibition) São Paulo<sup>5</sup> which brings together more than 200 space-vices to events in the capital. The goal is to help companies to find locations for conventions and trade shows.

In 2011, the total income from activities related to tourism in São Paulo was more than R\$10 billion. The revenue derived from tourism in São Paulo is forecasted to double its digits in 15 years, as in 2020 is predicted to be R\$13.5 billions as seen in **Exhibit 21**. The employment in the tourism sector is also recovering as one may see in **Exhibit 22**. The revenue increase is one good indicator that demonstrates the growth of the tourism industry. With the growing traffic, revenues increased 26% in 2011 compared with 2010, counting for R\$200M in taxes for municipality. The city registered 448 thousand jobs in the tourism sector in 2011, growing 7% in relation to the previous year.

### **Inboud Tourism**

The Paulista hospitality industry is the biggest in South America and it is expected to grow to support the needs of the increasing number of domestic and international tourists. <sup>6</sup>The airports of the city registered an annual traveler's growth of 13.6% in 2011. Indeed, as one can see in **Exhibit 23**, in 2011, São Paulo's three main airports received 54.2 Million of travelers<sup>7</sup>, compared to 33.7 Million in 2005. The economic emergency of the country has been bringing an increasing number of business tourists and accordingly to Brazil Hotel Industry Investment

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<sup>5</sup> Source: [www.cidadedesapaulo.com/mice](http://www.cidadedesapaulo.com/mice)

<sup>6</sup> Source: Minister of Tourism- Brazil Investment Guide Q4 2012

<sup>7</sup> Who may have stayed in SP state or not

Guide<sup>8</sup>, São Paulo is the city which receives more corporate visits in Brazil. Beyond of business tourists, the leisure travelers are also growing, being attracted by the museums, events, parks and gardens, exceptional nightlife and the world class cuisine.

In 2011, the city received 5.4 million of visitants and it is predicted that tourists reach 8.2million in 2016<sup>6</sup> as shown in **Exhibit 24**. United States of America remains the main source market for inbound tourists to São Paulo, sending 15.2% of the tourists in 2011, a drop of 3.4% comparatively with 2010, according to figures provided by the Minister of Tourism- **Exhibit 25**. However, for the growing Argentinean market, the arrivals showed an increase of 3.4% from 2010 to 2011, totaling 14.5%. Germany, Spain and Portugal are also sending more tourists. The main reason for travel is clearly business, events and conventions, which tallies for 57% of the tourists. Leisure, even unstable, showed an increase of 2% comparatively with 2011, summing 12% of the total tourists<sup>9</sup>.

Among the internal SP visitors, the Paulista ranks first place in the ranking of visitors (29.4%). Residents of Campinas, Sorocaba and Ribeirão Preto are the ones who most visit São Paulo. Among the other Brazilian states, Rio de Janeiro leads the sending city, with 16% of the domestic tourists, followed by Minas Gerais (9.5%), Paraná and Rio Grande do Sul (both 7.2%)

### **Characteristics/Profile of Domestic and Foreign Tourist in SP<sup>10</sup>**

**Socio-Economic Profile:** In 2011, 68.4% of the total international tourists are men and 31.6% women. The highest percentage of foreign inbound tourists who arrive to São Paulo belongs to the age range between 32-40years old, totaling 28.1%. Following, comes the range between 41-50 years old, with 24.4%, and 25-31 years old, with 20.4%. Most of the international tourists have a high educational level: 46.6% has higher education, 35.4% has a post-graduation and 15.9% has a medium level of literacy. The average individual and familiar monthly income is \$4.112,34 and \$5.734,41, respectively.

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<sup>8</sup> Brazil Investment Guide

<sup>9</sup> Of the latter, cultural motives seems to be the main reason (42.9%), followed by nature, ecotourism and adventure (23.8%)and sun and beaches (23.4%).The remaining 9.9% went to São Paulo for its nightlife, incentive trip or others.

<sup>10</sup> Source: Minister of Tourism, São Paulo Outlook 2012: o Perfil dos visitantes

**Motive:** The Brazilian tourists who arrive to the city for the purpose of business, events and conventions count for 67%. Yet, 52% of the latter are extending their stay for leisure, entertainment and shopping reasons and 30% are those who stay longer due to business. Regarding the foreign, 57% arrive for business purposes, as seen before. Thereafter, comes the participation in fairs and events, with 21%. Nevertheless, unlike Brazilian, 41% of foreign tourists spend a few days longer than planned for work reasons. In their spare time, visitors enjoy shopping, know the restaurants and nightlife of Sao Paulo.

**Travel Organization:** 38.8% revealed that their informational source was by the corporative travel, while 27%% was by the internet and 23.6% by friends and family. The remaining sources are travel agencies (4.5%), printed touristic guides (2.3%), fairs, congresses and events (1.4%) and others (2.4%). Furthermore, 76.2% of the international tourists state that they have not used travel agencies as intermediaries, 21.1% used avulse services and only 2.7% used a travel package with the airplane tickets and hotel included.

**Spending:** The Brazilians are increasing their spending in Sao Paulo. In 2009, each visitor spent per day R\$350. This value rose to R\$400 in 2010 and arrived at 570 in 2011. Foreign tourists visiting the city spend less than Brazilians, have living expenses in the city of R\$465. Research conducted in 2011 with Brazilian passenger in São Paulo International Airport in Guarulhos showed that the better services assessed in the city were the food, the shopping and the cultural attractions and entertainment.

**Overnight stays:** Since 2009, the number of overnight stays of foreign visitors is also increasing in Sao Paulo. The average was almost 5 overnights in 2011 compared to 4.2 in the previous year and 3.7 in 2009. The total number of tourists in hotels outside of São Paulo increased from 8.9% in 2009 to 17.6% in second semester of 2011.

### **São Paulo- Hospitality Market Structure**

According to a study made by Fundação Gertúlio Vargas<sup>11</sup>, São Paulo is experiencing a market recovery in the hospitality industry, as presented in **Exhibit 26**. Either the Average Daily Rate (ADR), the RevPAR or the occupancy are increasing. As one may notice, the RevPAR (supply)

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<sup>11</sup> Source: Brazil Hotel Industry Investment Guide

is forecasted to meet the occupancy (demand) by the time that the World Cup will be hold in Brazil (2014). Until then, the renovation of existing hotels the construction of new ones will take place. As seen in **Exhibit 27 and Exhibit 28** provided by IBGE, 54.6% of the lodging establishments in São Paulo are hotels, being the remaining motels, B&B (Bed and Breakfast) and others. Of the hotels, 54.6%, 3.3% are upscale hotels, 9.9% are upper midscale, 18.3% touristic, 38.7% economic and 29.8% simple.

**Upscale and Upper midscale segment / Superior and Luxury segment<sup>12</sup>:** Since Altis Group encompasses a range of 4\* and 5\* hotels and that is where they are specialized and have competitive advantage in Lisbon, my focus will be in the upscale, or premium superior(R\$300-R\$600) and upper-midscale market, or standard superior (R\$150-R\$300) markets, which are considered to be luxury hotels. According to a study done by HVS, as one can see in **Exhibit 29**, both of these markets suffered a downturn, in SP and RJ, in 2009 due to the financial crisis. Thereafter, the performance of the hotel industry in these two cities has been stable, registering a record in 2011 of 69,3% annual occupational rate- **Exhibit 30**. According to the latter, the average RevPAR in 2011 of the upscale market and to the upper midscale were R\$525 and R\$244, respectively. Recent data shows that whilst the occupational rate decreased in the first semester of 2012 comparatively with the same period in 2011, the RevPAR is growing significantly- **Exhibit 31**.

### **São Paulo Industry Analysis applying Porter 5 Forces Model**

**Threat of Substitutes:** The hotel industry as several substitutes that depend on the type of traveler. Whereas the leisure traveler has substitutes such as staying at a friend's or family's house, recreational vehicles and cruise boats, the substitutes for business travelers are corporate apartments and guesthouses or videoconferencing. According to a survey at São Paulo International Airport in Guarulhos<sup>13</sup>, the main means of accommodation for tourists is the hotel

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<sup>12</sup> According to Regulation of Media Hosting, hotels are ranked according to the following categories and their respective symbols: Premium Superior (\*\*\*\*\*), Luxury (\*\*\*\*), Standard Superior (\*\*\*), Standard (\*\*) and single (\*)

<sup>13</sup> Source: São Paulo Outlook 2012: o Perfil dos visitantes

while staying in homes of relatives and friends is also common among domestic tourists. For a more detailed analysis please consult **Exhibit 32**. In overall, the threat of substitutes is medium.

**Threat of new entrants:** The menace of new hotels can be measured by barriers of entry and exit and the expected retaliation of the incumbents. Huge capital investment in unrecoverable and harder-to-finance expenditures, economies of scale and high brand identity of the installed hotel chains scares-off new entrants (**Exhibit 33** represents a detailed analysis of the barriers to entry). Nonetheless, industry returns are attractive and since the capital market is efficient, investors will provide entrants with the funds they need. Moreover, as seen the before, the incentives given by the Minister of Tourism of Brazil attract new entrants.

Expected retaliation tends to be high as the incumbents possess substantial resources to fight back such as cash, unused borrowing power and influence with suppliers, travel agencies and customers. As a matter of fact, in order to block the entrance, incumbents can cut off prices, since high competition would mean more room offer, less occupancy and consequently lower revenue per room available. Barriers to exit do exist as the hotel product is very specific which makes it difficult to apply to another industry. Possible scenarios are the conversion of hotels to apartments, condominiums or office buildings or the re-utilization of the land, as the location is a very scarce commodity in the big cities. Yet, these are very costly scenarios. All in all, the threat of new entrants is moderate-high.

**Bargaining Power of Suppliers:** Hotels need supplies for Food&Beverage, Bath products, Cleaning and Housekeeping products, Architects, Designers and Furniture. The bargaining power of suppliers will depend on their rarity and on how important they are for the hotel service to excel. Thereunto, each supplier has its own bargaining power as it is determined by their number, the availability of substitutes, the switching costs, the product differentiation, the supplier's and industry's threat of backward integrate, its contribution to quality and to cost, and the industry's importance to supplier- **Exhibit 34** features a detailed analysis of the latter. It is important to notice that whereas for F&B and the Bath&Cleaning products, hotels purchase regular and high volume quantities, for the architects and designers, the purchases are made few times in the hotel lifetime, mainly on the initial stage or in hotel modernization or expansion,

which it may happen in the management contract for Hotel Altis in São Paulo as shown further on the implementation analysis. All in all, one can consider that suppliers possess moderate bargaining power.

**Bargaining Power of Buyers:** In this section, one can consider two types of buyers: the individual customers and tour operators (TO)/travel agencies (TA). Individual customers have medium-low bargaining power since they exist in a large number; the regularity of their purchase depends on their brand loyalty and on the level of differentiation that they find between the hotels supplies; their information advantage mainly coming from internet and social networks. Conversely, TO/TA have high bargaining power as they are few in number; they purchase high volume and regular purchases; they can dictate terms of the contracts, force price concessions or demand special services; they are well organized and they know better about the profit and cost structure of hotels than an individual customer. Whatsoever, neither the individual customer nor the tour operators can backward integrate and become their own supplier of hotels. Besides, both buyers face low switching costs. **Exhibit 35.** Furthermore, airlines, such as TAP (this Altis' Portuguese partnership is explained in **Exhibit 10**), face medium bargaining power as they are few in number and provide miles accumulation in the purchase of Altis rooms. Concluding, buyers feature medium-high bargaining power.

**Industry Rivalry:** There are many competitors in the Paulista hospitality industry and none of them seems to have a dominant position. In 2011, São Paulo possessed 972<sup>14</sup> lodging establishments and many international chains, such as Hyatt, Sheraton e Hilton, compete for customers with exclusive and luxurious options, as Fasano, Emiliano and Unique. Indeed, the rivalry in the SP city hotel industry is demonstrated by the strong advertising campaigns, service improving, new product introductions or hotel modernization. Whilst high end hotels tend to be differentiated, with strong brand image which demands a very high price premium, the lower segment is undifferentiated and therefore, price competition is likely to occur. The sector displays high concentration and fragmentation in SP and there is fierce competition to get partnerships between tour operators, travel agencies and charters. As seen before, customers'

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<sup>14</sup> Source: IBGE: [http://www.ibge.gov.br/home/presidencia/noticias/noticia\\_visualiza.php?id\\_noticia=2090](http://www.ibge.gov.br/home/presidencia/noticias/noticia_visualiza.php?id_noticia=2090)

switching costs are low or insignificant and there are high entry and exit barriers. The industry rivalry is considered to be high.

### **Internationalization Process**

Altis' proactive motivations to internationalize are mostly sales expansion and consequently, risk minimization, as it only depends on the Lisbon market that is suffering an economic downturn. A saturated domestic market with the risk of suffering cannibalization and competitors pressure, as almost all Altis' domestic competitors have internationalize already and Altis' may fear losing this opportunity permanently; are the major reactive motivations.

### **Entry Mode**

According to Clarke (2007) there are six major preferential foreign market entry methods for hospitality enterprises: wholly owned, joint venture, strategic alliance, licensing or franchising, management contracts and consortia. "In recent years, there has been a move away from direct investments and leasing to non-investment management arrangements [...] as the form of enterprise that is preferred by hoteliers and caterers. Franchising (licensing), management contract and consortia are three of the most important choices used by the hospitality industry."<sup>15</sup>

When talking to Rui Silvestre, Altis should consider two entry modes: management contracts and foreign direct investment by a wholly owned subsidiary, also called Greenfield investment. Licensing and Franchising were immediately excluded, as Altis lacks a powerful brand image in Brazil. Furthermore, a joint-venture with a Brazilian company would be difficult for the previous reason and it would not provide Altis the brand awareness in the foreign market that it aims when internationalizing, despite facilitating the Pro-Copa Tourism program<sup>16</sup> credit concession and reducing risk and costs.

The Greenfield investment can be made from scratch, by purchasing a land and/or constructing a new hotel. Constructing a new hotel, whereas it is the most profitable hypothesis and provide

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<sup>15</sup> CLARKE, 2007: 184

<sup>16</sup> If a company aims to internationalize to Brazil by BNDES financing, it has to have an established local presence in the country. The latter can be obtained by creating a subsidiary or by entering into a joint venture with a Brazilian enterprise. In order to get financing form BNDES, the projects have to have at least 60% of local presence, which is evaluated by parameters such as nationality of employees, weight, price and volume of materials, etc

Altis a higher control, it is the more complex and costly one: land costs can go up to R\$9.507 in Avenida Paulista (**Exhibit 36**) and the construction costs are increasing exponentially, reaching R\$840 per square meter in 2010, as seen before. Buying a hotel already made is also costly: the price of a square meter can range R\$12.500 in Paraiso to R\$16.400 in Jardim Europa- **Exhibit 37**.

Leasing is an agreement between the constructor and a hotel company in which the hotel owner lends the hotel land, improvements, and sometimes furniture and equipment, to the hotel company. Altis would then become the tenant hotel company with all the operating responsibilities, financial obligations of funding, working capital and rent. Moreover, it would receive the residual net income after all expenses, including the rent payment. The landlord would not be responsible for operating decisions yet it pays the real estate taxes as owner of the land and improvements. Nonetheless, Altis' financial leverage does not allow it to international expand neither via a construction, acquisition nor leasing. Even though the older hotels are already paid, Altis made huge investments on three hotels Lisbon (the construction of Altis Belém and Altis Prime, and the reshuffle of Altis Hotel) and with the current downturn, banks are not conceding credit so easily. To acquire financing in Brazil, the foreign investor must firstly collateralize 50% of the value to construct the hotel and then credit will be conceded at a floating rate of 1.2% per month with amortization period of 5 to 7 years. Despite the fact that investment funds do exist to foster the Brazilian tourism industry, as seen previously, they are very restrictive and in general the process is long, complicated and it is targeted to native investments. Thereunto, on **Exhibit 38** is displayed the advantages and disadvantages of each mode, as well as the method to enter in the market and its attractiveness, leading to management contract as the best hypothesis; **Exhibit 39** analyses the advantages and disadvantages of leasing and management contract for the hotel owner.

Indeed, taking into account opportunities in Brazil that one as seen before such as the lack of beds to the 2014 World Cup and 2016 Olympic Games, the rising middle class and the fact that São Paulo is the economic capital of Latin America; threats suchlike Paulista lack of space and

rising construction costs, high industry rivalry due to the strong, well-known luxury brands with good reputations international chains that are there installed;

Altis strengths in training, know-how in management business hotels and weaknesses as the financial leverage, the best hypothesis to enter São Paulo hospitality industry is through a **four star business hotel** by a **management contract** located in **Campinas** or **São José dos Campos**<sup>17</sup>- please consult **Exhibit 40** for a more detailed TOWS Analysis.

With management contracts a management company runs the property for the owner in return for the agreed upon management fees<sup>18</sup>, that are based on different performance dimensions (gross or net revenue, profits after taxes) depending on the negotiation; but the operation of the property is separated from its ownership<sup>19</sup>. The management contract allows to unbundle the FDI package activities, ie, Altis do not has to provide all the operations but it can negotiate which one of them it wants to provide.

In a long term management contract, Altis will transfer management personnel and administrative know-how to assist a company that probably lacks of managerial experience and technical skills, for a fee, contributing for both sides long-term market development goals. For Altis, a management contract entails several advantages- it is less risky and less costly, as it allows to surpass the rising construction, land and renting costs; provides local and international market position and brand recognition; and provides a higher degree of knowledge transfer, in all forms, from extensive personal and business network development to an extent of this involvement to its own experience ability to operate in the Brazilian market in a more competitive and profitable way. Hence, for the builder there is a risk that Altis become a future competitor or that it has to change the company that is running the hotel, thus the time of the contract becomes extremely important.

A management contract is also less profitable and provides Altis less control: since it is not a wholly owned operational control, the enterprise ownership is in a position to influence the strategic direction of the company and even to determine its viability to the extent of provision

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<sup>17</sup> The location of these cities close to SP city is explained in the Implementation Plan

<sup>18</sup> CLARKE, 2007

<sup>19</sup> JOHNSON, 2002

of financial and other resources. The financial viability of the owner becomes an important issue to Altis as the building firm as the responsibility to provide sufficient resources such the building and physical maintenance in order to Altis carry through its operations.

The terms of payment shall be based in three different fees: (1) a basic fee in which Altis charge a management fee for the provision of the basic management services- it may be a fixed fee, irrespective of outcomes; (2) a success fee, a percentage of the profit outcome; and (3) an additional services payment for marketing, for example, for Altis Portuguese network or training. Training is very costly and best way to address this issue is to separate and charge additional amount for the training service, forcing Altis to decide what level of training it wants and can afford. Moreover, basic fees are usually 4% while incentive fees are up to 8-12%<sup>20</sup>. The latter are used to motivate Altis to have a positive outcome in the builder enterprise. The duration of the contract will depend on both sides' objectives. A termination, for unforeseen events, and a non-compete clause is also mandatory. It is important to notice that this is only an entry mode for Altis starting its internationalization process. In short, the management contract is a way for Altis to gain brand recognition and a strong network, by generating experiencing and learning of the Brazilian market with reduced costs. After the cease of the management contract, Altis could consider expanding for other areas of Brazil, mainly through the new partnership with Amorim Group, Blue&Green, which know-how relies on resort hotels; switch to acquisition or joint venture, renew the management contract, switch contractor, etc.

## **Implementation Plan**

### **1. Marketing Mix**

**Place:** By analyzing São Paulo hotel industry historical, one can assume that, by being a business touristic center, the luxury hotels have followed the city development. The 5 star hotels are generally located in the city center, in Avenida Paulista and Faria Lima surroundings while 3 and 4 star hotels, such as youth hotels and apartment hotels, where business tourists usually stay for a long period, are located across the city. Snapshots from Google Earth of São Paulo's four and five star hotels are displayed in **Exhibits 41-47**, in regions such as Avenida Paulista, which

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<sup>20</sup> Economist, 1999

include Moema and Jardins, Faria Lima, which includes Berrini; and Campinas and São José dos Campos that also receive a considerable number of tourists and have an attractive occupational rate, 70.72% - **Exhibit 48**. A full description of Altis' prospective national and international competitors in the latter regions are exhibited in appendix- **Exhibit 49 and 50**, respectively. It were only considered 4 star and 5 star hotels because that is where Altis has know-how and competitive advantages. **Exhibits 51 and 52** display a deeper analysis of the evolution of luxury hotels over the years in SP. Indeed, since fierce competition is a characteristic of the Paulista and Faria Lima Avenues, as seen in the snapshots before, Altis could be located in the city of Campinas and São José dos Campos.

Located 90km from São Paulo city, São José dos Campos is a technological center and is known for the health tourism<sup>21</sup>. It is where EMBRAER has its controlling unit, which designs, manufactures and supports aircraft for the commercial aviation markets, executive and defense. With 296,191 meters square of floor space and currently employing more than 10,707 employees, EMBRAER in S. José dos Campos is Portuguese platform as has joint-venture in Portugal with OGMA, which Altis could take advantage of<sup>22</sup>. Campinas, on the other hand, is the second biggest city of the State, becoming increasingly competitive touristically<sup>23</sup> due to its huge industrial and agricultural power. Besides big business scenario, Campinas is also an important center for culture and science: Unicamp, one of the country's most prestigious universities and major research centers are located there<sup>24</sup>.

Nonetheless, Altis' location will depend upon the real-state offer in São Paulo.

**Product:** According to a Travel and Leisure survey on how customers identify 4-star hotels, 22% of leisure guests surveyed identified leisure with perfect service, 19% with divine décor, 18% with a category that encloses facilities such as food, view and spa, 14% with spacious

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<sup>21</sup> UN placed the municipality within the top 25 cities of Brazil in terms of standard of living. There are several 4 and 5 star hotels that mainly serve both international and national business tourists including the San Michel Palace, the Shelton Inn, a Blue Tree Towers, a Mercure, a Novotel and the Caesar Business.

<sup>22</sup> The area also has four shopping centers, an historic downtown, sports centers, large green spaces as well many restaurants, bars and nightclubs

<sup>23</sup> Campinas has several 5 star hotels including the Noumi Plaza, the Royal Palm and a Marriott

<sup>24</sup> In Campinas there are some areas of tourist appeal such as Taquaral park Lagoa, urban preserved wooded area of Bosque dos Jequitibás, the Centro de Convivência theatre complex and the Lagoa do Taquaral park / urban lagoon, home to the city's planetarium and science museum amongst others.

rooms, 13% with high-quality sheets, 8% with swank bathrooms and 6% with privacy<sup>25</sup>. The business traveler has different preferences and needs such as access to technology, good room service, business facilities as conference rooms, and amenities that make the guest feel at home. Indeed, when the corporate client needs to recycle, seeking new technologies, markets and through travel partners, he uses superior standards of hotels and spends 3 or 4 times more than an ordinary tourist (Giuliani, 2004). Thereunto, when managing the **four star business hotel**, which seems to be the best choice by reasons enumerated earlier, Altis has to take this characteristics into account, by making contract arrangements with decoration, F&B and cutting edge computer suppliers.

As Ricardo Manarini, Brazil Region Head Developer of the InterContinental Group, stated: *“A major challenge in the hotel industry in Brazil is creating a product that appeals to the Brazilian taste – there is no ‘one size fits all’ formula due to the fact that our current and potential clients are used to being able to choose from a variety of options”*<sup>26</sup>. However, between Portugal and Brazil there is a high culture proximity and few changes have to be made. Thereunto, Altis will follow a **"Glocal market strategy"**, which entails seeking both global efficiency and local responsiveness. Thus, it will establish an integrated hotel network between Portugal and Brazil that fosters a shared vision and resources, whilst allowing local adaptations consonant costumers' needs and preferences. Altis must show Paulistas its brand individuality by delivering its guests an unique city experience with the already known Portuguese excellent service<sup>27</sup>. Indeed, what the business traveler needs is an hotel that embrace the international standards and consistency, for no matter what city he, or the group, travels they would experience the best of Brazilian culture. The amenities will be provided consonant both São Paulo real state offer of management contracts and by the terms agreed upon- Altis may or may not be in charge of the architecture, decoration, illumination, gardens and atmosphere. A list of the various services that are usually provided by the management company is provided in **Exhibit 53**. The decor

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<sup>25</sup> Ibid

<sup>26</sup> Source: Brazil Investment Guide- Interview with three of the industry's leaders: Paul J. Sistare (CEO and President, Atlantica Hotels International), Ricardo Manarini (Brazil Region Head Developer, InterContinental Hotels Group) and Ricardo Vicalvi (Business Development Manager for Latin America, Accor Group)

<sup>27</sup> Based on commentaries from TripAdvisor.com and Booking.com

company can be foreign or Portuguese, depending on the quality and cost of the proposal. Furthermore, such like Ritz-Carlton<sup>28</sup>, Altis may outsource some activities and adopt an internet savvy experience in which hotel guests can order food online from the restaurant to their bedrooms, emphasizing guests privacy and the feeling of being at home. A broadband capability is also required so guests can have expedited access to their offices. In addition, to deal with time-pressured travelers, Altis could provide in-suite check-in, allowing guests to go right to their rooms upon arrival. Another adaptation that Altis must do is regarding the payment methods, since Brazilians are used to pay everything by installments and by bank transfer. The Spa should be outsourced by a specialized company and as for restaurants Altis Group already demonstrated its ability to manage them directly, being awarded for that and increasing its brand awareness, bringing passing guests. Another adaptation that Altis must pursue and that it still lacks in the Portuguese market is regarding green policies. The latter are becoming more and more popular in the Brazilian market and apart of the cost savings, going green is also relevant in terms of a marketing perspective. Furthermore, notwithstanding that Brazilian environmental awareness precedes the mega events, the BNDES ProCopa Turismo program enhances green investments and operates with concepts such as Standard Hotel, Energy Efficient Hotel and Sustainable Hotel. Thus, it become important to install intelligent lighting, improved insulation and materials, among others.

**Price:** As seen before, the medium class is increasing as well as its purchasing power. Taking that into account and the fact that the big luxurious international chains represent high entry barriers in this segment, Altis would provide a 4 star service, as explained earlier. Altis will price its rooms on competition and demand basis. Different tariffs will be applied consonant the channel guests arrive by. For the individual walk-in client, the individual rate, also known as daily rate, has three categories that guests are not aware of: the rack rate (highest one), the commercial rate (for business clients who do not have an account with the hotel but are considered to be a good reputé) and the preferential rate (lowest one). For the tour operators or

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<sup>28</sup> Harvard Business School: The Ritz-Carlton Hotel Company, by Sucher, Sandra J., Mc Manus. Stacy E.

big enterprises, which generate more nights volume, Altis charge differentiated contractual rates. Hence, its price will be between R\$150 and R\$450, varying consonant seasonality, type of room and type of client. R\$450 is assumed to be the Average Daily Rate in the peak seasons such as the World Cup 2014 and the Olympic Games, in which the demand is higher. Eventually, Altis will promote packages for holidays and events.

**Promotion:** In order to stimulate demand, there are three main strategies: the pull strategy, the push strategy and cross marketing. The pull strategy allows the enticement of the tourist to stay at Altis, by inducing him to seek the appropriate distribution channels and make him more interested to try the experience. E-marketing and sales representatives are examples of this strategy- it is important to notice that Altis already possesses a sales representative in RJ, which brings Brazilians guests to its Portuguese Hotels. A pull strategy leverage the target customers and allows to deliver the reputation that Altis wants, given that the enterprise first acknowledges what the targeted customer need. The push strategy makes the intermediaries to sell the service to the customer, by offering a commission to tour operators, airlines, travel agencies, conventions and meeting planners, and event organizers enterprise- **Exhibit 54** and **55** represent a list of the major Brazilian airlines and TO. The cross marketing or joint promotional effort allows to form alliances with other hotels, restaurants, airlines in order to bundle the products and fill the gap between offerings. An example of those are packages to different locations or a package with the flight and the hotel booking. Altis must not jeopardize the role of regional tourism organizations, which helps to reach the appropriate distribution channels in Sao Paulo. TAP partnership must not be undermined, nor Blue&Green. Additionally, Altis can take advantage of Great Hotels of the World and Preferred Boutique, by inducing them to see and award its new Brazilian hotel. Moreover, considering Altis positioning and budget limitations, promotion cannot be made by direct advertising. Nonetheless, the latter may be justifiable in the long term, only through tourism specialized media (Travel&Tourism magazines and newspapers), when Brazilians have perceived Altis' positioning in the luxury market. Thereunto, public relations, sales promotion and e-marketing are effective channels to communicate Altis' entrance in the market. An example could be the provision of a Sales Representative in the mega

events, giving to know and promoting Altis brand to Brazilians, or a package suchlike the Portuguese "A Vida é Bela". The role of the PR is really important as it reaches not only the external client as the internal one, such as employees and suppliers. Regarding social networks, the most used of Brazilians is Orkute (30/36 million users), a channel that Altis must use to divulgate its service. The latter is very important as it does not carries costs. The participation in business fairs, tourism events and congresses also allows to create brand awareness. Moreover, one suggestion could be the provision of free entrance in museums and city tours, and the transportation to and from the airport and other points of interest of the city: gardens/shopping malls in Campinas and S.José dos Campos.

## **2. Resources (4M's)**

**Men:** Altis' country manager main responsibilities when arriving to São Paulo will be 1) Hire a local consultant to analyze market entry opportunities 2) Find local suppliers, corporate agreements (since 38.8% of tourists are corporate, as seen before) and partnerships with Brazilian airlines and tour operators; and 3) Hire function managers and recruit staff. Like Lisbon, the recruitment will be made based on the needs of competence, training and experience for the places available. People with no experience will be hired to more undifferentiated functions (eg. Canopies, porters, waitress, etc). The country manager will be responsible for hiring function managers by personnel recruitment, going to competitors and distributing cards with job application information, as Ritz does, and in employment fairs. In order to have more in-field control of the new hotel operations, Altis will have to consider the expatriation of one of its top management teams, which had proven to have capabilities to perform this position. Hence, Altis will have to hire a recruiting enterprise - a list of the major recruiting enterprises and respective websites is provided in **Exhibit 56-** and provide intensive human capital training, by highlighting a multidisciplinary team to train local staff in accordance with group Altis' operating standards<sup>29</sup>. Afterwards, the team has to be kept motivated and satisfied, with the respective monitoring, supervision and better compensation systems than in Portugal, in order to

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<sup>29</sup> Altis' operating standards do exist and they have a high degree of organization to transfer knowledge. Nonetheless, the enterprise refused to give them, due to the thesis publication and consequently, in order to competitors not learn from them.

have a feeling of achievement and opportunity of recognition, such as better commissions, overtime pay, merit and performance pay. It is important to notice that executive compensation in Brazil is competitive by international standards and certain benefits such as health and dental insurance plan or private pension plan are considered to be part of a base salary<sup>30</sup>. Bilingual staff for front house operations is hard to find and securing qualified management staff will be even more of a challenge. Nonetheless, 2/3 of the team has to be local to surpass legal barriers<sup>31</sup>. At headquarters in Lisbon shall be some back office functions such as accounting, management control, administration and other functions of a strategic nature. In the country of destination would have to be concentrated all operational functions of customer service: hotel operations, sales and marketing, maintenance, procurement, HRM and IT. Marketing&Sales department should be composed by Brazilian, yet under Altis control, since they have a better knowledge of the market and can more easily foster customers to purchase Altis' product/service.

**Money:** Given that Altis will have to expatriate one of its top management teams and/or assign one manager as country manager, they will have a salary increase and do regular trips to Brazil. Thereunto, Altis costs will increase with the wages augmentation and the travels during the pre-entry phase. The remaining trips must be of management contract responsibility. The home office expenses also include insurance, bookkeeping and legal documents. Furthermore, Altis will have to incur in additional costs to discover the most suitable entry mode according to the real state offer and its respective location. Thus, it will have to contract a specialized and prestigious consulting company such as HVS (Hospitality Valuation Services) or BSH (consultant pioneer of hotel investment in Brazil headquartered in São Paulo), and pay them between R\$15,000 to R\$20,000. Besides, a law company will also have to be hired in order to negotiate the management contract terms and basic, success and additional services fee.

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<sup>30</sup> "However, because the tax advantages of these benefits have been reduced, it is anticipated that employers will increasingly grant direct salary increases and participation in profit-sharing schemes instead of granting fringe benefits" Source: *Ernest&Young Terco, Doing Business in Brazil*

<sup>31</sup> "To preserve job opportunities for Brazilians, the government generally requires that at least two-thirds of the employees in any Brazilian company are Brazilian citizens, and that two-thirds of the total remuneration is received by Brazilians. Companies must prepare an annual report for the Ministry of Labor with a statement showing the proportion of national to foreign employees. This statement must specify employees' remuneration and other relevant data. For this purpose, a foreigner is deemed to be a Brazilian citizen if he or she has lived in Brazil for at least ten years and the foreigner is either married to a Brazilian citizen or is a parent of a Brazilian-born child or has Portuguese citizenship" Source: *Ernest&Young Terco, Doing Business in Brazil*

## IFL- Altis Hotels and its internationalization to São Paulo

Moreover, the company will have to hire a recruiting firm, and upon the terms agreed on the management contract, will or will not have to also hire a decoration enterprise which could refurbish the entire hotel. The following costs estimation were provided by HVS in Property Management:

Luxury Hotels Average Costs in Management Contracts	
Costs of Pre-Opening Service <sup>32</sup>	\$4,100 to \$6,400
Working Capital Costs <sup>33</sup>	\$2,900 to \$4,000
Furniture, Fixture and Equipment Costs <sup>34</sup>	\$14,800 to \$32,300

Additionally, since SP city is a highly desirable market, Altis may have to pay a outright payment of key money so that it can manage the hotel under its brand name.

### Minute

The implementation plan schedule will comprehend three phases: the pre-entry, the entry and post-entry phases. The pre-entry phase will consist in the market research process and the first contacts with the city such as business trips and hiring a prestigious consultant firm, to be realized during the year of 2013. Moreover, the personnel recruiting, training, management contract negotiation, sales and costs forecasts, among others, will also take place in this phase. The entry phase that will take place in the second semester of 2013, consist on the creation of the management team and monitoring of the employees, hotel opening and strong promotion. The post-entry phase will consist in market consolidation and market expansion, either national, by other modes of entry or to other cities, or international, to Angola or Spain (both after Brazil).

Implementation Plan Schedule												
Phases/Time	2013						2014		2015		2016	
	Feb	Mar	Apr	May	Jun	2S	1S	2S	1S	2S	1S	2S
<b>Pre-Entry:</b>												
Business trips												
Consultant firm analysis												
Procedures for doing business in Brazil <sup>35</sup>												
Management Contract												

<sup>32</sup> Owners are usually able to negotiate low charges to the manager if it is a new hotel

<sup>33</sup> All hotels require WC to acquire inventories, supplies and finance other types of start-up costs

<sup>34</sup> If required, Altis will have to make a significant investment in this disbursement

<sup>35</sup> Exhibit 57- Doing Business in Brazil- approximately 125 days

IFL- Altis Hotels and its internationalization to São Paulo

negotiation Recruiting&Training Partnerships & Suppliers contracts Decoration (if agreed)				
<b>Entry:</b> Creation of Management team Hotel Opening Monitoring Marketing&Promotion				
<b>Post-Entry:</b> Market Research: Seek new entry modes, new markets				

**Memo:**

This section refers to a set of initiatives that has to be taken into account to achieve specific objectives in the foreign market . Hence, monitoring is necessary by using measurements to achieve a specific target that is consistent to those objectives. The following table entails this:

Perspectives	Objectives	Measurement	Target	Initiative
<b>Financial</b>	Increase sales, profitability, sustainable growth	Number of clients, sales revenue, RevPar, Occupational Rate	Occupational rate higher than 55% in the years after mega events; World Cup and Olympic Games >80% Have an operational margin of 30% in 5 years; ROI of 10% in 10 years	Marketing strategies
<b>Customer</b>	Create brand awareness Create/ Increase loyalty, exceed expectations	Occupational rate, questionnaires and marketing research, customer satisfaction index	Important tour operators and business people;	Increase Promotion, participation in conferences, events, tourism fairs
<b>Internal</b>	Talented, qualified and motivated employees. Customer knowledge	Personnel costs, Time required to perform the key processes, Training hours per week, Employees satisfaction level	60% turnover ratio (average=100%) Number hours training/number of workable hours= between 1.5-2.5 annually	Hire a recruiting and consultancy enterprise, and provide training
<b>Learning</b>	Understand Brazilian market needs and preferences Find competencies and knowledge necessary to work in the Brazilian market	Sales effectiveness and efficiency	60% of native employees Revenues/ personnel costs= between 3-3.5 annually	Training, Marketing Research, Learn with native staff

**Risk Analysis and Contingency plans**

The Brazilian hospitality industry is growing and showing signs of long term sustainability. Nevertheless, will Altis be capable of coping the increased internal competition that characterizes the Paulista market which is reaching its maturity phase? The risk does not rely on the short-term, due to the mega events, but afterwards. The Brazilian hospitality industry already accommodates a lot of big domestic and foreign chains seeking to expand its market share, which could mean a tougher competition and higher barriers to entry for Altis. Thus, Altis must take advantage of those events to generate brand awareness and foster customer loyalty, through promotion, in order to strive in the market in the forthcoming years. On the other hand, managing a hotel can prove to be lucrative but it also bears risks. The risks of this entry mode are related with operational concerns instead of financial ones. The management contract bears the risk of mismatched expectations, as the contractor can overestimate Altis' levels of training or competence to manage the hotel and strive in the Brazilian market. If Altis acknowledges that its levels of training are not able to reach the desired ones, the enterprise should outsource this activity, as it does in Portugal for some activities. A well written performance clause protects the hotel owner whereas assures Altis that the contract will not be terminated for circumstances beyond its control. Thereunto, the performance criteria should be clearly defined in order to the owner and Altis understand the specific goals. Moreover, this criteria should acknowledge the fact that a new hotel in a foreign market undergoes a period of build-up, during which occupancy and profits grow slowly and that seasonality is a characteristic of this industry. Indeed, Altis may be a competent manager yet it may be affected by external circumstances such as downward economy or a overbuilt and saturated market which make the performance level impossible to reach. As well, government can interfere as it perceive the importance of the hospitality industry to the national competitiveness with the mega events performed in the forthcoming years. Due to that, there is a potential for governmental interference to the management contract terms and policies, as the government is politically concerned in lieu of being outcome concerned. Indeed, the government can restrict the use of local suppliers, the speed which Brazilian staff take over Portuguese staff, and as seen before, the rate of indigenization of the venture (60%). The success implementation of this contract depends on the

effectiveness of Altis members. Thus, as problems surge, it is important to know how to handle disputes, which outcome relies on the quality of the parties relationship and the indigenous staff sent to manage the contract venture. Competent, trustful and skilled employees will be difficult to find and therefore, Altis has to contract a recruiting enterprise, as seen before.

### **Conclusions and Recommendations**

Considering Brazil's prospects regarding 2014 World Cup and 2016 Olympic Games, its political stability and its economic growth, it seems a good opportunity that Altis must pursue. Indeed, these mega events have a strong potential to prompt Altis into the Brazilian market, voicing and promoting to the customers what Altis brand is about. Nonetheless, Altis' long term focus should be ensuring a sustainable performance maintaining the occupancy and growth rates attained in the after years, being very vigilant of supply and demand factors and risks of over-expansion. Thereunto, my suggestion is to enter in the Brazilian market in São Paulo state not in the city, where the competition is fierce and the costs are outrageous, but in Campinas or São José dos Campos, cities which are seeing a movement of domestic and international HQ where more supply is needed to accommodate the market. Moreover, the domestic business tourist is present in these two cities due to major regional companies and manufacturers that located its operations there. The growth of the agri-business sustains my location choice due to its contribution to the continued growth of Brazil's GDP. In addition, my recommendation is to open a business hotel as business guests are proved to be an excellent growth source in the long term and that is where Altis has competitive advantages to strive in São Paulo hospitality market. In the foreign market, Altis must not jeopardize its Portuguese excellent service whereas adapting it to the Brazilian preferences. Furthermore, building a strong infrastructure in a good location and investing highly in people is the key to success in this industry. Hereafter, after having the brand recognition Altis needs in the Brazilian market, Altis could consider the expansion to other cities and by other entry modes, either by considering a joint venture with a Brazilian company or by constructing a resort, availing the partnership with Blue&Green, in the prosper northeast or south. International further expansion is also an hypothesis to Angola and/or Spain, as Altis is receiving a significant number of tourists from these two countries.

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