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VILA GALÉ: INTERNATIONAL EXPANSION TO MOZAMBIQUE

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## ABSTRACT

The purpose of this project is to understand the outcomes of the implementation of 4 star city hotel from the *Vila Galé* brand in Maputo, Mozambique, and the conditions under which such project would be financially worthy. Both the tourism market in Mozambique and the *Vila Galé Hotels* company were studied, aligned with a projection of the operational results. The conclusions allow to infer that this is a project aligned with the overall company strategy and that the sector's growth prospects in Mozambique would allow to achieve positive results that encourage *Vila Galé* to invest.

Vila Galé | International Expansion | Mozambique | Tourism Sector

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## **Abbreviations**

NUTS - Nomenclatura das Unidades Territoriais para Fins Estatísticos

RevPAr – Revenue per Available Room

ARR – Medium Price per Room

VRINO – Valuable, Rare, Inimitable, Non-tradable, Organizational Embedded

GDP – Gross Operating Profit

APTI – Área Prioritária para o Investimento no Turismo

IFRS – International Financial Reporting System

IRPC – Imposto sobre o Rendimento de Pessoas Colectivas

TGR – Tourism Generating Region

TRR – Tourism Transit Route

TDR – Tourism Destination Region

TAP – Transportes Aéreos de Portugal

LAM – Linhas Aéreas de Moçambique

MITUR – Ministério do Turismo de Moçambique

INE – Instituto Nacional de Estatística

WTTC – World Travel and Tourism Council

DUAT – Direito de Uso e Aproveitamento da Terra

GAZEDA – Gabinete das Zonas Económicas do Desenvolvimento Acelerado

CPI – Centro de Promoção de Investimentos

SWOT – Strengths, Weaknesses, Opportunities, Threats

TOWS - Threats, Opportunities, Weaknesses, Strengths

F&B – Food and Beverages

IMF – International Monetary Fund

## **1. INTRODUCTION**

*Vila Galé Hotels* is in the top 250 worlds' biggest hotel companies. As an international company that has already started expanding, it aims at keep doing so to new destinations. Similarly to any asset portfolio, the worldwide dispersion of hotel units is a mean to diversify risk taking advantage of the different growth stages of each tourism destination and impacts of the economic context. Aligned with company's strategy to grow internationally, it makes sense to look for potential markets to expand the brand. This study falls under the assumption that *Vila Galé* considers Maputo, Mozambique, as an appropriate destination to operate in and therefore it intends to run a 4 star business oriented unit there.

## **2. COMPANY AUDIT**

### **2.1 Context**

*Vila Galé Hotels* (*Vila Galé – Sociedade de Empreendimentos Turísticos, S.A*) is a family company, second largest in the Portuguese hotel market and main part of *Vila Galé S.A. Group*. Since its constitution in May 30<sup>th</sup> 1986 and operational beginning in 1988 until today it has opened and explores 20 units in Portugal and 7 in Brazil, listed in Appendix 1, with a total of 6410 beds and 2400 employees [1]. 26 of its hotels are 4 star units and one a 5 star unit, *Palácio dos Arcos*, for which the *Vila Galé Collection Hotels* sub-brand was created in 2013. The latter applies to smaller boutique hotels in restored buildings that can complement some destinations, leveraging on the notoriety of the mother brand. Expansion has been constant, with frequent openings, and with more expression in Algarve, where the company started. Additionally, the group operates in the wine and olive oil production through *Casa Santa Vitória* and in the fruit production (namely Pêra Rocha) with *Santa Vitória Frutas*, both of which are interconnected with the *Vila Galé Clube de Campo* property, in Beja, Alentejo [2].

The group's financial results throughout the years have funded its constant investments, as they allow for substantial margin. Appendix 2 shows that revenue and profit growth have been sustained in the last years, supporting major investments such as the openings of *Rio de Janeiro*, *Évora* and *Douro*, signaling financial health.

The Portuguese tourism market, described in Appendix 3, has few strong players and low concentration, being quite atomized, with 1729 units in 2014. 71% of those were hotels, followed by 12% of touristic apartments and 8% of apart-hotels. *Pestana Hotels and Resorts Group* has sustained national leadership for many years, but only offered 5,3% of the rooms in 2014. *Vila Galé* usually ranks 2<sup>nd</sup> place with 3% of rooms in 2014 and dominates the groups' supply in Algarve. The main hotel groups assured approximately 16,1% of units and 29,5% of total rooms, leaving the rest for independent competitors. Also, in the *NUTS II* geographic division, 4 main regions of overnight stays can be identified: Algarve, Lisboa, Centro Norte and Madeira [3]. Lisboa leads in new units for 2014, RevPar and ARR but Algarve wins on overnight stays and number of rooms.

## **2.2 Vision, Mission, Objectives, Structure and Processes**

The company's vision is set so that it aims at being a reference in the hotel industry, recognised by all players and clients in what regards the quality of its product and professionalism of its teams, seeking also sustainable economic growth that is both social and environmentally responsible [2].

Its objective is to grow in both existing and new markets, through city or resort hotels and through the *Collection* sub-brand. Moreover, the maximum goal is to exceed the previous year's results, for which strategies are adapted according to where there is price or volume margin to work on. Another goal related with client satisfaction is to

get at least an 80% score for all its hotels in hotel review websites and 90% for the 5 star *Vila Galé Collection Palácio dos Arcos* [2].

On organizational matters, the capital structure is 100% Portuguese and divided by shareholders and founders Dr. Jorge Rebelo de Almeida, José Silvestre Lavrador and Maria Helena Jorge, with an additional temporary ownership by Caixa Capital (Grupo CGD). As structurally described in Appendix 4, operations are centralized, with the usual departments – marketing, sales, legal, accounting, and financial, among others – fixed in the Lisbon headquarters, gathering a total of 60 collaborators. These departments report to the Brazil and Portugal Operational Directions, and everyone reports to the administration, that seeks to be aware of all issues. Being completely operational but responding to the local Operational Direction, each hotel has a Director and Sub-director, followed by the logistics heads of department: kitchen, reception, restaurant, cleaning, among others. Besides the fixed hotel staff, the company outsources some activities in high season and also specialized technical interventions for its units (such as elevators' maintenance). The hotels' supplier choice is based on the analysis of different options on 3 criteria: price, quality and references from other companies (sometimes clients), in order to ensure the company's standards. In Portugal the contracted suppliers are concentrated and usually the same whereas in Brazil the different locations between states oblige to a more diversified choice [2].

### **2.3 Strategy and Positioning**

Knowing that the worldwide search for 5 star hotels is relatively smaller and the investment in service more demanding, the choice on 4 star units made perfect sense for the company. Also, the Portuguese framework is not a typical 5 star destination (in fact, in 2014 there were 36% units of 3 stars, 36% of 4 stars, but only 8% of 5 stars), which supports Vila Gale's decision [3].

With a consolidated presence in the most important touristic areas of Portugal, expanding to Brazil in 2001 was a clear choice for the group, as motivated by the potential market, country proximity, language sharing, and some degree of emotional connection. *Vila Galé* seized the opportunity to acquire an abandoned building in Fortaleza to start this new challenge, continuing expansion simultaneously in Brazil and Portugal. Expansion has been made either by building from the start, buying existing hotels, or recovering and converting other buildings, but Brazil brought a new challenge of managing units of third-party ownership under the *Vila Galé* brand. Brazil's hotels have had major impact on the group's development and results: by 2014, and with a steady weight, they represented around 50% of the total revenues. Moreover, this allowed to connect with new tourist markets, namely the Brazilian one, which represents 92% of that country's occupation. The different scenario led to an adapted positioning in the product format: in Brazil, the gradual expansion and image were based on all inclusive hotels, which by the time *Vila Galé* entered the market had no existing offer. Together with the *Iberostar* group, *Vila Galé* was a pioneer in this format in Brazil, for which there is an international pattern expectable in terms of offer [2].

The investment strategy is not predetermined, but rather decided according to the needs and opportunities, and the same happens for renovations and upgrades in the existing hotels. There is no indexation to the obtained results and since there is also no result distribution to the shareholders, everything is reinvested as time goes by. The administration keeps in mind that expanding to other countries is a way to diversify risk due to the different economic cycles, as it has happened with Brazil, which assured results and stability during Europe's crisis. Still, none of the Brazilian hotels is amortized yet, with estimates of 9 to 10 years of return periods. In capital terms, the usual option is to mix external and internal financing (*Collection* is fully financed

internally), namely for greater resort-type investments. Given the higher interest rates in Brazil, the local hotels are financed by Portuguese banks, with the Portuguese units as guaranty. The final investment decision is made according to operations' simulations, by taking the market average indicators and projecting different scenarios [2].

The company's price policy is much related and established according to 3 factors: references from local competition, city and target. In Portugal, the 2015 price range for a night in double room with breakfast varies from €60 to €210 across all 4 star hotels and to €220 if *Palácio dos Arcos* is considered, creating an average margin per room of around 35%. Brazil prices vary approximately between €61 and €201<sup>1</sup>, with a per room average margin of 28% [4].

Regarding positioning, the *Vila Galé* product is characterized by the privileged location, comfort and decoration of its units, sympathy of its teams and respect for the environment and social context. Under the slogan "Always close to you" and the luxurious but familiar touch of its units, the brand is able to direct itself at different targets without losing focus from the product's message. The free accommodation to under 12 year olds and the Kids Club appeal to the family concept and feeling, in quality infrastructures with the most dedicated staff. The brand also plays with the offer for couples through innovative campaigns and vouchers. Furthermore, the many conference rooms and teams' professionalism are the perfect combination for business visits, events and even corporate holidays. In fact, *Vila Galé* captures different customers, depending on the hotel and its orientation and in Portugal, its expressive clients' nationalities are, in descending order: Portuguese, English, German and Spanish. Afterwards, groups with less weight arise, as those of Netherlands, Belgium, Brazil or France [2]. As an innovation oriented company, *Vila Galé* applied the thematic hotel concept in some of its units, under topics related to arts and culture. Moreover, it

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<sup>1</sup>Conversion from Brazilian Real in 27/05/15.

complements the product by associating its own wealth being ‘*Satsanga Spa*’ and the restaurant brand ‘*Inevitável*’ to some hotels. The latter leverages *Santa Vitória*’s wines and olive oil, another proof of diversification. Finally, it was also the first chain in Portugal to launch apps for smartphone and tablet, getting closer to its targets, which aligns with the overall positioning [4].

#### **2.4 Brand communication and partners**

The owned communication channels are the website, social networks, app, email marketing, text messages, the company’s quarterly magazine “*Feel*” and the hotels themselves, which tune *Vila Galé*’s Channel and distribute the magazine. The third parties of communication include reservations websites’, travel agents, tour operators and relevant partners, listed in Appendix 5. Aside from the biggest names in the Portuguese tourism context, *Vila Galé* also works with Brazilian agents and smaller and niche market travel agencies and tour operators. Moreover, there are clients that become strategic partners, as the case of *Nicola* or *Sumol+Compal*, which contract *Vila Galé*’s products and provide the hotels with their own [4].

#### **2.5 Resources and Competitive Advantage**

To find and measure *Vila Galé*’s competitive advantage using the Portuguese market as framework, the resource-based approach by Collis & Montgomery (1998) was taken into account [5]. The theory states that the correct management and practical application of a company’s resources is the base of its competitive advantage over other players and it is the only way to create enough value to achieve corporate advantage. To perform the evaluation itself two methods compiled in Appendix 6 were used. First, an analysis on the 4 biggest groups in Portugal was done, according to the Organizational Resource Platform concept [6]. Studying reviews’ websites, news, and the groups’ own websites, an independent and impartial analysis was made to each company’s main resources, in

what regards their strategic relevance and relative strength. Plotting each resource numerical score on a graph revealed that *Vila Galé* holds more of its resources in the relevant area, which combines the highest values of the two criteria.

Afterwards, the VRINO Approach was used for *Vila Galé* to evaluate those same identified resources but internal ones as well, acknowledged by the company itself, to understand if any attained advantage would be permanent and unique [6]. One of the main internal resources is the IT system that runs the whole company activity by the minute. Not only is it unique and currently exclusive of this company but was also adopted early. In terms of the cost structure, there has been a significant effort in simplifying back office processes and increasing operational efficiency, which *Vila Galé* became quite experienced at doing on a daily basis. A third distinctive resource is the strong Human Resources Department, which does not include the administrative and payment issues, but rather focuses on careful selection, and employee training and motivation, the latter associated with the social responsibility interventions of the company [2]. This added analysis shows that *Vila Galé* has sustainable competitive advantage in the medium-term, although not completely in the long-run, as no resource meets the full criteria, namely in what regards the inimitability factor for the three aforementioned resources. Still, it is reasonable to assume that to reach the company's dimension and status in its segment will be almost impossible in the predictable future, at least for new entrants and as such, advantage is assured over competitors.

### **3. MARKET AUDIT**

The Republic of Mozambique (Mozambique hereafter), datasheet in Appendix 7, is located in southeast Africa, bathed by the Indian Ocean in its heavenly beaches and counting over 24 million people in 2013 [7]. The capital, Maputo, is the most developed and populated city, being also the commercial, financial and touristic centre, classified

in Appendix 8 as an APTI [8]. With historical bonds that go as far as language and the positive national trends, expanding to Mozambique, namely Maputo, may be the clear move for many Portuguese companies in the next years. In fact, in the beginning of 2015 there were already 2700 Portuguese companies in the country, mostly SMEs [9].

### **3.1 Market Attractiveness: PESTLE Analysis**

Political: The presidential representative democratic republic established in the country has been ruled by FRELIMO since the independence from Portugal in 1975. In civil war until 1992 with the major opposition party RENAMO, negotiations led to multi-party elections and increasing stability, with numerous development reforms. Mozambique ranks 82 in the 2014 Global Peace Index, scoring ‘high state of peace’ [10]. Even so, corruption is one of its biggest problems, fostered by lack of political will and resources to prevent it, as the police and public officials are seen as the most corrupt public institutions - the general bribery rate was of 62% in 2013 [11]. Instability has been slightly worsening lately, with tension between the two major parties intensifying since October 2014 elections [12].

Economic: Even as a low-income nation, Appendix 9 shows that Mozambique has registered growth rates above 7% since 2012, to a GDP of \$15,63 billion in 2013 [7], having received 96 FDI projects between 2003 and 2012 [11]. Compared with its development peers, the country’s evolution is rather attractive, motivated by prudential macroeconomic policies and national reforms. The deficit is much influenced by the imports weight over exports. The banking system, ruled by *Banco de Moçambique*, has 18 institutions, but there is high concentration in the main 4: Millennium BIM and BCI, both of Portuguese capital, South African Standard Bank and British Barclays [14]. The exchange rate is 1EUR:MZN38,99<sup>2</sup> [13]; inflation has been quite volatile, reaching

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<sup>2</sup> Banco de Portugal, Abril 2015

10,4% in 2011 but only 1,93% in 2014 [15]; unemployment is stable around 8,3% although young unemployment is much higher [7]; and there are severe problems such as low general skill level or 54,7% of population living below the poverty line in 2012 [14]. Appendix 10 shows the 2014 approved minimum monthly wages across 12 sectors that vary between €77 and €200<sup>3</sup> [13][16]. To note is the 2015 Portuguese presidency of the G19, group of country partners of Mozambique's State Budget, with a usual contribution of 30% [17], which highlights the country's international dependence.

Social: Through Hofstede's work in Appendix 11 it is possible to culturally define Mozambique as having a strong hierarchical but collectivist and feminist society with a normative, traditional culture that is rather pragmatic towards uncertainty. In general, there is a positive attitude and environment [18], within a great diversity of languages, religions and ethnic groups. There is also a challenging population growth of 2,5% since 2010 that is expected to reach 29,3 million citizens by 2020. Appendix 12 describes trends in population, which is very young, as in 2013 45,4% had less than 15 years, and only 31,7% lived in urban areas. As one of the most affected countries in the world, HIV/AIDS and other epidemic diseases such as malaria are great threats to productivity [19] and life expectancy, very low and connected to a high death rate. All this helps explain the country's low IDH of 0,393 in 2013, occupying 178<sup>th</sup> place worldwide [20].

Technological: As of 2014, there are still many opportunities for development in the telecom sector of 4 main players – *Vodacom Mozambique*, *mCel*, *TDM* and *Movitel*. Fixed and mobile communications market penetration is of 0,3% and 56%, respectively, while Internet is of 7,9%, but of expensive access. This is mainly caused by the poor fixed lines available which hold back internet spreading and fixed connections [21]. Some comparison data is available in Appendix 13.

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<sup>3</sup>Banco de Portugal, Abril 2015

Legal: Ruled by civil law, Mozambique ranked 127 in the 2014 Ease of Doing Business Index<sup>4</sup>, meaning that the regulatory environment is not that attractive for businesses [7]. Still, the recent but modern tax system sets that assets, income and consumption are taxed separately. Financial institutions and some foreign businesses follow the IRSF [22], and the tax listing can be seen in Appendix 14. Besides an agreement with Portugal to avoid double taxation, there are tax benefits for investors, namely on the IRPC for those that invest in the Special Economic and Industrial Free Trade Zones or train Mozambican workers [23][24].

Environmental: With a tropical weather, Mozambique has two distinct seasons of different duration for the north (average 26C°) and south (average 20C°) [25]. Natural hazards comprise droughts, cyclones and floods in central and southern provinces, with monsoons and heavy rain in the humid season. These issues in the hinterlands fostered migration to urban and coastal areas [26] while inadequate farming practices contribute to deforestation (49,4% of forested area in 2011), soil degradation and fauna harming (230 endangered species in 2013) [27]. Also, recent discoveries on coal, natural gas and hydroelectric capacity will be explored and become major national business drivers.

### **3.2 Tourism Market Overview**

The country's tourism sector numbers presented in Appendix 15 show a direct contribution of around 3% to GDP in 2013, predicted to have fallen to 2,9% in 2014. Although this industry has great growth potential, its weight is expected to remain quite low at least in the next few years. Still, and despite slowly, expenditures on this sector that employs 2,7% of workers are expected to increase, as is the investment, even from the government [28]. The national spending distribution shows that Mozambique can be both a huge business and leisure destination.

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<sup>4</sup> Scale from 1 to 189, 1 being the most business friendly regulation.

Mozambique and Maputo tourism system can be briefly studied under the work of Leiper (1979) [29], supported by Maputo's tourism indicators and projections in Appendix 16, oriented for the purposes of *Vila Galé's* investment. By isolating five elements, Leiper presents the tourism sector in an industrialized and somewhat vertical process starting with the tourists; then three geographical elements - TGR; TTR; TDR – ; and finally the industry itself.

Tourists: In 2011, with trends that remain stable so far, most Maputo tourists came from South Africa (33%), Portugal (9%) and Mozambique (8%). Of the total, 'Business' brought 36% of foreigners to the capital, whilst only 17% of nationals, that come to 'Visit Friends and Family' (34%). According to a 2011 study, most Maputo visitors plan their trips through a travel agency (44% of foreigners and 39% of nationals). Also, while foreigners prefer to use online channels to plan their visit, nationals rely more on telephonic contact. Until 2011, the trend on overnight stays in Maputo was also growing and the occupation rate was also one of the country's highest, 53,8% in 2010 [30].

TGR: Given the tourist profile, here matters to briefly consider South Africa and Portugal as generating regions. The former is the second largest African economy, classified as upper middle income by OCDE. With 53 million people in 2013 and temperatures from 8C°-30C°, it still faces many development issues, having also stagnated growth rates. The exchange rate between the Rand and Metical (ZAR:MZN) is favourable to South Africans and the great tourism flux is much related with geographic proximity to Mozambique. On the other hand, the tie with the Portuguese tourist has its roots on history over location. Portugal is a developed and high income economy, with 10,5 million people in 2013 and a Mediterranean climate [7].

TTR: To reach the country, it is expected that nationals and tourists from bordering countries are more likely to use a rented or owned car, whilst tourists from Europe, for

example, would fly to the destination (see Appendix 16). Mozambique has two regional and three international airports (Maputo, Beira, Nampula). TAP offers several weekly flights from Portugal; South Africa Airways serves the neighbour tourists and national LAM and TTA Airlink assure internal flights. Appendix 15 shows that the car is the most used mean to move around the country, followed by the plane.

TDR: Aside from the attractive climate, some touristic places of the country are: Bazaruto or Quirimbas Archipelago; Inhaca, Dhow and Mozambique Islands; or Inhambane. Tourists can also visit Gorongosa Park or the Niassa Reserve and do safaris and aquatic activities like diving or kitesurfing. Moreover, the traditional gastronomy is a must for any visitor and the historical mix of cultures is embedded in the daily life in Mozambique [31][32][33]. What is more, economic development also places the country as a reference business point, and as such, it becomes an adaptable destination for all visitor types: on holidays; business; cultural, sports or nature oriented.

Industries: Currently, Tripadvisor and Expedia register 8 hotels in the 4 star segment in Maputo. As seen in Appendix 17, there is a large range in number of rooms and prices for these hotels, between boutique, business, and leisure units, which provides some choice margin to entrants. It is relevant to highlight the strong Portuguese presence in this market's supply, since 4 groups are present in the country and in Maputo: Grupo Visabeira, though the Girassol brand; Grupo Pestana Hotels & Resorts; Teixeira Duarte Hotels; and Grupo VIP. Regarding complementary industries, AVITUM gathers 45 members between travel agents and tour operators of Mozambique, although there are many more throughout the country, mainly concentrated in the Maputo Province [34]. Geostar, ByTravel, ClubTours, NorTravel and Halcon are agents that already work with *Vila Galé* and also with the Mozambique destination [4]. Finally, the MITUR is the supreme public authority on tourism matters.

### **3.3 Legal Issues**

For the specific purposes of the project and its format, there are two legal instruments regarding the renting relations (Lei n.º 8179, of July 3<sup>rd</sup>; Decreto n.º 43525, of March 7<sup>th</sup> of 1961, changed by Decreto n.º 24/2006, of August 23<sup>rd</sup>) between private persons and with the state that must be studied. The individual non-residents are entitled to perform their licit professional activity in the rented spaces, for contracts of six months, up to a maximum of 30 years. The landlord has the right to increase the rent every five years and, in case of public ownership, there is subjection to fines and inspections. However, these rules serve private renting and as such a contract for a hotel would be subject to negotiations. Hotels operating in owned property must obtain the DUAT and respective licences for the unit category [23]. On labour matters (Lei n.º 23/2007), a big enterprise will employ over 100 workers, a quarter of which can be foreigners. Most contracts are permanent although there are some temporary contracts that hold for two years, automatically renewed twice before becoming permanent – except for foreign workers, which have no limit of renewals. The working period should not cross the 8 daily hours and 48 weekly hours, distributed by 6 days; extra hours are compensated after that [23]. The *Fundo Internacional do Turismo* is oriented for financing, promotion and training on this sector. Also as relevant entities to contact with when investing in this industry in Mozambique are the MITUR, the CPI and the GAZEDA [23].

### **3.4 Trends and Risks**

As stated, the country's overall growth prospects are above average, especially comparing to other African nations. The gas mines discovered since 2010 and the strong coal reserves are expected to be heavily explored in the next years, to a point where Mozambique becomes a reference in these fuels' exports, and an alternative for suppliers such as other African countries or Russia, even despite the recent downfall in

coal's prices. The business flow that derives from this economic activity is already being felt, namely in northern Mozambique and locations such as Pemba or Tete [35][36]. Still, there is doubt on to what extent will the investments be held back by the general lack of infrastructures, namely on inland transport or communications, or even the natural events such as the fatal floods. However, as it is in underdeveloped nations that are the most growth opportunities, Mozambique offers a chance for willing investors in all sectors – agriculture, industry and services. The tourism market is no exception, as there is room for more, better and even niche products for the increasing number of arrivals. It can also be expected that the undeniable attractive conditions bring more players to this sector, and thus, more competition.

On the downside one can point the political framework that, although stable to the ongoing FRELIMO government, might be susceptible to twists and, as mentioned before, has in fact registered some incidents since last legislative and presidential elections, with opposing party RENAMO threatening to form another government on the country's centre/north. Financially, *Standard&Poor's* gives Mozambique a general B rating, down from a B+ in 2014, mainly due to low GDP per capita, external and fiscal deficits and high dependence on donor funding and FDI [37][38]. Challenges for the stable banking system arise with the expected substantial investment flows.

On another issue, it is positive to see how many Portuguese companies are investing in Mozambique while also engaging in social responsibility initiatives. *Lusomundo*, for instance, is betting on cinema construction; *Sumol+Compal*, a *Vila Galé* partner, is creating its products around Maputo; *Portucel* is investing on plantation and production on Mozambican territory [39][40][41].

Regarding a final data issue, it seems that there is outdated, little or no uniformity and alignment on data publications whether by MITUR, INE or others, which might create

an unclear picture of the tourism sector in particular. Still, institutions like the World Bank or WTTC are working to gather more and improved statistics on the country.

All in all, this is a still overlooked and untouched nation due to its poverty and underdevelopment levels that in the long-term will attain and rejoice on its amazing potential across sectors once it captures the world's attention.

#### **4. MARKET ENTRANCE**

When considering Maputo as an expansion destination, *Vila Galé* decided that the project would take the format of renting an existing hotel or building ready to be operated, depending on the upcoming suitable opportunities, which immediately affects the product and place analysis. It is assumed that there will be no need for initial repairs or upgrades and thus, no initial investment. This assumption can have a more realistic character if considered that is it possible for *Vila Galé* to agree with the owner or builder that all the latter will leave the hotel ready to operate in exchange for a long-term contract. Some desirable conditions for the investment format were thus taken for granted, adding some risk to this analysis. Although not exclusively, the unit would be mainly business oriented, as justified by the city's tourism records and drivers [4].

##### **4.1 Potential Market**

In nationality terms, the unit's first clients would be Portuguese, from companies that operate or have connections to Mozambique – as stated, 2.700 companies are already in these conditions. Moreover, *Vila Galé* could start by leveraging on its corporate clients and partners that operate in the country. South African and Angolan business visitors would be targeted, as they represent the major tourist nationalities of the city, together with the Portuguese. Besides, special attention must be paid to new and potential investors for the coal and gas exploration in the north of the country, as they must connect with the capital in the process. As *Vila Galé's* business oriented units also serve

other client types, it is expectable that some usual Portuguese costumers that already know the brand will also consider visiting this new destination throughout the year. Being somewhat far for the typical family vacation and the senior visit, this client would be the young/middle-aged couple (between 30-55 years old) with a steady income level and substantial savings that either does not have children or travels without them. National tourists' main reasons to visit Maputo are vacations (33%) and visiting family and friends (34%), meaning that those that have the means to stay at *Vila Galé* could also be targeted to represent a constant influx of clients throughout the seasons.

#### **4.2 Marketing Mix**

Product: The business oriented hotel “*Vila Galé Maputo*” would be operated upon the similar experiences of Porto, Coimbra, and Opera in Portugal, or even Fortaleza, Salvador or Rio de Janeiro, in Brazil units. All these have between 229 and 300 rooms, but Maputo's 4 star supply registers smaller dimensions, only up to 269 rooms. To meet both the company and destination profiles, the new hotel would desirably offer approximately 200 rooms, with an average 2 beds per room [4]. Regarding facilities, it would have: 2 bars, 2 restaurants – one of them an *'Inevitável'*-, 10 conference rooms, a games room, outdoor and indoor swimming pool, health club, laundry service, parking, *wifi*, room service, wheelchair access. Despite not being the primary target of this unit, families would also have the kids club at their disposal.

Price: This unit is located on the most expensive city of the country and aiming for corporate clients, whose relation with price is very particular, as it is usually the company who many times sets the budget and chooses the accommodation for its employees. Still, the pricing strategy must be such that it adapts to this situation, to business clients that pay for the stay themselves and for all the other clients such as

couples, families or even potential groups. It is necessary that all find the perceived benefit fair or higher than the price.

Following the Portuguese methodology, *Vila Galé* could contact its Maputo's potential corporate clients in the beginning of each civil year and find out what are their needs throughout the year, so that it can make attractive proposals. Still, it should have a price table fixed, based on its costs and reference prices from competition (€109-€306, see Appendix 17), meaning that it has a complete three-sided strategy (customer, costs, competitors). Nevertheless, this unit would be expected to reach around 35% margin per room [4]. Also, and for the whole year, it must be noted that Porto and Coimbra units charge at least €89 per standard room without breakfast, while Opera starts at €99 [4], but prices can go beyond €200. In Brazil, and for 2015, Salvador and Fortaleza charge between €63 and €97 for a regular room and Rio de Janeiro does so between €95 and €146<sup>5</sup>. It is possible to see that the monthly average price level in Maputo for this service is higher (175€) and more or less constant throughout the year, for which it is acceptable that *Vila Galé* raises its price level to vary between €150 and €210. As the base fee would grant accommodation only, expenses such as meals or health treatments would be charged separately. The price strategy would thus not be skimming or penetration, but rather neutral according to the market conditions, so that it attracts clients that value the service beyond price, avoids retaliation from competitors and meets the costs whenever possible [42].

Place: *Vila Galé* looks for a finished building that may serve as a 4 star hotel, whether new or used by any other company – as such, there can be no specific proposed location, as the possible place will depend on emerging opportunities, whether from new state buildings, hotels that close, or private constructions. At the moment, the company does not identify any opportunities in Maputo. Still, the investment should be

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<sup>5</sup> Conversion at 13/04/15

made in a central area, alike the other 4 star units of the city, with easy access to *Joaquim Chissano International Conference Center* shown in Appendix 18, which hosts many of the country's main business events [43].

Promotion: First, it matters to consider that *Vila Galé's* interest in Mozambique is of public knowledge, mentioned in news and articles since 2012. It is mandatory for the company to announce and promote the new opening to its existing clients, remaining community and potential clients and as such, the marketing and promotion tasks would surely be ongoing from the moment the decision to invest would be made. The website, social networks or email marketing would be the first *Vila Galé* channels to advertise the project. Also, some material would be provided to *Publituris* and other tourism related news' sources. To publicise a concrete version of the project, *Vila Galé* could invite journalists to Maputo to follow the preparation process and administration visits. Finally, it is important to promote *Vila Galé* Maputo on tourism fairs such as the Portuguese BTL, or Mozambican FACIM or *Feira Internacional de Turismo* [44][45]. Around six months before the opening, reservations can start to be taken, and as such it is around that time that booking websites, tour operators and travel agencies (both *Vila Galé's* partners as well as Mozambican agents) would make the hotel available, just like *Vila Gale's* website. Finally, near the opening time, an issue of *Feel* should be dedicated to the new unit, as a video should also be put together to broadcast on *Vila Galé's* Channel on the hotels' televisions.

#### **4.3 Project SWOT/TOWS**

The SWOT and TOWS analysis are complementary means to identify internal (Strengths and Weaknesses) and external (Opportunities and Threats) factors that can be intertwined to identify conditions and strategies for the project to thrive.

**Table 1: SWOT**

STRENGTHS (S)		WEAKNESSES (W)	
<b>Internal</b>	<p><b>S1:</b> Experience with business oriented units to target Maputo’s corporate visitors</p> <p><b>S2:</b> <i>Vila Galé</i> is also able to target other segments</p> <p><b>S2:</b> Experience on internationalization</p> <p><b>S3:</b> Strong Brand image amongst Portuguese tourists</p> <p><b>S4:</b> <i>Vila Galé</i> business offer similar to what is expected in Mozambique</p> <p><b>S5:</b> Appreciation for free internet, good location and staff sympathy, <i>Vila Galé’s</i> strengths.</p> <p><b>S6:</b> <i>Vila Galé’s</i> price/quality ratio outruns Maputo’s</p> <p><b>S7:</b> Financial margin for a substantial investment</p> <p><b>S8:</b> Some <i>Vila Galé</i> partners already operate in Maputo</p> <p><b>S9:</b> <i>Vila Galé’s</i> strong HR practices on training and motivation</p>	<b>Internal</b>	<p><b>W1:</b> Renting option subject to extra legislation; bares ‘50%’ of risk</p> <p><b>W2:</b> Substantial monthly renting cost</p> <p><b>W3:</b> Project subject to emerging opportunities</p> <p><b>W4:</b> <i>Vila Galé’s</i> usual client profile is not a typical Maputo tourist.</p> <p><b>W5:</b> Stagnated project for years</p> <p><b>W6:</b> Physical distance affects project development</p> <p><b>W7:</b> Assignment of qualified and valuable workforce from other positions to coordinate operations</p> <p><b>W8:</b> Limited cross-cultural managing experience</p>
OPPORTUNITIES (O)		THREATS (T)	
<b>External</b>	<p><b>O1:</b> Stability given the African context</p> <p><b>O2:</b> Young population to work</p> <p><b>O3:</b> Tropical climate and coastal resources</p> <p><b>O4:</b> Historical, Cultural and Niche Tourism</p> <p><b>O5:</b> Country will follow accelerated growth path</p> <p><b>O6:</b> LAM good operations</p> <p><b>O7:</b> Constant tourist inbound flux</p> <p><b>O8:</b> Affordable for foreigners; Favourable exchange rate to Euro</p> <p><b>O9:</b> Strong Portuguese banks and companies presence</p> <p><b>O10:</b> Language sharing</p> <p><b>O11:</b> Business inbound tourism due to gas and coal discoveries</p> <p><b>O12:</b> Little variety in hotel supply</p> <p><b>O13:</b> Travel agencies concentrated in Maputo</p> <p><b>O14:</b> Overnight stays per visit increasing and more foreign tourists in Maputo.</p> <p><b>O15:</b> Low cost labour supply</p>	<b>External</b>	<p><b>T1:</b> Underdeveloped country</p> <p><b>T2:</b> Corruption, bribery and weak political execution</p> <p><b>T3:</b> Environmental impact from exploration</p> <p><b>T4:</b> Lack of infrastructures and weak services</p> <p><b>T5:</b> Price/Quality ratio unbalanced affects perception of hotel industry in Mozambique</p> <p><b>T6:</b> Low qualification and skill levels</p> <p><b>T7:</b> Weak agricultural production forces imports</p> <p><b>T8:</b> Distance between tourism points and limited transportation, even in Maputo</p> <p><b>T9:</b> Prevalence of epidemic diseases</p> <p><b>T10:</b> Maputo is the most expensive city</p> <p><b>T11:</b> Strong Portuguese competition in hotel supply in Mozambique; 3 groups in Maputo</p> <p><b>T12:</b> Increasing competition might affect occupation rates growth in Maputo</p> <p><b>T13:</b> Arousal of new destinations such as Tunisia or Morocco</p> <p><b>T14:</b> Weak promotion of the country outside borders</p>

**Table 2: TOWS**

STRENGTHS to maximize OPPORTUNITIES (SO)	STRENGTHS to minimize THREATS (ST)
<p><b>S1+S4+O1+O11+O5:</b> Take advantage of growing business flow growing in Mozambique, a segment that <i>Vila Galé</i> has experience in targeting and satisfying.</p> <p><b>S2+O3+O4+O12+O14:</b> Using experience in targeting other segments besides corporate to create a multi-segment offer in Maputo, from tourists that visit for culture/history/sport/holiday.</p> <p><b>S3+O8+O9+O10:</b> Leverage on brand image among Portuguese to promote this new dreamy, affordable and historically close destination.</p> <p><b>S7+O8+O15:</b> Use financial margin to get the most of low operational costs in Maputo.</p> <p><b>S2+S8+O9+O13:</b> Leverage Portuguese partner contacts that are already and Mozambique and establish new ones, Portuguese and Mozambican.</p>	<p><b>S6+T5+T11:</b> Use <i>Vila Galé</i>'s balance between price and quality to achieve a better and more fairly perceived positioning in Maputo's hotel supply, namely on that of 4 stars and relatively to other Portuguese competitors.</p> <p><b>S3+S8+T13+T14:</b> Use brand image and connections to partners operating in Maputo to promote the destination through special offers and face other new destinations that are being chosen by Portuguese.</p> <p><b>S5+T10+T12:</b> Maximize the valued factors on Maputo's hotel demand to reach other segments and 'fight' with average occupation rates that might result from increasing competition</p> <p><b>S8+T1+T9+T7:</b> Partner with existing contacts and other Portuguese companies in Mozambique to engage in social responsibility practices on fields such as health or agriculture to fight poverty and underdevelopment.</p> <p><b>S9+T6:</b> Use <i>Vila Galé</i>'s training and motivational practices to coach and tutor Mozambican employees, providing them with new tools and skills.</p>
OPPORTUNITIES to minimize WEAKNESSES (WO)	minimize WEAKNESSES avoiding THREATS (WT)
<p><b>W6+O6:</b> LAM assures good connections that might help when fighting physical distance between the two countries and help in the project's monitoring</p> <p><b>W2+O8+O15:</b> Rent cost can be compensated by the operational local costs such as labour one that can benefit from the exchange rate.</p> <p><b>W8+O10:</b> Difficulties in communicating with the Mozambican culture can be diminished by language sharing, since both parties would speak Portuguese.</p> <p><b>W1+W3+W5+O1+O5:</b> This risky project has been in stand-by for some years and depends on emerging opportunities and specialized legislation, but the country is rather stable and has excellent growth prospects at this moment</p> <p><b>W4+O8+O9+O10+O11:</b> Although <i>Vila Galé</i>'s clients are not the typical Maputo visitor, the company may specialize even more on the corporate target, while trying to sell Maputo to its Portuguese usual clients, helped by the historical connection and economic conditions.</p> <p><b>W7+O15:</b> Compensate qualified workforce costs with operational low cost labour.</p>	<p><b>W2+T1+T2:</b> Split risk from renting model, avoid complexity of the Mozambican systems and avoid dependence from Mozambican institutions.</p> <p><b>W7+W8+T4+T6:</b> The cost of assigning trustworthy and skilled workforce to some positions in the management of the unit is compensated by the great input that they will bring to the less qualified workforce that must be hired, as they will be able to provide better training to collaborators and guidance to the operations flow. Also, the contact between cultures will provide more experience on managing people from different backgrounds.</p> <p><b>W4+T11+T13+T14:</b> Portuguese players in Mozambique's hotel supply can team to promote the country and compete with new destinations that are attracting the Portuguese clients.</p>

#### **4.4 Implementation**

The following analysis of reference to be made relates to the different phases that compose the project's implementation, on which many tasks overlap on execution timing. The first will be an **assessment** phase: although the company is always attentive to opportunities, when a relevant one comes up – let us assume fall 2016 – it demands evaluation. This should be complemented by a visit to the city and the building in question, to assess its state and needs. Moreover, contact with entities such as MITUR or CPI in Mozambique is crucial as they play an important role on investment matters and advice on the legal procedures and documents needed to the investment's approval, issues that are known to progress slowly in the country. A **pre-entry** phase would cover operational, human resources and logistics issues, besides all the legal requirements for approval, as the renting contract. Check-up visits by the administration would occasionally happen as well. Also, the commercial and marketing departments would start to contact partners: corporate partners, to extend the partnerships to this new unit; and tourism partners, on what regards the construction of packages, offers and beginning of reservations. Operational issues such as suppliers, outsourcing or accountability matters would have to be safeguarded and decided to be ready by the opening time. On employment matters, it is important to assure reliable top management for the hotel, which would probably result on the assignment of the most important roles – director, sub-director and direction assistant – to Portuguese collaborators, whether already employees of *Vila Galé* or through external hiring. Closer to the inaugurations and after selection takes place, training becomes mandatory, namely for all employees that deal with clients, otherwise they will not be aligned on customer treatment and procedures. Also, and with renovations concluded, it is necessary to furnish and equip the hotel. To guarantee that it is coordinated with other



some indicators, as it is the most similar unit to this new hotel. The project's characteristics make the financial predictions into operational ones, as there is no initial investment of purchase or renovations, and as such no capital expenditure and no interests; no depreciations, as the building is not a company asset; and no salvage value, as there are no opportunity costs for the company to leave the building. Aside from the described assumptions that *Vila Galé* has for this project there are also some other expectable indicators the company takes as given for operations. Some of those are: achieving around 35% margin per room, similarly to the Portuguese hotels; an average of 0,3 employees per room; room nights not including breakfast; no intervention or contribution from EU community funds.

To create these scenarios, several variables were changed to simulate different realities: inflation rate, exchange rate, prices, occupation rate, rent and price. Appendix 19 shows the different variables that compose each scenario and their computation.

There are 3 sources of revenue for this hotel type: those that come from accommodation, usually around 70% of the total, those from F&B, around 28%, and other revenues (spa, health treatments, parking), with a weight of 2% [4]. Accommodation proceeds are the product of the yearly occupied rooms by the room price. Having this value, it is possible to estimate revenues from F&B and other revenues. Statistics on Maputo's tourism sector allow to assume that most reservations will be made from the tourist departure country through travel agents or tour operators (and eventually *Vila Galé's* website). The latter usually benefit from a margin on price and as such, a 10% fee for these agents was discounted from the final price.

Regarding costs, *Vila Galé* Maputo's area, rent and energy costs (water, gas, and electricity) were found based on *Vila Galé* Coimbra's data, as shown in Appendix 19. For each occupation rate, energy costs were assumed to be the same as in *Vila Galé*

Coimbra, although in Maputo that same rate is equal to less rooms occupied. As the company wishes a 200 room hotel with a per room area between 50m<sup>2</sup> to 60m<sup>2</sup>, a 55m<sup>2</sup> one can be assumed [4]. Crossing different articles about rent prices in Maputo allows to estimate that the square meter would cost around 27€ per month [48][49]. Still, and as this will be a medium/long-term contract for a stable business and not for an unpredictable individual, it can be assumed that rent will be negotiated at lower rates.

The relation of 0,3 employees per room sets the total staff number of *Vila Galé* Maputo at 60, between top management, department chiefs and other collaborators. Top management wages in Mozambique are not consistent to *Vila Galé*'s usual payment of €3.000 to a director and €1.750 to a sub-director, which will most likely be Portuguese expatriates from similar positions and thus, will earn these amounts. All other operational positions will be filled by locals, at local monthly average wage rate. That rate would be around 650€, a very generous estimate for lower employment tiers but that can aggregate wages from department chiefs to cleaning collaborators [50]. A mandatory social security 4% tax on wages will be paid by *Vila Galé*. Marketing costs are set to represent 2,5% of revenues, while maintenance is indexed at 2% and F&B expenses are usually 30% of that item's revenues [4]. Communications are calculated by assuming a one minute phone call per room, charged the expected average 2015b price of 0,77€, decreasing since 2012 [51]. Fuel is computed by assuming a 200€ monthly budget for two cars, as done in Portugal [4]. A final cost to be considered regards imports, as Mozambican production is limited and F&B must be come from other countries. Each imported container of 20 feet (30,6m<sup>3</sup>) would cost 1.400€ and *Vila Galé* Maputo would require around 2 units per month, 24 per year [7].

When all revenues and costs are considered the project's annual EBIT is found, after which a 32% tax rate on profits is applied. As tax benefits attribution requirements are

not exactly clear for this type of investment, it is assumed that there are none. In fact, and for this type of study, *Vila Galé* prefers to assume a cautious position by grounding the positive scenario on some realistic market conditions. This aligns with the generous average wage considered for non-management employees and the no-tax benefit registration, as any advantage will be a plus in a real and material project. Also, the best occupation rate considered was 50%, just below the average of 53,8% registered in Maputo in 2008, and that is expected to have increased by now.

To avoid exchange rate losses or incongruities due to the usage of an inflation rate adapted to the local currency, the complete projections were calculated in Meticals (MZN) and only Earnings were converted to Euros (EUR) at each scenario's exchange rate. Exchange rate has floated approximately between 33MZN to 51MZN per each Euro in the last 5 years [52]. As such, Banco de Portugal's exchange rate from April 2015 of 1EUR:MZN38,99 was used for the base scenario. Also, Mozambique's annual inflation rates have been quite volatile in the last few years, with the IMF projections of 5,6% for 2016-2020 taken as the rate of that same scenario [53]. The complete scenarios and results can be seen in Appendix 20.

Conservative: For this scenario the worst combination of variables is put to the test: highest inflation rate (8%), worst exchange rate, lowest occupation rate (35%), highest rent and lowest entry price. Exchange rate was considered to be 1EUR:MZN45, meaning that the current Metical would devalue and be worth less Euros. Under such conditions it is expected that *Vila Galé* does not profit, having losses between €200000 to €40.000 per year and a negative margin per room.

Aggressive: This framework gathers the best circumstances for *Vila Galé* to operate in. Although energy costs are the highest due to more occupied rooms, the higher prices, lower inflation rate and lowest rent compensate the results, which start with earnings of

€2.660 million onwards and steady margins per room of 43,87%, above what would be the acceptable for *Vila Galé*. In this case, the exchange rate represented a more valuable Metical: 1EUR:MZN33,27.

Base: This scenario is the closest to the expected truth that *Vila Galé* might find in Maputo. With a realistic inflation rate (5,6%) and a fairly good occupation rate (50%) given the city's real one registered, this scenario allows for a profit of €1,465 million and a constant margin per room of 30%. Although this margin is lower than the expected 35%, it still resembles to the international experience in Brazil, where rooms profit 28%, which is nevertheless more than suitable given the country's context.

Two more sensitivity analysis tables presented in Appendix 21 can complement this, departing from the variables assumed for this scenario. The first combines multiple room prices and occupation rates, based on the earnings of the realistic scenario, allowing to see the flexibility that *Vila Galé* has over price and the risk that fluctuations in tourist flow might bare: it is possible to see that an average annual occupation rate below 30% might bring problems, especially at lower prices than the base one of €170. The second table combines the same price fluctuation with fluctuations in the exchange rate, in order to evaluate the consequences from a 10€ shift in price versus a 1% shift in the exchange rate (given the exchange rate range from the last 5 years). It is observable that given the realistic conditions, the impact of a change in price is much stronger than a 1% change in the foreign exchange rate, meaning that *Vila Galé* has the advantage and margin to easily fight off fluctuations in the currency valuation.

## **5. CONCLUSION**

This study reveals and states the fact that *Vila Galé*, a major player in the Portuguese hotel supply on the tourism market, sees Mozambique as a potential destination to expand its brand to. If this came to happen, it would be the second internationalization

experience for the company, at this moment (2015). The research allowed to conclude that we are before a stable and well-organized company, with a clear positioning, place and advantage in the Portuguese market, where it mainly operates.

On the other hand, the destination is a mixed framework of a most attractive market and a fearful development set. Still, and despite the many downsides, many Portuguese companies and even hotel chains have already established their activities in Mozambique, with no major catastrophic or unforeseen events.

There seems to be no considerable obstacle in the fit between the company's activity and experience and the destination's needs and market reality. As such, and in what concerns the logic of the decision to invest, the path is clear.

The conducted financial analysis allows to say that this project is operationally viable under the scope of conditions imposed by a realistic scenario. Although there are frameworks that clearly make this project financially unworthy, it is acceptable to expect that such is not likely to happen. There are plenty of arguments for *Vila Galé* to decide towards this project in one of Africa's most promising countries. Besides a chance of profit, there is great likelihood of a base and even an optimistic scenario happening, since the country's growth and FDI investment prospects are significant. Moreover, by undertaking this project and guaranteeing some profits, *Vila Galé* could consider expanding its presence in Mozambique, perhaps through other investment formats with higher risk, namely resorts, as there are many areas of the country with great potential to hold that type of unit and that are benefited by tax incentives. This projects' balance falls in accordance with the company's objectives and strategy: it allows to grow internationally in a sustainable way, contributes to achieve greater financial results in each consecutive year and will certainly satisfy clients with the usual quality service, which is one of the major incentives to pursue this opportunity.

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