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Contemporary Conditions for Tourism Sector Transnationalization

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Abstract:

Dynamics of the contemporary stage in transnationalization of tourism and hospitality sectors is predetermined by the specificity of sector's overall development, its placement in one of the four stages of the sector's consolidation process which, in its turn, predetermines the national tourism's capacities to implement efficient strategies of expansion onto foreign markets as well as the rate of tourism sector's attractiveness for potential foreign investors. The article considers the organizational peculiarities of international M&A processes in the tourism sector and analyzes the instruments used in assessment of their economic efficiency. Different platforms used for mergers and acquisitions in tourist services are discussed. Also, consolidation of tourism industries from different countries is studied as the factor influencing the sectoral dynamics of transnationalization processes.

Keywords: transnational corporations; mergers and acquisitions; market consolidation; company motivation; economic efficiency.

JEL Classification: Z32; Z33.

Introduction

The very end of the 1990s as well as first years of the new century witnessed quite a significant number of mergers and acquisitions among huge international companies. These deals have changed the face of many sectors and many national economies too, both developed and developing (Glushkova *et al.* 2019). These radical corporate transformations were taking place on the background of profound changes in the production processes in parallel to gradual establishment of new information economy in developed countries and ongoing globalization processes (Sakulyeva and Kseniia 2019). From the purely economic standpoint, most of M&A deals can be explained from the standpoint of desire to increase the volume of property, grow profits and guarantee certain return rates on the invested capital (the latter, as a rule, is manifested through aggregate shareholder value of a company). The core specific feature of such deals is that this aim is reached not by means of own development and use of internal managerial, financial, production and distribution capacities (Mikhailushkin and Shimko 2005). The very mechanism of mergers and acquisitions is usually applied when it is quite possible to obtain competitive advantages under much lower costs directly due to participation of external sources, that is, by means of acquiring assets of other companies (Aleksandrova *et al.* 2018).

Essentially, the process of mergers and acquisitions as the circulation of assets can be understood as the mechanisms redistributing property from less efficient owners to more efficient ones, or as the process of company's management reassignment following the best interests of owners – from less efficient managers to more efficient ones, with the key aim of increasing both profits and incomes from the capital invested (Andreeva and Ushakov 2016). The growth of company's cost in this case would mean its growing competitiveness which, in its turn, causes higher credit rank, additional investment opportunities, expansion and/or diversification of production, more intensive R&D, entry to new markets etc. (Ushakov *et al.* 2018).

In the middle of the 1990s the tourism business reached a certain level of development which was described by overall high sectoral indicators of profitability and active growth dynamics. This, in its turn, caused more live interest on the side of investors to tourism enterprises. And this more intensive interest of investors, in turn, meant that entry barriers at many related regional and also global markets became quickly and significantly higher (Spivakovskyy *et al.* 2019). The level of competition among tourism TNCs, high costs of marketing programs at tourism market, even higher costs for real estate, strengthening role of intangible assets in tourist services' production – all these factors had their positive influence on the growth of expenditures, which were necessary for enterprises while entering local and/or international tourist markets. Growth of entry barriers, including those related to time factor (the effect from a particular tourist market entry was taking force later and later, thus requiring significant time spending on its own organization), only increased the attractiveness of M&A deals, since one of the key outcomes from the latter was the fact that the involved corporation became able to step over a certain entry barrier and also get additional stimuli for further growth from the merged external unit.

Many tourism companies that opted for expansion and/or diversification faced the inevitable question concerning their own way to conquer new markets. Most of them had to choose between two alternatives: to develop own production or to buy out (merge) the already existing enterprise. And many of them opted for the second alternative between these two (World Investment Report 2016). However, advantages obtained from quick entry to a new market and/or getting know-hows in a specific field (or at a particular market) are often accompanied by numerous risks closely related to this alternative: two thirds of all mergers turn out to be loss-making at the end, thus leading to later resale of the acquired company or even shutdown of the whole business as such (Marrying in Haste 2000; Udalova *et al.* 2019).

In the middle of the 20th century one of the key stimuli for M&A deals was potential reduction of transportation spending, however, the later wave of M&As at the end of the 1990s was already preconditioned by the lowering cost of telecommunications as well as by other achievements in the field of IT development. After reaching a certain size any tourism-sector TNC became too slow in its operations and information exchange in particular, and this obviously hindered its growth and further development overall (Voronkova *et al.* 2019). While after the emergence and active spread of electronic commerce and paperless offices the borders for further growth became significantly wider. Cheaper and more efficient at the same time communications enabled companies allocate their productions at various countries maintaining at the same time all necessary organizational contacts and vital information for direct management of all business processes at the local level (Kostruba 2019).

1. Methodological Framework

Numerous research studies on the phenomenon of M&As suggest a range of very different motives of companies behind such deals (Savchuk 2002, Konina 2005). Taking into account that the key motive of tourist TNCs in this case is profit maximization, all motives can be divided into the following groups:

1. Aiming at lowering spending (financial one, first of all).
2. Aiming at increasing/stabilizing incomes.
3. Neutral motives.

In its generalized form, classification of motives for mergers and acquisitions in international tourism is presented in Table 1.

Table 1. Structure of key motives behind mergers/acquisitions of companies

Lowering expenses	Neutral motivation	Increasing incomes
Scale effect	Company's value growth	Diversification
Centralization of functions	Corporation reaching super-size	More chances for monopolization
Eliminating the doubling of functions	Personal motivations of particular managers	Higher creditworthiness
Overcoming inefficiency	Protection from being merged	More opportunities to get larger orders and better contracts
Joint R&D		Access to new information
Cheaper access to information		
Lower costs of crediting		
Easier tax load (optimization and tax planning)		

Apart from motives for mergers and acquisitions, there are also the so-called platforms – common, for the two merging enterprises, principles of doing business. Presence of such common platforms is the key precondition for a synergy effect from a merger/acquisition, since availability of such a platform usually means a leapfrogging growth of efficiency in all production activities. Joint exploitation of the platform, mutual exchange of technologies between two integrating business are the key guarantees for the synergy effect. On the other hand, availability of a platform for mergers and acquisitions, first of all, reduces the barriers in the course of integration. Secondly, it significantly narrows the time gap between the end of integration and the emergence of synergy effect. Companies being united on the basis of such a platform manage to adapt to each other much quicker, while the very process of their unification becomes less painful and does not cause the need in thorough restructuring of both already existing and joint businesses (Plaskova *et al.* 2017). In the process in closing M&A deals in tourism business the core is formed by client, technological, production, financial, managerial and marketing platforms.

Client platform as the basis for mergers and acquisitions in tourism assumes there is an open opportunity for simultaneous use of the enlarged client database of the merging enterprises in the course of their, now joint, activities. Taking into account that the initiator of a M&A deal in this case is a tourist enterprise, we can easily imagine the profile and the specificity of the second company – the one being merged. Their services may be aimed at satisfying the demands of the same clients. This also means they can mutually exchange their client databases attracting the clients of each other (Konina 2005). For example, a tourist company specializing in servicing large corporate clients, may buy out an exhibition center or a business hotel somewhere downtown. Such a hotel would have several conference halls and rooms and thus would be able to provide event management services. Another example: a retail trade enterprise (a supermarket network) can acquire a network of tourist agencies, all offering cheap package tours to the most popular destinations of mass tourism. Further exchange of client databases of these integrated companies may contribute to the synergy effect from their joint work.

The key feature of a technological platform used for mergers and acquisitions in tourist services production concerns the commonness of technologies used by integrated companies in the course of their production activities. For example, a hotel network can increase the efficiency of using its own corporate system of online booking by means of consolidating this system with the system of airline tickets booking (Kholod *et al.* 2019). Such consolidation is quite possible and is also technically relatively easy to perform due to the fact that technologies of clients' servicing in tourism overall, hospitality and transportation in particular, are almost identical (especially when it comes specifically to booking). A common production platform in M&A deals assumes there is one common basis for integration of production processes' interdependencies of the merging enterprises (Andreeva and Ushakov 2016). In other words, integrating businesses often have well-established client-partner relations or contracting relations which make them mutually dependent from each other in terms of production processes' efficiency.

For example, performance of a tourist agency is in direct and strong dependence from the professionalism of an advertisement agent. At the same time, this tourist agency may be the most important client for an advertisement agency. And this mutual dependence creates a production platform for their future potential consolidation (Klapchuk 2014). In the hospitality sector quite similar relations may emerge, for example, between a hotel and a construction company (Lapidus and Abramov 2018a; Lapidus and Abramov 2018b; Lapidus *et al.* 2018; Topchiy and Kochurina 2018; Topchiy *et al.* 2018; Topchiy and Tokarskiy 2019; Topchiy *et al.* 2019), especially if the latter guarantees appropriate conditions of the material basis of this hotel enterprise or promises construction of similar new hotels in other regions. Any hotel, actually, may establish this sort of relations with a wide range of enterprises from other sectors: with agricultural producers, who are supplying products for further catering in the hotel; with other enterprises – providing utility services, transportation etc. (Kryvonos *et al.* 2017). In the field of tourist transportation in particular a common production platform may exist between transportation companies on the one side and producers of transportation means on the other – aircraft construction companies, producers of large buses usually used in tourism, constructors of cruise liner (Kuprikov and Rabinskiy 2018; Formalev *et al.* 2019; Rabinskiy *et al.* 2019; Makarenko and Kuznetsova 2019; Rabinskiy and Tushavina 2019) – or enterprises responsible for organization of passengers' delivery: airports, railway stations etc. (Beljatynskij *et al.* 2010; Efimov and Shevgunov 2014; Efimov *et al.* 2014; Dubrovin *et al.* 2014; Shevgunov *et al.* 2014; Efimov *et al.* 2016; Krayushkina *et al.* 2016).

Financial platform for mergers and acquisitions at the tourism market assumes that one company has either sufficient financial resources, or stable access to financing along with sophisticated instruments for smart financial (and first of all tax) planning, while another company – the object of a merger/acquisition – does not have sufficient enough volumes of such resources at its disposal. For example, a cause for merger/acquisition can be one tourist enterprise having tax preferences, while another is having significantly larger financial flows (larger volumes of sales and thus higher incomes) (Ushakov *et al.* 2017). This means that the latter would sooner or later have the desire (and intention) to lower its tax payments. In this example the financial platform for a merger is formed by availability of financial resources at one enterprise and catastrophic lack of these resources at the other. Managerial platform for tourist M&As rests on the identical corporate requirements to managers of the middle and top levels at both companies. That is, there must be some sort of confirmation that managers of the merging companies are capable of joint activities within the same organizational structure (which includes managers' rotation in some cases) without any damage for efficient functioning of both companies. Availability of such a managerial platform for mergers and acquisitions of tourist/hotel enterprises is able to reduce the barriers related to retraining of managers and/or recruitment of external specialists at foreign labour markets (Kirillov *et al.* 2017). And finally, marketing platform of the merging enterprises rests on unity and/or identity of the market behavior strategies, and not only in relation to their target audience, but also in relation to the core instruments of promotion, their own brands, channels for getting feedback from clients, loyalty programs etc. (Dunets *et al.* 2019).

This marketing platform forms the basis for further consolidation of efforts in already joint marketing activities. The latter often includes rebranding since one brand acquires another or because coexistence of brands requires certain revision. Apart from all these, rather predictable platforms for mergers and acquisitions, an alternative platform can be also the "support" from national governments: any company which has some sort of informal connections with authorities is automatically more interesting as an object of a potential merger, and it also can become the initiator of an integration process as well (Aharonovich 2019; Vladimirovich *et al.* 2019). At the same time support for particular tourist enterprises by state authorities may take very different forms – from stare orders for various business services provision (in tourism sector this can be, for example, various social tourism projects) to direct lobbying of tourism corporations' interests (Table 2).

Table 2. Shares of participation of regions in the total volume of accommodation services, %

	Platform	Objects for potential M&As
TOUR OPERATORS	Marketing/ Client-oriented	tour agencies; hotel chains; exhibition companies; car rentals; transportation companies; retail chains; e-commerce enterprises; publishing houses; mass media
	Production	hotels; construction companies; public utilities; enterprises producing means of transportation; agricultural suppliers; advertisement businesses; recruiting agencies and retraining companies; gas stations and other suppliers of fuels; global electronic systems of booking; real estate agencies; cargo delivery and other logistics enterprises
	Financial	financial consulting and other financial services; insurance companies
	Technological	software producers; Internet companies; IT-related training centers; specialized education institutions, including universities and separate faculties
	Managerial	enterprises of the service sector; hotel chains; box offices; retail trade enterprises

2. Results and Discussion

Tourism and hotel industries in various regions of the world are consolidated to a various degree and extent, and these degree and extent are predetermined primarily by the level of a particular region's engagement in international tourist flows, and also by the export orientation of a particular region or the state overall. The degree of regional tourist market consolidation, in its turn, determines the aims of all further mergers and acquisitions, assigning various tourism companies' different roles – either that of a merger subject, or an object. In the states with huge tourism market potential (high paying capacity of local population, high enough demand for both foreign and local trips, free access to various information sources related to tourism etc.) the tourism sector would be consolidated to its very maximum. Such markets are usually dominated by large transnational companies which are specializing in mass production of tourism services, therefore, growth in the number of M&As at these markets would be rather complicated (since the market limits are already quite visible, entry barriers become quite high).

However, there is a way out of this situation which is often used by the representatives of transnational tourism business. This would be the strategy of expansion onto foreign tourism markets (usually targeting the countries the tourism sector of which is consolidated to a much less extent). Another potential direction for further expansion of the already large business would be conglomerative mergers and acquisitions within national borders of a base country (Kirillov *et al*. 2017). In the process of decision-making concerning foreign expansion transnational tourism companies consider, most frequently, two possible variants: either buying out a foreign company at a consolidated market (though the level of consolidation must be lower than at home), or invest own assets into a relatively new foreign enterprise functioning at a regional tourist market and being at an early stage of consolidation.

The first of these two strategies have one highly important advantage – buying out a company at the already consolidated market is usually a quick process (provided integration into the parent company is efficient). Secondly, one may expect sufficiently high dividends quite soon since the merged tourism business is already well organized, is stably present at the local market and is also demonstrating a range of other obvious competitive advantages. On the other hand, implementation of this strategy is quite costly since entry barriers at such market are very high. Even though barriers are lower than at the domestic (for the investor) tourism market, they are still high enough to require serious capital investments. In such cases, ideal conditions are formed for the so-called megadeals: when huge and known companies from the countries – leaders in tourism business consolidation, acquire large local companies which are functioning under the conditions of less consolidated tourism markets (Kulakhmetova *et al.* 2018).

Analysis of regional tourism markets in developed countries allows us making a conclusion that today the maximum level of the tourism sector consolidation is demonstrated by Germany and the USA. These two leaders are followed, with a significant gap inbetween though, by France and the UK. According to expert estimations, the annual turnover at German tourist market (the largest in Europe) is around 27 bln USD. About one third of this huge German pie belongs to TUI (Tourism Union International), smaller slices belong to NUR (Neckermann and Reising) and LTU (noteworthy here: in Europe overall the latter two companies are ranked the third and the fourth accordingly). These three leaders of German market together control more than 70% of its overall revenues.

Throughout the 1990s more than 12 thousand German tour agents out of 17 thousand (their overall number in the country) were in contact, to some degree, with TUI. However, in order to go beyond national borders and conquer global space this company needed a solid and generous investor. This was German steel concern Preussag AG. Prior to that, this steel giant had already bought a group of transportation companies Hapag Lloyd (cargo and cruise fleet, charters). Thus, the final combination was merging the enormous transportation capacities of Hapag Lloyd with huge tourist database of TUI. This newly emerged alliance of a successful tour operator with a no less successful transportation company was literary unbeatable. Thus, quite soon TUI managed to outpace the key competitor – NUR company (Kirillov *et al*. 2017). In Germany most of tour operators gradually turned into huge multifunctional conglomerates, while in the UK tour operators remained engaged only in tourism and transportation services. In England tour operating concept was known back in the 19th century already, and now UK became the largest producer of standardized tour packages in the world, hitting the target of 10 mln sales a year.

At the beginning of the 1990s all large tour operators of Great Britain were involved in a severe fight for market shares. As a result, the end prices for their packages reached the minimum possible level. Price wars among British tour operators had actually started back in the late 1970s already, however, only in the second half of the 1990s they reached their peak, causing much instability at the tourism market. Due to these wars the very structure of the sector changed radically. In 1993 the average profit level in British tourism was no more than 5%, while the largest tour operators that managed to survive in the price war (Thomson and Airtours) had their profits on the level of merely 4%. Owners Abroad company had even less – about 2% only. However, in 1994 Thomson controlled about 34% of the whole market, while Owners Abroad (the name was changed to First Choice in the same year) had 12%. Airtours covered 18% of the market, and Cosmos had 7%. Taken together, all these companies provided around 70% of all tour packages in the United Kingdom (here and after data from RATA-news).

The largest UK tour operator (and one of the largest in the whole world) is Thomson Holidays, it belongs to the Canadian group Thomson Corp. Back in 1992 this company was second largest in Europe, having the annual turnover of 1,623 mln ECU. The company was founded in 1965 by an independent British operator SkyTours. Later it was acquired by Canadian intermediary group Thomson Corp along with the charter airline company British Airways. Later on, this company was merged with three other UK tour operators – Riviera Holidays, Gaytours and Luxe-tours (Ushakov et al. 2017). Thus, Thomson Skytours emerged. In 1972, after acquiring the group of tour agencies Lunn Polly, the company got another name – Thomson Holidays. During a decade (1984 to 1994) it managed to increase the overall number of its agencies tenfold. The number of agencies was 500 at the end of this period, while the quantity of personnel was over 2800.

In 1988 Thomson Holidays signed a truly unprecedented contract, according to which it was buying out Horizon Holidays, even though first the approval of the anti-monopoly committee was required. At that time Horizon Holidays was third largest tour operator in the UK (after Thomson Holidays itself and then ILG – International Leisure Group). At the time of this buying out Horizon Holidays owned quite attractive assets: Wings – the tour operator specializing in long-term vacationing; OSL – the villas rental services; GSA – the network of clubs for family leisure, and finally the charter airline Orion. Today Thomson Holidays has three core structural units – Thomson Touroperation, British Airways and Lunn Polly. Already back in 1994 these three units were the largest key players in their specific subsectors of tourism activities (Fedyunin *et al.* 2018a; Fedyunin *et al.* 2018b).

Thomson Holidays acquiring of Horizon was actually provoked by severe competition – that of ILG. In 1988 the difference between market shares was really insignificant: Thomson Holidays controlled 29,3% of the market, ILG had 24,8%, while Horizon got 12%. After the merger, Thomson got an obviously larger share, however, since all tour operators were forced to drop the prices during the 1990s, the common merged share decreased gradually to 30% (from about 40% initially). At the same time, Thomson Holidays managed to increase the average price per one client by 17%, thus still increasing the overall profits. Very soon ILG was forced to leave the market as such, thus making Thomson the obvious leader and winner of the British market. On this background, Lunn Polly and British Airways served as auxiliary companies.

French sector of tour operating was consolidated to a much lesser extent than in other European countries. 300 French companies operating in this sector together had about 20 ths employees, serving about 1,5 mln clients a year. The key tour operators included: Club Mediterrians, Nouvelle Frontier, Soter, Framme, Luc Voyage and Pacce. However, the share of top-3 companies taken together was no more than 30% of the national market (while first two British companies, for example, covered over 60% of their market at that time). French tour operators were very much interested in vertical integration, with airlines in the first place (Heiets *et al.* 2019). For example, in 1993 Air France acquired the tour operator Go Voyages, while Air Inter already had its own tour operator – TFI. In a similar manner but slightly later CorsAir merged with Nouvelle Frontier, and Air Liberte – with Luc Voyage.

Low (as compared to the UK and Germany) level of tourism sector consolidation in France was compensated by the presence of well-developed hotel networks, the largest of which being Accor. In other European countries the market of tourist packages was under the control of a few operators (Movsesyan 2001). For example, in Switzerland such companies as Kuoni, Hotelplan, Airtour and Imhog together were doing more than 70% of all sales. In Sweden the total share of Vigressor, Atlas, Space and Rezo was also over 70%. Top-2 tour operators in the Netherlands – GIT and Arke Reisen – together covered over 50% of the market. However, considering the relatively low volumes of sales of all these tour operators due to rather limited capacities of the related national markets as such, we cannot really state that these leaders of the national tourism markets can be automatically considered the key players of the global tourism market. Among the largest hotel networks in Europe we need to mention the Spanish chain Sol Melia and the Scandinavian Rezidor SAS.

International tourism in the US and Canada was primarily oriented on the Carribeans, and also Latin America and some of European countries. Today more than 2000 tour operators are serving the US clients, which is more than 3,5 larger than their number back in the 1970s. The largest tour operators at the American market are American Express, Thomas Cook, Caravan Tours, Gatney Holidays. In Canada the leaders in tour operating are Canadien Pacific and Tour Montroyal. However, 70% of all tourist packaged offers are actually internal – to California, Florida or Hawaii etc. Due to extremely severe competition at the American market of tour operating the maximum possible level of profit there is around 3% (Ushakov *et al.* 2017). The key players at today's tourism market of the US and Canada are the hotel chains once merged with other large tourist enterprises, such as with transportation companies, for example (Cendant Corp, Choice Hotels International (CHH), Best Western International (BWI), Six Continents Hotels (SCH), Marriott International Inc. (MII), Hilton Hotels Corporation and some others). Analysis of the consolidation degree for the tourism and hotel markets in developed countries allows us classify them according to the share and the presence of large business at a particular market and also according to the volumes of sales demonstrated by the largest tourism companies and hotel chains (see Table 3).

Separately we need to consider the states of the so-called "catching-up development" of their tourism sectors. They have emerged on the world map of tourism relatively recently, and their key feature is the dominating orientation on the export of tourist services' production. Tourism sector in these countries is young but developing very dynamically. Here we first of all speak about third-world countries which are striving to participate in the world trade in every way possible. Their national production is mostly export-oriented, while their internal market is quite small, moreover, the paying capacity of their local population is very low, thus, this population cannot demonstrate enough demand for tourism development. Therefore, national tourism industries in these countries are largely export-oriented, that is, concentrated on satisfying the tourism demand of population from developed countries. Own population of these countries does not have enough material and/or financial resources for active consumption of the already available tourist product. Moreover, for the locals tourism as such is some sort of unattainable luxury. On the other hand, this local population is actively employed by the tourism sector.

Table 3. Classification of tourism and hotel markets in developed countries

The share of large businesses at the market	The volumes of sales	
	Small	Large
Small	Spain, Greece, Portugal	Great Britain, France, Japan
Large	Switzerland, Netherlands, Sweden, Italy, Canada	Germany, USA

Countries with the catching-up tourist markets usually have highly differentiated social structure in terms of population incomes. Moreover, in all these countries human potential is usually poorly developed, and there is also the whole long list of various social problems (with healthcare services' provision, criminality, sanitation and epidemiological control etc.). At the same time, certain territories within these countries are still attractive for global tourists since they still have unique tourist resources and are relatively safer than the rest of a country. When there is an obvious lack of own financial resources and at the same time there is a clearly expressed global interest in local tourist resources – sooner or later foreign corporations would pour their investments into national tourism industry, and the latter would start developing quite rapidly. Low paying capacity of the internal market means all tourist enterprises would concentrate on the export of their products and services, thus, most of the resorts would soons specialize in welcoming foreigners. Eventually this nearly always leads to the emergence of the so-called "tourist reservations" – these are small territories with excellent infrastructure and very limited access for local population (apart from those being actually employed there).

Thus, rapidly developing tourism sector in these countries is mostly specializing in beach resort tourism and various leisure activities which do not require significant capital investments, while their competitive advantages are directly correlated with the attractiveness of a particular tourism venue in general (Ushakov 2006). These tourist markets are vaguely consolidated and/or at the very initial stage of the consolidation process. At the moment we can assume that the Middle East countries, Northern Africa and South-East Asia are still at the initial stage of consolidation, while tourism markets of Turkey, Emirates, Eastern Europe and some of the Caribbean countries are already at the stage of active growth. The major contribution into consolidation of tourism and hotel markets in developing countries belongs to tourism TNCs which are trying to activate their presence through the implementation of foreign investment projects (for example, expansion of American hotel chains on European countries; buying out other enterprises closely related to tourist services' provision; creation of joint companies etc.).

At the same time, we have to admit that national tourism business at developing markets is not ready for consolidation at all: it lacks own funds, it does not have breakthrough technologies, it cannot boast having sufficient enough volumes of sales. Tourist markets in developing countries still have low entry barriers which allow for the presence of a large number of small tourist agencies and hotels, the shares of which are really minor. Still, with every new year to come their common share is reducing due to active policies of Western corporations which are gradually pushing small local businesses out of the tourism sector, especially when it comes to welcoming foreigners. Western corporations entering these new for them markets already have at hand a whole range of competitive advantages which concern both production of tourist services and their further sale. These large foreign businesses are able to win at local markets primarily because they have direct access to rich consumer markets of developed countries (and tourists from these countries are the key clients for tourism sectors in developing countries).

At the same time, there is hardly any chance for a local tourism company of a host developing country to enter the tourist markets of the developed Western countries alone. Their entry barriers are too high for that, and there are no resources, even on the state level, for developing economies to overcome these barriers. Another instrument used by Western TNCs to exclude local tourist enterprises from servicing foreign clients is the global spread of common quality standards. Small enterprises originating from developing economies are simply not able to afford this sort of compliance (Movsesyan 2001). Let's take the global system of hotel enterprises' classification by "stars". Building a five-star hotel (according to European standards) using only the resource of local businesses in a developing state is not probable as such, even a country is relatively well developed. Same unlikely would be provision of the already constructed hotel with the services of a similar level. Even a tourist firm alone would find it hard to find enough personnel to comply with the global quality standards, without sufficient investments from outside (Makushkin 2019).

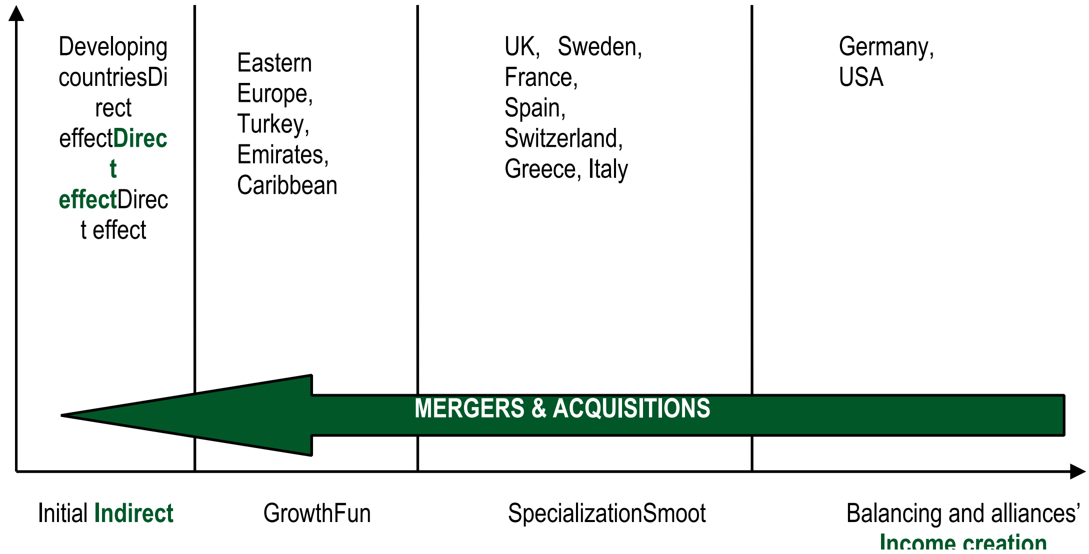
Therefore, tourist markets in developing countries find themselves in a rather ambivalent situation. On the one hand, there is a more profitable segment of foreign guests, it is more consolidated due to presence (which is growing all the time) of foreign tourist corporations. On the other hand, there is a less attractive segment of the tourism sector, servicing low-income internal (or regional) tourists and/or providing occasional tourism services to the first sector (e.g., transfers to/from airport/hotel, excursions etc.). This second segment is only at the initial stage of consolidation, it also has low entry barriers and a huge number of functioning enterprises. At the same time, there is no obvious leader or monopolist/oligopolists (Ushakov 2006). Therefore, it is quite clear that the more a country is engaged in international tourist flows (the more interesting it is for Western tourist corporations) – the more consolidated its national tourism sector would be.

Consequently, a developing tourism market usually has a two-level model. The upper level of this model is represented by a segment servicing foreign tourist, but it also has several exits to local consumer markets due to the strong influence of transnational tourism corporations. To this level belong: transnational tourism corporations themselves, their local branches or their local representatives operating under franchising agreements (*e.g.*, local hotels that are members of the international hotel chains). The lower level of the sector is represented by national producers which cannot have direct access to foreign and/or international consumer markets, thus, they are doomed to service internal clients only or at best – clients from other developing countries. In this low-income subsector competitive fight becomes a real battle for survival: since entry barriers are initially very low, appearance of new competitors is unavoidable, moreover, often there is no obvious leader in sales' volumes. Thus, all competitors are forced to engage into price wars which, sooner or later, would harm their own financial condition limiting their future development prospects (Formalev *et al.* 2016; Formalev *et al.* 2018a; Formalev *et al.* 2018b).

In case a particular tourist destination gains more popularity at the consumer markets of developed countries, its upper segment would be able to gain more volume by means of "borrowing" from the lower segment. Competitive fight between branches of Western corporations and small national companies seems to be simply impossible in the tourism sector. And if internal tourism becomes more profitable – more frequent would become deals on M&A through buying out national tourist companies which has strong positions at the internal tourist market (for example, having a strong brand, a database of regular clients etc.). Here we consider the process of mergers and acquisitions in the context of tourist sector consolidation. The most popular tourist destinations can be assigned their special places on the consolidation curve depending on their stage of development (see Figure 1).

On this figure above we can see not only the placement of various countries on the consolidation curve and who are the current leaders, but also the key direction in the ongoing processes of mergers and acquisitions at the global market of tourism (the arrow). It would be logical to assume that tourism sectors of the countries that are at more advanced stages of the consolidation process would pay more attention to M&A deals and to the opportunities to buy out the enterprises from less consolidated and thus less financially solid tourism sectors. It would be also obvious to assume that the smaller is the gap in consolidation of the tourism markets of the object company and the subject company (in relation to a potential M&A deal) – the higher would be the cost of this deal, and the effect from it would be visible much sooner.

Figure 1. Various countries on the curve of tourism sector consolidation



Maximal activity of the M&A subjects would be demonstrated by German and American tourism businesses. On the other hand, of maximal interest as objects of potential international mergers and acquisitions would be companies operating in the tourism sectors of developing countries (they would be interesting, first of all, for the global leaders in tourism, such as USA, Germany, France, Italy, Switzerland etc.). At this, policies and strategies of such deals' initiators – representatives of large tourism businesses – would significantly depend on the degree of a particular tourism sector consolidation. When the companies initiate M&As in the tourism sectors with less degree of consolidation, they normally have lower expenses (partially due to the use of franchising schemes) (Mikhailushkin and Shimko 2005). However, in the long term they still have to invest, and quite significantly, into additional promotion and popularization of the merged business at a regional market. Merging or acquiring an enterprise at a developing market usually takes the form of traditional expansion (as a horizontal merger), this is especially typical for larger hotel chains. Or it can be in the form of vertical integration, when a TNC gets the right to coordinate several key foreign suppliers of tourist services.

The latter is especially relevant for large European tour operators that are often the initiators of buying out foreign airlines, hotels, excursion firms etc. In such a way tour operator guarantee themselves competitive positions at the international tourism market. At the very end of the 1990s large retails companies also became objects of mergers initiated by tourism businesses. This was first of all applicable to large retail networks operating in countries with dynamically developing tourism destinations. Western TNCs were purchasing national tour operators from developing countries in order to take use of their sales' volumes and brands' recognizability. Since consumer demand in developing economies was gradually growing, and more interest was demonstrated to both inbound and outbound international tourism, TNCs started using the bought out national tour operators to enter new for them and less consolidated markets. Such strategies were used, for example, at the markets of Eastern Europe and the CIS: Western corporations were entering these markets starting with a purchase of the already well-functioning national tour operator or of an agent network.

Expansion strategies of Western tourism corporations at less consolidated foreign markets were very much similar, if not identical. For example, TUI has several key strategies for conquering a new market. They usually start with increasing the tourists' inflow into a particular country, then this German company has several option to choose between. For example, it can buy out the control package of shares of the most obvious leader at the local market (as it was in the UK or in Turkey), or it can monopolize the market through franchising followed by the introduction of own (and highly efficient) system of corporate distribution. Nearly always expansion of Western tourism corporation onto less consolidated developing market is accompanied by massive dumping, the key goal of which being complete extrusion of local tourist companies from the local market which is easily possible due to financial misbalance of powers in this fight (Ivanov *et al.* 2015).

Another group of M&As initiated by tourism corporations is represented by the deals signed at the already consolidated markets, often at the markets of these corporations' headquarters. Mergers and acquisitions of tourist companies that are functioning at an already consolidated market form the grounds for the so-called mega-deals which cost billions of dollars. On the other hand, return from such deals is much quicker, if not instant, provided, of course, integration of a new business into the "older" organizational structure of the merging corporation is efficient enough. Deals of this size usually have zero impact on consumer markets, actually. Trying to maximize the synergy effect from such a deal, the parent company would keep the brand of the merged company in operation and also would not intrude into its marketing strategy. Moreover, in many cases merging corporations in such cases do not even risk to implement serious HR changes. The world tourism practice actually knows the cases when the parent company, merging a much smaller company, was taking the brand name of the merged structure (for example, this was the case with C&N which bought out Thomas Cook in 1998).

At the end of the 1990s mergers and acquisitions at the already highly consolidated markets started to lead to the formation of the so-called conglomerates – when the initiating the deal company was collecting several types of businesses inside its own structure. And these businesses usually belonged to very much different sectors. This transition from horizontal mergers (when businesses were integrating because were similar, just functioning on different territories) and vertical mergers (when the core enterprise was merging with a supplier or with a provider of additional clients) to conglomerate types of mergers was quite logical overall and for tourism especially.

Any tourism company starts functioning as a small and, as a rule, specialized in something in particular enterprise with a rather limited choice of offers. In the course of its functioning and development this small company would obviously face the problem with the lack of funds and will also find itself vulnerable in the face of competition. In most cases such companies are operating at the local tourism and/or hotel markets. Thus, their product is not competitive enough (neither in price, nor in quality) if compared with the "elder brothers" in the industry. Due to exactly the same reason during the first 3-5 years all efforts of such companies are focused on increasing the volumes of sales in own market segment and also on maximal widening of the client base (Rudyk 2005). At this stage, the key source of enterprise financing would be reinvesting the early profits and also additional emission of securities (Rudenko 2017; Rudenko 2019).

If an enterprises managed to pass through this stage, sooner or later it will hit the niche "ceiling" due to its inability to expand further: at some point the sales' volume would get too stable and stop growing which means the company's share has reached its maximum. At this moment top managers usually make the decision to start expansion, that is, to enter new markets, with the same product though (standardized, however, slightly corrected according to the regional specificity of a new market). The company first moves from a regional market to a national one, then – from national to international one. However, even this international level of operations is not the final point in this journey. On the international level to the company may face the limit for further growth. At the tourist market this usually happens at the national level already, due to intense competition. And at this critical point of time the company makes up the decision to diversify.

There are two major ways to diversify production of services in tourism: to diversify the offer and to try to repeat the same stage in development but with a newer product now; or to turn to brand new types of activity which would not have obvious connection to the tourist services already being provided. Majority of corporations in tourism, being at the early stages of their global rule, preferred related diversification, that is, they were offering a range of services "accompanying" tourist activities. But the stronger a corporation gets – the less time and efforts it needs to introduce a brand-new product to a market under the good old brand. And the instruments of mergers and acquisitions which got widely spread during the 1990s only contributed to the efficiency of such strategies. Still, even this state of affairs did not satisfy the appetites of many corporate top managers, turning them to the idea of conglomerate unions.

Conclusions

Nature and contents of the M&A deals carried out by tourism corporations depend, first of all, on the degree of a particular tourist market consolidation. If a market is highly consolidated the merger deal initiated by a tourism corporation would be oriented on the creation of conglomerate structures with a diversified portfolio of numerous businesses (not always interrelated with tourism). And if a market is less consolidated, mergers and acquisitions performed at it would simply follow traditional expansionary goals.

When the capacities and the organizational structure of a tourism corporation become stronger than the market mechanisms themselves, top management decides to perform the first conglomerate merger, thus pushing the parent company to the new frontiers of presence. The key reason behind this decision is usually the desire to redistribute most efficiently the accumulated (and huge) financial assets between several very different types of production activities. The key preconditions for conglomerate integration of tourism corporations at the edge between 20th and 21st centuries were as follows:

- exhaustion of opportunities for further internal development of corporations in the tourism sector, for which redistribution of resources between the already existing units within the same sector became economically senseless;
- emergence of new opportunities for the corporations to redirect their financial resources into new fields of business;
- tourism TNCs became more efficient than the market itself since now they had new redistribution mechanisms (including intersectoral ones) for their excessive financial flows. Also, these corporations had highly efficient internal business processes.

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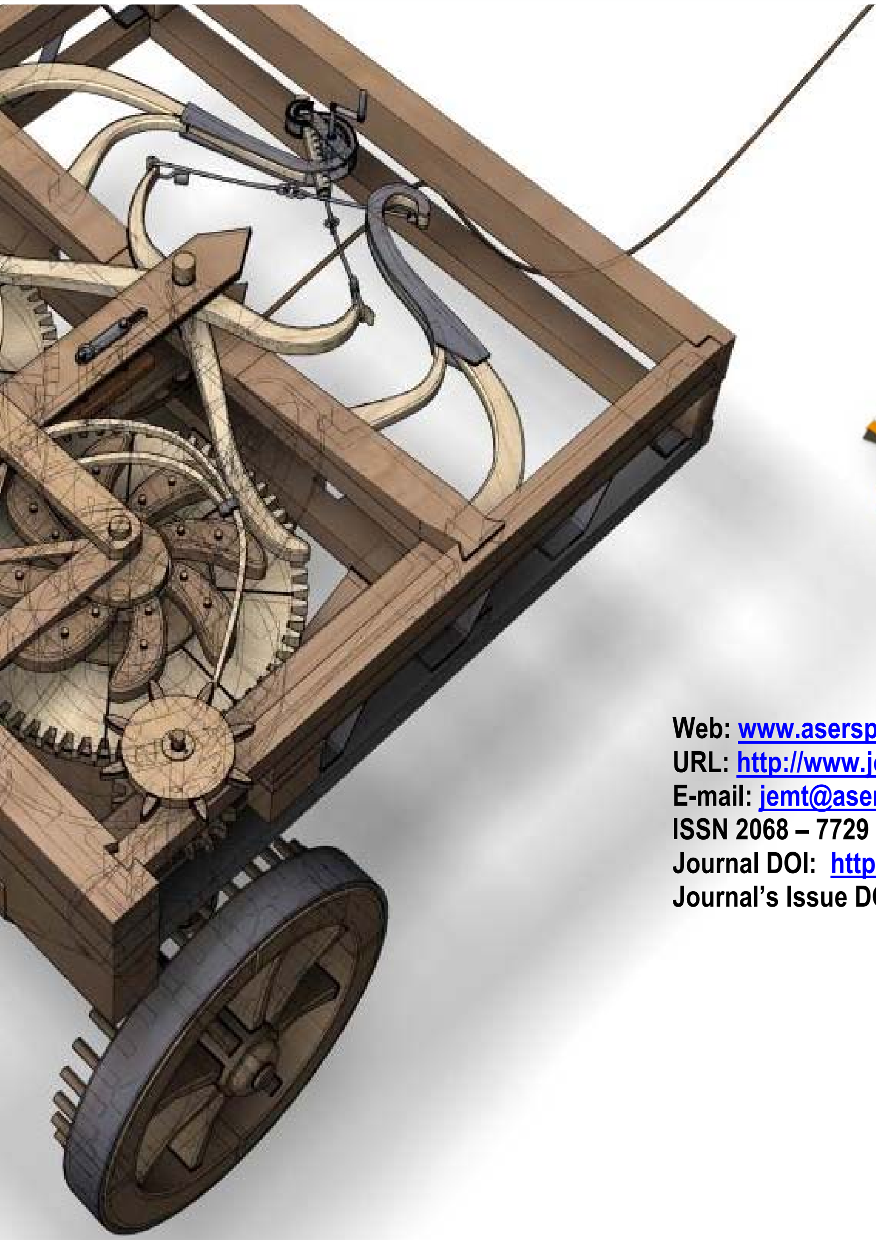

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