The internationalization of a Spanish company: the Hotelbeds case study

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Biography

Lorène ISNARD was born on January 9th, 1990 in Aix en Provence, France. In 2008, she started an International Bachelor Degree at KEDGE Business School in Marseille, France. She studied in Marseille for 1 ½ year and then, as part of her international studies, she went to Buenos Aires as a marketing intern for six months, studied one year in San Diego State University, one semester at UQAM, Montréal, and finally interned for six months at Parfois headquarter, in Portugal, as an export technician. She graduated in July 2013 and was hired at Parfois. In September 2013, she started the Master Degree in International Economics and Management of the University of Porto that she is about to conclude. In February 2015 she joined the International accounts Payables team for African and Middle East market at Hotelbeds, a global Spanish B2B bank provider in the accommodation industry. She is now working as a yield manager at Hotelbeds, for the French market. She speaks fluently French, English, Spanish and Portuguese and is currently learning Catalan.
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Abstract

Nowadays, the world is more and more interconnected and companies are increasingly present on a global scale not only to expand their market and grow but also as a way to confront their competitors in other markets and enjoy economies of scale. Entry modes are key concepts in the international business area and are interesting subjects to study. The purpose of this paper is to investigate the internationalization process of Hotelbeds, a Spanish bed bank B2B distributor headquartered in the Balearic Islands in Palma de Mallorca. Hotelbeds was launched in 2001 and it brilliantly accomplished its internationalization and is managing a portfolio of more than 67,000 hotels in more than 180 countries worldwide in 2015. In this research will be highlighted the decisions that the company took when it started its internationalization process and how such a relatively small company completed successfully its international growth when Spain alias the world were entering such a financial crisis. Moreover, this investigation explores the reasons and factors that made Hotelbeds expand its business through contractual agreements with its suppliers. The company mainly used indirect contracts as an entry mode with hotels to penetrate the markets at first and then started to use direct contracts. The internationalization followed a rather culturally extension as it was mostly first made in former Europe, then new Europe, Middle east and finally Africa. This study focuses on Hotelbeds success story but is unquestionably relevant for any company seeking to internationalize its business using diversified contractual agreement on a global scale. Finally, the lack of investigation of the internationalization of a global bed bank provider in the travel industry through international contractual agreement in services adds value to this research.

**Keywords:** Internationalization, foreign market entry mode, contract management, tourism, Bed bank industry.
Index of contents

Biography ...................................................................................................................................................... ii
Acknowledgements ................................................................................................................................. iii
Abstract ....................................................................................................................................................... iv
Index of contents .......................................................................................................................................... v
Index of figures ........................................................................................................................................... vi
Index of tables .......................................................................................................................................... vi
Introduction................................................................................................................................................ 1
I. Literature review ................................................................................................................................... 3
   I.1. The internationalization process of firms ....................................................................................... 3
   I.2 Drivers and factors causing the internationalization ....................................................................... 5
   I.3 Foreign market entry modes ............................................................................................................. 7
      I.3.1 Non-equity modes....................................................................................................................... 8
      I.3.2 Equity modes ............................................................................................................................ 12
      I.3.3 Plural form............................................................................................................................... 16
II. Hotelbeds case study .......................................................................................................................... 18
   II.1 Methodology .................................................................................................................................. 18
   II.2 Tourism and accommodation industry .......................................................................................... 19
   II.3 Hotelbeds characterization ............................................................................................................. 22
      II.3.1 Hotelbeds Group.................................................................................................................... 22
      II.3.2 Hotelbeds ................................................................................................................................ 25
   II.4 Hotelbeds case study ...................................................................................................................... 28
      II.4.1 Hotelbeds internationalization ................................................................................................. 28
      II.4.2 Direct contracts......................................................................................................................... 33
      II.4.3 Indirect contracts...................................................................................................................... 38
      II.4.4 Sales of the service to clients .................................................................................................. 42
Conclusion ................................................................................................................................................ 44
Bibliography:............................................................................................................................................. 46
Index of figures

Figure 1: Equity vs Non equity modes 1----------------------------------------------- 8
Figure 2: Exports of services (billion $US) ------------------------------------------ 19
Figure 3: International tourist arrivals (in million) ---------------------------------- 20
Figure 4: Worldwide export earnings by category (2013 US$ billion) ----------------- 21
Figure 5: International tourism expenditures (current billion US$) --------------------- 21
Figure 6: TUI Travel international presence (highlighted in blue)------------------------ 24
Figure 7: Hotelbeds' Group brands----------------------------------------------------- 25
Figure 8: Market share of Hotelbeds 2013/2014 ---------------------------------------- 27
Figure 9: Hotelbeds internationalization----------------------------------------------- 33
Figure 10: Hotelbeds Distribution channel --------------------------------------------- 43

Index of tables

Table 1: Hotelbeds internationalization, year of first booking------------------------ 32
Table 2: Direct contracting: advantages and disadvantages ----------------------------- 37
Table 3: Indirect contracting: advantages and disadvantages -------------------------- 42
Introduction

Internationalization is a trend since the past six decades where the world has witnessed an increasing progress in the transport industry, the Information and communications technology (ICTs) and finally a reduction of the trade barriers between countries, leading to a decrease in trade costs, profitable to the international trade (Krugman, 2003). Such an increasingly globalized world economy is also reflected in the growing number of companies looking to expand into foreign markets.

Why and when do companies make the crucial decision to enter foreign markets? How do some of them grow into global Giants? Different factors make companies expand out of their domestic countries in order to develop their business as well as protecting their position in their home market (Bicakcioglu et al, 2014). To do so, a company needs to be developed enough in its home market in order to be prepared to successfully achieve its internationalization process even though there is always a possibility to fail due to a lack of resources and not enough knowledge about the foreign markets (Johanson and Wiedersheim, 1975). Some companies called “Born Globals” were launched, from their inception, to be highly present worldwide but they do not represent all international companies. Indeed, some companies experience conventional stages of internationalization and others take lots of time to finally make their move abroad (Madsen and Servais, 1997). Additionally, a company must make the appropriate decision regarding which entry mode it will implement for a specified market. It is interesting to investigate in which contexts a company will select a certain mode of entry over another, for a specified market at a defined period. It is of even more interest to investigate how companies combine several entry modes in their expansion strategy.

Each mode has its own risks, responsibilities and return degree, here ranging from the less risky to the most committed one: exports (direct and indirect), contractual modes such as licensing/franchising, turnkey projects and management contracts, and finally Foreign direct investment (FDI)

(Malhotra et al, 2003). Making an error is a typical human move, but in such a context, companies have no right to fail when penetrating

1 By realizing FDI, a company must decide the adequate proprietary level of the equity entry mode and select between investing in a joint venture or in a wholly owned subsidiary (Muller, 2007).

2 The characterization of Hotelbeds is based on information collected on Hotelbeds group website, TUI Group website, and information collected internally.
foreign markets: countries and entry modes must be perfectly investigated in order to successfully expand. Such a move will have distinctive costs, engagements and benefits for the companies (Brouthers, 2002). The entry mode decision must be made on a case-to-case analysis due to the multiplicity of situations such as the political and economic stability occurring in distinct sectors, countries, companies, products (Hill, 2009). In this way, the purpose of the present study is to understand the internationalization process of firms analyzing both internal and external factors pushing the companies to enter foreign markets as well as the various entry modes that they can implement according to their own resources, involvement capacity and expectations. We intend to explore both internal and external factors that are pushing a firm to enter foreign markets studying the case of the Spanish B2B bed bank distributor company: Hotelbeds. The latter is combining two types of entry modes (1) direct contracts with hotels and (2) indirect contracts with third party suppliers: the local agents representing multiple hotels from a specific zone or region (Hotelbeds internal information). Additionally, we aim to understand why, when and how a firm will undertake its international adventure. The fact that, to the best of our knowledge, there is no research in the literature about such a topic in this particular industry adds value to this study.

The present work is organized as follows: in Chapter 1 we present a literature review centered on the internationalization of firms revising multiples theories that have affected and went down on international business history, inspiring further analysis and investigations. Chapter 2 will be identifying the methodology process used in this study to successfully investigate the topic and the case study. Chapter 3 will draw the main conclusions and limits of the present study.
I. Literature review

In this Chapter, a literature review will be conducted to investigate the topic of this study. The literature review will be divided into three parts in order to broach each point separately. In the first part, it will focus on the internationalization of firms in order to understand the most relevant theories. The second part will analyze the drivers of the internationalization and the third part will explore each one of the foreign market entry modes.

I.1. The internationalization process of firms

The internationalization of a company consists on its expansion into foreign markets. Various authors have given distinct definitions of the term internationalization over the past decades. One definition of internationalization is, as reported by Calof and Beamish (1995, p.116), “the process of adapting firms’ operations, strategy, structure, resource, etc. to international environments”. In this sense, in order to be efficient abroad a firm needs to readjust its offer to the market business of the target country. In their first version of the Uppsala model, Johanson and Vahlne (1977, p. 24) described the theory of internationalization as an incremental process of engagement in host countries where a company experiment 4 steps in its involvement in a specific country: “no regular export, independent representative (agent), sales subsidiary, production unit”. Additionally, the authors outlined that both market knowledge and market commitment are decisive factors in the entry mode selection. Also, their research supported the fact that a firm would be entering foreign markets with greater psychic distance every time. Psychic distance is defined as the differences perceived by an individual between the culture in its home country and host country (Johanson and Wiedersheim-Paul, 1975).

The Uppsala model (1977) was seen as the rational internationalization process and was, back then, a solid belief and cause of stimulus for further researches: Thanks to their model that was used as an inspiration, other authors (Eriksson and Johanson, 1997; Andersen, 1993; Forsgren, 2002) could research deeper and find new trends in
internationalization patterns. The internationalization literature has grown incredibly over the years, the tendency is constantly evolving, and also there is extensive literature available regarding critics to the Uppsala model.

Due to founded critics and uncontestable evolution in internationalization trends, Johanson and Vahlne decided to investigate again and reconsider, three decades later, their previous model in order to analyze the new internationalization patterns that the world has observed recently. While in their first version of the Uppsala model (1977) the internationalization of firms was incremental and related to psychic distance, nowadays it is more and more associated to networks and relationships of the firms (Johanson and Vahlne, 2009). Johanson and Wiedersheim-Paul (1975) reported that due to a lack of foreign knowledge, firms tend to initiate their internationalization process exporting to either nearby or analogous countries in term of psychic distance. This evidence was confirmed through more research (Malhotra and Hinings, 2010). Recently, a relevant paper from Uppsala University introduced a further investigation to Johanson and Vahlne’s work in 2009, exploring the query of both incremental and non-incremental internationalization behavior engaged by firms today (Hadjikhani et al, 2014). They called into question the Internationalization Process model investigating the various critics made over the years and concluded that the internationalization process of a firm can be incremental, non-incremental or mixing both in distinct countries. Several authors have admitted the fact that a firm should have acquired knowledge to fully complete its internationalization. A distinction is made between objective and experiential knowledge (Johanson and Vahlne, 1977; Erikson and Johanson, 1997). Johanson and Vahlne (1977) argue that the first can be passed on and explained while the latter can only be gained through the firm’s own involvement and is hardly transferable. Moreover, it has been demonstrated that transferring international knowledge “has been inconclusive because of the tacit nature of knowledge and the difficulties of measuring the results of knowledge transfer (Choi and Johanson, 2012, p. 1148).

Thanks to a certain degree of knowledge a company can start its internationalization process since it is crucial for the firm to be aware of both the foreign market and local management in order to be prepared to face them. Undeniably, a firm is engaged in
internationalization when it has gained experience and knowledge by both expanding and successfully performing its operations in new countries. As advanced in the Uppsala model (1977), the knowledge possessed by the firm about the foreign market will definitely be taken into account regarding the firm’s entry mode. The more a company has foreign knowledge, the more it is able to engage in a complex entry mode.

I.2 Drivers and factors causing the internationalization

Some companies start expanding their business while others do not pursue that path. It is interesting to explore the various internal and external drivers and factors that push certain firms to embark upon their internationalization adventure. Indeed, companies decide to internationalize for multiple reasons that can differ between companies, industries and countries. Drivers range from market cost, competitiveness and government incentives. The domestic market is, by definition, not as large as the global market which can target a wider audience. Companies are interested in increasing their profits by reaching more consumers and lowering their costs (Hill, 2009).

Regarding the market drivers, a firm will have more incentive to internationalize if customer needs are similar so, at first, they do not have to adapt their products. (Dunning and Lundan, 2008) Nowadays, customers are more and more global and are used to buy products from foreign brands since lots of products are global. Also, for similar countries, companies can use the same or adapt their marketing strategies. Another factor causing internationalization is when a market becomes saturated and does not offer many more opportunities for a firm to grow further (Dunning and Lundan, 2008) This situation can occur if the market has successful competitors locally or even in the case where the company has brilliantly expanded nationally and reached a point where it can difficultly grow more. Entering new markets that are less competitive help them grow and secure their local business (Hill, 2009). All those reasons give the company a higher target and an incentive to internationalize.

In relations to the cost drivers, companies would enter new markets to benefit from their local opportunities to reach economies of scale by producing more, selling more and as
a consequence maximizing their returns (Perkins, 1997). The recent economic crisis gives even more incentives to firms to produce in developing countries to enjoy lower production costs (Gereffi and Lee, 2012). Lower workforce cost available in foreign country is one of the top factors for companies to internationalize since it will affect directly their production cost and hence their revenues (Hill, 2009). Finally, producing in developing countries can be a way to reduce logistics costs since they can ship products worldwide at a lower costs and because those markets are growing and are becoming the clients of the future (Gray et al, 2013).

According to the competitive drivers, sometimes, companies are driven to internationalize because their competitors are present on other markets and they decide to expand abroad because they need to protect their own business. If they let their competitors grow abroad they accept the risk to lose market share in the future (Hill, 2009). It is important for any firm to take into account its competitor’s global strategy in order to react. International trade is favored by government incentives such as the reduction of tariffs and barriers to global trade, it is easier than ever to import and export both products and inputs motivating the company to join the adventure, especially between countries enjoying free trade agreements (Krugman, 2003). Additionally, companies can be interested to internationalize since some host countries’ governments motivate FDI by offering softer regulations and are even competing between themselves to attract MNEs (Dunning and Lundan, 2008). Indeed, in such circumstances, a firm has a lot of bargaining power not to mention further benefits those countries have to offer related to costs. As mentioned in the updated version of the Uppsala model, the internationalization of a firm can be pushed by a network (Johanson and Vahlne, 2009).

When firms finally decide to start their internationalization, they must make three crucial decisions concerning the location, the timing and the mode of entry (Hill, 2009). In the next part, the study will focus on the third decision: the entry mode, that firms must consider to profitably expand abroad.
I.3 Foreign market entry modes

In this part, entry modes that firms can implement will be first defined and analyzed one by one, and then the study will also investigate the plural form known as the combination of entry modes.

When a firm goes international it must choose the entry mode in order to penetrate foreign markets. The entry mode is viewed as “an institutional arrangement that facilitates the firm's bringing its products and services to the foreign market” (Pehrsson, 2008, p.132). The entry mode choice determine the high or poor performance in international markets and is considered to be one of the most crucial decisions for any firm and if the entry mode selection is well done it will definitely be a factor of success for the firm (Anderson and Gatignon, 1986). According to the same authors, “entry mode choices are most usefully and tractably viewed as a tradeoff between control and the cost of resource commitments, often under conditions of considerable risk and uncertainty” (Anderson and Gatignon, 1986, p.3). Also, the most appropriate choice for a company can only be made regarding its particular situation.

The combination of entry modes definitely lacks investigation in the available literature. Beyond any doubt, a firm will choose among the panel of entry mode, the ones that are most consistent not only with its foreign knowledge but with other factors such as its resources, risks, responsibilities and control. “A firm is expected to choose the entry mode that offers the highest risk-adjusted return on investment” (Agarwal and Ramaswami, 1992, p.3). In this part, the focus will be on the different possibilities that companies can implement in order to enter foreign markets, defining each entry mode and their respective benefits and disadvantages.

In the internationalization process, the company will first have to decide which type of entry mode will be selected. As mentioned in the Uppsala model, the company first enters into foreign markets through exports and can evolve to foreign direct investment (sales or production subsidiary). According to Pan and Tse (2000) entry modes can be divided into two categories. On the one hand, the equity modes include both exports and contractual agreements such as license, franchise, turnkey projects and contract management. On the other hand, non-equity modes known as Foreign Direct Investment include equity joint ventures and wholly owned subsidiaries (Pan and Tse, 2000). Both
equity and non-equity modes are represented in the figure 1 below.

Figure 1: Equity vs Non equity modes 1

I.3.1 Non-equity modes

Exports

A firm engaging in exports is a typical first step for its internationalization; they commonly do so through an agent located in the host country (Johanson and Vahlne, 1977). Export is a low resource commitment that let the firm enter foreign market with a slight investment (Pan and Tse, 2000). Even though such an entry mode adoption is a good choice in the initial step of the internationalization process of a firm it comes at the cost of a low profit return and limited control (Agarwal and Ramaswami, 1992). Exporting is an essential step to engage in more complex entry mode as “exporting helps to determine the nature and size of the market” (Johanson and Vahlne, 1977, p.25). Indeed, it gives the firm the advantage to test the market’s demand to its product at a relatively low cost and involvement. Firms can export through two different types:
direct and indirect exports. Direct exports correspond to the shipment of the products to a foreign country that will take care of the distribution. The indirect exports mean that the exporting process is done through an intermediary company, usually located in the home country, taking care of the whole process (Bernard et al, 2011). According to Pan and Tse (2000), when exporting, firms are gaining additional knowledge and experience about foreign markets and gradually they will be more and more involved and will consider higher commitments to foreign markets. Such responsibilities come with greater risk but is compensated by more control and profit return. In other words, with time, firms gain experience and start exporting to more countries and will also implement more complex entry modes. Exports are a good way to enter quickly into a foreign market by minimizing risk and investment but trade barriers and transport can be high costs that reduce considerably the profits (Hill, 2009).

Contractual modes

According to Pan and Tse (2000), contractual modes are known as contract manufacturing and licensing as well as franchising, turnkey projects and management contracts. They represent a transfer of know-how. Licensing is an agreement where the licensee pays licensing fee or royalties to commercialize the special technology as patents, trademarks or expertise (Jiang and Menguc, 2012; Wang et al, 2013) in a defined market. In other words, a firm licensing its technology is trading and managing its intellectual property profitably (Grindley and Teece, 1997) by selling its knowledge and particularly its know-how to other firms. Licensing has some common advantages with exports such as the low risk when compared with FDI, and commitment and the quick entry in the foreign markets. Additionally, licensing agreements avoid trade barriers and associated costs and bring consequent return on investment. Although, some drawbacks are to be taken into accounts, the most risky one is that the licensor can become a competitor, especially because the license agreements have a time restriction. Also, there might be a loss of control and knowledge spillovers (Krugman et al, 2011).

Another contractual mode is the franchise system. As reported by Anderson and Gatignon (1986), franchising is a type of licensing where the focus is not made on the technology but rather on the business system itself. Rubin gives a broader definition where “A franchise agreement is a contract between two (legal) firms, the franchisor
and the franchisee. The franchisor is a parent company that has developed some product or service for sale; the franchisee is a firm that is set up to market this product or service in a particular location. The franchisee pays a certain sum of money for the right to market this product” (Rubin, 1978, p.224). Moreover, according to the same author, the franchisor provide assistance to the franchisee such as training program and the latter must run the business the way the franchisor wants to. The franchisee will pay royalty fees to the franchisor for using the business model and will often buy merchandise from the franchisor.

International franchising has been growing aggressively during the last decades (Aliouche and Schlentrich, 2011) as it is a rapid form of internationalization and gives the franchisor the opportunity to transfer the risk to the franchisee (Lafontaine and Masten, 1995). A franchise can either be initiated by the franchisor or the franchisee when the brand is already well known. Franchisee-franchisor relationship is a complex variable evolving over time, but it is in the best interest of the brand image and so its relative success, that both parties must settle and perpetuate good relationship during the entire franchise lifecycle (Dant and Nasr, 1998). Indeed, the good perpetuity of the franchise implies a high level of trust on both sides.

As reported by Davies et al (2011), in order for the franchise to be successful, it is important that the relationship franchisor-franchisee be healthy, strong and honest, at all times. If one of the parties loose trust, the brand will dramatically suffer. Both parties become partners and must follow specified requirements to satisfy the contract. Franchisors’ goal is to persuade the franchisee to join the team in order to expand the franchise system and sometimes the franchisors tend to amplify the reality to influence franchisee’s decision (Blut et al, 2011; Grünhagen and Dorsch 2003). It was demonstrated that “the first phase of a franchisor–franchisee relationship is accompanied by high levels of enthusiasm, which can be best described as the ‘honeymoon phase’” (Blut et al, 2011, p.314). It is natural and encouraging to observe high motivation from both sides in order to create incentive to go on with the project. This is particularly true because franchisees need financial resources in order to become a franchisee, they will not get returns until a certain time (Blut et al, 2011) and they need to be confirmed by the franchisor that the business will be profitable. The
franchisee’s investment depends on the notoriety of the franchise brand; the higher it is the more costly it will be to enter the franchise system (Windsperger, 2011). Franchising as a way to expand internationally gives franchisor financial resources for the use of its business model, it is a quick way to expand at an interestingly low cost and involvement. Although, to implement a franchise system a company needs to have a good image and enough financial resources to promote their franchise, select the adequate franchisees and train them. Also, as it involves lots of different partners, the franchisor has to share classified data about the business that might be too confidential and create new competitors in the future (Kotabe and Helsen, 2007; Krugman et al, 2011).

Another contractual mode is the turnkey project where the contractor has to design, build new facilities and also train the personnel; the whole project must be completed for the foreign client with a deadline (Hill, 2009). Once the project is done, the key is delivered to the client meaning that everything is operational in the plant. Turnkey projects give the client the plant they want at a cost they could not have produced themselves otherwise. Turnkey projects are not lasting on the long term and the relationship between both parties will end after the project is accomplished. One industry where such agreements are very popular is in the petrol industry, where companies outsource the whole project to specialized firm. They will be a team sent to the platform for months to years in order to build the plant with the collaboration of local employees. Eventually, turnkey projects can create competitors since the foreign enterprise will be delivered a highly productive plant that couldn’t be produced internally and can eventually benefit from the competitive advantage of the contractor (Hill, 2009).

Finally, the last type of non-equity mode is the Contract Management, which will be the key point in this investigation as the company that is going to be investigated in the case study is using solely this type of entry mode. Management contracts are a quite not investigated entry mode and are rather difficult to find in the literature so far. To the best of our knowledge, the literature about this topic is very limited. According to Wach (2014, p 140) “Management contracting is a type of knowledge-based service of management (know-how)” where a company decides to outsource part of its business to
another firm that is more specialized. The same author confirms that this type of entry mode requires few capital involvements, involves little risk and can be used as an alternative entry mode. Usually, hotels use management contract in order to run the establishment thanks to an external company, it can include all the tasks or part of the business, such as recruiting, maintenance, catering, marketing, and so on (Dunning and Mcqueen, 1981). Pan and Tse (2000) brought a tight definition to contractual management that corresponds to a contract between a company and an agent for its production and distribution. The most known Management contract is for the hotels: it is an operating contract Management where hotels are able to outsource all their activities to specialized companies. Indeed, usually investors are interested in such contracts because they don’t have the skills to manage efficiently a hotel themselves as it includes a diverse range of tasks such as the finance, buying, marketing, and recruiting, among others (Unctad, 2015). We understand from the previous definition that a management contract is an outsourcing contract where a firm pays another one to do a task for them. Now that we have explained the contractual modes, the focus in the next section will be on the equity modes.

**I.3.2 Equity modes**

In this part, the focal point is the equity modes as foreign market entry also known as Foreign Direct Investment (FDI). According to Hymer (1976, p.58) “If the investor directly control the foreign enterprise, his investment is called a direct investment”. All existent literature about FDI is related to Hymer’s unquestionably notorious interpretation aforementioned (1976). Chang and Rosenzweig (2001) described FDI as a financing associated to both ownership and active management control. The theory about market imperfection admits that there is no market that can be perfect. Consequently, firms have incentives to enter foreign markets in order to compensate and benefit from other markets opportunities (Hymer, 1976). According to Dunning (2000), firms choose to enter in a foreign market through FDI when they simultaneously have advantages of ownership, localization and internalization. An ownership advantage corresponds to the competitive assets companies have compared to others such as
tangible assets, patents, technology, and finally management capacity. Localization advantages represent the benefits that an external market provides companies to use their ownership advantages in their market like low-cost workforce, low-cost raw materials and FDI government incentives. Finally, the internalization advantages are associated to the improvement of the performance of the activity abroad, for example control over operations, reduction of the transaction costs and avoid tariffs and barriers.

In an equity mode a firm must make a consequent financial investment in the host country and will have to select between one of the different equity joint ventures and wholly-owned subsidiaries (Pan and Tse, 2000) depending on the degree of commitment the company is willing to undertake. When a firm penetrates a foreign market through FDI, they enjoy greater control and can choose their own strategies to implement. The decisions for the firm to make are: “First, the level of control over its local engagement (full ownership vs. joint venture) and, secondly, the mode of foreign entry (setting up a new venture via Greenfield investment vs. acquisition of an existing company) has to be determined” (Muller, 2007, p.93). In relation to this decision, Pan and Tse (2000) report that firms will select the adequate equity mode depending on factors such as the investment risk and return, location, adaptation, control and management. Compared to the other entry modes studied earlier, FDI allows the firm to retain more control over its foreign operations (Chung, Enderwick, 2001), and usually requires previous both foreign market experience and knowledge acquired from non-equity modes (Johanson and Vahlne, 1977; Kim and Hwang, 1992).

As mentioned before, a firm undertaking its international adventure must decide on its level of control, they have to choose between the equity joint venture and the wholly owned subsidiary. The Equity Joint venture (EJV) occurs when “two or more firms create a jointly owned legal organization that serves a limited purpose for its parents such as R&D or marketing” (Todeva and Knocke, 2006, p.124). There are different types of EJV: (1) Minority EJV, (2) 50% Share EJV and (3) Majority EJV (Pan and Tse, 2000, p.538). In other words, a joint venture represents a co-operation with a local firm. Joint ventures’ long-term success is integrally connected to the efforts and interests that both parties undertake for their common project. Moreover, joint venture formation creates new competencies that add new value for both companies that didn’t
exist before their union (Larentis et al, 2013). Joint ventures are attractive because the firm benefits from the partner’s local knowledge about different aspects of the host country such as the competitiveness, culture, language, and politics environment (Hill, 2009). The joint venture is preferred when the risk is rather high in the host country, such a partnership makes both parties share costs and risks. Finally, in some cases, entering a foreign market through a joint venture is the only option because of politics regulations (Hill, 2009). Yet, such a partnership is often a source of conflicts between both companies due to cultural and organizational heterogeneity that oppose them (Larentis et al, 2013). Indeed, they might have different plans for the project and distinct ideas to implement their strategies, which create dilemmas to reach common decisions on short and long term. In order to optimize the continuity of the joint venture, it is imperative to have the contracts between both parties as explanatory and complete as possible in order to increase performance and reduce conflicts (Luo, 2002). The wholly owned subsidiary brings lots of advantages if the company is willing to make a consequent investment and bear lots of risks. That way, they are assured that their technology is safe and protected; they are fully able to coordinate their global strategy and can benefit from location and experience economies (Hill, 2009).

When the firm decide to invest in a wholly owned subsidiary they must then make the final decision concerning the mode of establishment between a greenfield investment and a merger and acquisition (M&A) (Pan and Tse, 2000). As described by Raff et al (2009), a Greenfield investment corresponds to the creation of a new entity by constructing a new facility in the foreign country for the production of the outputs while an M&A is the acquisition of a local enterprise as well as its production installation. A company will choose one mode over another according to many factors. Acquisitions are rather quick to realize and are in most cases done to forestall their rivals and build a worldwide empire. Moreover, acquisitions are less hazardous than Greenfield investment since the entering firm will benefit from all of its partners’ assets (Hill, 2009). Muller (2007) affirms that regarding the competitive level, a Greenfield investment is chosen when the market is showing either very high or very few competitions while acquisition will be a better option if the market is not highly or poorly competitive. A Greenfield investment brings the opportunity to implement the organizational culture and routines desired and not struggle to change the culture in the
case of acquisitions. Greenfield investments take more time to implement and are a riskier investment where the company bears all costs and risks (Hill, 2009).

Companies will have to explore both advantages and disadvantages between a Greenfield Investment and an M&A. As introduced earlier, the Greenfield investment mean starting from scratch since it is a totally new entity so it requires a higher involvement in terms of both time and financial resources on the long run (Hill, 2009). Indeed, a firm undertaking a Greenfield investment will have to achieve certain tasks for its success such as developing networks with suppliers, recruiting new human resources and creating a brand image. According to Zapata (2007), in the case of an M&A, the firm is buying the local company, which requires a high investment at once and will automatically gain its assets such as its location, networks, brand image and sometimes will decide to keep the employees. If the former company had a poor business system and a low brand image, it will be a challenge to reverse the situation. At least, in a Greenfield investment the company will make a long-term investment and implement its own values (Zapata, 2007).

The advantages of Foreign Direct Investment are that the company will benefit from lower cost of production and that the company is directly getting access to that market in terms of both clients and the use of their natural resources. A company undertaking FDI is willing to take more risks in order to enjoy greater profits and control. FDI’s drawbacks are the higher risk and involvement that is needed and the eventual difficulty to manage the business abroad. Also, the stability of the economic and politics in the local country tend to be unstable as most FDI occurs in developing countries. (Krugman and Obstfeld, 2003; Hill, 2009; Kotabe and Helsen, 2007).

To sum up, a firm has many options to choose from in the entry modes. It is possible for the company to combine different ones by using the plural form. This will be quickly analyzed in the next section.
I.3.3 Plural form

First, it is important to define what plural form means since it is a rather recent trend in the global economy. Most of the available literature about this particular topic references one of the greats authors, Jeffrey L. Bradach, who defined the plural form as a combination of both franchises and company-owned units in the same market (Bradach and Eccles, 1989). This definition was confirmed in a later work a decade later as a "simultaneous use of company and franchise units to maintain uniformity and achieve system wide adaptation to changing markets" (Bradach, 1997, p.276). Perrigot et al (2013) gave a slightly different definition of the plural form, considering every unit as an outlet, corresponding to the combination of franchised outlets and company owned outlets. The plural form network is an entry mode combination of both franchises and wholly owned stores (Botti et al, 2009; Cliquet, 2008). In the literature, entry mode has tended to be investigated one by one in the process of internationalization of companies, even though firms often use the plural form or mixed modes in the same foreign market (Benito and Welch, 1994). Such a tendency has also been explored in a study investigating the combination of multiple entry modes, where the authors suggest that: "extended mode combinations may lead to improved international market penetration" (Petersen and Welsh, 2002, p.157).

The plural form gives firms the opportunity to use both wholly owned subsidiary and franchise and so to benefit from their respective advantages but also their disadvantages. The goal for any firm using the plural form is to compensate its weaknesses by the strengths from the other mode making the firm more efficient than if operating a single mode at once (Bradach, 1997). The plural form helps balancing four distinct organizational challenges, such as the expansion, the brand protection, the local responsiveness and the adaptation (Bradach, 1998). Plural form is more profitable than using a single entry mode because it helps expanding its structures and can provide at the same time local responsiveness and global adaptation (Fenies et al, 2010). This tendency is attractive and "Plural form tends to be the most popular organization form in retail and service networks compared to purely franchised or purely company-owned systems" (Botti et al, 2009, p.566). Plural form is highly suitable and interesting because it avoids depending solely on franchise or wholly owned units but rather focus
on the consolidation of the firm with the complementary effect that is produced by using both types of units through the maximization of the strengths while minimizing the weaknesses of both units (Botti et al, 2009). The mode of entry that a company will implement is highly connected to the host country’s current situation such as politics and trade agreement but both cultural and institutional distance between home and host country are essential elements (Johanson and Vahlne, 1977; Dunning and Lundan, 2008). This is why combining two entry modes are a more complete approach.

In this first chapter, we have carefully reviewed the existing literature about the internationalization process of firms, followed by the drivers and motivations for firms to start their internationalization adventure. Finally, the chapter introduced the different entry modes used so far.

We will now investigate the company Hotelbeds in Chapter 2, in order to understand how this company has internationalized and we will compare it to the existing literature in order to define which entry mode Hotelbeds has used to become the leader it has become today.
II. Hotelbeds case study

In this chapter 2, we will analyze Hotelbeds Company. In the first section the focus will be made on the methodology used to conduct the investigation. After, we will introduce in section 2 the tourism and accommodation industry so that we can understand better the section 3 with the introduction of the firm. Finally, section 4 will focus on the case study of Hotelbeds analyzing the entry mode used to internationalize.

II.1 Methodology

Since the present study is exploratory, descriptive and explanatory, the methodology adopted here is a case study research where Hotelbeds’ internationalization will be questioned, investigated and answered. As advanced by Yin (2009), a case study research is a methodology that goes beyond exploration since it also causes description and explanation. The interest in this investigation is to take the case study of Hotelbeds to understand how and why this firm successfully expanded worldwide by analyzing their every step, the motivations that pushed them to internationalize, the reasons they chose direct and/or indirect contract management with the hotels in specific markets. This case study is worth to be investigated because the company is a giant in the industry and, to the best of our knowledge; their business model has never been studied in this industry. Additionally, a special focus will be made on the plural form that they have adopted as a way to personalize their scale of entry and strategic commitment in certain markets according to their specific situations by combining both direct and indirect contracts in the same market. The case study will be conducted through internal data the author collected during her personal day-to-day work with Hotelbeds’ Contracting teams from African markets and France/Benelux markets, recollection of data from Hotelbeds website, the World Bank, and some articles about the company.
II.2 Tourism and accommodation industry

In this part will be introduced some key concepts about the tourism and accommodation industry as well as the services sector that they belong to.

Trade is divided into two categories including products and services. The distinction is sometimes not very clear for many people as we refer to products all the time and the services are not as much brought up even though they represent a high part of the trade. Products correspond to tangible goods while the services are intangibles such as “insurance, accounting and banking” (Krugman and Obstfeld, 2003, p.240). The tourism industry is part of the service. Services are accounting for a growing part of the world trade since they are becoming more and more important. According to the World Bank data, in the last ten years the exports of services have doubled and reached their highest point in 2014, as evidenced in Figure 2.

Figure 2: Exports of services (billion $US)


Companies have invested highly in the tourism sector as it is growing every year, even
when the world is still facing an economic crisis (World Tourism Organization, 2015). According to the World Tourism and Travel Council (WTTC), the “travel and tourism is growing faster than any other sector” (WTTC website, 2015), claiming that it represents 9.5% of global Gross Domestic Product (GDP) and about 266 million jobs, representing approximately 10% of all jobs worldwide. Moreover, the forecast for this industry is meant to increase by 4% a year for the following 10 years (WTTC website, Tourism for Tomorrow, 2015). The tourism industry is growing faster than expected and total exports from international tourism reached US$ 1.5 trillion in 2014 (World Tourism Organization (2015). In 1950 the international tourism arrivals worldwide was 25 million. This number grew year by year to reach in 2014, the world record so far, with 1.135 billion tourists who went on an international holidays accounting for a 4.4% growth from 2013. In figure 3 is represented the tourists arrivals worldwide, which support the exponential explosion of international tourism over the years.

**Figure 3: International tourist arrivals (in million)**

![Figure 3](source: World Tourism Organization (UNWTO))

According to the World Trade Organization, international tourism represented in 2014 «30% of the world’s exports of services and 6% of total exports » (WTO, p18, 2015). In 2013, the international tourism was the fourth export category worldwide behind (1) fuels, (2) chemicals and (3) food. The ranking of worldwide exports earnings is
represented in the figure 4 (World Tourism Organization, 2015).

**Figure 4: Worldwide export earnings by category (2013 US$ billion)**

![Pie chart showing export earnings by category](image)

*Source: World Tourism Organization, 2015*

As it is shown in figure 5 from the World Bank, the international tourism expenditures has been rapidly increasing year after year. We can note a drop during 2009 because of the financial crisis but two years later, in 2011 the numbers were up again, higher than ever and kept on growing.

**Figure 5: International tourism expenditures (current billion US$)**

![Line graph showing international tourism expenditures](image)

*Source: World Data Bank (2015)*
In this study, the hospitality sector will be highlighted as part of the investigation. Indeed, the accommodation is an essential part of tourism, as all guests need to be accommodated during their stay. Touristic areas are filled with hotel options from 0 to 5 stars hotels and customer needs can be satisfied with many different attributes. All hotels must take care themselves of the sales and promotion of their services, it implies that the establishment will have special teams for this purpose. In order to increase their profit, most hotels decide to promote their sales through B2C and B2B sales channels in order to target as many clients as possible. The B2C distribution in this sector is done with companies that will sell directly to final clients such as the famous Booking.com, Expedia.com or kayak.com. The B2B distribution is done with an accommodation retailer, such as Hotelbeds, whose final clients are tourism agencies and tour operators. In the case of Hotelbeds, the company is contracting the hotels to be able to sell their room nights. Indeed, both parties will be negotiating and agreeing on specific terms regarding the contract that will partner them up. Hotelbeds has been growing and enjoys a large hotel portfolio and tourism agencies to sell their services to. It is interesting for a hotel to be part of it in order to be marketed to many travel operators and attract more clients.

II.3 Hotelbeds characterization

In this section, the focus is made on understanding Hotelbeds and where the company comes from. Hotelbeds’ brand belongs to the Hotelbeds Group, which is owned by TUI Group (Touristik Union International). The study will start by explaining in the first part the history of Hotelbeds Group and its relation to TUI Group in order to understand better Hotelbeds as a company that is analyzed in the second part.

II.3.1 Hotelbeds Group

Hotelbeds Group is a leading distributor of services to the global travel industry such as accommodation, car rental, transfers, excursions, activities, visa outsourcing, meetings

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2 The characterization of Hotelbeds is based on information collected on Hotelbeds group website, TUI Group website, and information collected internally.
and cruise handling solutions and is present in more than 120 source markets globally (Hotelbeds’ Group website, March 2015). To become the giant it is today, it is important to understand how the brand started, grew and the different steps that were undertaken, mainly by mergers and acquisitions.

The British company First Choice Holidays PLC was the first Tour Operator in the United Kingdom to offer exclusively all-inclusive holidays, including transport, lodging, transfers, breakfast, lunch and dinner as well as local drinks. In the year 2000, First Choice Holiday PLC acquired Travel Division of Barceló. The latter is a Spanish brand specialized in travel, leisure and holidays and owns various tourism companies. One year later, in 2001, First Choice Holiday PLC launches the company Hotelbeds in Palma de Mallorca in the Balearic Islands.

Hotelbeds is a Business-to-Business bed bank provider and has Partnership Product Commercialization with hotels located in the Iberian region including Spain and Portugal only. Since a British Tour Operator owns the company, the focus is initially made solely on the UK. Indeed, Hotelbeds started selling one region: the Iberian destination; to one source market only: the UK.

The year 2007 is probably when one of the biggest changes was made: former First Choice Holidays PLC and the tourism Division of German TUI AG merged to become TUI Travel PLC in March. The major stake is owned by TUI AG with 51% while First Choice has the remaining 49% and the new company is headquartered in the UK and was listed on the London Stock Exchange as soon as September of the same year. According to the press release, TUI’s CEO, Michael Frenzel, said: “The new company will be a leading worldwide travel group, with approximately 27 million customers per year in over 200 destinations” (Press release Merger TUI AG and TUI PLC, 2007). His British counterpart, Mike Hodgkinson, Chairman of First Choice claimed, in the same press release, that the merger is a “unique opportunity to leverage the strengths of both First Choice and TUI to create one of the world’s leading travel groups”. Such a powerful merger created much hope and excitement on both sides for the new company to be a leader in the industry. TUI Travel owns offices in 31 key markets worldwide represented in blue in the figure 6 below. Thanks to the merger in 2007, Hotelbeds is then part of the Accommodation & Destinations of TUI Travel PLC among other brands.
Another key point in the story of the company happened in 2014 with the merger of TUI Travel PLC and TUI AG becoming TUI Group. TUI Group is the world’s number one leisure travel company with 30 million customers and operating in 180 countries. Hotelbeds is then still part of the Accommodation and Destination division. The merger happened to create the “world’s number one integrated leisure tourism business” (Press release, 17/12/14) and the Group is listed on the London Stock Exchange among the other 2408 privileged companies (London Stock Exchange Statistics, July 2015). Such a merger was a strategic move in order to be consolidated and turn into a bigger player in the tourism industry. Finally, in January 2015, Hotelbeds Group is created.

Hotelbeds Group is composed of various brands, all related to tourism, and has divided its business into 4 units: (1) Bed bank, (2) Transfer and Activity Bank, (3) Destination Management and (4) New Ventures, each brand is represented by a segment and are all illustrated in the figure 7.
Now that we have gone from general with details from the Hotelbeds Group we can finally focus on the specific firm that is investigated here: Hotelbeds.

II.3.2 Hotelbeds

The focus of the case study will be made on the brand Hotelbeds that belongs to the Bed bank unit of Hotelbeds’ group that counts for the biggest share of the group. All information was both collected through online research, articles, press releases and internal information such as interviews with Hotelbeds’ teams since the author of this study is currently working at the headquarter.

Hotelbeds is a B2B global retailer in the accommodation sector contracting hotels and selling to its clients: tourism agencies and tour operators. In other words, Hotelbeds negotiate room nights with its suppliers (the hotels), through the use of commercial agreements in order to sell the room nights to its clients. It is important to understand that Hotelbeds only pays the room nights to the hotels if there is indeed a booking made from one of the clients. The commercial agreement is made in a way that Hotelbeds has
the possibility to sell a specific number of room nights at a specified cost and is not charged if there was no demand for them. The same type of agreement is made with airline companies, where there is a limited allotment with different prices varying according to the time of the purchase and the demand on various distribution channels.

As previously introduced, Hotelbeds was launched in 2001 and we will now focus on its incredible growth. It is important to note that in 2001, Hotelbeds had a database of 2000 hotels. In the short period of 14 years, the company has successfully achieved its growth and is now a giant in the global tourism industry, being the first global provider in its sector, with a portfolio including more than 72,000 hotels located in 147 countries and around 500 destinations worldwide. Since its launch, Hotelbeds is growing impressively and has been enjoying each single year a double-digit growth, which proves of its high efficiency and productivity. In 2014, Hotelbeds sold more than 27 million room nights. It has only been 14 years since Hotelbeds was born but its success story is indeed undeniable. Hotelbeds is the 3rd company in Mallorca that invoiced the most in 2014, right after Airline giant Air Europa and tourism provider Halcón Viajes.

Both main brands, Hotelbeds and Bedsonline, are the driving force of the Group and its bed bank segment. It contracts, links and productively promote, advertise and sell its hotels portfolio to 35,000 trade partners including Online Travel Agencies, Retail Agencies, Tour Operators but also Airlines, all of them at a global scale, being the leader in its segment and the 1st globally.

Hotelbeds’ business is divided into three regions: the Americas, Asia and Europe. Hotelbeds USA has its head office in Orlando, Florida, and represents both North and South America. The Asian head office is in Singapore and is in charge for Asia and Australia. Finally, the Europe division is located in Palma de Mallorca, Spain, and will be the only focus of this case study. The business is composed of Europe, Africa and Middle East and is well developed as it is the source of the company. Hotelbeds was rapidly meant to be a born global company as it operates in the tourism sector. Even if Spain is a highly attractive touristic market, new destinations could only be the next step to Hotelbeds growth, long before the Spanish market could even be saturated. As previously introduced, Hotelbeds started to sell the Spanish market to the UK, and

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became rapidly present all over Europe by contracting hotels in each country and selling them worldwide. The research will focus only on European, African and Middle East markets due to the data collection from the Headquarter in Palma de Mallorca. The room nights sold in Europe and Africa accounts for the biggest share of Hotelbeds (see figure 8).

Figure 8: Market share of Hotelbeds 2013/2014

![Market share of Hotelbeds 2013/2014](image)

*Source: Hotelbeds Company, own elaboration*

Every single region is growing but the weight is divided differently from one year to another. The major region is still Europe and Africa and will probably stay the leader in the future. The most interesting change is in North America where the company Hotelbeds has much hope to keep growing that fast as this market has huge potential.

The company has been explained as well as possible so far and we can now focus on the next chapter regarding the case study of this investigation: the internationalization of Hotelbeds through the entry mode used to contract the hotels worldwide.
II.4 Hotelbeds case study

In this current section, we will first study the internationalization of Hotelbeds with a historic of countries by year of entry. Hotelbeds used management contracts to have commercial agreements with their suppliers. Hotelbeds contract hotels in order to sell room nights to its multiple clients. It is important to point out that the company is either directly or indirectly contracting the hotels as its mode of entry. We will analyze both types of entry modes that the company used to add the foreign hotels to its portfolio so as to understand their respective strengths and weaknesses, and how using both is a more complete strategy for Hotelbeds. Finally we will conclude by presenting how the company distributes its services to its clients: tourism agencies and tour operators.

II.4.1 Hotelbeds internationalization

As a reminder, Hotelbeds was part of First Choice Holidays from its launch until 2008, and then the company was part of TUI PLC thanks to the M&A with TUI AG. Since 2014, Hotelbeds is part of TUI Group. Since a leader in the tourism industry owned the company from its inception, the strategy of Hotelbeds was to benefit from its parent company, First Choice Holidays, and use its “in-house” relations to be able to grow. Indeed, Hotelbeds started to contract all the destinations through indirect contracts with hotels by using in-house third party suppliers. Very few destinations did not have an in-house partner and in this case, they had to use external local third party suppliers. Hotelbeds could not contract directly hotels because the company was not known yet in the industry. Hotelbeds only started to contract directly with hotels once they were ready to, for some markets the direct contracting was done after one year while others took more time in order for the company to gain more experience. Now, we will focus on the details for both the African and Middle East regions for most of the countries. The European destinations will not be disclosed here in details as they were all first contracted through in-house indirect contracts and after one to two years Hotelbeds had direct contracts with the hotels. Also, due to privacy issues the strategy of the company can, unfortunately, not be released entirely.
As we have previously introduced, the company started its internationalization from the beginning as the firm was already selling the Portuguese as well as the Spanish destinations, both being denominated as the “Iberian market”. The Portuguese destinations initially sold are the most famous ones: Faro and Lisbon, while all regions of Spain are contracted. Being a company operating in the tourism sector, it is a logical path to internationalize very quickly as the market is indeed global in both terms of buying and sales. The study is only done for Europe and Africa due to the data collection in the region headquarters. The case study will mainly focus on the buying part with the suppliers. The sales part to clients, the tourism agencies and tour operators, was introduced earlier in order to understand the distribution channel but is not the focus of this study.

Hotelbeds rapidly started to have contracts with countries outside of the EU as soon as 2003, when the company made an agreement with the famous airline company, Easyjet, where the latter would offer its clients the option to book a hotel. Hotelbeds had to start to contract hotels in the destinations the company was flying to in order to offer the customers a more complete product package. The company actually has a few months only to contract the hotels abroad and the employees have to work very hard to achieve it. Indeed, starting contracting hotels in such culturally diversified markets was a challenge Hotelbeds was willing to undertake.

The first destination that Hotelbeds started to offer right after its Iberian market is still part of the European Union and is undeniably famous for tourism since the sixties for its Mediterranean climate and nice beaches and more recently for medical tourism: the Republic of Malta. Africa was the first continent after Europe that Hotelbeds started to do business with thanks to the negotiation of contracts with Morrocan hotels. As Hotelbeds kept on expanding in Europe with hotels contracted in Finland, Sweden, Italy, Norway and Luxembourg and Monaco, other regions were prospected and contracts were negotiated in many places such as Europe, Middle East, Africa and Asia with hotels agreements in Jordan, United Arab Emirates, Egypt, Russia and Monaco in late 2003.

The Moroccan market was first contracted in 2003 through indirect contract with Atlas Voyage, a local supplier. Hotelbeds sold the destination through those indirect contracts
until 2008, when First Choice Holidays merged with TUI AG to form TUI PLC. After the M&A, the company was able to contract directly as it was part of TUI PLC and could contract “in house” with proper company from the group who had local agencies. Jordan was contracted indirectly in 2003 through a local third party supplier, the company waited until 2012 to contract hotels through direct contracts. Arab Emirates and Egypt were also both contracted indirectly through a local third party supplier. In 2014, after the company made some internal changes in the product teams, the destinations of Arab Emirates and Egypt started to be contracted directly with hotels.

In 2004, the company kept on contracting hotels abroad and made more commercialization agreements with Cyprus, Tunisia, The Netherlands, Germany, Switzerland, Greece, Denmark and France. By the end of 2004, Hotelbeds already had agreements in 21 foreign countries for the better satisfaction of its customers covering mostly former Europe. Tunisian hotels were first contracted indirectly in 2004 through the use of a local third party supplier called Tunisie Voyage (in house). In 2009, Hotelbeds started to contract directly with hotels and as of 2015 all contracts are made 100% directly in Tunisia. Switzerland was first contracted indirectly in 2004 through a local third party supplier (in house) and as soon as of 2005 Hotelbeds started to contract directly the hotels.

The year 2005 was marked mainly with the expansion to East Europe and the Balkans with contracts with Slovakia, Poland, Slovenia, Brazil, Belgium, the Republic of Latvia, Czech Republic, Estonia, Hungary, Austria; Sri Lanka, Myanmar and Laos. South Africa was contracted indirectly, again through an in-house local third party supplier. In 2010, Hotelbeds started to contract directly the hotels in South Africa.

In 2006, the Middle East region has been targeted with indirect contracts negotiations in Qatar, Saudi Arabia, Kuwait and Israel. The same year other regions were actively prospected as well, such as Montenegro, Maldives, Croatia, India, Lithuania, Zimbabwe, Iceland and Namibia. Hotelbeds started to contract indirectly hotels in Qatar (2006), Oman (2007) and Bahrain (2008) through the same third party supplier located in Arab Emirates until 2014, where the company started to contract directly with the hotels. Hotels in Saudi Arabia were first contracted in 2006 indirectly until 2014. As of 2015, 25% of the hotels in this destination are directly contracted and the rest are to be
directly contracted as well in the short term. There is a lot of tourism potential as this
destination is mainly for corporate and religious motives.
In the year 2007, the focus was made mainly on new hotels indirectly contracted in New
Zealand, Japan, Albania, Oman, South Korea, Philippines, Australia, Nepal and
Mozambique.
In 2008, many new destinations were contracted indirectly: Bahrain, Lebanon, Syria,
Gambia, Senegal, Mauritius, Kenya and Seychelles. In 2010, Hotelbeds directly
contracted those destinations. Political instability in Egypt and Libya during the “Arab
Spring” conducted all tour operators to stop selling both destinations. As a consequence,
Hotelbeds also stopped until the situation stabilized. In Syria for example, in 2011 there
was no demand anymore, and in 2012 the only final clients were journalists, and
Hotelbeds decided to close this destination as soon as 2013 due to safety. In 2008,
contracts were also made in Ukraine, Bangladesh, Rumania and Bulgaria.
From 2009 onwards, there has been a decrease in the number of new countries
expansion since most countries were already contracted. In 2009, only 5 new countries
were entered through commercialization contracts with hotels in Tanzania, Moldavia,
Belarus, Macedonia and Serbia, all through in-house indirect contracts. Tanzania and
Macedonia were both contracted through directly contract as soon as 2014.
In 2010, hotels in the Reunion Island were contracted and in 2011 two more countries
were offered to Hotelbeds customers: Algeria and Bosnia Herzegovina. In 2011, Algeria
was contracted indirectly and this country is still under many indirect contracts in its
majority although direct contracts were made afterwards.
Central Africa was first contracted indirectly (in house) recently in 2012 as well as
Zambia, Madagascar and Libya. We include in the Central African destination various
countries: Nigeria, Ethiopia, Guinea, Benin, Uganda and Rwanda. Since 2014 most of
the hotels are contracted directly.
Mauritania was contracted also indirectly in 2013. In the same year, during a fair date,
an African hotel chain that we had previously contracted contacted us to start doing
business with a hotel in Comoros; this is how we started to sell this destination.
In 2014, Malawi was contracted directly. In 2015 direct agreements were made with
hotels in Yemen, Iran, Kosovo, Burundi and Central Republic of Africa, but there are
not on sale yet as they are new.
The following table 1 represents the year of entry of Hotelbeds in each country where the company has agreements with hotels. Please note that the recent contracted destinations from 2015 are not included as there are not yet on sale.

Table 1: Hotelbeds internationalization, year of first booking

<table>
<thead>
<tr>
<th>Year</th>
<th>Hotelbeds internationalization</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>Portugal</td>
</tr>
<tr>
<td>2003</td>
<td>Malta- Morocco - Finland - Sweden - Italy - Jordan - Arab Emirates - Norway - Luxembourg - Egypt - Russia - Monaco</td>
</tr>
<tr>
<td>2004</td>
<td>Cyprus - England - Tunisia - Scotland - The Netherlands - Germany - Switzerland - Denmark - France</td>
</tr>
<tr>
<td>2005</td>
<td>Slovakia - Poland - Slovenia - Brazil - Belgium - Latvia - Czech Republic - Estonia - Hungary - Austria - Sri Lanka - South Africa - Myanmar - Laos</td>
</tr>
<tr>
<td>2006</td>
<td>Montenegro - Maldives - Azores - Croatia - India - Qatar - Ireland - Lithuania - Saudi Arabia - Zimbabwe - Iceland - Kuwait - Namibia - Israel</td>
</tr>
<tr>
<td>2007</td>
<td>Mozambique - New Zealand - Japan - Albania - Oman - South Korea - Philippines - Australia - Nepal</td>
</tr>
<tr>
<td>2008</td>
<td>Bahrain - Bulgaria - Lebanon - Rumania - Syria - Gambia - Senegal - Mauritius - Bangladesh - Kenya - Seychelles - Ukraine</td>
</tr>
<tr>
<td>2009</td>
<td>Cape Verde - Tanzania - Moldavia - Belarus - Macedonia - Serbia</td>
</tr>
<tr>
<td>2010</td>
<td>Reunion Island</td>
</tr>
<tr>
<td>2011</td>
<td>Angola - Algeria - Bosnia and Herzegovina</td>
</tr>
<tr>
<td>2012</td>
<td>Zambia - Central Africa - Madagascar - Libya</td>
</tr>
<tr>
<td>2013</td>
<td>Mauritania - Comoros - Botswana - Lesotho - Swaziland</td>
</tr>
<tr>
<td>2014</td>
<td>Malawi – Pakistan</td>
</tr>
</tbody>
</table>

The same information is represented in the below figure 9 as a world map in order to visualize it geographically and associate it to cultural proximity.
In this world map we can quickly verify that European countries were contracted at the same time as they are colored in green (from 2002 to 2005). The exceptions are Morocco, Tunisia, Egypt, South Africa, Arab Emirates, Sri Lanka and Jordan. Countries that joined Europe later on are mostly in blue (from 2006 to 2009) as well as countries from Middle East: Qatar, Saudi Arabia, Kuwait Oman, Bahrain, Lebanon and Syria; and Africa: Zimbabwe, Namibia, Mozambique, Gambia, Senegal, Kenya, Cape Verde, and Tanzania.

II.4.2 Direct contracts

According to the Product Department from the company where the Contractors work, the decision to contract directly or indirectly is made depending on the degree of knowledge and capacity to do business within each country. It is confirmed that the company prefers to use direct contracts with hotels but started to contract indirectly the hotels through the use of local third party suppliers.

According to Hotelbeds internal information, as of 2015, in most countries the company benefits from direct contracts with the hotels where the firm can negotiate conditions
with the hotel and agree on one or various contracts. The employee in charge of this essential task is the Contract Manager (CM) who can either be located in Spain or locally in the market he is in charge of. The Contract Manager must do market researches and define the potential hotels with whom to do business with. The role of the CM here is to persuade the hotel to agree on selling them the highest number of rooms in their hotel in order to have the highest room capacity as possible and to negotiate the different rates and discounts that will apply for each contracts at each period. Hotels can have one to many contracts regarding the distinct periods of the year, the type of accommodation (Single, Double, Triple, Standard, Familial, Premium, Suite), the board type (room only, bed and breakfast, all inclusive), the duration of their stay, the cancellation policy, the FAIR dates where the hotels will apply either highest or lowest rate, the minimum stay, the Special Discount, Offers and the various source markets (discounts might apply only on one origin market such as Portugal, where for example a discount will apply to Portuguese booking a hotel during Easter in Spain, such discount is implemented upon hotels request or participation in a discount campaign) that might apply on different contracts. One must keep in mind that the hotel’s top objective is to be the most competitive once the contract is signed and on sale in order to attract the largest number of guests in their own hotel since the competitors have a strong presence everywhere for any type of clientele.

The CM’s main objective is to have the healthiest relationship possible with the hotel in order to keep their partnership on the long term. The CM is their main contact from Hotelbeds and they must be aware of every issue that might occur in the contracting part but also in every other part of their operations such as finances, sales, promotions and marketing as the contract between both entities is meant to cover all situations that might arise at any point during the contract life cycle. Indeed, the CM starts by negotiating the purchase of the different commercialization contract with new hotels and is working closely with the Yield Manager (YM) who is in charge of checking the sales and availability all year long by analyzing the competitiveness of each hotels compared with their competitors. The contracts negotiation is made on the tariff, the release period, the availability, the room’s capacity, special discounts, credit policy, board type, marketing, room category, board type, allotment, cancellation and free sales.
The main task of the CM is to contract as many hotels as possible in order to increase the supplier portfolio’s diversity of Hotelbeds so that the company can increase its offer to their business partners and be more attractive. Their prospection of new hotels never stops and they constantly have to conduct analyses and define future strategies to implement. It is not just about the hotel area, it also concerns the type of clientele that wants to travel: some people value the luxurious hotels while others will pick the cheapest ones. The CM must be able to respond to every single need that the population might have in order to satisfy their business partners who will retain the final clients and win their loyalty.

Another very important point is that the CM must be aware of the quality and standards of the hotel since Hotelbeds has such values and is engaged in a Health and Safety program called Sure2Care. The tourism industry is growing and changing very quickly. The CM must be aware of these trends and has to know the new and odds destinations to be able to contract hotels in these regions in order to provide room nights in the right zone to their business partners at the right time. Hotelbeds is looking for a win-win relationship with both suppliers (hotels) and clients (tourism agencies and tour operators) because together they are actively contributing to the success of Hotelbeds. Both CM and YM have regular contacts with the hotel during the duration of the contract and for its renewal. It is easy to understand how the relationship between the hotel and Hotelbeds plays a crucial role at every stage of the process and how the country culture and knowledge of both YM and CM is important to gain the confidence of the hotel. Indeed, as we have seen previously in the literature review, with the analysis of Johanson and Wiedersheim-Paul (1975) companies tend to internationalize first in countries where the psychic distance is low and progressively can expand to higher psychic distance countries with experience. As we have seen in the previous part with the internationalization of the company, the focus has mainly been on Europe at the beginning and employees prospection criteria included to be fluent in the local language or in English. Hotelbeds human resources are international as the strategy of the company is to hire local people for a better relationship with the hotelier. When an employee of Hotelbeds contacts the hotel in their mother tongue, the hotel is automatically more responsive and natural because there should be no misunderstanding. Indeed, the lower the psychic distance is, the easiest it is for the
company to directly do business in a country, and effective communication is an essential tool that a company must settle with its suppliers.

The direct contracting is the preferred entry mode of Hotelbeds and we will now distinguish its undeniable advantages and possible disadvantages. All the details introduced earlier in this part are very important so as to understand why this entry mode of direct contracting is the first choice of the company to expand its destination offers. The negotiations between the Contracting managers and the hotels are made directly and Hotelbeds has a full control over the contract. They will negotiate their own terms with the best rate possible because there is no intermediary between both parts. Another advantage to direct contract is the profit maximization as the commission goes directly into the company’s finances as there is no intermediary. The success of the negotiation definitely hands in the contracting teams’ efficiency to get the best offer available on the market. The main goal of the contracting managers is to negotiate differentiated product that are exclusive to Hotelbeds. For example, a higher allotment, a special board type, or a specific offer that no other company has. Hotelbeds’ employees strive to get such exclusivities with hotels in order to be the most competitive at all times. A company of the size of Hotelbeds must use technical tools to be able to work efficiently, the use of direct contract minimizes the tools and maximizes the fluidity between the systems as there is no technical intermediaries. As we have understood so far, the contractors’ goal is to contract hotels and by contracting directly the employees can focus on the hotels of their choice, which might not be in the portfolio of a third party suppliers. Also the direct contracting give the company a closer relationship with the hotels as both parts feel more connected to the partnership because all communication is done directly.

It is interesting to focus now on the disadvantages from direct contracting in order to later draw a conclusion for this entry mode. Direct contracting takes a lot of time, indeed contractors must research which hotels to contract, how to approach them, define the needs of the clients and also take into account the market trend in order to propose contract terms and negotiate to have the best conditions. This task has a consequent cost as the contractor must travel most of the time to meet the hotel face to face. Probably the negotiation will last for some time and the contract will be signed later on. This is
why direct contracting is both time consuming and costly. Direct contracting does not only include the contract manager for the sourcing but many other positions, especially the Yield Manager (YM) who works by pair with the contract manager. The YM main task is to work on competitiveness and availability in order to increase the sales and negotiate new conditions with the hotels.

To sum up, there are many advantages to contract directly the hotels and even if the disadvantages are consequent, the success of the company definitely lies on its direct contracts. The next table 2 synthetizes both advantages and disadvantages of direct contracting.

Table 2: Direct contracting: advantages and disadvantages

<table>
<thead>
<tr>
<th>DIRECT CONTRACTING</th>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full control</td>
<td>Rate maximization</td>
<td>Time &amp; resource consuming</td>
</tr>
<tr>
<td>Higher profit</td>
<td>Fluidity between systems</td>
<td>High cost of the contracting</td>
</tr>
<tr>
<td>Closer relationship</td>
<td>Exclusive conditions</td>
<td></td>
</tr>
<tr>
<td>Focus on selected hotels</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Own elaboration based on information from Hotelbeds team

We have detailed all the direct contract characteristics so far, the investigation will now focus on the indirect contract in the next section.
II.4.3 Indirect contracts

Beyond the direct contracts with hotels, Hotelbeds decide to use third party suppliers in order to use their portfolio of hotels to sell their room nights. Such an agreement with third party suppliers has enormous advantages for Hotelbeds, especially for not yet conquered destinations. Contracts with third party suppliers happen when the company does not have the resources to expand to a destination and prefer to outsource this task. In this part, the focus will be made on the contracts that Hotelbeds has with third party suppliers and will conclude by examining both advantages and disadvantages of indirect contracting.

For many reasons Hotelbeds does not own a local office in every country that they are doing business with. In order to penetrate all countries at first, Hotelbeds chose to use third party suppliers with indirect contracts with the hotels. For most countries, Hotelbeds enjoyed its parent company relations to contract indirectly with hotels by using in-house third party suppliers, for few countries Hotelbeds used external third party suppliers. Indeed, Hotelbeds has externalized the administrative tasks such as the prospection and the contracting to third party suppliers, which can either represent a local or a regional zone. Such partnership might also happen in the case that Hotelbeds need more room nights in a specific hotel and does not have enough availability through its direct contracts.

Third party suppliers actually are Hotelbeds direct or indirect competitors. They also have a portfolio of hotels and they are experts in contracting hotels in their area since they have a lot of knowledge about the culture and the way to do business within the region. Also, the fact that they usually master the local language is at their advantage, as hotels would rather do business in their mother tongue. Finally, their capacity to negotiate with the hotels is driven by both their expertise and notoriety. Hotelbeds is the first global B2B bed bank provider but keeps on growing every year by contracting more hotels and selling more room nights. Some regions have not yet been directly contracted, especially in Africa where at some point in time, some regions were not worth the means to directly contract.

Due to the lack of local office and employee locally, Hotelbeds contracts a local agent who will give the company the possibility to sell nights from their own hotel portfolio.
That way, Hotelbeds can enter a market very quickly and be able to sell to its clients many additional hotels. The strategy here is to overcome the fact that the company is not ready yet or simply not interested to invest in the necessary resources to be physically present in a particular country or zone. For example, if we take the European market where Hotelbeds started its internationalization they are still having some contracts, although very few compared to Africa, with third party suppliers even though they already have an extensive hotel portfolio in Europe. Such third party suppliers are direct competitors and the goal is to partner up with them for a short period of time to finally end contracting directly hotels on their own. If we take the example of Africa, which is a continent filled with amazing landscapes and varied destinations but is suffering from many political conflicts; we can understand why the company has used third party suppliers to expand. Indeed, Africa is large and has many different cultures, languages and ways to do business. Specialized third party suppliers are trained to negotiate with hotels and they have large hotel portfolio which gives the advantage to Hotelbeds to successfully expand in a fast manner even if the commission took by the third party supplier is rather high.

One very interesting point is that those third party suppliers are direct competitors of Hotelbeds such as the two British: Miki Travel and Gullivers Travel Associates (GTA) or Destination of the World (headquartered in Dubai). The goal of Hotelbeds is to get to know the different markets and eventually start negotiating directly with the hotels. We can relate to the Uppsala Model (Johanson & Vahlne, 1977) where a company starts its internationalization progressively and after time gains experience and knowledge about the market and is able to contract directly.

The Contract Managers from the African zone who were hired a few years back are European and speak French and English while the CM who were contracted recently are for most of them local people who have been hired by Hotelbeds in order to break the cultural difference and speak the local language. They used to work directly from Spain but now the company wants them to be living in the region they are in charge of in order to be on the spot and be as available as possible to Hotelbeds’ suppliers. Such a presence gives more confidence and trust to Hotelbeds’ suppliers as they know their contact lives in their country and they highly value to have them close in case of any issue as the communication and problem solving is more efficient that way.
Hotelbeds is a Spanish company and is famous in the European tourism industry where the company has made its proofs and has mainly direct contracts with the hotels. In other markets such as Africa, the company is getting more and more known but the process is slower than in Europe because of cultural divergence. This is the reason why Hotelbeds started to use third party suppliers in order to have a local contact that takes care to contract the hotel. Also, it is easier and quicker to use a third party supplier although it has a higher cost than if Hotelbeds would have contracted directly with the hotel themselves since the intermediary here is paid through a commission.

According to the company teams, the goal of Hotelbeds entering new markets is first to use third party suppliers in the markets and let the cultural distance apart thanks to the local contact. The third party supplier usually has contracts with many hotels in one or various markets so when Hotelbeds sign with them they get a lot from the partnership quickly as they can penetrate the market and offer a range of hotels to their business partners. Without such a partnership Hotelbeds would need to spend a high amount of time and money to do market researches, investigate and prospect potential hotels one by one. After gaining local knowledge and experience in those markets, Hotelbeds can start dealing directly with hotels, negotiating its own conditions and tariff with them.

The advantages of indirect contracting are numerous. We first note the quick access to a wide hotels’ portfolio as the work is already done and Hotelbeds is buying existing commercial agreements. In this case, the resources are maximized because the employees can negotiate with the third party suppliers on many hotels and do not have to conduct its investigation and negotiation as intensively as when directly contracting. Moreover, indirect contracting is even better when it is used as a complementary method in order to cover the gaps and be more complete. When using indirect contracting, the company can reconstruct the offer that the hoteliers are giving to the third party suppliers so as to know what kind of contract the competitors are working with (ex: type of contracts, regime, cancellation policy, minimum stays). As a consequence, the company’s goal is to contract at least the same or better conditions in the future.

Nevertheless, such a partnership has drawbacks such as a high dependence on the third party suppliers concerning control and cost. As of 2015 and regarding the African
region only, Hotelbeds had contract with one unique third party supplier in the following 20 countries: Algeria, Benin, Burkina Faso, Cameroon, Equatorial Guinea, Ghana, Guinea, Guinea-Bissau, Ivory Coast, Kenya, Libya, Madagascar, Mali, Mauritius, Namibia, Niger, South Africa, Tanzania, Togo and Ethiopia. There are only two countries in which company works with more than one third party supplier at a time: Kenia and Tanzania. Those numbers will be decreasing over time, hopefully as quick as possible.

There are various disadvantages of indirect contracting. Using an intermediary obviously has some drawbacks, especially in terms of rates and control. Indeed, the intermediary has a commission so the commercial conditions will be worse than the one they have in order to have their profit. Also, there is a low power of negotiation with the intermediary due to the fact that they have an agreement and cannot offer a better condition that the one they have contracted. The use of indirect contracting means that Hotelbeds must face more intermediary platforms which increases the technical issues as each informatics system has its own specifications and operational modes. Finally, hotels are very confused when they have both indirect and direct contracts with Hotelbeds. This can happen when availability is low and Hotelbeds clients are asking for a specific hotel, then Hotelbeds will contract through third party suppliers. When Hotelbeds combine direct and indirect contracts it creates confusion for the hotels who does not understand very well. The following table 3 illustrates the advantages and disadvantages of indirect contracting.
Table 3: Indirect contracting

INDIRECT CONTRACTING

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quick access to wide hotels’ portfolio</td>
<td>Worse commercial conditions</td>
</tr>
<tr>
<td>Resource optimization</td>
<td>Low power of negotiation</td>
</tr>
<tr>
<td>Complement to direct contracting</td>
<td>Technical issue</td>
</tr>
<tr>
<td>Competition comparison</td>
<td>Source of confusion for hotels</td>
</tr>
<tr>
<td>If successful: incentive to contract directly some hotels</td>
<td></td>
</tr>
</tbody>
</table>

Source: Own elaboration from Hotelbeds team

II.4.4 Sales of the service to clients

Once Hotelbeds has contracts with hotels and third party suppliers they are able to sell the room nights through their sale channels. Hotelbeds mainly sells to tourism agencies but a small part of the business focuses on the final clients through the website Hotelopia.com. The major sales channel of Hotelbeds is done through its B2B distribution channel selling to tourism agencies and tour operators worldwide. Now that we have understood the hotels are the suppliers of Hotelbeds, we can focus on the distribution of the services by introducing Hotelbeds clients.

As an intermediary service business, Hotelbeds is acting as a wholesaler by buying a service from the hotels and distributing it to B2B channels and to its unique B2C client known as Hotelopia.

Hotelbeds is able to commercialize a service bought from the hotels and then sell it through their B2B sales channel composed of two websites: (1) Hotelbeds website for Tour Operator and (2) Bedsonline used by tourism agencies and at a much lower scale
to final clients through their B2C unique and exclusive client: Hotelopia, an online B2C bed bank, car rental, transfers and activities provider. It offers some 55,000 hotels in 7500 distinct destinations. As of today, Hotelopia exclusive provider is Hotelbeds and it represents a very small part of Hotelbeds’ total business as it only sells 500 room nights a day. The distribution channel of Hotelbeds is represented in the figure 10 below.

Figure 10: Hotelbeds Distribution channel

In 2014 fiscal year, Hotelbeds sold some 28,000 bookings per day and 22.5 million room nights which corresponds to a 25% increase compared with fiscal year 2013 where only 18 million room nights were sold. In the tourism sector, Hotelbeds is well known as it is the first bed bank worldwide. It is in the best interest of any tourism agency and tour operator to become Hotelbeds’ partner in order to enjoy its extensive portfolio and attract more clients. Hotelbeds work closely with more than 35,000 business partners: tourism agencies and tour operators.
Conclusion

As the study demonstrated, Hotelbeds is undeniably a successful worldwide bed bank provider that started its internationalization two years only after its launch in 2001. After 14 years, the company is globally present covering all continents with offices in every region. This internationalization was fast and efficient. The entry mode adopted here is the contractual mode with commercialization agreements done between the suppliers and Hotelbeds. We conclude that this type of entry mode is well chosen and suitable in the bed bank industry. We have seen that the company started its internationalization using indirect contracts with most of the hotels, by using its in-house third party suppliers. Depending on the cultural proximity and financial interest, Hotelbeds started to decrease the use of indirect contract by starting to directly contract the hotels in order to obtain best conditions and more control over the negotiations. As of 2015, there is no country where contracts are only indirect so this type of approach was definitely a good one to quickly penetrate the foreign markets and very interesting to maintain in some specific markets just to get more sales since the company has direct contracts simultaneously. We can definitely see how the theoretical path from Johansson et al (1975; 1977) was used by Hotelbeds to internationalize with culturally similar markets before being able to expand to rather more distant markets. The companies used both direct and indirect contracts to reinforce its presence and get the opportunity to penetrate some markets faster, especially the ones from Africa compared to Europe.

This case study focused on a company that is exceptionally large and is operating in a sector, the bed bank industry, where, to the best of our knowledge, there is no literature input so far. After reviewing all existing foreign entry modes in the literature and analyzed the internationalization of Hotelbeds, we must conclude that Hotelbeds has not used any known entry mode for its internationalization. We affirm that Hotelbeds used a contractual mode that belongs to a non-equity mode to have direct and indirect contracts with suppliers. Hotelbeds used a contractual mode that the existing literature has not explored yet, to the best of our knowledge. We definitely hope the subject will be analyzed further and scientific definitions should be introduced as this industry is growing exponentially since years and its future will also be shining. It would be
interesting to study Hotelbeds B2B competitors, especially GTA and Miki Travel and B2C like Booking and Expedia in order to have a broader understanding of the major players in the industry and compare their respective strategies. Hopefully more scientific articles will be written in a soon future so as to cover this very interesting subject that is the accommodation distribution.
Bibliography:


47


**Internet sources:**


