A Work Project, presented as part of the requirements for the Award of a Masters Degree in Management from the Faculdade de Economia da Universidade Nova de Lisboa.

IWP STRATEGY – SME COMPETITIVENESS

Internationalization Process: GuestCentric Systems Embracing People's Republic of China

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1. Executive Summary

The way the independent hotel industry makes business has recently changed. Startup venture capitalist GuestCentric Systems[i] henceforth called GC, is a small sized IT company that is tackling an unmet opportunity, they are revolutionizing the **online presence** of the **independent hotel industry** by offering a fully integrated *e-commerce* management solution that allows hotels to create an outstanding online presence, resulting in an increase of their online bookings, through equipping hoteliers with innovative e-commerce optimization features, in a fast and affordable way. Up until now this was only within reach of big hotel chains, thus GC is leveling the playing field, as well as empowering hoteliers to bypass intermediaries, reducing costs while increasing sales growth.

Notwithstanding, CG has massive costs that are impacting seriously the company and causing a huge negative EBIT of €1.100.000, meaning that their revenues of €300.000 are not able to cover minimally their costs of €1.400.000 estimated for 2010. Thereby, GC has an innovative business model that is sustainable, if and only if, the company is able to capture a great market share. GC was demanded to internationalize and will have to proceed on doing it to obtain the required customer base and overcome the delicate financial situation. Being a web based company, GC has perceived that it not enough to have a website to attract clients, it is required highly countries' adaptations to boost sales. That is the reason why this project has as its cornerstone the internationalization process of GC to China, therefore, the purpose of this work and its major added value is not only to build up and streamlining a step-by-step internationalization business plan with accurate solutions to enter and succeed in this market, but also, recommend GC the right momentum to enter in it, having in mind the tradeoff between the consolidation of their financial position and the vitality of the Chinese market.

2. Methodology

The project's research was done mostly through internet. The research began with visiting the website of the company where I got to know the main components of the business and therefore understanding what the company does. Afterwards, a meeting was held with GC's CEO Pedro Colaço, to collect data[ii]. In the meanwhile, I went to work project workshops presented by my advisors. The university's full text databases were also used in order to lead me to important papers and internet desktop research was used mainly for market analysis, both global and Chinese. A questionnaire was conducted to some of GC's clients[iii] to perceive GC main competitive advantages and the quality of the service. Three properties responded, answers are in appendix 1. I have constantly exchanged emails with GC's CEO Pedro Colaço as well as with companies themselves as to know the price of their products, such as Dragon Trail, CIC, Callnovo, DerbySoft. One more meeting was conducted with Pedro Colaço to align ideas regarding subjects as modes of entry and implementation plan. Finally, my advisors reviewed my work project.

3. Description of the firm

With a raising of $1.25M in financing, the Portuguese based company GC Systems emerged in 2006. Co-founders Pedro Colaço, president and CEO, and Filipe Tappenbeck, vice-president, have education in electrotechnical and computer science engineering, with extensive experience in networking and software industries and online marketing. Founders own 60% of the firm, supported by Venture Capitalists 25% and small investors 10%, and the 27 employees, 25 in Portugal and 2 in Spain own 5%.

GC exports to clients spread all around the world (a countries' list in appendix 2). Recently a **social media revolution** has been triggered. Social media is the number one activity on internet. There is this new hyper-interactive consumer that is constantly

delivering content on the web. What does this represent for hotels? The new consumer is embodied in travelers, which are hotels' target. GC can provide independent hotels with the perfect tools to capitalize on this "world" of mouth revolution.

Coupled with powerful marketing and distribution tools, GC is a web based, e-commerce online platform, providing B2B Software as a Service (SaaS) - they license a hospitality application service – that installs new distribution and marketing channels as well as other software applications in hotels, using web 2.0, and connecting buyers (travelers) and suppliers (hotels) via online.

GC's clients fit three segments of the market: boutique/ design properties, independent properties and rural properties, B&B, Inns. Appendix 3 fits GC with each segment.

Overall, GC's main goal is to canalize and convert online visitors into real guests for a particular hotel website through online marketing and distribution techniques, and thus, surpassing traditional intermediaries with its respective commissions, by capitalizing on the trend that 82% of customers seek a more personalized experience and prefer booking directly via suppliers' (hotels) website (GC, 2010a). Since inception GC has made a substantial investment to create a top notch product:

1) A customizable and versatile high-end website designed specifically for hotels, able to hold five languages (appendix 4);

2) A breakthrough interactive one-step booking engine (appendix 5), portable to other distribution channels such as social media;

3) An attractive and easy-as-email backend, were hoteliers gain an overall perspective to control their online presence (appendix 6). Hoteliers can check overall performance, revenues, online progress, website visits and business trends, manage their own website and a system that automatically creates guest profile through guest's stay history;

4) A reservation platform, which is a time saving tool that simplifies the management of the online and offline reservations;

5) They are revolutionizing the way independent hoteliers are competing for customers to capitalize on the social media revolution (appendix 7) with a unique **new social customer engagement platform**. This platform includes: tools to leverage a particular hotel on social media websites; incorporated booking engine on hotels' social media pages; a followers specials that rewards hotels' social media followers with promotions; a reputation management to send, track and monitor what people are saying about a particular propriety on social media; and a guest finder on twitter that enables hoteliers to track guests travelling to a specific region through key words, and interact with them. GC's promise of outstanding results is the cornerstone, Look, Book, Interact virtuous cycle (appendix 8).

The way GC executes its service is after receiving an order, they produce the software in a customized and fast way, set up the software, educate the client on how to use it via telephone in about 30 minutes, and after, they provide continuous customer service.

4. Perspective on Business Mission and Strategic Objectives

The **mantra** conceived by GC is modernizing hoteliers. My own mantra is much more than that - fashioning hoteliers. In fact, GC has created a very attractive and modern software technology. GC's business **mission** is to "Create the leading cloud platform that delivers a social commerce community for independent hotels". CC's **vision** is to be the global leader of online marketing and interactive platform of hospitality applications service providers till the year of 2020. Corporate **values** are the following: commitment to excellence through creativity and innovation, respect, team spirit and open communication, and customer focus (GC, 2010b).

GC's main **strategic objective** is to reach operational breakeven through achieving one million in net sales until 2012, verifiable on Table 1. This will be fueled by international proliferation to strategic markets. Thus, geostrategic objectives are first to explore Europe, where they will very soon enter Germany, France and Italy, afterwards America, currently entering Brazil, thereby missing Asia and the Pacific (China, India, Japan, Australia) which will start to be explored until 2015. In addition, to complete the revenue growth model, besides increasing the number of customers, GC wants to increase the revenue per customer, the ARPU, which is €1500 per year (GC, 2010). Some tactics will be later recommended.

Table 1 – GC's Base Plan 2011-2014

In K €	2010	2011	2012	2013	2014
Revenue	300	757	1,495	2,234	2,973
Cost	(1,400)	(1,200)	(1,300)	(1,300)	(1,300)
EBITDA	(1,100)	(443)	195	934	1,673
Margin			13%	42%	56%

Source: GC, 2010c

5. GC's Value Chain

Basing on the Value Chain Model (Porter, 1985), it is going to be analysed GC's Value Chain portrayed in figure 1, in order to allocate costs in appendix 9.

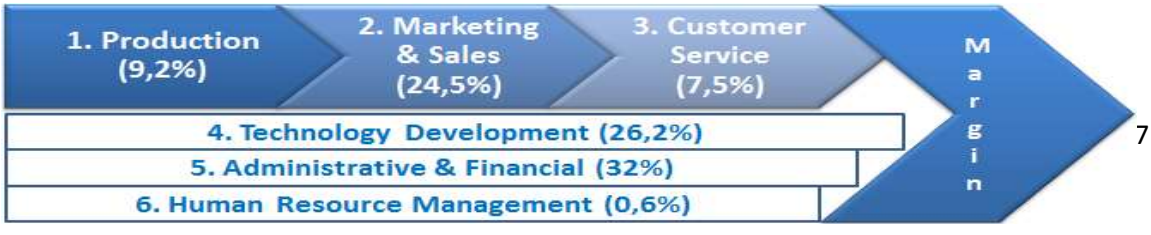
The figure separates the business system into a series of value-generating activities that will result in the profit margin (Porter, 1985). The **primary** activities are separated in:

1. Production, associated with the needed support and service to create the product. Rackspace and eChiron are server hosts for GC's software, while Arte Numérica is an outsourcing company that operationalizes the server.
2. Marketing & sales costs are associated with resellers and marketing programs.
3. Customer service is linked with the management of the product.

The **Secondary** activities are divided in:

4. Technology development, (R&D) in efforts to improve the product and process;

Figure 1 – GC's Value Chain



5. Firm infrastructure, including general management, finance, accounting, administration. These activities support the entire value chain.
6. Human resource management contains only the training executed to employees.

The resulting margin is a negative number thus it does not make sense to calculate it.

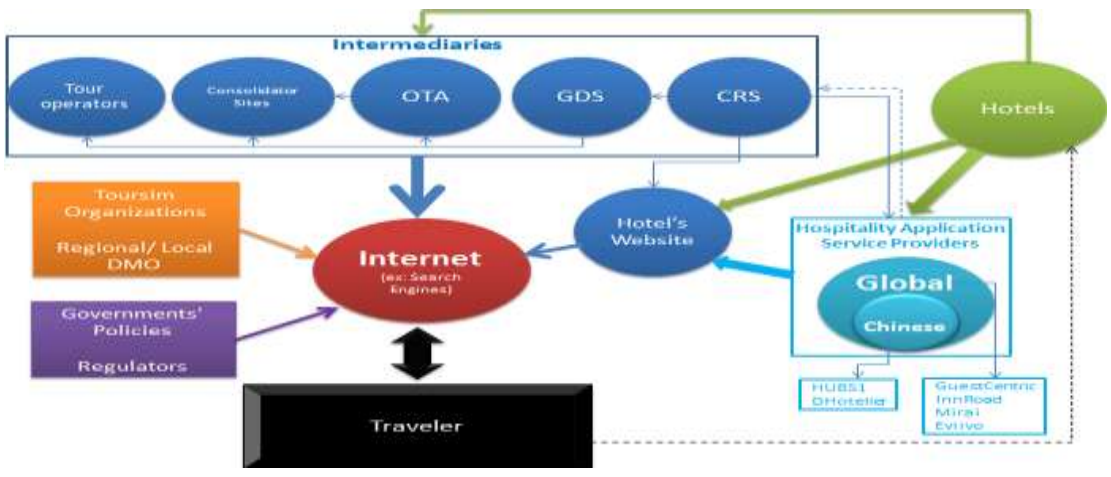
The product is always created in the Portuguese headquarters, being adapted to hotels' requests for their own websites and subject to approval by the client. In the case of foreign countries, the client will directly conduct adaptations if needed, or will be indirectly assisted by GC's regional partners – resellers. Meanwhile, an explanation of the usability of the product and how to personalize it is conveyed through telephone and complemented with a PowerPoint presentation. Thereafter, customer service will provide assistance to their clients, update the software quarterly or semiannually and also foster sales of new products developed.

6. Environmental Context Analysis

6.1. Industry Mapping

As demonstrated in figure 2, the **e-commerce and hospitality industries**, if a traveler desires to book a hotel through the online channel, he has mainly two options, book directly via hotels' website, or book through intermediaries (see main global intermediaries in appendix 10). Thus the relationships from hotels with intermediaries and with their own website are the most important ones for GC. GC has identified a market niche constituted by independent hotels that did not have the necessary resources

Figure 2 – Industry Mapping



to enhance the direct online business via their own website. Thereby, GC enables hotels to surpass intermediaries which charge a commission that can be as high as 40% of the traveler spending[iv]. In fact, intermediaries have a large portion of the market, in Europe suppliers' website share is 42% while intermediaries' share is 58%, in contrast, in the US 59% share for hotels and 41% for intermediaries (ITIC, 2010). *Computer reservation systems* (CRS) are vital in this industry, as they provide systems that support the activities of intermediaries, hotels website and the *hospitality application service providers* (HASP) such as GC. Tourism organizations and regional/ local *Destination Marketing Organizations* (DMO) will impact on the consumer, while regulators and local governments will impact on companies' way of doing business.

A brief analysis of the **global market** will be now conducted. Overlooking the Global **Travel & Tourism Economy**, with which GC has a positive correlation, its GDP is forecast to grow between 2010 and 2020 by 4.4% annum in real terms (WTTC, 2010).

The introduction of **e-commerce** in the labor and information technology-intensive tourism industry, brought great opportunities for development. Internet users worldwide are now 28,7% of the population, 1,97 Billion of a total of 6,80 Billion (Internet World Stats, 2010). The **hospitality industry** is in recovery mode from the harsh past two years, nevertheless, the industry projects to end 2010 with an important increase in the most important gauge of health - revenue per available room (RevPAR) will increase by 4.3%. In 2011, RevPAR will increase by 5.3% (Starkov and Safer, 2010a).

Making the bridge between **e-commerce and hospitality industries**, in the US 45% of all hotel reservations will be booked online in 2010 (Starkov and Safer, 2010a). Moreover, 80% of travelers select their hotel in the online channel (GC, 2010b).

6.2. Market Assessment

Henceforth, it will be deepened the relevant market for GC - the **HASP for the independent hotel industry**. The market size is 400,000 independent properties[v] with an estimated value of $400M - $4B[vi]. GC embraced on a "blue ocean strategy" by creating new demand in a niche market. Additionally, the product is in a growth phase of its life cycle, characterized by great market growth and low market concentration.

Almost all **market trends**[vii] and **social trends** present in table 2, post huge opportunities for GC:

Table 2 – Market and Social Trends

Market Trends	Social Trends
70% of hoteliers said the current economic environment would affect negatively their budget planning for 2010.	Worldwide, 58% of travellers are influenced by user reviews. In the US, four in five travelers read reviews on Social Media and 95% of those indicated such reviews were influential during the decision making process (Starkov and Safer, 2010b).
From the total marketing budget, hoteliers will dedicate between 23,1% and 24,6% to the online channel, increasing the spending towards web 2.0 interactive technology applications/ Social Media advertising. 50% of hoteliers will create profiles on social networks and 40% will advertise on social media sites, while only 6,9% are not planning on Social Media initiatives in 2010. (Starkov and Safer, 2010a)	There is new breed of **Hyper - Interactive travel consumer** that often in real-time, is communicating with friends via Facebook, with more than 400 million users, and Twitter, with an average of 50 million tweets per day, and commenting on hotel and dining experiences. Thus, consumers expect interactive and engaging hotel websites (Starkov and Safer, 2010b)
More and more consumers are connecting to internet via mobile format, incorporating hotel online booking.	Travellers prefer a much more personalized experience, 82% of travellers prefer to book directly on suppliers' website (GC, 2010b) which, regardless of being positive or negative, will spread around community.

In sum, these new trends - the struggle for reaping the increase in online booking, the will to drag out intermediaries' commissions, the **proliferation of social commerce** with the recognition of its importance, the desire to control brand image, and above all, the massive appearance of the **new travel consumer** - have created a market need.

6.3. Competitive Assessment

The **Porter's Five Forces Model** will be applied to understand how market forces work and the main factors explaining profitability of hospitality application service providers

for small independent hoteliers. Porter argued that the strength of the five competitive forces and the organization's profitability are inversely correlated (Porter, 1980).

GC's **suppliers** are mainly software developers required for GC's activity, these are very competitive markets, quite a few companies offer similar products, therefore fierce competition weakens the supplier's bargaining power, which is considered to be low.

GC's **customers** are the independent hotels, a highly fragmented industry with a very low concentration, as a consequence their bargaining power is considered to be very low. Nevertheless, small hoteliers cannot be overcharged with unbearable prices.

The threat of **potential entrants** is high. Structural and strategic barriers to entry are relatively low, as there are almost no switching costs, only Eviivo (table 3) was able to attain economies of scale and none was able to create solid brand equity, despite having first mover's advantage. Nonetheless, for an entrant to catch up with GC, it is necessary 18 to 24 months due to GC's high degree of differentiation (GC, 2010a). Regarding exit barriers, besides lost investment and compensations to workers, they are low.

The major threat to industry's profitability are **substitute products**, companies offering at least some component within the range of GC's offer, as well as all the intermediaries present on figure 1, as the latter are a mean of substitution for suppliers' direct channel. Hotels may prefer to pay only a small fee to access intermediaries' solution, rather than a more expensive one like GC if they do not perceive its added value.

All these forces will directly influence **intensity of rivalry** which is regard as low, as one vital aspect to dictate the attractiveness of this market is the fact that there is an opportunity to explore - "blue ocean strategy" - in a huge market enjoying a huge growth, and therefore, the terms of competition will be based on differentiation through

brand awareness with promotional costs (GC spends €100.000/ year) rather than price competition. All companies are enjoying an exponential revenue growth.

A competitive benchmark evaluation[viii] is displayed in table 3. GC has a total rank of 12, being above any other competitor. **Overall**, this is a very attractive market, supporting space for every company to grow, the real competitive challenge will come when the market starts to mature, which will be boosted by one of the problems of the industry - companies can only charge small prices earning a small margin per customer.

Table 3 – Competitive Benchmark

Parameters / Company	Client's Website Sophist. (0-5)	One - Step Booking Engine (0-3)	Social Media Connection (0-4)	GDS Connection (0-5)	Price	Total
GUESTCENTRIC US, UK, Spain, Portugal	5	3	4	-	400$/month or 6% rev.	12
eviivo UK	3	1	-	5	472$+ VAT/ month	9
innRoad US	1	1	-	5	10$/ room/month	7
mirai Spain	5	1	-	-	3% or 3% rev.	6

7. GuestCentric's Competitive Advantages

The website GC offers to its customers was tested for 800 hours of usability on website control, being a source of competitive advantage, as it was granted with the win of the Web Marketing Association's 2010 Standard of Excellence Web Award for Hotel Website Design[ix]. GC's booking engine is the fastest in the industry (one-step booking engine), based on Ajax technology and the only one that is portable to social media. GC's major source of competitive advantage is the connection to social media.

GC's major flaw is not having an alliance with intermediaries. GC aspire to bypass intermediaries, however, small hotels still value the connection to GDS (it increases hotels' distribution channels) as travelers still substantially utilize these vehicles and being in some cases markedly loyal to them. GDS are often cheaper when compared with the direct channel. This alliance would leverage client's perceived value regarding GC's product, propelling the client to buy it. This cost would be input to the client.

7.1. Organizational Resources and Capabilities

GC has six patents in development. To save in R&D costs, GC has launched the Developers Cloud. GC has integrated case-studies on their website (appendix 11), exemplifying clients that are now loyal due to brand attributes, increasing the value-for-money mindset. Nowadays, GC can implement its products 25 times in only 1 day. Also, GC has the ability to integrate its products in clients' systems (booking engine). GC had a very good product introduction in 2006, as its customer base doubled every year and they had 100% conversion rate from free trials, since December 2008.

GC's headquarters in Portugal provides a salary' cost advantage. Their human resources are well trained and informed, having an extensive knowledge and experience in the networking and software industries, they have also gained a considerable experience while internationalizing the company which also adds credibility to the product. To guide the company in attaining its vision, GC is supported by an advisory board with seven international opinion leaders in the hospitality, internet and software industries. They are also members of the hotel electronic distribution network association and the OpenTravel alliance to keep improving GC's product towards the lodging industry. GC also displays a McAfee Secure certification mark to increase shopper confidence. Finally, as already stated, it is required 18 to 24 months to copy GC.

One aspect that may act as a competitive disadvantage is that due to their fragile financial position they may not be able to risk as much as other companies.

7.2. Positioning

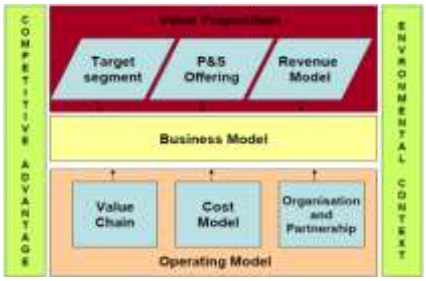
Mass customization allied to a **focus strategy** on a niche target market is GC's **competitive strategy**. GC takes the benefits of *mass production*, low cost product, rapid turnaround, high output, with *customization*, highly tailored product to meet the individual needs of its customers (Smith and William, 2003) - a niche market. Mass customization can be considered to be an integrated strategy, as it combines both cost

leadership and differentiation elements (Porter, 1980), which is a promising alternative online strategy where price competition is constrained (Kim *et al.*, 2004). GC will be able to achieve the vital economies of scale, due to the scalability of internet, they have made a great initial investment but their marginal cost is close to zero.

7.3. Business Model Analysis

GC has as revenue model two different pricing models, a more rentable fixed fee of $400 or 6% of revenue sharing, (appendix 12). The analysis of GC's break-through business model will be based on figure 3. The value proposition of GC is constituted of a product & service tailored to an attractive niche target segment collecting a small margin per client, while the way GC operates (operating model) is supported in high costs.

Figure 3 - Business Model Analysis 1



Source – Slides of Professor Filipe Castro Soeiro

GC is being able to leverage their competitive advantages in an enhancing environmental context, as they are doubling their paying clients each year. GC's rented server has a capacity for 4000 clients without sacrificing quality, nonetheless they have 610 customers presently, meaning that for the same costs they can gain more revenues achieving in that way economies of scale. To attain the desired market share they will have to foster market development by introducing existing products in new markets, broadening their clients' base, this is the reason why GC has been diversifying into new markets from inception – a born global firm.

8. Criteria of Country Selection

The key variables that support GC business model are forecasted to grow colossally in the next few years in China. Therefore, China is not only a vastly promising country, but also, a starting point to dip into the Asia-Pacific market. GC should establish an early presence in China to sustainably follow this growth, thereby having a proactive

motivation and taking advantage of first mover advantage, this way GC would choose the best partners, best locations and having the potential to foster strong relationships with the Chinese government. Nevertheless, Chinese market is still pretty infant, this can be demonstrated with the Chinese hotel industry, despite the fact that China has almost 10.000.000 square km, while Germany has only 350.000 square km, Germany has 55.000 hotels while China has only 15.000 hotels. Hence, my standpoint is that the best tradeoff between an early entrance and a more mature less risky Chinese industry is 2013, which is going to be sustained later.

9. Chinese market attractiveness

Risk is inherent in China. However, China embodies also a great **opportunity**.

Table 4 – Risk / Opportunity

Risk (- - -)	Opportunity (+++)
(- -) Country risk: "travel suppliers and all components of the China's travel infrastructure operate under very strict regulatory environment, to varying degrees. In some cases government authorities also own suppliers, travel agencies and GDS" (Badrinathan et al., 2009).	(+ +) "Chinese government gradually eliminated limitations on the entry of foreign travel companies. These are now allowed to establish wholly-owned operations tourism or hotel booking services without regional limitations" (Badrinathan *et al.*, 2009).
(-) Financial risk: currency risk, volatility of China Yuan Renminbi against Euro.	(+ +) By 2020, China will become the single largest source of international tourism and the number one travel destination (appendix 13), while having the largest domestic tourism market in the world (China Contact, 2010).
(- - -) High cross-cultural risk: language and high context culture drastically different, intrinsic network of influence - Guanxi – Chinese build on trust, harmony, reciprocity and face-to-face business deals.	(+ + +) Between the end of 2009 to July 2010 the number of Internet users in China increase 36 million to 420 million, representing only 30% penetration, but the world largest number of online users (Internet world stats, 2010b).
(- - -) Commercial Risk: timing of entry, competitive intensity, poor execution of strategy.	(+ + +) Chinese hotel industry will step into a new round of golden development period. In May 2010 China had 96,691 hotel rooms under construction, more than the US (70,962), Europe (58,617). The boom will continue for the next years. This can be attributed to the strength of China's economy and the development of infrastructure (Saturday Briefing, 2010).
(- - -) Underdeveloped Chinese hotel industry with 15000 star-grade hotels (China Online, 2010). Hotel Chains only control around 16% of hotels in China (China Online, 2010), meaning that 12600[x] are independent hotels.	(+ +) GC can also provide their product to big chains as China hotel chains lack effective distribution channels and reservation system support, where less than 30 chains have CRS (China Online. 2010).
(- -) Resistance of Chinese consumers in adopting the online channel, as there is	(+ +) Number of users of online payment, online shopping and online have

lack of trust on online payments due to disjointed banking system and fear of fraud. India's leading OTA MakeMyTrip[xi] has its online bookings close to 90%, Ctrip has only 35%.	increased in 2009 by about 30% (China Hospitality News, 2010). China will likely surpass US as the world's top credit card market by number of cards in a decade, which will quadruple to 800 million by 2020 from 200 million currently (International Business Times, 2010).
(-) Ctrip[xii] is now the world's third largest OTA, with a market cap of US$5 billion (Tnooz, 2010). eLong[xiii] is the second OTA. (market shares in appendix14).	(+) Chinese government did not allow entrance of large global GDS companies through foreign direct investment.
(-) China lags behind some markets in software infrastructure.	(+) "The growth of credit card adoption and of broadband infrastructure in China are expected to boost IT penetration". (Badrinathan *et* a.l, 2009).
(- -) Chinese social media is complex, vastly different and particular. Access to Twitter, Facebook, and YouTube shut down by the government controlled great firewall of China (appendix 15 and 16 shows differences from China to western).	(+ + +) China is the most engaged country online with 92% of online users having contributed to social media., which is the most influential communications medium in modern (China Brand Republic, 2009).

As afore mentioned, Chinese independent hotel industry is constituted of 12600 independent hotels, therefore, Chinese market value estimation is $12,6M-$126M[xiv]. Chinese internet users are increasingly planning and purchasing their travel online, online travel booking is growing at a very fast pace, as it can be seen in table 2.

Table 5 – Online Travel Booking

Online Travel Booking in China	2008	2009	2010 (estimated)	2013 (estimated)
Value	$438 Million	$548 Million	$710 Million (New Media Trend Watch, 2010)	$1350 Million (New Media Trend Watch, 2010)
% increase	-	25%	30%	90%

Source: iResearch, Data Center of China Internet

The U.S. online travel booking market amounted to US$9100 Million in 2007, from which we can see the shortage of China's online tourism industry (Chinavestor, 2010).

9.1. Competitive Assessment

Narrowing the Porter's five forces model for the Chinese market:

- Threat of potential entrants is a bit lower, a new entrant company will not primarily enter the risky Chinese market, as it still lags behind other markets in key aspects.
- Power of substitutes remains very high although the players change, the monopolist TravelSky[xv] is China's number one GDS while Ctrip and eLong the leading OTAs.

- The intensity of rivalry is a bit higher as the number of hotels in China is much lower comparing with a global basis. As demonstrated in table 6, GC will have to be savvy to circumvent the threat of the two main competitors, HUBS1[xvi] the strongest player, highly adapted to the Chinese market as it is the only competitor offering offline distribution channels through a localized platform and a call center, scoring higher than GC for the Chinese market; and DHotelier[xvii], a product of DerbySoft, which is more focused in online marketing and distribution, despite also offering less sophisticated components of GC's offer. GC's major flaws regarding Chinese competitors are the lack of offline distribution channels, (its importance in appendix 17) and the absence of GDS connection.

Table 6 – China's Competitive Benchmark

Parameters / Company	Client's Website Sophist. (0–5)	One - Step Booking Engine (0–3)	Social Media Connection (0–4)	GDS Connection (0–5)	"Localized Platform" (0–3)	Call Center (0–1)	Price	Total
GUESTCENTRIC US, UK, Spain, Portugal	5	3	4	-	-	-	400$/month or 6% rev.	12
HUBS1 China	3	1	-	5	3	1	Not available	13
DHotelier China	2	1	-	5	-	1	Not available but price was adapted to the Chinese market	9

10. Main Factors to Obtain Success on the Mode of Entry

Sales expansion is GC's main reason for internationalization. Added value comes also from achieving economies of scale, increase brand recognition and customer loyalty, spread company's risk and increase capabilities & resources. The puzzle is that due to their current fragile financial position, they have to weigh carefully the trade-off between risk and opportunity when choosing countries since they do not have the resources to go after all the potential international opportunities (Daniels *et al.*, 2009).

After analyzing the Chinese market one can perceive that everything that sustains GC's business model is still developing in China, however, at a very rapid pace. GC will have to embrace on a transnational strategy as they have high pressures for global efficiencies and also high pressure for local responsiveness and flexibility, therefore, they have to

become very educated about the Chinese market. As a consequence, to reduce cross-border business risk, GC must enhance sales through channel partnerships with local resellers, creating commercial relationships to marketing GC products on behalf of GC. Being aware of Chinese market intricacies, it is not linear to decide on the right time of entrance. However, it is my viewpoint that GC has not the financial strength that allows them to take risks by entering now in a market where they cannot leverage some competitive advantages, without the services of a consultant. Thus, first they have to enter in less risky countries and only after having secured a healthy financial position, they can risk entering the Chinese market. After the entrance, they will not have to wait much to see the Chinese industry mature due to its exponential growth. Being my belief supported by Pedro Colaço, GC should start exploring China in 2012, officially entering the country in 2013. This way, GC will be able to evolve sustainably in this market, creating first mover advantage and holding the necessary time period to enhance its business model in a more mature Chinese market. Thereby, GC will be able to balance financial and strategic objectives. For the Chinese market GC has fixed a goal of reaching €1.000.000 in sales volume within three years (GC, 2010). Hence, having what has been said in mind next will be proposed an entry mode and an implementation plan.

11. Mode of Entry

In an analysis to GC's value chain in figure 4, as GC is a small and young company, in order to make a successful entrance in China, GC will have to **select** and **secure incremented value-generating activities** in the Chinese market due to its particularities through a vertical alliance. Thus, GC's entry mode will be decided depending only on how to **improve the performance** of value chain activities that will have to be conducted in China, namely, marketing & sales and customer service, as

Figure 4 – GC's Chinese Value Chain

production can be easily and cost effectively performed in the Portuguese headquarters after the order is transmitted from China. Simultaneously, GC has to scan how transferable and how to leverage its competitive advantages, resources & competencies and which ones will have to be created to enhance a successful locally adapted strategy.

11.1. Local Adaptations

After a conducted thorough scanning of the Chinese market some **local adaptations** stood out. In regard to **product** adaptations:

- "*Localized Platform*": a product created by HUBS1 to simplify the linking between hotels and travel agencies, it is a platform that centralizes the real-time booking and confirmations to enable offline TA to browse the latest rates and promotions from GC's clients. GC should benchmark HUBS1 as most Chinese still book through traditional TA. GC has already a resembling product, being adaptable to the Chinese market with little costs (GC, 2010).
- GC's offer does not include a *property management system*, which is very important to help hoteliers with the management of their hotels and therefore, especially important for the underdeveloped Chinese hotel industry.
- Create GC's Chinese website in the Portuguese headquarters.

As for the **price**, GC has as commercial policy to maintain a constant price in all countries as online transparency demands coherence[xviii].

11.2. Incremented Value-Generating Activities

Rather than handle it internally, by outsourcing the necessary activities GC will not have to incur in fixed costs and will be able to undertake activities that otherwise would be beyond their means (Daniels *et al*., 2009). These activities are:

- **Marketing:** GC does not have local knowledge expertise, in fact, they require **consulting on Chinese online distribution and marketing** to cope with Chinese

market modus operandi. Consulting services would serve two proposes, on one hand, gain access to that specialized know-how to incorporate it in GC's product & service offering, on the other hand, to disseminate GC's brand in China, that would be spread around to all different regions of People's Republic of China. Consulting service should advise on matters such as vital local social media sites, online distribution channels, where to boost SEO. The most solid hypothesis are the companies Dragon Trail[xix] providing a complete China solution, and China's leading social business intelligence providers (CIC[xx]). For purpose of analysis, Dragon Trail will be the selected company as it appears to be best price/ quality proposal (see appendix 18 for description of consultancy services, contrasting the two companies).

- **Sales:** GC does not have a sales force, thus they have to embrace in **direct selling** through distributors to foster different regions. For instance, Qast Software Group[xxi] and Dragon Trail also act as sales representative, charging a commission. GC pays 25% of sales (GC, 2010a) in a revenue sharing collaborative arrangement.
- **Customer Service**: will be conducted by an outsourced call center[xxii]. This will be linked to the "localized platform" afore mentioned. After a highly specialized local training to call center agents provided in partnership with Dragon Trail, these will have several functions: 1) providing clients with GC's service by explaining how to implement the product; 2) promote GC to capture clients and to sell new developed products; 3) Increase customers' loyalty to GC by helping them with the management of their hotels, as China's hotels are considerably underdeveloped.

To enter the complex Chinese market it is require GC a financial effort towards sending a permanent expatriate to China (GC, 2010). The **role of the expatriate** would be to grant control over the consulting partner by representing a status team; train and control

call center employees; recruit clients and resellers; and would also be responsible for promotional activities to accelerate the spread of reputation, such as, participation in relevant international tourism trades and events, public and *analyst* relationships, door-to-door personal selling, send newsletters and cold emails, enhance SEO and boost social media for GC, and acquire two or three clients in order to put successful Chinese case-studies in GC's Chinese website that would bridge the market and enhance sales.

Another entering option would be one encompassing the establishment of an office, but this will not be considered as GC does not have the necessary financing resources. Apart from the headquarters in Portugal, GC has not established an office in any other country. It is my opinion that they should only consider opening an office only when the gains from this market would pay the office. This office should be established in an Asian hub city such as Hong Kong or Singapore, to further enhance the Asia-Pacific geographical zone, which would encompass China as well. (GC, 2010a)

12. Implementation Plan

For devising and estimate an implementation plan for GC to China under the chosen mode of entry, the four 4 Ms analysis – Men, Money, Minute and Memo – will be used. For necessary documents, taxes and promoting agencies to enter China see appendix 19.

As explained before, GC will require some **men** to perform the job, specifically one expatriate and four phased call center agents. Table 7 gives a detailed business plan of the order of activities (**minute)** of the proposed implementation plan. Following this plan, GC will have to bear relatively small initial investments to study the market in the months of Jul-Aug/2012 (costs in appendix 20.1), namely, foreign language classes (€940), seven plane ticket (€4200) and two months of salary to the expatriate (€4000). If it is concluded that China is not viable or they cannot form required partnerships, GC

Table 7 - Minute

(!) Reflection Point

Months / Activity	Dependence of activities	2012												2013		2014		2015	
		Jan	Feb	Mar	Apr	Mai	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan		Jan		Jan	
1: Study the market and contact investment promotion agencies																			
2: Ascertain financing resources																			
3: Chinese language classes																			
4: Expatriate and Pedro Colaço trips to China	3							(!)											
5: Consulting Services for Chinese market	4																		
6: Joint assessment if the market is appropriate for GC	5								(!)										
7: Permanent presence of expatriate	6																		
8: Legal protocols for registration	6																		
9: Dragon Trail training to expatriate	5,6																		
10: Product adaptation – localized platform and GC's Chinese website	6																		
11: Recruit resellers and 2 outsourced call center agents	6																		
12: Training in partnership to call center agents/resellers	3,5, 6																		
13: Capture 2 or 3 paying clients to bridge the market	6																		
14: Celebration of contracts with the different entities	6																		
15: Utilization of salesforce.com	6																		
16: Promotion actions	6																		
17: Training programs	6																		
18: Recruiting a call center agent and a reseller	6															(!)		(!)	

will drop the market and lose €9140. If they perceive the market as attractive, they can have one month of consulting services with Dragon Trail (€2850), to reach in conjunction a final decision of whether to enter the market or not. If negative, GC will lose €11990 (€9140+€2850) for not entering the market.

From Sep/2012 until the year ending, required actions are synthetized in table 7. In Jan/2013, GC will enter the market by celebrating contracts with the different entities.

To **control** the process and to secure the accomplishment of the key performance indicators described in the target of table 8, additional initiatives will be performed:

1) As GC is embedded in an internationalization process it should upgrade salesforce.com[xxiii], from the current GC's professional sales cloud product, which enhances sales, to the enterprise one, which allows the management of multiple partner programs (from various countries) in one system, for a fee of €135/ user/ month.

2) To foster competition, two competing resellers would be recruited (Dragon Trail and for instance, Qast software group) remaining only the most profitable one in 2014;

3) In Jan/2014 and Jan/2015, to guarantee that sales would be achieved, it would be recruited two more resellers to foster specific geographic region. To support the gradual increase of the customer base, two more call center agents would be recruited. These would be reflection points as it would depend on the degree of growth of sales;

4) Questionnaires to clients to measure the quality of the product and service, so that, resellers and call center agents will not neglect these aspects;

5) Promoting actions would be leveraged to attract potential clients;

6) Finally, training programs would be conducted to resellers and call center agents.

Table 8 - Memos

Strategic Theme	Objectives	Measurement	Target	Initiative
Financial	Increase Profitability Sales Growth Client Growth	Profitability Sales revenue Number of clients	667/15000 (4.4% of market share in 3 years) €1.000.000 in revenues €664.620 of Net Income	2 Competing Resellers, examples: - Dragon Trail - Qast Software group Contract more resellers if needed Salesforce.com
Customer	Increase brand awareness Increase loyalty More products/ customer	Level of awareness (market studies) Number of lost clients Retention rate of free trials Effectiveness of new products promotion	40% (6000) client awareness Increase margin per customer	- Call center promoting actions - Satisfaction level questionnaires - Door-to-door sales - 14 days free trials - Cold emails - Tourism trades
Internal	Process transition as they have enough space for more 3400 clients – economies of scale	Quality of the product and service rates	Increase customer base without sacrificing quality	Questionnaires to measure quality of the product and service

Learning	Training of call center agents Improve the product Learn about the Asia-Pacific zone	Level of training of call center agents Product adaptation Asian market knowledge	Offer a substantial positive customer service Great knowledge of Chinese market to leverage GC's offer and to bridge the Asia-Pacific zone	Continuous training Consulting Services from Dragon Trail Market and field Studies "Localized Platform"

The costs of the project (**money**) will amount the sum of €358.068, revenues will be €1.042.500, thus, the estimated profit is €684.432. This is explained in appendix 20.2.

As a contingency planning, the implementation plan has as its cornerstone the consulting services from Dragon Trail, if this fails they have alternatives, such as CIC and other resellers such as Kunlan Solutions[xxiv] or Columbia Computer Products[xxv]. If there is a cost slippage, additional call center agents will not be contracted, and depending on the evolution of sales, the resellers would be relinquished. If in the worst case scenario the product will not be accepted by Chinese hotels, GC can easily withdraw from the market by ending the contracts (low exit barriers).

13. Conclusion

The objective of this project was to provide GuestCentric with the basis for engaging in an internationalization process onto China, as relying solely on a webpage is not enough for e-commerce companies. Yet, the company has been very responsive to international available business opportunities, having such a proactive approach that it is still too soon to enter China. Weighing risk/ opportunity and the consolidation of GC's financial position, it was reached the conclusion that GC should only enter the market in 2013.

After thoroughly analyzing GC's business and choosing China as the country under analysis, it was proposed a mode of entry and an implementation plan in conformity.

To succeed in the complex Chinese market it is vital to have consulting services and to partner with resellers, this being the cornerstone of the implementation plan and its catalyst. In time, all competitive advantages, competencies & resources are adaptable,

but this will require a deep knowledge of the Chinese market. The main obstacle to GC's success in China is the cultural clash and the operational risk, whilst intermediaries will be a constant threat, either globally as to the Chinese market.

When the right time comes, it is considered that the expected gains will compensate the risky variables embodied in China. Moreover, the company has a risky past and they will not want to miss the auspicious China, that despite still being an immature industry, it is projected to grow immensely. This way, GC will capture the critical market share to overcome their flimsy financial position.

Finally, this project and its implementation in the very heart of Asia can be utilized to serve as foundation to expand to the Asia-Pacific geographical zone, crucial markets for GC's long lasting success.

14. Recommendations

Before entering the market and regardless of the solutions presented, GC should consult the advisory board and make comprehensive field market research to reduce commercial risk. If GC perceives China as too risky, they can comprise business risk insurance to decrease risk, not needing to avoid China. Also, despite it was advised to enter China in 2013, it is not an absolute truth, depending on the evolution of the market.

Furthermore, more general aspects could be implemented. GC could also offer consulting services on online marketing and distribution to websites eager to capitalize on the social media revolution that is going on. In addition, through conducted interviews to GC's clients, it must be underlined that despite a fast implementation, there is some slowness on software updates and a degree of incompatibility of software. In spite of being a small sample it would be wise for GC to improve those areas in order to leverage their P&S. Moreover, to increase the ARPU, GC could: drive new platform upgrades with new services, sell new products, benefit monthly fixed fee paying clients

with more services over revenue sharing clients, or providing fixed fee clients with consultancy services on revenue management.

Finally, as internet is passing to mobile phones, GC should try to incorporate it in its offer the online booking of hotels though mobile format.

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APPENDICES

Appendix 1 – Questionnaire with responses from GC's clients to access GC's main sources of competitive advantages

Questionnaire about GuestCentric Systems

The questionnaire that follows was developed as part of a thesis for the completion of a Master in Management in Nova school of business and economics. The result of the preparation of this paper is to formalize an internationalization business plan for the company GuestCentric Systems to the Chinese market.

The purpose of this questionnaire is to access the competitive advantages of GuestCentric Systems, pointing what really sets them apart as a company providing software services to independent hotels.

I thank you in advance your willingness and cooperation. The answers should be short and objective.

Answers from Memmo Baleeira are represented as MB, from The House as TH and from Hotel Aiken as HA.

1. Since when are you a GuestCentric's customer?

MB: Since 2007.

TH: Since March 2010.

HA: July 2008.

2. Having in mind your business volume, do you consider your hotel as a small or medium property?

MB: Medium property.

TH: Small, I consider my hotel a boutique bed & breakfast.

HA: Small.

3. What are the strengths you identify in GuestCentric that does differentiate the

company from other companies in the market?

MB: The fact that they charge a fixed fee and not a commission on sales.

TH: Research on R & D as they are always developing new products. Good marketing and distribution tools.

HA: Ease of use, tools available to the Hotel to track different aspects of reservations and email.

4. How was the implementation process from request to completion of the service?

MB: The process was very simple and fast. The tool in terms of management is simple to use.

TH: The service was conducted by telephone and they have also sent me a PowerPoint presentation. The first attempt of website production was very good and aligned with what I intended. Nevertheless, too many technical problems occurred related with content on the website.

HA: Very Good.

5. What is the biggest flaw you identify in the product?

MB: The tool needs continuous developments, sometimes this development is a bit slower than desirable, despite the freshness of the application.

TH: Poor monitoring as well as several technical problems. Problems with software's incompatibility.

HA: N/A

6. What was the increase in online booking percentage after using the services of GuestCentric?

MB: We work with GuestCentric since the beginning of the activity, so we cannot

quantify any increase. Our site is the online channel more representative when compared to other channels.

TH: I do not know because the product was installed before the opening of the hotel. But from my reservations, 50% are from the website, 45% of customers call me for having seen the website and 5% through Facebook and acquaintances.

HA: 40%.

7. Do you feel that the return on investment regarding GuestCentric has been and continues to be positive?

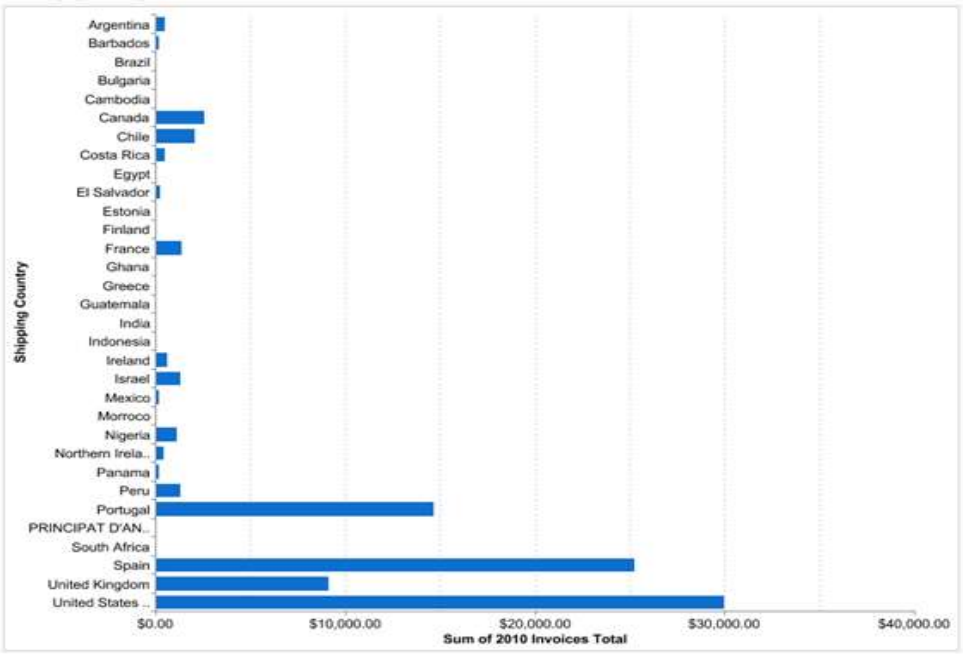
MB: Clearly positive and will predictably grow.

TH: Having a CRS is very profitable but specifically for the product GuestCentric I do not know.

HA: Yes.

Thank you for your cooperation!

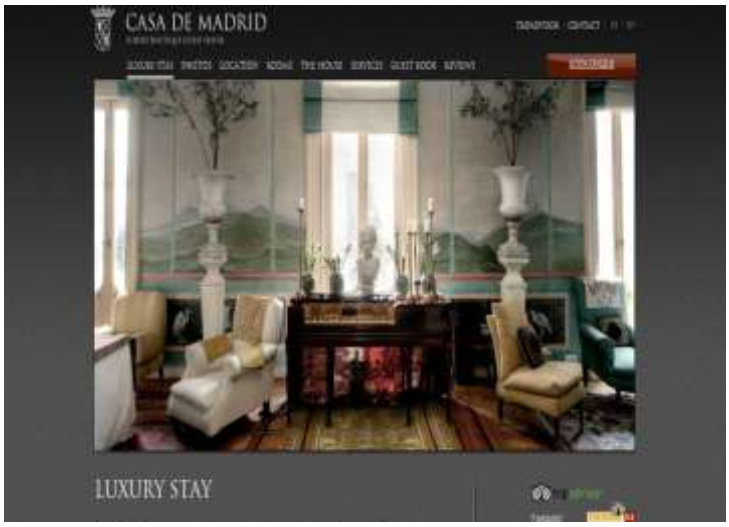
Appendix 2 – GC clients' dispersion



Appendix 3 – Segments of the market

Source: GC, 2010c

Appendix 4 – Example of a GC's Customer Website



Source: GC, 2010b

Appendix 5 – Portable Booking Engine

Source: GC, 2010b

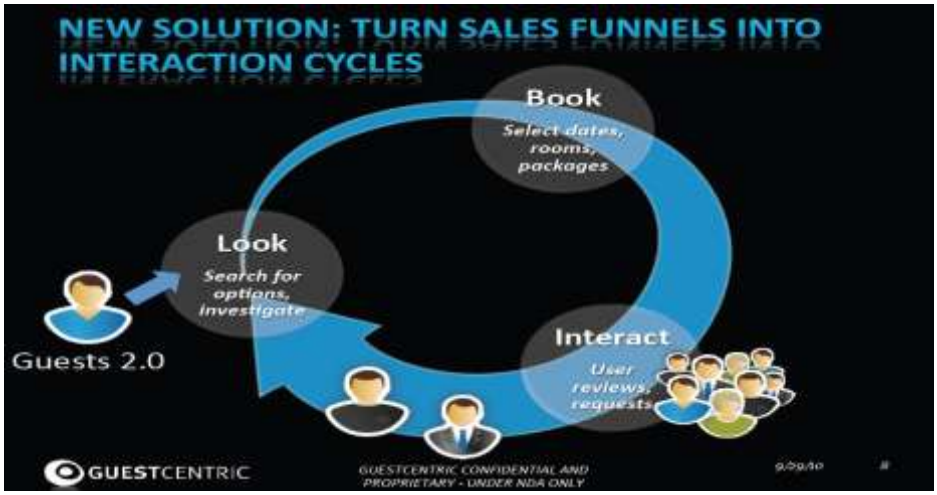
Appendix 6 – GC's Backend

Source: GC, 2010b

Appendix 7 - GC's Social Media offer and Social Media Revolution

Source: Social http://www.flickr.com/photos/matthamm/2945559128/

Appendix 8 – GC's Virtuous Cycle



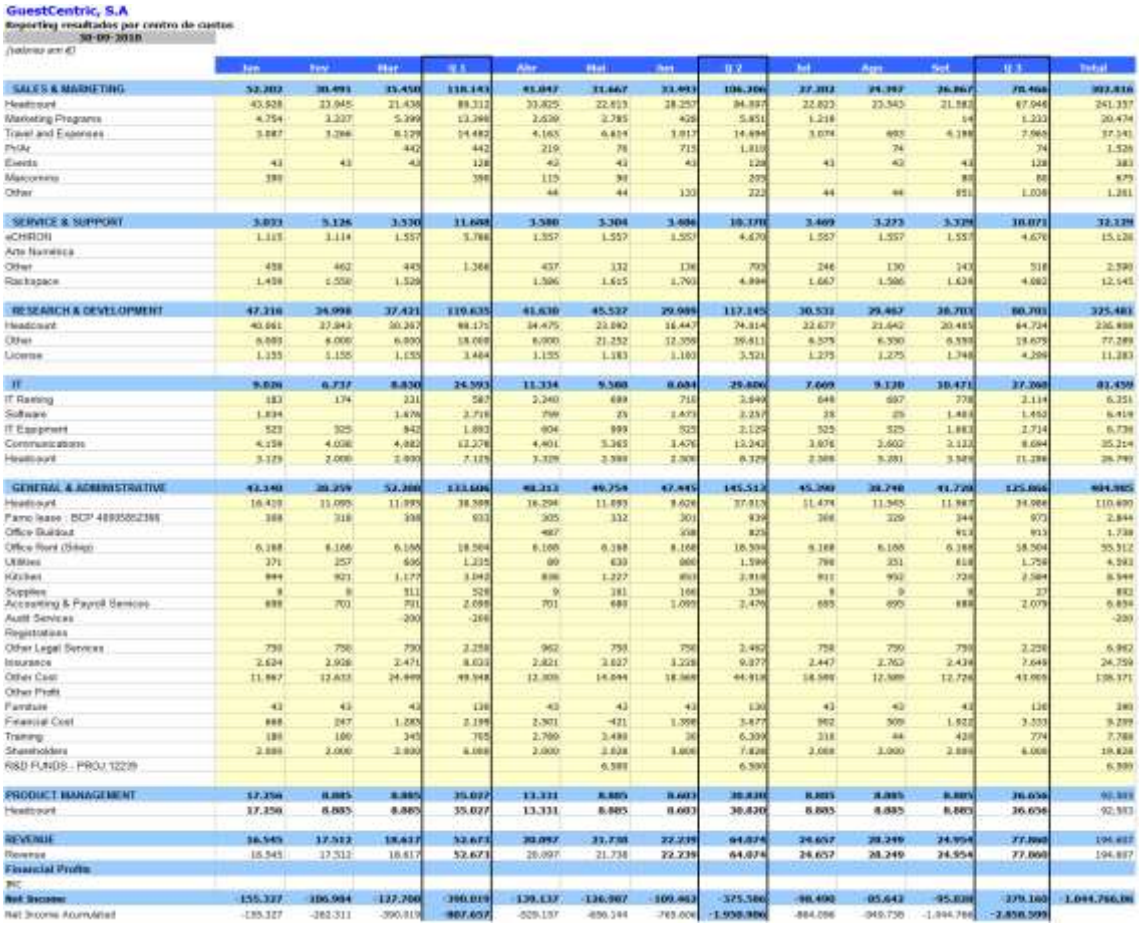
Source: GC, 2010c

GC's Virtuous Cycle "generates a steady growth for hotels as travelers are able to find and have a real look & feel of the hotel, book on an innovative hotel booking engine, and also, interact with the community and share the experience" (GC, 2010b).

Appendix 9 – Calculations and explanation of costs allocation

Activity	Type of Costs	Calculations (€)	%
1. Production	**Costs of goods sold + IT**	**113.588**	**9,2**
2. Marketing & Sales	**Sales & Mktg**	**302.816**	**24,5**
3. Customer Service	**Service**	**92.503**	**7,5**
4. Technology Development	**R&D**	**325.481**	**26,2**
5. Firm Infrastructure	**General & Administration**	**397.197**	**32**
6. Human Resource Management	**Training**	**7788**	**0,6**
Total		**1.239.373**	**100**

The costs were calculated based on GC's quarterly results only till the end of the third quarter, illustrated below:



GuestCentric, S.A

Reporting resultados por centro de custos

30-09-2010

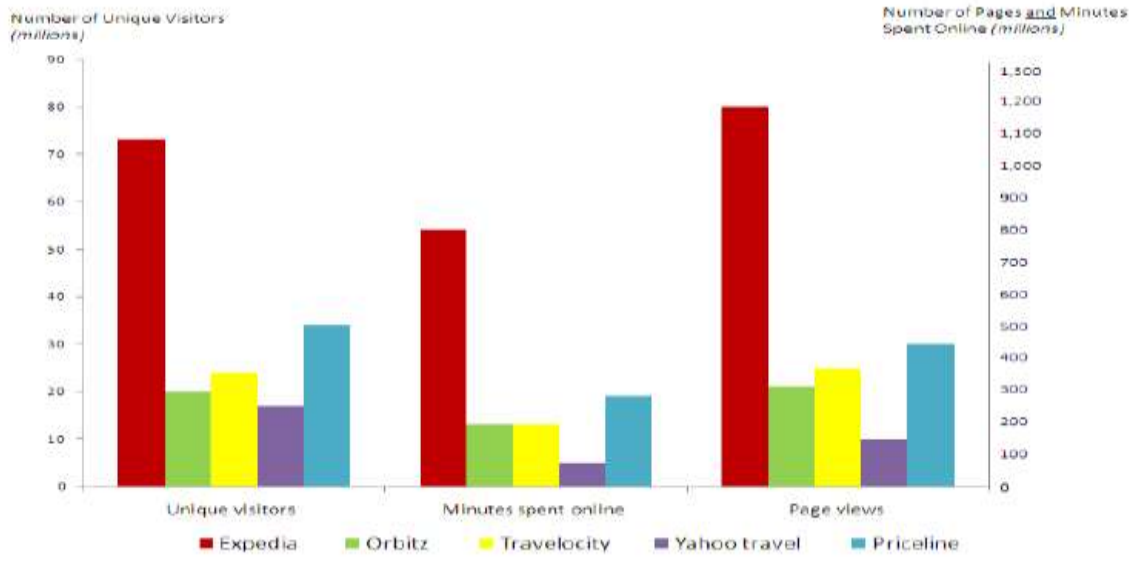
(valores em €)

	Jan	Fev	Mar	Q 1	Abr	Mai	Jun	Q 2	Jul	Ago	Set	Q 3	Total
SALES & MARKETING	**52.202**	**30.491**	**35.450**	**118.143**	**45.047**	**31.667**	**33.493**	**106.206**	**27.202**	**25.397**	**26.867**	**79.466**	**303.816**
Headcount	40.928	23.945	21.438	86.312	23.825	22.613	28.257	74.695	22.823	23.545	21.582	67.946	241.357
Marketing Programs	4.754	3.237	5.399	13.390	2.639	2.785	428	5.851	1.218		16	1.233	20.474
Travel and Expenses	3.887	3.286	8.129	15.482	4.165	6.824	3.817	14.806	3.074	693	4.188	7.955	37.141
PVAr			442	442	219	78	715	1.013		74		74	1.529
Events	43	43	43	128	43	43	43	128	43	43	43	128	383
Marcomms	388			388	115	30		205			88	88	679
Other					44	44	133	222	44	44	851	1.038	1.281
SERVICE & SUPPORT	**3.033**	**5.126**	**3.530**	**11.688**	**3.580**	**3.304**	**3.486**	**10.370**	**3.469**	**3.273**	**3.329**	**10.071**	**32.129**
eCHIRON	1.115	3.114	1.557	5.786	1.557	1.557	1.557	4.670	1.557	1.557	1.557	4.670	15.126
Arte Numerica													
Other	458	462	445	1.366	457	332	136	793	246	130	143	518	2.590
Rackspace	1.458	1.550	1.528		1.566	1.415	1.793	4.894	1.667	1.586	1.629	4.882	12.145
RESEARCH & DEVELOPMENT	**47.316**	**34.998**	**37.421**	**119.635**	**41.630**	**45.537**	**29.989**	**117.145**	**30.531**	**29.467**	**28.703**	**88.701**	**325.481**
Headcount	40.661	27.843	30.267	98.171	34.475	23.092	16.447	74.014	22.677	21.642	20.485	64.724	236.908
Other	6.000	6.000	6.000	18.000	6.000	21.252	12.358	39.611	6.579	6.550	6.559	19.679	77.289
License	1.155	1.155	1.155	3.464	1.155	1.183	1.183	3.521	1.275	1.275	1.748	4.298	11.283
IT	**9.026**	**6.737**	**8.830**	**24.593**	**11.334**	**9.580**	**8.084**	**29.006**	**7.669**	**9.120**	**10.471**	**27.260**	**81.459**
IT Renting	183	174	231	587	2.240	689	718	3.648	648	697	778	2.114	6.351
Software	1.834		1.476	3.310	799	25	1.403	2.257	28	25	1.481	1.462	6.419
IT Equipment	523	325	842	1.692	904	999	525	2.129	525	525	1.883	2.714	6.736
Communications	4.158	4.038	4.882	13.078	4.401	5.363	3.476	13.242	3.976	3.602	3.122	8.694	35.014
Headcount	2.329	2.000	2.000	7.329	2.329	2.500	2.500	7.329	2.500	3.281	3.500	11.280	26.790
GENERAL & ADMINISTRATIVE	**42.340**	**28.259**	**52.200**	**122.800**	**48.212**	**49.754**	**47.445**	**145.512**	**45.290**	**38.748**	**41.720**	**125.806**	**394.905**
Headcount	16.410	11.095	11.095	38.599	16.294	11.093	8.624	37.919	11.474	11.345	11.987	34.806	110.690
Farro lease - BCP 48935652386	308	318	308	933	305	332	301	939	308	329	344	973	2.844
Office Buildout					467		508	975			913	913	1.738
Office Rent (Shop)	6.166	6.166	6.166	18.504	6.166	6.166	6.166	18.504	6.166	6.166	6.166	18.504	55.512
Utilities	371	257	606	1.235	89	630	860	1.579	798	351	618	1.758	4.593
Kitchen	844	921	1.177	3.042	808	1.227	853	2.888	911	952	726	2.584	8.544
Supplies	8	8	511	528	9	181	166	356	8	9	9	27	892
Accounting & Payroll Services	688	701	701	2.088	701	680	1.095	2.476	685	695	688	2.079	6.834
Audit Services			-200	-200									-200
Registrations													
Other Legal Services	750	750	750	2.258	962	750	750	2.462	758	750	750	2.258	6.982
Insurance	2.624	2.908	2.471	8.003	2.821	3.027	3.228	9.077	2.447	2.762	2.424	7.649	24.729
Other Cost	11.967	12.433	24.949	49.348	12.309	14.044	18.068	44.419	14.599	12.589	12.726	43.915	136.371
Other Profit													
Furniture	43	43	43	128	43	43	43	128	43	43	43	128	383
Financial Cost	888	247	1.285	2.199	2.901	-421	1.358	3.877	992	509	1.922	3.533	9.299
Training	188	188	343	705	2.788	2.488	88	6.309	318	44	428	774	7.788
Shareholders	2.888	2.000	2.000	6.888	2.000	2.828	1.808	7.828	2.088	2.000	2.888	6.888	19.828
R&D FUNDS - PROJ 12239						6.588		6.588					6.588
PRODUCT MANAGEMENT	**17.256**	**8.885**	**8.885**	**35.027**	**13.331**	**8.885**	**8.603**	**30.820**	**8.885**	**8.885**	**8.885**	**26.656**	**92.503**
Headcount	17.256	8.885	8.885	35.027	13.331	8.885	8.603	30.820	8.885	8.885	8.885	26.656	92.503
REVENUE	**16.545**	**17.512**	**18.617**	**52.673**	**20.097**	**21.738**	**22.239**	**64.074**	**24.657**	**28.249**	**24.954**	**77.860**	**194.607**
Revenue	16.545	17.512	18.617	52.673	20.097	21.738	22.239	64.074	24.657	28.249	24.954	77.860	194.607
Financial Profits													
IRC													
Net Income	**155.327**	**106.984**	**127.200**	**390.019**	**139.137**	**126.907**	**109.963**	**375.506**	**98.490**	**85.643**	**95.838**	**279.160**	**1.044.766,06**
Net Income Acumulated	-155.327	-262.311	-390.819	-807.657	-529.157	-656.144	-765.604	-1.950.986	-884.096	-949.738	-1.844.786	-2.858.599	

- Sales & marketing costs were evidently allocated to Sales & Marketing.
- The costs from Service & Support costs were allocated to Production (eChiron, Arte Numérica and Rackspace all support the product by providing base where the software runs, programming and effectiveness and efficiency).
- R & D costs were assigned to Technology Development.
- IT costs to production.
- General & Administration costs were allocate to Firm Infrastructure.
- Product Management has to do with Customer Service.

Source: GC, 2010c

Appendix 10 – Global market share of monthly OTA internet traffic



Source: ComScore Media Matrix, March 2010

Appendix 11 – Example of a case-study incorporated in GC website

StayinEstes.com grows direct online revenue by 700% after implementing powerful e-commerce solutions.

Aware of the new online searching patterns of travelers, **StayinEstes.com a 9-loft independent property located in Estes Park, CO** was committed to create and control a successful e-Commerce strategy. At the same time they were concerned about how to provide a professional looking website that increased their direct bookings.

Integrated e-commerce platform design for independent properties

After a long search among different providers StayinEstes.com found in GuestCentric Systems the only easy to use integrated platform that could meet the needs of properties like theirs. The property was equipped with powerful marketing and distribution tools that focus on the development and management of direct online bookings:

- **A new professional website design**
- **Powerful booking engine**
- **Reservation and revenue management platform**
- **Automated Guest CRM**
- **Integrated user reviews and user generated content**
- **Social networks integration**

With a professional web design, the new hotel website transmits the look and feel of the property and provides relevant information to visitors that increases conversions. Thanks to GuestCentric's Instant Hotel Technology, StayinEstes.com now has full control of their website. They can update and change the content anytime without having to worry about additional charges.

Customers love the simplicity, speed and safety of the booking engine

StayinEstes.com is very pleased with the ease-of-use of their new online reservations system and the one screen-booking engine that provides a calendar overview of up to 550 days with real time availability and pricing. The booking engine provides simple and complete information about rooms and booking restrictions. This means that customers have all the necessary information to make a purchasing decision without having to exit the booking engine.

The reservations platform is a time saving tool that simplifies the management of the online and offline reservations. Now the property can focus in creating strategies to increase business. With the complete hotel analytics provided by the back-end, finally the property has a clear view on the website's performance, number of visits, visits per country as well as detailed information on revenue.

Monetizing social media

Aware of the rapid changes in the searching preferences of online travelers, StayinEstes.com integrated GuestCentric's portable booking engine to their Twitter account and Facebook page. This technology allows them to sell their rooms, simplify booking transactions by providing direct access to the property's booking engine through Facebook and Twitter in fewer clicks.

Outstanding results, one secret: Look, Book, Interact

Look – Two months after the new website went live, StayinEstes.com experienced an **increase of 230% in unique number of website visitors**. By having control of their website StayinEstes.com can immediately react to the demand and preferences of their visitors and guarantee the best offer available online. "*The website and booking engine not only provide visitors with the best available rates but we also try to provide them with a wider offer where they can choose based on their needs and wants*" Said StayinEstes.com manager Mark Despain

Book – The increase of the website traffic increased the booking engine visibility and thanks to GuestCentric's easy to use powerful e-Commerce tools, the **direct online revenue** of the property had an **outstanding growth of 700% in four months**. "*We couldn't be happier with the results of our e-commerce. Our previous online system was not user-friendly and lacked the necessary tools to optimize direct online revenue. As a small independent property we are happy to have GuestCentric as our online partner, because it is guarantee that we will always have the latest technology available to manage our e-commerce*" continued Despain

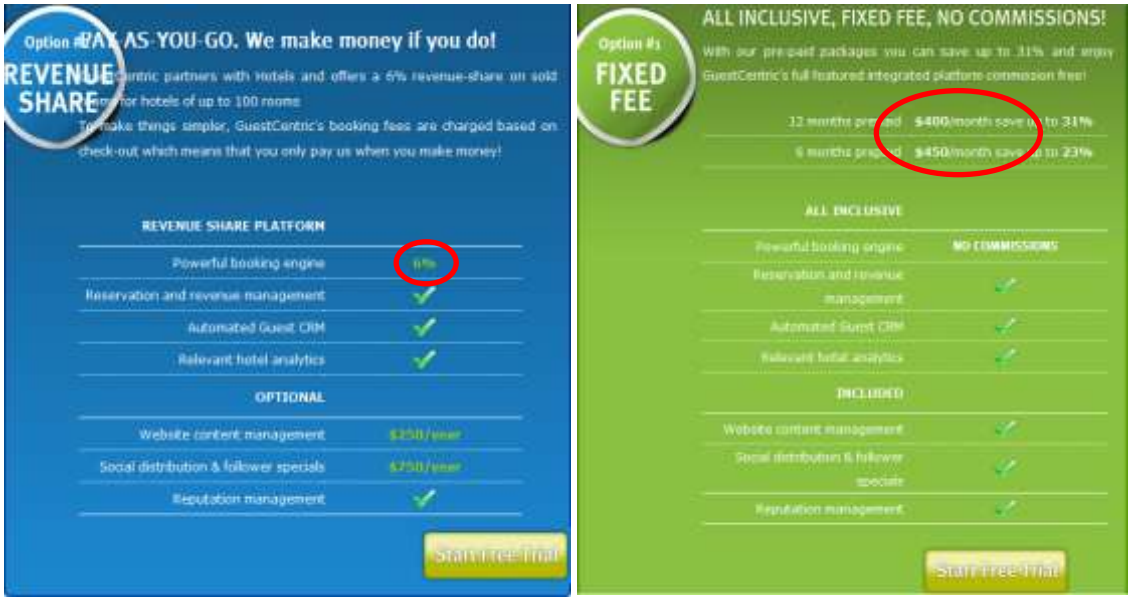
Interact – Satisfied online customers provide and share good reviews and comments about the property. To potentiate the interaction with new customers through social networks, StayinEstes.com integrated GuestCentric's Portable Booking Engine to

Twitter and Facebook. This allows the property to expand their visibility in new distribution channels. Now StayinEstes.com has all the necessary information to create strategic viral marketing campaigns to increase market share. **Online reservations through these channels account for 5% of their overall online revenue**.

It is not easy for a small independent hotel to succeed in such a crowded and demanding environment. GuestCentric's Look-Book-Interact Cycle pushes new customers into the hotel network as a result StayinEstes.com numbers keep on increasing month after month.

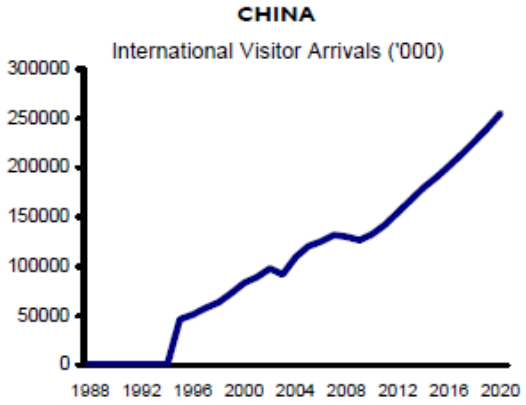
Source: GC, 2010b

Appendix 12 – Revenue Model



Source: GC, 2010b

Appendix 13



Source: Travel & Tourism Economic impact in China 2010 Research (WTTC)

Appendix 14 - China online travel service market share

Source: Warm up for Ctrip.com 2010 Q3[xxvi]

Appendix 15 – Correspondence from online global players to Chinese leading players

Type	Leading player in China	Global player
Search Engine	Baidu	Google
C2C eCommerce	Taobao	eBay
Instant messenger	QQ	MSN Messenger
Video hosting	Youku, Tudou	YouTube
Picture hosting	Yupoo, Bababian	Flickr
Student SNS	Xiaonei , Kaixin001	Facebook
Working Class SNS	51.Com, Kaixin	Myspace
Business SNS	Tianji, Wealink	LinkedIn
Portal	Sina, Sohu, Tom	Yahoo!
Blog service	Blogbus	Blogger
Reviews	Douban	Flixster
Micro-Blogging	Fanfou, Digu, Taotao	Twitter
Bookmarking	Zhuaxia	Digg
Community	HaiBaidu	Myspace

Source: http://www.slideshare.net/chinacontact/tdseurope2009-workshop-chinacontact

Appendix 16 – Ranking of Chinese Social Media

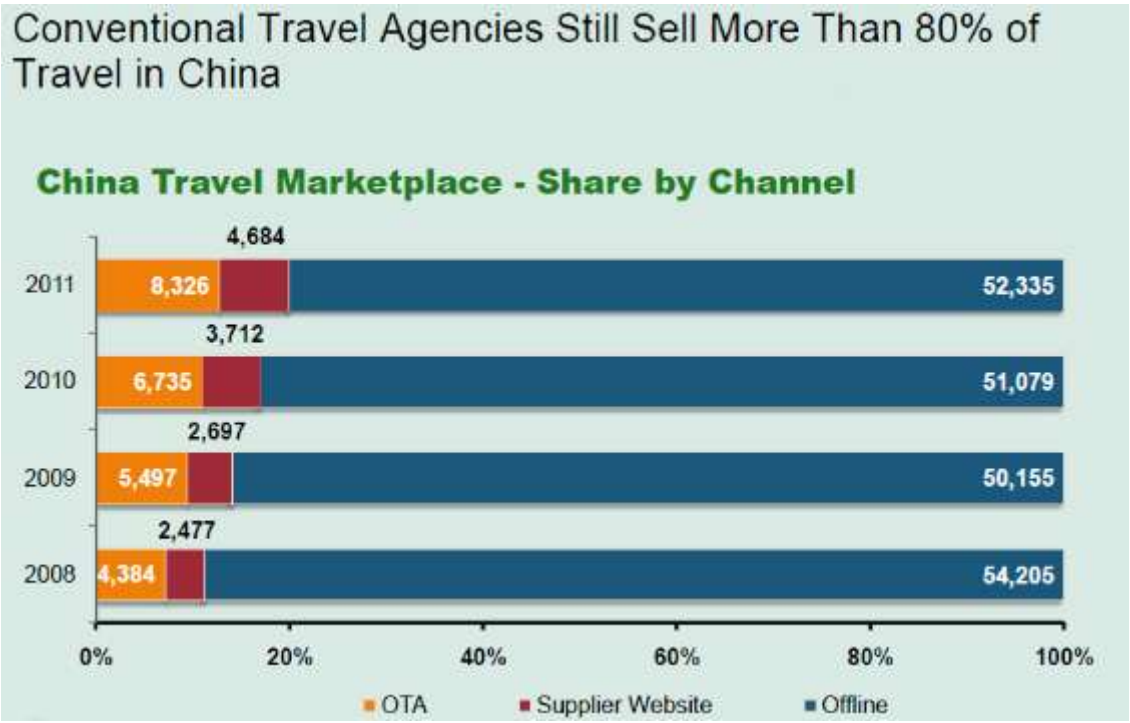
SNS in China

	Name	Webpage	Registered Accounts	Global Alexa ranking
1	QQ	Qzone.qq.com	376,000,000	17
2	51	www.51.com	130,000,000	359
3	Baidu	tieba.baidu.com	110,000,000	11
4	Xiaonei	www.xiaonei.com	40,000,000	168
5	Kaixin	www.kaixin001.com	30,000,000	135
6	Baidu Kongjian	hi.baidu.com	27,500,000	11
7	Ipartment	www.ipart.cn	22,000,000	4,489
8	360quan	www.360quan.com	11,000,000	2,932
9	Wangyou	www.wangyou.com	10,000,000	412
10	Tongxue	www.tongxue.com	10,000,000	3,493
11	Baihe	www.baihe.com	9,000,000	10,763
12	Zhanzuo	www.zhanzuo.com	7,000,000	12,872
13	Myspace	www.myspace.com	6,000,000	9
14	Douban	www.douban.com	2,000,000	372
15	Tianji	www.tianji.com	1,500,000	10,695
16	Wealink	www.wealink.com	1,500,000	15,285
17	Facebook	www.facebook.com	1,452,000	5
18	Friendster	www.friendster.com	1,100,000	47
19	Linkedin	www.linkedin.com	1,026,000	110
20	Hainei	www.hainei.com	1,000,000	16,363

© www.web2asia.com

Source: web2asia.com

Appendix 17 – China travel marketplace: share by channel



Source: http://slideshare.net/mfredactie/presentation-cees-bosselaar-phocus-wright

Appendix 18 – Dragon Trail Partnership vs. CIC

Basing the analysis on Dragon Trail's website, http://dragontrail.com/ Dragon Trail, a Beijing based company, provides end-to-end solutions for hotel companies, tourism organization, and travel corporations, as well as small to mid-size businesses seeking success in the Social Web, connecting it with consumers in China via electronic distribution channels. It is the premier brand engagement firm to help travel and tourism organizations to connect to Chinese consumers by leveraging the Chinese online and social media landscape to develop and seed relevant content, executing results-driven digital marketing campaigns, and enabling innovative technology solutions. In collaboration with COTRI (China Outbound Tourism Research Institute), the partnership offers an integrated "China Solution", including technology, marketing,

trade sales, and research, as well as service training, combined with specific industry expertise and local knowledge because bridging Chinese regional barriers is a particularly difficult task, especially given language, cultural and technical nuances. Dragon Trail offers aspects of the utmost importance in order for GC to succeed in the Chinese environment, such as, consulting to promote travel products and services; creates strategy to connect with Chinese consumers; develops and maintains an online presence in China, including translation, web copy writing, web development, social network sites, and blog management; plan, develop, execute, and measure Digital marketing and social media campaign; leverage innovative brand insight tool in order to gather consumer voices in social networks towards a brand, product, or service within a certain market; and leverage consumer engagement tools.

By being provided with consulting services from an experienced group with the complex Chinese system, GC will be able to reduce political, commercial and cross-cultural.

Furthermore, in exchanged emails with Dragon Trail's CEO executive partner and chief strategist Jens Thraenhart, he said that they also act as resellers, forming partnership charging commission on sales. Notwithstanding, he said that GC should make a fairly significant commitment towards the Chinese market, as only having Dragon Trail as sales representative would not work in the Chinese market, rather, GC should also have Dragon Trail's consulting services, that would allow GC to perceive if there is a consistent market for them.

"For a price of $2500-$5000/month or $250/hour based on scope"[xxvii], Dragon Trail, leverages the Chinese online and social media landscape to develop and seed relevant content, advice and craft a market entry strategy.

CIC charges "depending on your request and the scope of work our reports tend to range from €2300 to €13000. However for a new client we'd recommend you conduct a 'CIC Data–Audit' report for €11000, as it gives our clients a very comprehensive understanding as to a brand, their competitors and products position on the Chinese Internet and the whole industry they work in.[xxviii]"

Appendix 19 – Required documents to be submitted to the commercial authorities in setting up a wholly foreign-funded enterprise[xxix], investment promotion agencies and taxes:

a. Application form for setting up a foreign-funded project;

b. Articles of association of the wholly foreign-funded enterprises;

c. Notification of approval for name registration;

d. Name list of the legal agent;

e. Certifications on the foreign investor's legal status and financial &credit standing;

f. The written reply from the county level or above government where the foreign-funded enterprise will be located;

g. Project application report;

h. Evaluation license procedures related to city plan, land usage, environment protection and water resources and flood protection;

i. Other documents promulgated by laws and regulations.

GC should contact investment promotion agencies that provide a "one-stop service" in order to facilitate business.

"Portugal is an element of the European Union chamber of commerce in China, which may be enough to surpass legal advisory" [xxx], therefore, GC should contact those agencies in cities such as Beijing, Shanghai, Guangzhou, Hong Kong and Tianjin, where they will primarily foster their sales. Furthermore, "GC may have two years of exemption from corporate income tax plus three years of 50% reduction of this tax due to being a software production enterprise"[xxxi].

Appendix 20.1 - Chinese Added Costs:

Type of Cost	Monthly Cost	Biannual Costs (2012-2013)	Annual Cost (2014)	Annual Cost (2015)
1) Expatriate	€2000 + 5% of sales	€47.500	€35.500	€63.000
2) Outsourced call center employees	€657	€7884 x 2 employees=€15.768	€23.652 (3 employees)	€31.536 (4 employees)
3) Foreign language lessons		€940	€470	€470
4) Plane tickets		€600 x 7 = €4200	€750 x 2 = €1500	€750 x 2 = €1500
5) Consulting with Dragon Trail	€2850	€45.600	€34.200	€34.200
6) Company Registration		€2800		
7) Translation*		0€	€86 site x 100 added sales = €8600	€86 site x 467 sales = €40.162
8) Added cost from salesforce.com	(€65 x 12)/ 8 = €87	€1044	€1044	€1044

9) Tourism Trades Fairs		€300 x 2 = €600	€300 x 2 = €600	€300 x 2 = €600
10) Legal and accounting adviser	€350	€350 x 12 = €4200	€4200	€4200
TOTAL		**€117.852**	**€100.666**	**€139.550**

1) GC's representative in Spain earns the same salary method, therefore, as the sales potential in China are higher, I have assumed the same method, which was calculated basing on the sales projection on the revenue table, an example: €2000 x 14 months + (0,05 x €700.000) = €63000. In 2012-2013, 6 months of salary will be added from the year of 2012: 6 x €2000 = €12000.
2) The company Callnovo charges $5/ hour, Pedro Colaço said that 8 hours/ day would be enough, for 261 days/ year: 5 x 8 x 261days = $10440 x 2 employees = $20880/12 months= $870 monthly = **€657**[xxxii]. The number of days is: 52weeks/ year x 2 (weekends) = 104 days of not working, 365 – 104 = 261days. With three and four employees it is just adding annual costs.
3) A Business Chinese Course is RMB 4140 = €470[xxxiii], till the entrance GC's expatriate will have two courses, thus €470 x 2 = €940, and in the next years only one.
4) A Lisbon - Beijing plane ticket costs €600[xxxiv], before enter the market Pedro Colaço should go at least 6 times and the expatriate will need one trip (as he will remain in China), to study the Chinese market and perceive if it is viable to enter China, afterwards recruit consulting services, resellers and call center agents. Thereafter it is usual to pay their clients two round trips which from Beijing to Lisbon is €750.

5) After sending an email to the Dragon Trail's CEO executive partner and chief strategist Jens Thraenhart, he said that the company would charge $2,500-5,000/month or USD 250/hour based on scope, thus I have made an average between $2,500-5,000/month and I arrived to the number $3750 = €2850 per month times 12 months equals €34200. The cost of 2012-2013 will be €34200 of 2013 and four months in 2012: €2850 x 4 = €11400 + €34200 = €45600.
6) The company registration is RMB 25000 = €2850[xxxv].
7) * The partnership with Dragon Trail covers translations, therefore, translation costs would only account if GC would end the partnership in any year, which in my opinion, the saved costs would not compensate the lost added value for ending the partnership.
8) I have put here only the added cost from salesforce.com and only for China, that is, GC already pays €70/user/month, as the new price would be €135/user/month, costs would augment only €65/user/month. Therefore, €65 x 12 GC's users equals €780, but this amount will have to be divided for 9 countries where GC is and will be established (UK, France, Spain, Portugal Germany, France, Italy, US, Brazil and China) to accurately access the added cost from China, €780/ 9 = €87 times 12 months equals €1044.
9) To promote GC meeting hoteliers, tour operators, and companies involved in GC's industry, they must go to tourism trade fairs. The costs were estimated based on International Tourism Trades where GC has been present, such as ITB[xxxvi], FITUR[xxxvii] and WTM conference[xxxviii].

10) I have not found the price of a legal and accounting adviser for the Chinese market, but as in the Portuguese market for a similar situation it is normal to pay €300/month, I have increased to €350/month for the Chinese market.

Note: the localized platform and GC's Chinese website will not have direct costs besides the indirect salary costs at the headquarters.

Appendix 20.2 - China's GC Base Plan 2012-2015

	2012-2013	2014	2015
Clients (new)	60	200	667
Average annual invoicing/ client	€1500	€1500	€1500
Revenues	€90.000	€300.000	€1.000.000
% of Resellers (25%)	€22.500	€75.000	€250.000
Costs	**€117.852**	**€100.666**	**€139.550**
Net Income	(€50.352)	€124.334	€610.450
Accumulated Net Income	(€50.352)	€73.982	€684432

Glossary

Analyst relations: "is a person or team which have the remit to brief industry analysts about their company's strategy, products and services; help them with research requests; and generally try to persuade these influential third parties to represent them in the best possible light (to end user purchasers of IT products)"[xxxix].

Marcomms: Marketing Communications are "those who practice advertising, branding, brand language, direct marketing, graphic design, marketing, packaging, promotion,

publicity, sponsorship, public relations, sales, sales promotion and online marketing are termed marketing communicators, marketing communication managers, or more briefly, marcom managers"[xl].

ADR: Average daily room is the total revenue divided by the number of sold rooms.

B2B: "On the Internet, B2B (business-to-business), also known as e-biz, is the exchange of products, services, or information between businesses rather than between businesses and consumers"[xli].

Boutique/ Design Properties: "Boutique hotels are small, trendy properties marketed on bringing unique, location-specific experiences to travelers".[xlii] An example of a client of GC is www.casademadrid.com.

DMO: Destination marketing organizations promote regional/ local destinations as a whole, in which are included promotion to hotels.

Consolidator Sites: Combine all OTAs in a single platform for travelers that want a good option regardless of the brand of the hotel, so that, they are able to perceive the best deals offered, examples are Momondo and Kayak.

CRS: "Support the transfer of a service by eliminating the physical distance between the supplier and the consumer" facilitating the buying process between hotel suppliers and travelers. "Therefore, CRSs can be characterized as supporting distribution process. Similar to an empty supermarket, the providers (hotel suppliers) can fill the empty shelves by providing their data to the CRS"[xliii] (Schulz, 1996)

Developers Cloud: a collaborative development and distribution of new and innovative social *cloud* applications for the hotel industry, where multiple third parties – independent web designers and software developers - using GC's rules, can develop small ideas on top of GC's integrated e-commerce and social marketing cloud. This

partnership will not only bring enhancements to GC's platform without spending resources in R&D, but will also give partners the opportunity to resell their applications to GC's growing base of clients around the world, just like iPhone and its applications.

E-commerce: "E-commerce (electronic commerce or EC) is the buying and selling of goods and services on the Internet, especially the World Wide Web. In practice, this term and a newer term, e-business, are often used interchangably."[xliv]

Facebook: "Facebook is a social networking website that was originally designed for college students, but is now open to anyone 13 years of age or older. Facebook users can create and customize their own profiles with photos, videos, and information about themselves. Friends can browse the profiles of other friends and write messages on their pages."[xlv]

GDS: "Global Distribution Systems are major CRS operations that include reservation databases of hotel suppliers in many countries"[xlvi], the major GDS companies are Amadeus, Galileo, Sabre, and Worldspan

HASP: Hospitality application service providers (associar a nternet)

Independent properties: Typically small or medium properties. "A hotel with no chain or franchise affiliation. It may be owned by an individual proprietor or a group of investors"[xlvii]. www.stayinestes.com exemplifies a GC's client.

Intermediaries: "Intermediaries facilitate the searching process of both buyers and sellers by structuring the information essential to both parties, providing a place for both parties to meet each other and reducing uncertainty (Pitt *et al*., 1996)". "They minimize distribution costs through routinizing and standardizing transactions, which makes the exchange more efficient and effective (Corvi *et al*., 2005)".

Occupancy: Number of sold rooms divided by the number of hotel rooms.

Online Tour Operators: Are companies that offer package holidays on the online channel through an owned website.

OTA: Online Travel Agencies base their strategy in distributing and selling GDSs' databases through online marketing.

Platform (Computing): "sort of hardware architecture and software framework (including application frameworks) that allows software to run"[xlviii]

Property management system: "It is the hub of a property's operations - processing reservations, check-ins and check-outs. It keeps track of how many rooms you have left to sell and at what rate. It handles front office accounting, marketing as well as interfacing to other systems such as phone, reservations, restaurant and pay-per-view movies."[xlix]

RevPaR: Revenue per available room = ADR x Occupancy. It is the hotel performance on a daily basis, the key performance indicator as it provides a good measure on how well a hotel is filling its rooms and the price it is charging.

Rackspace and **eChiron**: Web hosting company. They host servers where GC's software runs.

SaaS: "is software that is deployed over the internet and/or is deployed to run behind a firewall on a local area network or personal computer. With SaaS, a provider licenses an application to customers either as a service on demand, through a subscription, in a "pay-as-you-go" model, or (increasingly) at no charge. This approach to application delivery is part of the utility computing model where all of the technology is in the "cloud" accessed over the Internet as a service."[l]

SEO: "is the process of improving the volume and quality of traffic to a web site from search engines via "natural" ("organic" or "algorithmic") search results. Usually, the earlier a site is presented in the search results, or the higher it "ranks", the more

searchers will visit that site. SEO can also target different kinds of search, including image search, local search, and industry-specific vertical search engines."[li]

Social Networking Sites: "places on the Internet where people meet in cyberspace to chat, socialize, debate, and network. Some examples include MySpace, Friendster, and Facebook. Regardless of the language, culture, or the nation where the Social Networking Site originates, all of them share the same feature of helping people connect with others who have similar interests."[lii]

Software: "Software is a general term for the various kinds of programs used to operate computers and related devices."[liii]

Web 2.0: "Web 2.0 is the term given to describe a second generation of the World Wide Web that is focused on the ability for people to collaborate and share information online".[liv] "A Web 2.0 site allows users to interact and collaborate with each other in a social media dialogue as consumers of user-generated content in a virtual community. Examples of Web 2.0 include social networking sites, blogs, wikis, video sharing sites, hosted services, web applications, mashups and folksonomies."[lv]

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[i] www.guestcentric.com

[ii] Data had to do with defining product & service, financial situation, allocation of costs, suppliers, strategic objectives, projects under development, potential entrants, etc.

[iii] stayinestes.com, shiningangkor.com, hotelaiken.com/hotel-overview.html, h4n.com/hotel-overview.html, pattisinnandsuites.com/hotel-overview.html, thehouse.pt

[iv] In the article "Billion Dollar Leakage" (Starkov, 2010) it can be perceived that independent hotels have been literally at the mercy of intermediaries, therefore they were jeopardizing the fact that 82% prefer to book directly on the suppliers website

(PhocusWright 2009). The recent recession from 2008-2010, brought back the overdependence of intermediaries, because many hotel companies wanted to compensate for the decreasing business, affecting negatively GC's business.

[v] These numbers are based on GuestCentric estimations. In exchanged emails, Pedro Colaço said that his calculations were based on extrapolation, knowing that the number of hotels in the GDS is 100.000, and recognizing that this only represents 20-25% of the market based on any market sample, the number of 400.000 independent hotels is obtained.

[vi] Independent hotels willingness to pay per year is between the interval ($1000, $100000) times 400.000 independent hotels equals ($400M, $4B).

[vii] Market trends are based on the 4th benchmark survey on Hotel Internet Marketing Budget Planning and Best Practices performed by HeBS in 2010 (Starkov, Max *et al*., 2010). Since 450 hotels participated in this survey, composed by the whole spectrum of the hospitality industry, boutique, upscale, budget, mid-scale, from all around the globe, where half of participants were independent properties (55,6%) exactly GC's target, and thus, this survey is pretty relevant.

[viii] I have outlined the most important parameters and also attributed a range to each one, depending on its degree of importance within this industry. Each company was ranked with a number, based on their websites as well as their clients' websites. The companies displayed in figure 2 are not exhaustive but representative of major companies in countries where GC is present.

[ix] Evaluated on design, innovation, content, technology, interactivity, navigation and ease of use, which increased brand reputation

[x] 15000 x (1 - 0,16%) = 12600

[xi] http://www.makemytrip.com/

[xii] http://english.ctrip.com/

[xiii] http://www.elong.net/

[xiv] Independent hotels willingness to pay per year is between the interval ($1000, $100000) times 12600 independent hotels equals ($12,6M, $126M).

[xv] http://www.travelsky.com/english/index.htm

[xvi] http://www.hubs1.net/en/

[xvii] http://www.derbysoft.com/en/product_dh.html

[xviii] In exchanged emails with David Revelle, Director of Business, Development, DerbySoft US, he stated that the price of DHotelier was adapted to the Chinese market to reflect the fact that Chinese hotel managers are typically very hesitant to spend money.

[xix] www.DragonTrail.com

[xx] http://ciccorporate.com/index.php?lang=en

[xxi] http://www.qast.com/eng/aboutcompany.htm

[xxii] It is a subcontracted company that specializes in making and answering telephone calls on behalf of a corporation (http://www.ehow.com/about_6506258_definition-outsourcing-call-center.html). Callnovo (http://callnovo.com/) is a company that can provide those services with quality, charging $5/ hour. It is relatively inexpensive to staff a call center in China.

[xxiii] http://www.salesforce.com/eu/crm/editions-pricing.jsp

[xxiv] http://www.softwarechn.com/help/english.html

[xxv] http://www.cvisiontech.com/partners-section/international-resellers/columbia-computer-products-group-china.html?lang=eng

[xxvi] http://www.chinavestor.com/fundamental-analysis/72510-warm-up-for-ctripcom-2010-q3.html

[xxvii] Exchanged emails with Dragon Trail

[xxviii] Exchanged emails with CIC

[xxix] http://www.business-in-asia.com/china_invest_documents.html

[xxx] http://www.fdi-law.com/en/view2.php?id=2351

[xxxi]http://www.pwccn.com/webmedia/doc/633988857734651860_cn_tax_facts_figures_2010.pdf

[xxxii] www.xe.com

[xxxiii] http://imandarin.net/Shanghai/Dates_Prices.asp

[xxxiv] www.momondo.com

[xxxv]http://news.at0086.com/Company-Registration-Services/Fees-You-Need-to-Pay-when-Registering-a-Foreign-Funded-Company-in-China.html

[xxxvi] http://www1.messe-berlin.de/vip8_1/website/Internet/Internet/www.itb-berlin/englisch/index.html

[xxxvii] http://www.ifema.es/ferias/fitur/default_i.html

[xxxviii] http://www.wtmlondon.com/page.cfm/Link=1/t=m/goSection=1

[xxxix] http://en.wikipedia.org/wiki/Analyst_relations

[xl] http://en.wikipedia.org/wiki/Marketing_communications

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