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**THE ROLE OF LOCATION IN THE
INTERNATIONAL MARKET SELECTION IN
HOTEL BUSINESS**

Case: SOK Corporation

Master's Thesis
in International Business

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1 INTRODUCTION

Internationalizing is vital for most companies today, yet some are afraid of going abroad. Companies of all sizes are willing to try out their capabilities abroad if the advantages seem large enough. Companies desire to internationalize when they assume more profits could be gained abroad, for example when they possess something that the firms abroad do not yet have, some unique knowledge or offerings to customers. If that knowledge is useful and important in the selected country, expanding the operations into that particular country really is profitable and creates value to the company.

The main questions in the internationalization process are when to internationalize the business operations and where to go (Andersen & Buvik 2002, 347). The focus of this master's thesis is on the dilemma of market selection after the decision about internationalization has been made. In particular an explanation of the role of location in the international market selection will be given. There are many different kinds of determinants affecting the market choice, but location is one of the most important ones. The location has to match well the plans of the company, otherwise the internationalization project will not be successful.

1.1 Trends in hotel business

The amount of foreign direct investments in service business has grown rapidly together with the amount of service business in world trade. Services FDI inflows as a percentage of total FDI inflows have risen in the period of 1995–2003 from under 60% to over 65%. The meaning of services is increasing. For FDI outflows the rise in the proportion of services was even sharper, rising to nearly 75% in 2002–2003. The total number of cross-border mergers and acquisition purchases per year has grown from about 5000 to almost 9000, in the period of 2004–2006 (UNCTAD 2007). The USA is the world's largest net service exporter, but countries such as the UK and Spain also gain a lot from the service industry. Service export is getting more popular in all the countries. (Cave 2006, 6–8)

In exporting hotel and restaurant services are increasing in meaning. Some countries are benefiting from this more than others. International tourism receipts represented in 2003 approximately 6% of the worldwide exports of goods and services. The amount of

tourism bound services in the total number of services is significant. In 2003 the share of tourism exports increased to nearly 30% of the service exports. (WTO 2003)

The number of cross-boarder mergers and acquisitions purchases in hotel and restaurant services has grown from 50 to 72, in the period of 2004–2006 (UNCTAD 2007). It means that it is around 1% of all the mergers and acquisitions. The outward FDI flows in hotel and restaurant services are about double from the inward FDI flows in G7 countries (France, Germany, Italy, Japan, the UK, the USA and Canada). Some of the world's most famous hotel chains are also based in these countries, such as Accor (France) and Hilton (the USA), which can also partially explain the success of G7 countries in this sector. Hotel and restaurant services have definitely increased their amount of export. For instance in the period of 1999–2004 transport and travel accounted for half of the export in services in G7. (Cave 2006, 6–8)

International hotel expansions began rapidly increasing together with the international expansions of retailing in the 1980s (Alexander & Lockwood 1996, 463). In the period of 1978–1997 the amount of international holdings of hotel groups outside their defined home country grew approximately 150% (Littlejohn 1997, 188). Already in 1995 on all the regions besides the USA and Australia over 50% of the hotels were foreign owned (Littlejohn 1997, 190). Large hotel chains internationalize most eagerly and profit the most from it as well. The first international hotel brand was Hilton. It opened its first hotel outside the USA in Puerto Rico already in the 1940s (Hilton's homepage). According to a survey done by Hotels Magazine in 2007, over 10 hotel chains have operations in over 40 countries, three of which have operations even in 90 or more countries (Strauss 2007). The large are getting larger, but at the same time the small hotel companies have ambitious internationalization plans.

The 10 largest hotel companies by number of hotels in 2007 were: 1) Wyndham Hotel Group with 6 473 hotels, 2) Choice Hotels International with 5 376 hotels, 3) Best Western International with 4 164 hotels, 4) Accor with 4 121 hotels, 5) InterContinental Hotel Groups with 3 741 hotels, 6) Hilton Hotel Corporations 2 935 hotels, 7) Marriott International with 2 832 hotels, 8) Carlson Hospitality Worldwide with 945 hotels, 9) Starwood Hotels and Resorts Worldwide with 871 hotels and 10) Société du Louvre with 840 hotels. SOK's subsidiary Sokotel Oy which takes care of the hotel and restaurant business of SOK in Finland was ranked on a place 107 in the ranking of the 300 largest hotel companies in the world. (Strauss 2007)

The Finnish service export has been growing as well. In 2004 it grew almost 28% from the previous year (Tilastokeskus 2006). It was double the amount of import in services in 2004 (Tilastokeskus 2006). Still the amount of service export from total export is quite small in Finland (in 2006 it was around 15%). It falls far behind from the service export amount in many other countries such as the USA (30%), Estonia (30%) and Sweden (22%). (Elinkeinoelämän keskusliitto 2007) However, the question is about significant amounts of financial inflows. The Finnish service export amounted to almost 10 billion euros already in 2006 and the amount is increasing. (Elinkeinoelämän keskusliitto 2007)

Lately the service export has diversified in Finland and now Finnish hotel chains are also beginning to internationalize. The hotel business in general has already been international in Finland for a long time. Hotels are compared internationally, cooperation partners are sought from other countries, hotel chains from abroad have been occupying the Finnish hotel market and Finnish hotel chains have started to go abroad (Hallamaa & Viljanen 1997, 41). The six most significant hotel chains in Finland in 2007 were 1) S Group with 50 hotels, 2) Restel with 43 hotels, 3) Scandic Hotels with 21 hotels, 4) Lomaliitto with 28 hotels, 5) Finlandia hotels with 32 hotels and 6) Best Western hotels with 13 hotels. Only two of them were hotel chains from outside Finland, but yet their meaning on the Finnish market is prominent. (MaRa 2007)

The traveling in the Baltic States is increasing and it is supported by various projects. It can be said that every 6th trip abroad in Europe is to one of the countries in the Baltic Sea area (WTO 2003). The Baltic States are close to each other as well as many other countries and their price level is lower than that of the other European countries. They are an attractive destination to travelers. To name an example 65% of all the 1–3 night trips of Finns were to the Baltic States or Russia in 2006 (Tilastokeskus 2007). It is no wonder that the different companies offering hotel and restaurant services are willing to internationalize to the Baltic States and obtain their share of the income.

The case company of this thesis, SOK Corporation, is one of the first Finnish hotel companies to enter a foreign market and therefore it works as an excellent example. SOK has begun its internationalization in particular in the Baltic States. The amount of hotel operation internationalization is not yet significant in Finland; therefore there is no accurate data on that matter. About half of all the Finnish service providers offer their services internationally, but only less than 5% of all these work in the restaurant and service business (Elinkeinoelämän keskusliitto 2007).

There have been four basic trends that have developed in the international hotel-keeping field: in most of the countries an increasing awareness of the monetary value of tourism, a growing boom in international hotel-keeping, increasing dominance of the American hotel management influence throughout the world and an increase in American investments in foreign hotels (Lattin 1978, 42). American hotel companies have been expanding to almost all parts of the world. They have also been the major source of innovation in the hotel sector (Alexander & Lockwood 1996, 465). We all recognize the familiar names of Hilton, Holiday Inns and Western International. But during the past few decades other hotel chains have been internationalizing widely as well. There has been a shift away from the American dominance (Alexander & Lockwood 1996, 462).

Hotel industry is a part of the travel and tourism sector which is one of the most rapidly expanding fields in the service sector. Therefore also hotels from all over the world are eagerly internationalizing at the moment, which makes hotel business an extremely captivating field to research. It is all in all an intriguing phase that the travel industry has encountered. The focus of this thesis is on hotel business, because at the moment the Finnish hotel chains are beginning to internationalize and therefore it is unquestionably a current issue. One reason for the eagerness to internationalize of the Finnish hotel companies is the increasing attractiveness, of the close markets in the Baltic area, among tourists. This theme is of great interest because the market selection process in the service sector is complex and in particular the role of location in this process is fascinating. Location has a paramount meaning for hotels and has a lot to do with their success abroad. Nothing can compensate for a bad location.

1.2 Earlier studies on hotel internationalization

It is clear that services, and often particularly tourism, have become the major area of economic activity in developed countries. The developed frameworks for manufacturing internationalization, however, are not immediately applicable to service internationalization, because service internationalization has its own unique characteristics and opportunities. Hotel internationalization is also a procedure of its own under the service branch.

The researcher found relatively few studies about hotel internationalization. In this chapter they will be reviewed (see Appendix 1). One of the most widely quoted

empirical studies on hotel internationalization is the one Dunning and McQueen have done on multinational corporations in the international hotel industry (Burgess, Hampton, Price & Roper 1995, 74). They collected a considerable amount of data on the growing internationalization of the hotel industry. Some of the main findings were that US-based multinational hotel corporations accounted for about 50% of all the multinational hotels and the leading 26 firms accounted for about 80% of the total number of foreign hotels

Dunning has also created the eclectic paradigm, which has become a reference study in hotel internationalization worldwide. Dunning seeks to provide a systematic framework for explaining why hotels internationalize. There are three pillars in this model; ownership (O) factors, location (L) specific advantages and internationalization (I) advantages. Ownership factors include for example the size of the company, international experience and level of technological advancement of the company. Location has been given a great importance in being one of the three pillars. Location-specific advantages make the location attractive to international hotel companies. Internationalization advantages in general are various incentives, which encourage hotel companies to internationalize. (Dunning & Kundu 1995, 103) One study where Dunning's eclectic paradigm is used as a reference study is the doctoral dissertation of Kundu in 1994. He was a student of Dunning.

In many of the hotel internationalization studies the entry mode choice is researched. In the appendix there are a couple of examples of those hotel internationalization entry mode choice studies: Altinay (2007), Quer, Claver and Andreu (2007), Rodriquez (2002) and Contractor and Kundu (1998). The choice between local or global approach to hotel internationalization has been researched by Roper, Brookes and Hampton (1999). Velo and Mittaz (2006) have done a comparative study of the problems that the major hotel chains face when expanding abroad. In addition to that they have found ways in which the future professionals of hotel internationalization could be prepared to face these problems. International service competencies in a hotel have been studied by Frehse (2002).

A sufficient amount of attention has been paid in the literature to critical factors of hotel internationalization (for example Johnson & Vaneti 2005) as well as industrial location choice, but less research has been done on international location choice in the hotel business. The international market selection process is a vital part of a firm's overall strategy. In a short time a lot can be gained or lost due to the market and location

choice. Location is one important determinant of the international market selection, in particular for hotels, but there have not been many studies on what kind of significance the location actually has.

1.3 Objectives of the study

At first it may seem that the location of a firm does not play a significant role but in reality the location can mean everything, in particular for a hotel. Understanding the meaning of location in the international market selection, particularly in the Finnish hotel company SOK Corporation, is the aim of this paper.

It is impossible to determine the optimum location because of uncertainty and lack of information (Laulajainen & Stafford 1995, 15). There may be many possible perfect locations, so finding just one right location is impossible. This thesis could facilitate the international market selection process in different companies, which offer accommodation services, by giving information about one of the determinants – location. Nowadays other determinants are considered more carefully, but location should not be forgotten either. The criteria for choosing a new market and a new location are partially the same, but are these decisions made simultaneously or after one another?

The aim of the study is to find out how important the location is in the international market selection process and to give a case example on how much the location should be considered in the international market selection. This research will try to find out why location is important or unimportant in the international market selection for this particular case company. The results cannot be generalized into all hotel businesses, but maybe some similar hotel businesses could use it as an example of a more internationally-experienced firm. The objective of the study and the research process is described in a nutshell below in Table 1.

The purpose of the study is to describe the role of location in the international market selection process in hotel business. Sub objectives are:

- In what phases of the international market selection is the location taken into account?
- What kind of effects does location have on the international market selection?
- What kinds of features of the location have the most vital meaning?

Table 1 The purpose of the study

| The purpose of the study | Sub objectives | Theory background |
|---|--|---|
| The purpose of the study is to describe the role of location in the international market selection process in hotel business. | In what phases of the international market selection is the location taken into account? | International market selection (IMS) & IMS in hotel business |
| | What kind of effects does location have on the international market selection? | The role of location in the IMS & the role of location for hotels |
| | What kinds of features of the location have the most vital meaning? | IMS in hotel business & the role of location for hotels |

2 INTERNATIONAL MARKET SELECTION

Companies have many motives in internationalizing and in choosing the right market. Some seek resources for production or lower labor costs, others look for more profit from a wider range of markets, and others want to be more efficient (McCarthy & Atthirawong 2003, 810; Worthington & Britton, 2003, 360–361). The stimulus that influences firms' internationalization and international market selection process may for instance be an enquiry from a foreign customer, who is searching for new suppliers (Brewer 2001, 157). International markets can seem attractive and the decision about location becomes more important. The wide range of possible markets makes this decision extremely challenging and interesting to study.

2.1 The meaning of the international market selection

Nowadays becoming international is one of the steps on the way to become successful. Success in one country is no longer considered a meaningful enough achievement for seriously prosperous firms. Companies may choose to concentrate on certain geographical areas or market their products in as many countries as possible (Koch 2001, 67). International markets are defined as a country or group of countries (Hollensen 2004, 220). Experience and knowledge inside the company may reduce the possible market alternatives, because companies tend to go to already familiar countries. This reduces the risk of a total failure.

The characteristics of the decision maker such as language skills, age and education have also a strong impact on the decision (Tyyri 1995, 68). If the number of qualitative factors becomes larger than the number of quantitative factors, the decision may lack consistency and flexibility (Badri 1999, 248). Occasionally the market selection decision does not have to be made with a careful consideration. It can be just a part of natural growth to an area which already demands company's products (Laulajainen & Stafford 1995, 177). Service companies are known to be more flexible in their location choice than other type of companies (Woods 2001, 233). In some ways internationalization of services can be more straightforward than internationalization of manufacturing, because there are not as many factors to be considered (Littlejohn, Roper & Altinay 2007, 175). Services are more mobile. Making a location decision is a

key strategic and logistic decision for all companies. Help can be needed in making this decision and nowadays there even exist consult groups which are specialized in the location selection process.

The international market selection process, as a tool for identifying, analyzing and evaluating the different alternatives and finally choosing the right market, is unquestionably meaningful. The process of market selection can take years of time depending on the firm's situation (Schmenner 1982, 4). The markets are becoming larger and the whole globe is the playground of many firms, but in reality the selection of market is done between a few suitable alternatives (Laulajainen & Stafford 1995, 62). For instance a company might have decided to go first to advanced countries which already are ready for the company's products (Hollensen 2004, 234). Some approaches have been developed for comparison of two alternatives – the comparison between two alternatives makes it easier for the decision maker to express the level of preference (Badri 1999, 242). There are many challenges on the way to conclude the conflict between different alternatives, for instance regional preferences, uncertainty and formation of logistic chains (Jones & Simmons 1990, 164; McCarthy & Atthirawong 2003, 802).

There are various types of constraints in the decision-making: organizational constraints inside the firm and decision maker constraints such as lack of skills and problems with the international market selection techniques (Tyyri 1995, 41). Not all the problems are possible to solve through analytical techniques, and in the formation of relevant factors and indicators there can also be difficulties. These problems should be solved in the best possible way to ensure successful location choice.

There can be various suitable market choices based on the combination of market attractiveness and entry barriers. Some are core markets with low entry barriers and high market attractiveness and others are hope markets with high market attractiveness, but also high entry barriers. There are also possibility markets, which have low market attractiveness as well as low entry barriers. When the entry barriers are high and market attractiveness low, then it is better to avoid these markets. (Gerybadze, lectures 9.5.2007)

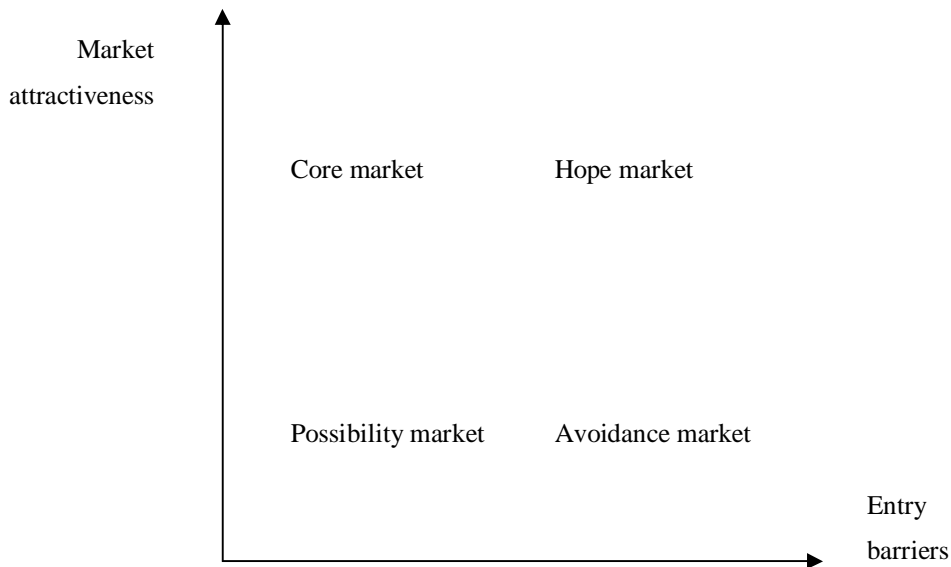


Figure 1 The market attraction and the entry barriers in the market selection (Meissner 1987, 142)

Choosing correctly between the dimensions of market attractiveness and entry barriers and (Figure 1) finding a suitable market is vital for various reasons. It is a crucial determinant of success, in particular in the earlier stages of the internationalization process. The market decision also strongly affects the needed foreign marketing programs, as well as the nature of geographic location of selected markets that have an impact on the coordination ability of firm's foreign operations (Hollensen 2004, 218). Through successful international market selection it is also highly probable that organizational learning takes place and managers learn to set more realistic objectives (Tyyri 1995, 245).

2.2 The international market selection process

Tyyri (1995, 28) defines international market selection in his doctoral dissertation as an organizational decision-making process in which new foreign markets are included in the firm's portfolio, on the basis of the believed need for a certain market offering. The international market selection process (IMS) is a complex interplay between environmental, firm and decision maker characteristics and IMS-stimuli such as product innovation or an unsolicited order (Tyyri 1995, 15). IMS is a process to extend the

firm's portfolio of foreign markets for a given product or a service (Tyyri 1995, 257). Some scholars see the selection process of location being the same as the selection process of customers. The question is about organizing and analyzing the decision process of market selection.

Different types and sizes of firms have different ways to handle the problem; some do it systematically step by step and others unsystematically. How firms should select their foreign markets is usually a different type of process from the one that actually takes place. Many firms do not follow a systematic sequence of steps or utilize management science techniques, but those firms which do follow a systematic IMS show a better result (Tyyri 1995, 192; Hollensen 2004, 218). The process is not always very dynamic, systematic and disciplined, however, in most of the cases the IMS proceeds from the global scale to a local scale.

Five steps have been identified in the international market selection process (Tyyri 1995, 32); 1) The first and the most important decision is the one on overall business strategies. 2) Then a firm has to investigate the regional and country-specific factors carefully and find out what feasible international expansion opportunities are available. 3) After that it becomes relevant to identify key factors for each location alternative. 4) In each location decision the advantages of some variables and the disadvantages of some variables have to be pondered (Laulajainen & Stafford 1995, 16; Koch 2001, 66–67). Segmentation of the markets can also facilitate the selection process by first developing appropriate segments of countries and screening them in order to narrow down the list of markets (Hollensen 2004, 221). 5) After evaluating the alternatives against established criteria and future predictions it is time to select the market (Jones & Simmons 1990, 333; McCarty & Atthirawong 2003, 811). Resource allocation decision is mostly based on profitability and possibilities for further development, which are measured either objectively or subjectively (Brewer 2001, 163). After the decision is made post-choice evaluation takes place (Tyyri 1995, 131).

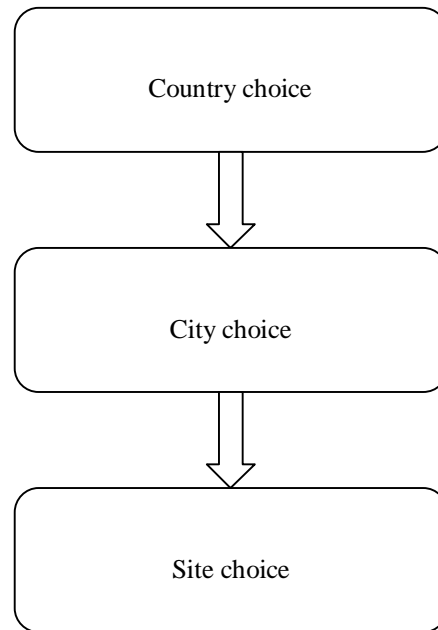


Figure 2 The locational decision (adapted from Brown 1992, 17)

The location choice in reality has three steps. This commences with a choice of the region, continues with a consideration of an area and finally within the region selection of the right site takes place (Brown 1992, 16–17). Similarly the process concerning the choice of the country, city and the part of the city can be researched (Figure 2). The decision about whether to enter certain market or not depends on the relationship between the costs and demand, where to locate within that market depends merely on competitors (Jones & Simmons 1990, 93). Without the competitors location choice would be a lot simpler and it could be based on a result of a single equation.

Businesses are interested in knowing about competitors with similar products on the market to ensure successful gaining of market share, others want to be the first entrants and others like to see first how the competitors do in a certain market (Brewer 2001, 162). Some companies are reactive and others proactive in their approach to actions in the market. It is a totally different kind of business if you are the first to enter the market, as a so called “leading bird”, you have to encounter and resolve all the problems and suspicion. But there are also advantages in being the first. It is said that businesses should become international as soon as possible because the survival rate of “early birds” is significantly higher. The decisions of other firms may affect the actual location choice; one may choose to go where the others are or explicitly avoid them. (Laulajainen & Stafford 1995, 392) Following competitors is not always the best way to

do internationalization. Every company has to make the decision itself, and question why it wants to go to a specific market.

2.3 Determinants of the international market selection

There are hundreds of factors to consider in the international market selection process but only few are really relevant (Laulajainen & Stafford 1995, 16). Some factors affect the costs and others the revenues, some factors are initiated by the environment and other factors arise inside the firm. The distance to the market, the cost/productivity – ratio and good traffic connections seem all ideal important factors (Ali-Yrkkö, Lindström, Pajarinen & Ylä-Anttila 2004, 71–72). International firms like to locate their operations in places which in totality offer the best setting for their business.

The market and industry opportunities such as the characteristics of the area, the degree of internationalization, size of the market and international industry structure of the area, influence the decision of location, as well as the distances (Tyyri 1995, 47; Suominen 1999, 24). Distance can be seen as geographical distance, cultural distance or psychic distance (Hollensen 2004, 219). Psychic distance conceptualizes the idea of firms internationalizing to countries where information flows better, because cultures in those countries are more easily understood by the managers (Brewer 2001, 158).

Easier countries are entered first and more difficult later. Any kind of long distances add costs and worry in addition to lowering the service level. However, it has been noted that the location of headquarters does not have an impact on the location choice of other parts of the value chain (Defever 2006, 660). Similarly the research shows that nowadays the choice of a foreign market is influenced mostly by the potential of the market and the competitive situation in it, rather than by psychic, geographical or cultural distance (Tyyri 1995, 165).

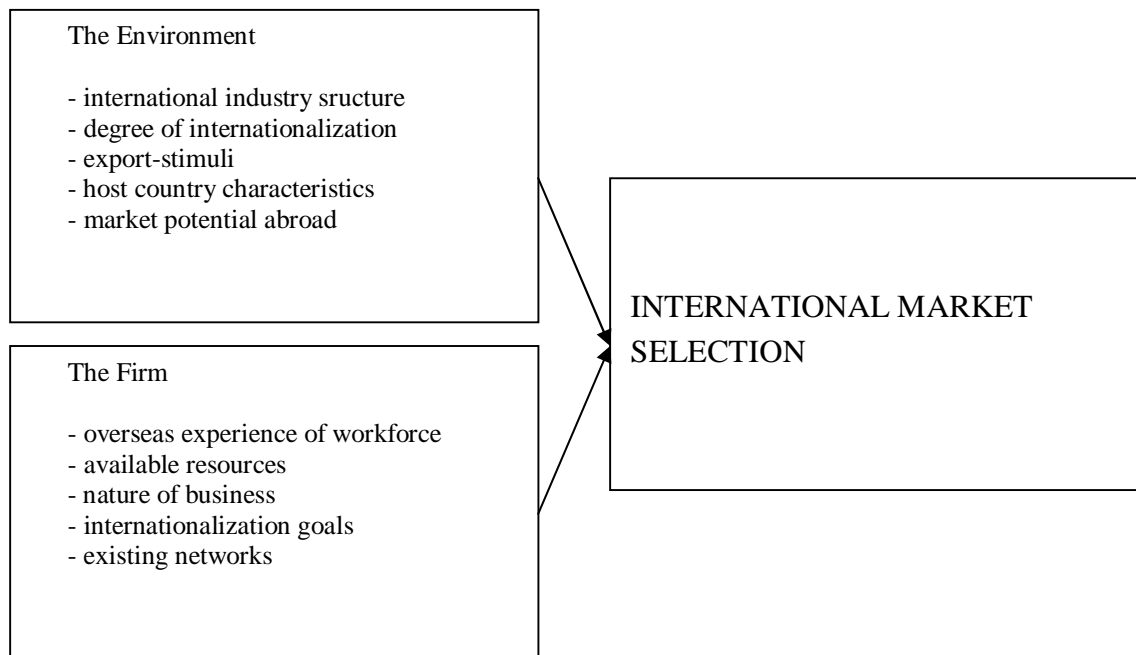


Figure 3 Potential determinants of the firm's choice of foreign markets (adapted from Tyyri 1995, 48)

The most important environmental determinants are international industry structure, degree of internationalization of the market, export-stimuli and host country characteristics such as market potential, competition, distance and market similarity (Figure 3). Several firm-characteristics also have an impact on the process such as: degree of internationalization and overseas experience of the firm, workforce and decision makers, size of the firm, available resources, nature of the business, internationalization goals and already existing networks and contacts (Tyyri 1995, 47).

There exist five determinants that are the most crucial: 1) costs, 2) infrastructure, 3) labor characteristics, 4) government and political, and 5) economic factors (Jones & Simmons 1990, 161; McCarthy & Atthirawong 2003, 811). Normally a significantly larger amount of factors is taken into account. In Table 2 there is a list of ten major criteria and sub-factors affecting international location decision. The importance of these factors depends on the company, its field of business and its customers. The tangible and intangible factors of a problem are unique for each location decision (Badri 1999, 238). Time and development change the priorities. Previously the access to raw materials also had an important role, but nowadays when the focus is more on services

rather than manufacturing, the quality of life is obtaining more importance in the international market selection process.

Table 2 Major criteria and their sub-factors affecting the international location decision (adapted from McCarthy and Atthirawong 2003, 797)

| | |
|---|---|
| Costs | Fixed costs, transportation costs, energy costs, manufacturing costs, land cost and wage rates |
| Infrastructure | Technology, quality and reliability of transportation (airports, railroads, roads and sea ports) and telecommunication systems |
| Labor characteristics | Quality and availability of labor force, labor unions and motivation of workers |
| Government and political factors | Stability, government structure, attitude of government to inward investment and consistency of government policy |
| Economic environment | Tax structure, tariffs, inflation, business climate, income per capita and interest rates |
| Legal environment | Compensation laws, insurance laws, environmental regulations, requirements for setting up a local corporation and regulations concerning joint ventures and mergers |
| Social and cultural factors | Different norms and customs, culture, religion and language |
| Quality of life | Quality of environment, attitudes, crime rate, standard of living, education and health care |
| Proximity | Proximity to suppliers, customers, parents company's facilities and location of competitors |
| Location | Availability of space for future expansion, physical conditions (weather, parking, appearance, accessibility etc.) and proximity to raw materials |

Costs: Costs are a major determinant in most international location decisions (McCarty & Atthirawong 2003, 795). Different types of costs are considered in the internationalization process. The system, adaptation and integration costs related to a certain market selection should be calculated carefully (McCarty & Atthirawong 2003, 812). For example the labor costs and other costs required to build a plant are major influencers of the location decision.

Infrastructure: Technological advancement is one criterion in IMS (Hollensen 2004, 223). In infrastructure the question used to be whether the infrastructure follows the businesses or whether the businesses go where the infrastructure is. In the 1990s, the distribution network has become so widespread and complex that now it is the businesses that follow the infrastructure. It is easier to form business in the periphery and the central transportation places. Main harbors and busy airports and their environments have also become important international trade clusters. Existence and quality of modes of transportation is an essential determinant of a location choice (McCarthy & Atthirawong 2003, 805). Clusters make various types of economies of scale possible through for instance shared infrastructure. (Laulajainen & Stafford 1995, 63) The industrial structure of a country should be compatible with the wishes of the decision makers, manufacturing, retailing and the level of competition which can be surprisingly different in every country.

Labor characteristics: The meaning of labor as a locational factor has four dimensions, availability, direct costs, productivity and skills (Laulajainen & Stafford 1995, 21). Skilled or extremely cheap labor is already a good enough reason for a market selection. The quality of labor, for example its productivity, can vary greatly from country to country and this should be noted.

Governments and political factors: Government and political factors can also encourage or discourage investments in specific areas (Laulajainen & Stafford 1995, 41). As well public interference, such as taxes and subsidies, or the political situation of a country affects the decision process. The political and economic arrangements within a country can have a significant impact on its operations, to the extent of determining whether a company is willing or able to extend its business operations there (Worthington & Britton 2003, 42). Trade barriers and monetary policies, as expressed by rates of exchange, influence the international business and the market selection process (Laulajainen & Stafford 1995, 38). Stable cooperative government is vital. Going to a country where the political situation is uncertain is a major risk. High risk can also mean high gain (Tahir 2000, 23). Some managers ignore the political environment and risks, because they want to be opportunistic and go wherever their products are needed, but these cases are rare (Brewer 2001, 161). Internationally the most important determinants are probably political stability, strong business environment and treatment of foreigners (Laulajainen & Stafford 1995, 49).

Economic environment: Political and economic factors are particularly decisive when expanding into undeveloped markets. The market selection process can be different when taking into account both developed and undeveloped countries. The economic risks also grow when investing in an undeveloped country. Sub-factors of economic determinants vary in importance. Tax structure and tax incentives are the most important factors which are followed by custom duties and tariffs. Financial incentives and the strength of the currency have also a significant meaning. Understandably business climate, interest rates, growth of GDP/GNP, inflation and country's debt also influence the IMS but these are not the most important factors. (McCarthy & Atthirawong 2003, 807–808)

Legal environment: Naturally the legal and regulatory framework of a country is also an influential determinant; for instance well-established bankruptcy laws and protection of patents are aspects to be considered profoundly. (McCarthy & Atthirawong 2003, 807–808) Nowadays the environmental legislation is also widely debated, whether it has an effect on the location choice or not.

Social and cultural factors: Thorough understanding of the culture and consumer behavior in various cultures is a paramount factor (Hollensen 2004, 224). Different customer characteristics and different norms and customs are applied in every culture (McCarthy & Atthirawong 2003, 810). A set of variables form a culture; if most of the variables are similar to those of home country, adapting to the culture is easier. Language is the mirror of the culture (Hollensen 2004, 222). It affects the way people think and the practical matters of setting up a business, such as negotiations and marketing. Sufficient knowledge of the language provides an insight into the relevant culture and facilitates all the operations (Hollensen 2004, 22). In particular those firms still in the earlier stages of internationalization choose to go to countries which are geographically close, because they are also perceived as psychologically closer and the language of the country is perhaps known better (Tyyri 1995, 14). The sense of uncertainty is smaller in the countries that feel culturally and psychologically closer (Tyyri 1995, 52).

Quality of life: It is essential to take into account different lifestyles, attitudes, tastes and economic development levels in different countries in the market selection process; because they have a strong impact on consumption habits (Hollensen 2004, 225). Social structure and socioeconomic groupings are easily measurable criteria which have a vital meaning. Family has a central meaning in explaining consumption habits: different

structures of a family are represented in different numbers in every country, which should be taken into account when making strategic decisions (Marjanen 1997, 21). Managers know that where there is wealth, there are also volumes of sales and profit (Brewer 2001, 162). For example the level of literacy or cars owned per 1000 of the population, are of importance to the decision maker. A positive attitude towards business and industry reflecting from a good quality of life facilitates the beginning of a new business on an international market (McCarthy & Atthirawong 2003, 809). Quality of life is one of the strongest factors to increase a market's attractiveness.

Proximity: Proximity to markets/customers and competitors has great importance as a determinant for market selection process. Proximity to suppliers is almost as important a factor. Quality and responsiveness of suppliers are the most essential sub-factors of proximity to suppliers. (McCarthy & Atthirawong 2003, 808–809) The plan of many Finnish companies is to first enter the market in Russia, in the Baltic States and eastern Europe (Ali-Yrkkö et al. 2004, 68). That is mainly explained by the importance of proximity.

Location: One important determinant is the location itself. One might consider that a shoe store is a shoe store everywhere, but that is an unusual case. It is true that some places are characterized by a feeling of 'placelessness', but normally the actual location and its dimensions have also a strong impact on the business. The location is also critical in terms of segmenting the world markets. For example, Scandinavian countries can be clustered according to their similarities (Hollensen 2004, 222). Only the geographic location alone can be a major factor; for instance, selling skates in Africa may not be a profitable idea. Market access is one of the most crucial factors of location, which affect the market choice strongly (Laulajainen & Stafford 1995, 17). The characteristics of the home country of the business also impact the international market selection process (Defever 2006, 667). Location has an important role all in all.

The market selection is restricted by the product mix, the minimum level of demand required, the competition pattern and the various distribution requirements (Jones & Simmons 1990, 163). The number of opportunities may exhaust the growth. The decision maker of the location choice must base its decision on the company strategy, the firm's organizational structure and goals so that it all makes sense. Sometimes the strategic decisions about the product mix are made before the decision about the market, but usually the product mix needs some modifications after the market selection has

been done. The various segments, target markets and concentration assist in the creation of location strategy (Jones & Simmons 1990, 382).

Availability of management resources and specific skills is one of the relevant concerns in the international market selection (McCarty & Atthirawong 2003, 811–812). That is to say that the employees of the company, especially in small and medium sized firms, have to have the language skills and culture knowledge needed to internationalize into that particular country. This restraint becomes in many cases the most important restraint in the international process of small and medium sized enterprises (Nummela 2004, 133).

The quality of people making the location decision, the information they have access to and their personal opinions about a certain market also affect among the historic relationships between the countries (MacCarty & Atthirawong 2003, 812). Some countries such as Finland and Germany have a strong history of being business partners, which facilitates the cooperation between these two markets. Chance can also have a crucial impact on the decision in addition to various commercial factors (Brewer 2001, 157).

3 THE ROLE OF LOCATION IN THE INTERNATIONAL MARKET SELECTION PROCESS

The international market selection process is complex and there are numerous factors affecting the decision: one of them is the location in the chosen country. If a firm cannot obtain a decent location in the country where it is prepared to go – that changes the plans of a firm. The location in the market has at least as an important meaning as the market choice itself.

International location decision is more complex due to volatility of international environments (Badri 1999, 248). A significant amount of research and information is needed in the international location choice particularly if the knowledge of the market area is not wide. Companies have a set of criteria to be met with the location choice: some are obligatory criteria that have to be met, and others are just desires (Schmenner 1982, 18). The maturity level of the selection process, however, depends greatly on the age and experience of the company (Suominen 1999, 10).

3.1 The role of location

After the product and the marketing mix for an international market are designed, it is time to focus on location – people, place and physical distribution (Jones & Simmons 1990, 5). In today's dynamic world many researches stress the importance of locational factors (Badri 1999, 238). Companies need to be superior and to have a location advantage in order to be successful in the difficult international competition. The more specific the location need is, the more complicated is the location choice process. The optimum location has a paramount meaning for a company. It may offer competitive advantage and has a strong impact on the success of a company (McCarthy & Atthirawong 2003, 794). Location is a vital asset of a firm. Jones and Simmons (1990, 5) state:

“Retailers have only two assets – their inventories and their locations.”

The meaning of location has been highlighted by many writers. Location, location, location are said to be the three most important aspects of a firm (Flint 2006, 26). The

companies of course should seek the markets where their customers are, but other factors also characterize the chosen location. Locations have two sides, relative location (=situation) and site. Relative location means the location relative to other important factors such as nearness to the market or to corporate headquarters, and site means the specific measures of a piece of land such as its size (Laulajainen & Stafford 1995, 16). Relative site includes the associations of people about the specific location. In the international market selection process the relative location has a more vital meaning than the site, but within a wanted situation there can be many acceptable sites from which to choose. Then also the site factors have to be considered.

Sufficient size of the site, parcel's geotechnical quality, access to it, visibility of the site to customers and its price are all important characteristics of a parcel (Laulajainen & Stafford 1995, 36–37). There are also some minor decisive factors impacting the decision, such as the amount of pedestrians or requirements for building in the area (Suominen 1999, 36). Location choice is a long-term decision and it cannot be easily changed, therefore all the decisive factors should be carefully investigated.

Ensuring wide enough coverage of the markets is essential. In particular when a firm has to make a location decision for many of its direct investments simultaneously, the shared effect of the location choices becomes meaningful. It is vital not to underestimate the importance of achieving coherence between the overall marketing strategy of the company and the location of individual branches (Clarke, Bennison & Pal 1997, 62). The different parts such as production plant, headquarters, logistics sales office and research and development department of a multinational's value chain may be beneficial to locate apart from each other (Defever 2006, 661). However, the complex system of supply chain and all the possible changes in it are difficult to calculate (Laulajainen & Stafford 1995, 215).

Location choices are not only based on today's situation but also on expected changes. The location decision has to be done taking into account all short and long term plans of the firm. The situations can change rapidly and that is what makes it so difficult to calculate all the different options. Flexibility should be added to every decision, because flexible firms, which are ready to adjust to different types of growth scenarios, are most likely to succeed. The only thing that is certain is continuous and rapid change. Even though the chosen location might turn into a functionless choice when changes take place, companies are often unwilling to relocate, because so much effort and resources are put into a location. (Laulajainen & Stafford 1995, 109)

The international market selection can be done in a systematic or unsystematic way as mentioned above (Andersen & Buvik 2002, 347). Just as well the decision about location choice can be done only on the basis of intuition rather than careful consideration. Lack of information and uncertainty are obstacles in the way to a highly profitable location choice. In fact, companies may decide intentionally to make uncertain decisions. Sometimes being fast and first on the market is a greater advantage than being absolutely certain of the market potential. Exactly that makes the strategic location decision different from many other strategic decisions.

3.2 Location theories

The phenomenon of location choice can be distinguished between practice and various types of theories. Theories have been developed during the years from behavioral theories into more structural theories (Suominen 1999, 13–14). Even though the location models are abstract, they facilitate the understanding of the reality. Location choice is greatly influenced by humanistic features and therefore it has faced some important changes over time. The factors do not have the same meaning as they used to. Different fields of business have developed more specialized ways to solve the location choice more efficiently. The interactions between networks and various parts of the supply chain have increased, which has changed the relation in tactical and strategic decisions, also in the location choice. (Clarke & al. 1997, 65)

Above all it stands out from the location theories that similar kinds of businesses tend to cluster together. In particular in larger cities such as London or New York it is easy to spot areas for example for jewelers, design stores, restaurants and theaters. The clustering of similar and closely related outlets has been observed in suburban shopping centers and in African markets (Brown 1992, 37). This agglomeration is useful for the businesses; clusters tempt customers and decrease uncertainty, the costs of doing business diminish and the firms gain advantage from each other. An authentic cluster can be the only reason for the market choice.

Perhaps the most familiar theories of location choice are central place theory by Christaller from 1933, spatial interaction theory by Reilly from 1929, bid rent theory by Haig from 1927 and principle of minimum differentiation by Hotelling from 1929 (Brown 1993, 186). These four theories are also the most useful theories keeping in mind the international location choice process. They all explain the locations of

businesses and facilitate the optimum location choice in their own way. Prioritization of the alternative locations in any case has to be done with the help of some methods. Some of the theories have grown old-fashioned and all of these theories have also been attacked by critics, who criticize the unrealistic assumptions and irrelevance of these theories in the rapidly changing business world (Clarke & al. 1997, 59). However, all these theories are still useful, can be easily empirically proven and also help the understanding of the location choice process.

The central place theory: The central place theory is based on the following assumptions: 1) Consumers are evenly distributed in an area. 2) Each good sold has its own optimal market-area size. 3) A firm selling a good co-exists with a firm that sells goods with a smaller optimal market area. 4) It is possible for a new firm to enter and serve any unsupplied area. Traveling has to be equally easy in all directions and consumers should make a different trip for every different item purchased and they should buy it from the closest provider. Central place theory predicts that demand for any good declines when the cost of transport increases. Beyond a certain point demand drops to zero and this area is named a “range” of a good. A range of a good is so called maximum marketing distance, in other words that is how far the consumers are prepared to travel to buy that certain product from a store. For expensive and infrequently purchased goods consumers are prepared to travel greater distances. The minimum marketing distance, threshold, then is a certain minimum level of demand that will support a given type of business. Threshold of infrequently purchased products is smaller than that of everyday purchases. (Brown 1989, 452–455; Jones & Simmons 1990, 154; Marjanen 1993, 10; Laulajainen & Stafford 1995, 78)

At least a large enough threshold has to be ensured in the planned location before making any decisions. This simply means checking the possible demand potential as well as customer and competition structure on the area. Different products need different sized threshold in order to survive. Also the characteristics of the market area affect the size of the threshold. For example, small rural stores succeed relatively well on a large threshold area, because all higher-level centers are far away and customers are prepared to travel more when they go shopping. (Marjanen 2000, 5)

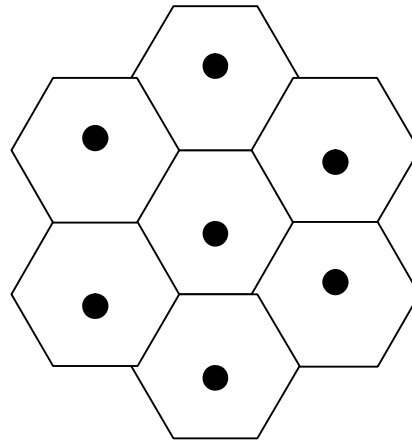


Figure 4 A-level centers' market areas (Marjanen, lectures 4.11.2004)

Central place theory can well explain the location of different centers. In Figure 4 the hexagons represent the complete coverage of the market area by different A-level centers. In the model in all the corners of the hexagons there are B-level centers which are not that large. The market areas of B-level centers are $1/3$ from the market areas of A-level centers. The hierarchy of the centers follows the rule of 3s and goes on as long as possible centers can be found. For instance operas are usually in higher order centers (A-level centers) whereas theaters are found in smaller centers (B-level centers) and movie theaters in even smaller centers (C-level centers). (Marjanen, lectures 4.11.2004)

Central place settlement pattern depends on the local economic base, distribution in space, the infrastructure and the history of the area (Jones & Simmons 1990, 159). Central place theory mainly concentrates on the consumer behavior side. The location of businesses is based on consumer behavior. This might help when deciding the location on the international markets. However, the central place theory does not take into consideration the benefits gained from agglomeration, in this theory businesses are seen as single, independent and profit optimizing (Brown 1993, 189). In a simple world free from all the other factors besides consumers fulfilling their needs at the closest provider, this theory could be perfect. If all the businesses were as similar as assumed in the theory, it would be easy to choose a location. The situation would be the same in different countries, so any further information would not be needed.

The spatial interaction theory: The problem of the central place theory is that the assumptions in it do not usually work that well in real life. The central place theory and

the spatial interaction theory are very similar, but they differ by basic assumptions. Whereas traditional central place theory assumes that consumers patronize the nearest good provider, spatial interaction theory is based on the supposition that the consumers trade off the attractiveness of the alternative shopping areas against the negative effects of the distance. That is to say, consumers can bypass the nearest product or service provider and choose a more distant but more attractive shopping area. The spatial image (=cognitive map) of a person about the reality influences the decision on the shopping area (Marjanen 2000, 6). Overlapping of the market areas and the lack of objectivity in the real world are the most important reasons to criticize the otherwise well functioning spatial theory. (Brown 1993, 191–193)

The bid rent theory: The central place theory has been developed at the regional scale and has then been applied to urban areas whereas the bid rent theory has been formed in the urban area and subsequently has been adapted to the intra-center scale. The bid rent theory is built on the assumption that the city center is the most accessible location and therefore it offers a huge market potential. Competition takes place and the most expensive and best piece of land in the city center goes to the highest bidder. Every type of store values accessibility differently and is therefore willing and able to pay a different amount for a site. (Jones & Simmons 1990, 94)

The highest bidder gains the most benefits from that piece of land, and that is why it is reasonable for it to buy that particular piece of land at a high price. That firm is able to convert the location into sales. Usually the highest bidders are businesses that need office space in the center. That is how the urban center or so called central business district is formed. The price of land falls drastically when the distance to the city center grows. Businesses that use larger pieces of land are usually not able to afford to buy a site in the middle of a city. According to bid rent theory the city center is formed as follows: the commercial sphere is in the center, the industrial sphere is formed around it and the furthest away from the center is the residential sphere. (Brown 1992, 51–54) The bid rent theory facilitates the decision on location in the international market selection process, by systematizing the set of various locations supplied in a city.

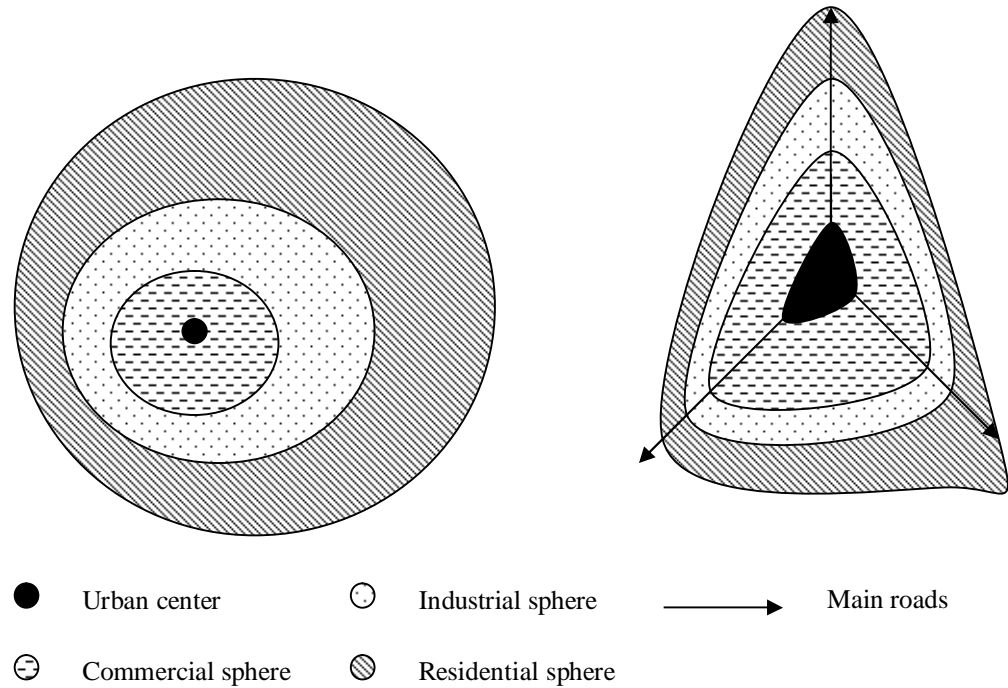


Figure 5 Urban land use as a city grows (Marjanen, lectures 4.11.2004)

The bid rent theory, however, does not take into account the variations in accessibility due to the street network and the network of public transportation or the influence of various regulations about building etc. or barriers such as rivers, railways and public open space. (Brown 1993, 196) Mostly when the city grows these unique issues on accessibility become more significant and the city can for example grow along the main streets (Figure 5).

Another important factor in research before the decision on the location is made, along with site prices, is the location of competitors – this might also be the right place for your business. The bid rent theory assumes that all the businesses would like to be located in the city center where the market potential is the highest. However, the specific market potential can have a more important meaning for a firm. The meaning of ‘special’ accessibility explains the clustering of similar types of businesses within cities.

The principle of minimum differentiation: In the principle of minimum differentiation there are two profit maximizing firms, selling identical products from fixed locations, situated in a linear market, where demand is inelastic and identical; and utility maximizing consumers are evenly distributed and patronize the firms only on the basis of the delivery prices. In a situation like this businesses tend to seek closer

proximity in order to capture others' markets. 'Leapfrogging' is the phenomenon where a firm jumps over another firm in order to gain more market share.

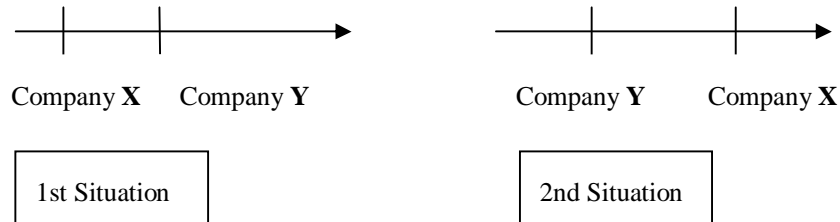


Figure 6 Leapfrogging

The famous theory of Hotelling showed that in a situation, showed in Figure 6 as the second situation, an equilibrium exists when neither firm can increase profits by altering prices, so both firms are located at the midpoint of the market. This theory explains the clustering in planned and unplanned shopping centers but also the standardization of most of the products today. (Brown 1992, 67–69; Marjanen 1997, 10)

Nowadays the companies may seek after more specialized areas where their field of business is highly visible. This is to serve better the customers which are constantly looking after more special shopping experiences. The increasing number of shopping centers is also trying to serve this same purpose. When the clusters become more specialized, the market selection process has to become more precise, and even the location choice inside one shopping center can get a significant meaning (Jones & Simmons 1990, 318). This has for instance led to the creation of more specialized retail and service chains (Jones & Simmons 1990, 242).

4 SPECIAL CHARACTERISTICS OF HOTELS IN INTERNATIONALIZATION PROCESS

Even though internationalization of services can be complex, internationality has become a natural part of doing hotel business. At first the internationalization of hotels occurred in a strong linkage with airline companies (Dunning & McQueen 1982, 74). Nowadays it is becoming more varied. It can be said that the world's best hotel chains can enter easily any market at any time – the competition in hotel business is getting very global (Go & Pine 1995, 14).

4.1 Classifications for hotels

A hotel is one form of a business which offers accommodation services (Jones & Lockwood 1989, 19; Hallamaa & Viljanen 1997, 54). The hotel business has special features since it is a service provider. Customers cannot evaluate the product before the purchase, so other indicatives of good service play a significant role. For instance the hotel premises, its location and equipment are vital for this evaluation (Jones & Lockwood 1989, 34).

Nowadays the different classifications of hotels are not that prominent, but still important to know. There are many ways of classification, one of which has four major groups for a hotel: the commercial hotel, the resort hotel, the residential apartment-hotel and the motel – motor hotel. The commercial hotel appeals the most to the business traveler, but commercial hotels try more to attract the other types of customers as well. The resort hotel is targeted mostly to vacationers, whereas the residential hotel is created mainly for individuals that primarily live in a hotel, an example is the Ritz. Motels are to the great part only found in the United States. They are also nowadays difficult to distinguish from commercial and resort hotels. (Lattin 1978, 49) Another classification is to divide hotels into large population center hotels, small hotels and vacation hotels. A large population center hotel is located in a population center and it has at least 91 rooms. A small hotel is also usually located in a population center, but has only 10–90 rooms. A vacation hotel is normally located outside of a population center and offers recreational surroundings and services such as a spa. (Hallamaa & Viljanen 1997, 58–59)

On the one hand hotels are segmenting thoroughly, and on the other hand, they attract different types of customers to the same hotels. Currently hotel chains, segmenting and clear business ideas are increasing trends in the hotel business (Hallamaa & Viljanen 1997, 60). All this results in a rapid internationalization of the hotel business. The emergence of new business centers has caused a hotel construction boom, government incentives encourage hotel corporations to enter certain markets and the emerging multinational infrastructure requires new hotels (Go & Pine 1995, 3). The growth possibilities pull hotel businesses abroad. Governments are actively promoting travel and tourism in their countries, because the travelers use about three times as much money in the community as in the hotel (Lattin 1978, 43). It can be said that what is good for the hotel, is good for the community as well.

4.2 International market selection in hotel business

In particular in EU it is easy to expand abroad and it is highly encouraged in the traveling sector (Hallamaa & Viljanen 1997, 27). In general the internationalization of services has been facilitated by international agreements and it is done more eagerly as well. Nowadays the key issues in international hotel-keeping are: rapid international expansion through management contracts, operating under a number of different brand names, being a player in the world market, complex motives behind internationalization and the importance of strategic development processes (Alexander & Lockwood 1996, 470–471). In general, there are not that many differences between hotel companies in issues, such as flexibility, using expatriate managers in most of the cases of internationalization and having a global product (Littlejohn, Roper & Altinay 2007, 175).

Normally the service business internationalization is done by a greenfield operation, where a subsidiary is established or more commonly by an acquisition (Mankinen, Ali-Yrkkö & Ylä-Anttila 2001, 29). The core of hotel business cannot be imported as it is a service entity and therefore it is best utilized when the whole business internationalizes (Frehse 2002, 100). Hotel business is a location bound service, and hence, it cannot enter a market any other way than copying the product entity of the hotel abroad (Frehse 2002, 101). Internationalized hotel chains are a success, because some travelers want to explore the foreign country and its customs and habits during the day, but in the evening

it is comforting to be accommodated in familiar surroundings. A familiar hotel offers a feeling of security and guarantees a high level of decor and service. At first hotel chains started to internationalize in order to be able to follow their customers (Mösslang 1995, 211).

Some hotels decide to expand only inside the home country, domestic growth is enough for them. Others see international expansion only as an ‘appendix’ to the domestic operations. They often choose to enter a market, which is most like the home country. When the hotel chain is host-country orientated it often lets the locals manage the hotels and choose their style. Hotels can also choose the new international market based on different regions, where they want to focus on. These groups often are similar to the home country. Some build standardized hotels on the new markets and just copy the concept; they see the whole world as their market. (Go & Pine, 1995, 4–6)

When hoteliers begin looking for a new market cultural distance, physical proximity, political stability and government attitudes, economic environment, legal restrictions, labor costs and availability, tourist number growth and hotel occupancy rate as well as attractions, costs and location are the most important factors to be considered (Go & Pine 1995, 155). Risks should be minimized and the difficult task of market potential calculated before the market choice. The facts that affect the international market choice are very much the same as for other economic sectors, but location is a particularly critical factor. Location determines the destination and the position of a hotel within the destination (Go & Pine 1995, 10). There needs to be demand for hotel rooms in the area and the location in relation to the location of city, airport and attractions has to be excellent (Gray & Liguori 1994, 33–34). The location has to also match the image of the hotel chain. Hotel corporations should match the available sites and the right kind of products well (Go & Pine 1995, 162). Hotel chains often internationalize by acquiring or merging with an existing hotel, because they want to avoid new probably inferior sites (Price & Blair 1989, 188).

4.3 The role of location for hotels

Gray and Liguori (1994, 33) state:

“Without a doubt, the most important factor in the success or failure of a proposed hotel is the site location.”

It is obvious that in every hotel project the possible site should be carefully examined. In fact the reliance on the location to provide an extensive part of the service results in a lack of flexibility and high competition (Jones & Lockwood 1989, 22). The location is part of the hotel product (Medlik 1989, 9). If the location is not good enough for the customer and the view from the window does not please him, the customer is likely to change the hotel.

A good location of a hotel depends greatly on the location of scenery, climate, transportation services, competitors, availability of needed utilities as well as amenities desired by travelers (Gray & Liguori 1994, 33; Go & Pine 1995, 11; Hallamaa & Viljanen 1997, 97). The organizational capability to adapt products to fit the local infrastructure, availability of key human resources at reasonable wages and having access to the needed product and service suppliers have an effect on the decision as well (Go & Pine 1995, 11). Seven most vital factors in location choice in particular in internationalization are: 1) forecasted growth of tourism between the home country and the host country of the hotel chain, 2) transportation and communication opportunities as well as suitable infrastructure for tourists in the area, 3) state of economic development and its effects on business traveling, 4) the amount and quality of inputs and investments that are available at the moment, 5) government attitudes towards tourism in the host country, 6) stability of political, economical, legal, social and cultural environment in the host country, and 7) psychic distance between the home and host countries (Kundu 1994, 76; Frehse 2002, 97).

Fixed costs are exceptionally high in a hotel and that is why also the different costs related to location should be well calculated before the location decision is made (Jones & Lockwood 1989, 22). Location is always unique and purchased together with its associated access to infrastructure. Land is also fixed and cannot be moved or modified. Dynamic trends affect the location choices: the changes in lifestyles and consumer tastes have to be taken into account (Egan & Nield 2000, 614). The size of the parcel then again is not that significant for hotels. The physical location of the site is more important than the size of it for hotels (Gray & Liguori 1994, 33). Natural incentives of the site, such as nearby beaches and skiing possibilities, are desired as well (Gray & Liguori 1994, 33).

The location of a hotel often determines what kind of a hotel it will be, so hotels are even classified by location. However, these classification are becoming little blurry,

because all the hotels attract more and more all kinds of customers. Hotels located in **small cities** are usually old, a reminder of times, when people took part to social events and needed accommodation. **Large cities** attract people for business and pleasure and therefore they also attract hotels. It can be said that hotel business is strongly related to the movement of people. In the metropolitan area, there are various kinds of hotels, from large to small. **Resort hotels** are made for relaxation and they are located in a convenient place when people like to enjoy the sun, swimming, mountains, golfing or skiing. These hotels offer everything to the customer and there is no need to leave the hotel during the whole stay. **Airports** have their own hotels in them or around the airport areas to serve the customer whose flight is delayed or cancelled. **Motels** then are situated along the highways to serve the customers who want to travel as fast as possible. Every one of these locations needs its hotel and they serve mainly totally different customer groups. (Gray & Liguori 1994, 11–20; Go & Pine 1995, 10)

The specific location inside a city plays as well an important role in what kind of hotel will be build. The bid rent analysis can be used to predict the intraurban locations of hotels (Egan & Nield 2000, 620). The city center is the most desirable and perhaps even the only location for luxury hotels and they can also afford it. **Luxury hotels** therefore are in the centers, **budget hotels** can be often found in the edge of centers, **business hotels** are in the suburbs and more budget and business hotels are found in the edge of cities. One factor limiting the amount of 5-star hotels is in fact that potential locations for them are very few. (Egan & Nield 2000, 612–614)

Hotels can offer exceptionally good customer experience by offering excellent services, by responding to the exact needs of their customers and by having the right location (Jones & Lockwood 1989, 24). Only for luxury hotels the absolute center is the only place to be. It is simply expected to have a good location. Other types of hotels are more likely to be successful outside the center, but then the not so excellent location has to be compensated. An absolute good location can also compensate for other lacks. The meaning of location cannot be emphasized enough.

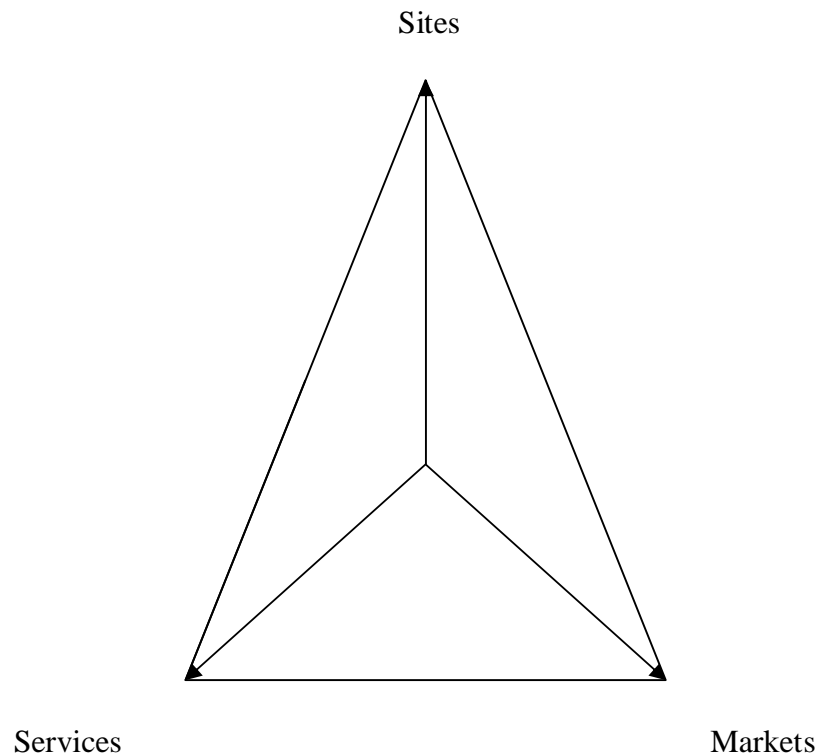


Figure 7 The ‘Bermuda Triangle’ of service businesses (Jones & Lockwood 1989, 24)

Hotel chains fight with a ‘Bermuda Triangle’ where they have to find a solution to reduce at least one of the dimensions of complexity (Figure 7). They can for example divide the organization to divisions which are all responsible for their own segments of market; they can offer superior services or respond well to the market demand or have multiple good locations for their hotels. The location choices should also be done with long-term calculations of the locational features in mind. The location is fixed and the environment around it may change. (Jones & Lockwood 1989, 22–23) Will the hotel still be profitable on that location if for example the population in the area decreases or the attraction power of the town as a beach holiday destination falls? If the location is not that great the situation in the competition can be improved by increasing the other two of the dimensions: services and markets.

Generally the competition between hotels is most intensive in well-defined geographic areas, not between the cities (Baum & Haveman 1997, 313–314). The supply and demand should be in balance and that is ensured by good location choices. However, the location is not everything. Also the price-range and the size of the hotel play a role in the market positioning. Only hotels inside the same price-range compete within compact geographic areas (Baum & Haveman 1997, 313). The geographic

distance needs to be considerable enough to competitors, but if the price-range is close to that of competitor, it is shown that the hotels like to locate closer to the competitors, whereas small difference in the size spur locating further away from competitors. In hotel business the location of competitors has a more vital meaning than in many other businesses. New entrants like to locate close to competitors to avoid risks and thus geographic hotel clusters are formed. The entrance of competitors to especially close distance is seen as a significant threat (Baum & Haveman 1997, 331–332).

5 RESEARCH DESIGN

Research methods are divided into qualitative and quantitative research methods. In this thesis a qualitative research will be done, in particular a case study in order to get a comprehensive example of a widely internationalized firm. Qualitative research often simplifies issues and shows unique, exceptional cases and gives us something to speculate (Alasuutari 1993, 25). Case study research should be seen rather as a research approach than a method (Morgan & Smircich 1980, 491). This research approach is chosen to go deep and gain answers to all the right questions from the right people. A good reason to do a case study is its ability to present complex issues in a vivid and down to earth format (Eriksson & Kovalainen 2008, 197).

5.1 Strategy of the research

Strategy of this research is to understand and explain the international market selection more in depth in a particular company in hotel business. This research is done as a qualitative research. Qualitative research usually studies people and their world based on different meanings (Varto 1992, 23–24). None of the phenomena are independent from people, because the meanings are only established through people (Varto 1992, 24). Qualitative research is enthralling because the researcher itself is also part of the study in understanding and interpreting the meanings. In qualitative research quantitative results are not looked after, rather the unique cases are generalized into some other similar cases (Varto 1992, 101). Qualitative research method is the best method for this research because it gives a possibility for a deeper understanding of the phenomenon. The familiarization with the related theories facilitated the choice of an appropriate and relevant research method.

A case study is chosen to be the research approach in this thesis. Case study will provide insight into this important strategic decision, which is taking place in real-life (Ghaurri 2004, 109). Case study usually is a thorough and well-defined description of the case (Laine, Bamberg & Jokinen 2007, 9). In doing a case study it is important to keep in mind what we learn from this specific case. Case studies are preferred when ‘how’ or ‘why’ questions are posed and the investigator has little control over events (Yin 1985, 13). In this interview exactly ‘how’ and ‘why’ questions will be asked and

that is one reason why it feels natural to do a case study (see Appendix 3). All in all case studies provide a holistic and meaningful solution in researching real-life events such as organizational and managerial processes, such as this international market selection process (Yin 1985, 14).

In a case study the goal is not to enumerate frequencies or statistic generalization, the goal is to expand and generalize theories (Yin 1985, 21). In this research the strategy is to understand and explain the international market selection and the role of location in this process more in depth in the case company. The information will be gathered by doing two interviews inside one case company. This case can also be called an intensive case study. An intensive case study aims at understanding how a specific case works (Eriksson & Kovalainen 2008, 204).

The interviews are done with people who deal with these decisions about market choice and location choice in real life. How are these decisions made? What kind of effect does the location have on the international market selection? Are these decisions about market choice and location choice done simultaneously or after one another?

By comparing the different selection processes, groups will be built based on for example decisions/ countries where the location has had a crucial meaning in the success of the company on that market. Also a decision tree will be built about the different selection processes studied in this case. As this research is done in one company, the objectives and reasons to internationalize are standardized and the different market and location choices can be compared.

The selection of international markets is always current in some firms. The concentration in this decision might often nowadays be on totally other determinants than location, such as cultural distance and costs; my research could give something to think about to firms that are choosing a new market at the moment. The assumption is that the location and site choice is something paramount to be considered for all the firms when choosing a new market.

5.2 Selection of the case company and the interviewees

Selection of the case company is an essential part of a case research (Laine, Bamberg & Jokinen 2007, 28). A large, multinational company, which has functions in various countries, is fascinating for this research, because it has done a market selection many

times and has a lot to tell. The main thing is that a company can be researched that is doing business very internationally and to which location has plenty of meaning. That is why SOK Corporation and in particular hotel business are chosen. Its subsidiaries are also currently starting new operations abroad, so this is an important issue for SOK. The S Group comprises the cooperative enterprises and the Finnish Cooperative Wholesale Society, SOK (Suomen Osuuskauppojen Keskuskunta) with its subsidiaries. Also it would not make sense to research the meaning of location in a company where location does not have a significant meaning. A Finnish company is chosen because it was easy to reach. This particular single case is appropriate by itself because it meets all the conditions necessary to confirm, challenge and extend theories about the role of location in the international market selection process (Ghaurri 2004, 114). SOK is one of the first Finnish hotel companies internationalizing, but many can follow its example in the future. A case that gives us information about the possible future is excellent (Laine, Bamberg & Jokinen 2007, 33).

The interviewees are Tapio Satta, the Chief Executive Officer (CEO) of Sokotel Oy (a subsidiary of SOK) and Sari Palokangas, the Senior Vice President of Tourism and Hospitality Chain Management in SOK. They are experts of Finnish hotel internationalization. The interviewees are chosen based on their similar background in the company, their knowledge of the issue and interest towards the research. Satta knows greatly about the internationalization strategies being part of the whole process and Palokangas is interviewed based on the recommendation of Satta. According to Satta they are the two people who know the best the international market and location selections in hotel business in SOK.

Satta was interviewed on the 4th of February in 2008. The interview lasted for an hour. Satta has studied at the Turku School of Economics and is a Bachelor of Economic Sciences. He has worked for seven years in Stockholm, Sweden mainly in financial management. Until the turn of the millennium he has worked in financial management and since then he has worked in more responsible positions. For example until the end of September in 2007 he has been in charge of the Sokos Hotel chain and since the beginning of November in 2007 he has been the vice president of the whole Sokotel Oy.

Palokangas was interviewed on the 27th of March in 2008. The interview lasted for 50 minutes. Palokangas is the Senior Vice President of Tourism and Hospitality Chain Management in S Group. The Tourism and Hospitality Chain Management consists of

group of experts, who are responsible for the brands of restaurant and accommodation services in S Group. Already existing as well as new brands are directed and developed. Palokangas has dealt with these brands for approximately 20 years.

5.3 Data collection

The long interview is considered as one of the most powerful methods in the qualitative armory (McCracken 1988, 9). In an interview two-sided interaction is possible and researcher can observe the interviewee while questioning (Hirsjärvi & Hurme 1988, 23). In this case the advantages of doing an in-person interview are much greater than the cost-time-effectiveness of doing a telephone interview. Therefore an in-person interview is chosen. The interviewee will be able to give more accurate, thoughtful and wider answers, and the interviewer is able to interact with him symmetrically (Shuy 2002, 541–544). The disadvantage can be that an inexperienced interviewer can have a minor effect on the answers. A long interview is the most suitable data collection tool for this research, because deep, well-thought answers are needed from the right person for adequate research results. Observation of such a decision-making process would also take tremendously time and would not be necessarily possible. Therefore a long interview is done with semi-structured and open questions with the help of interview themes.

Interviews can be based on structured, semi-structured, theme or open questions. Hirsjärvi and Hurme (1988, 35) recommend using semi-structured questions when such issues are handled, which can be difficult to remember or be exactly aware of. That is one reason why semi-structured questions were chosen for this research. Semi-structured questions work more as recommendations and also the interviewee can tell more freely his own memories. This kind of method works well, when there are not many interviewees. Semi-structured interviews require a lot from the researcher, but also give in return deep and multifaceted information (Hirsjärvi & Hurme 1988, 38). Semi-structured research questions are also preferred in elite interviews in order to acquire the best possible answers (Odendahl & Shaw 2002, 310).

Elite interviews are interaction situations where valuable information can be gathered from the elite. Elites are defined as a group in society considered being superior because of the power, talent, privileges etc. of its members. (Odendahl & Shaw 2002, 301). Several elite groups such as community, political and business elite can be defined.

(Odendahl & Shawn 2002, 300) The interviewees as top managers can be considered to be part of the elite. Elites on the one hand are known for being accustomed to questioning, but on the other hand like to be in charge and lead the discussion (Odendahl & Shaw 2002, 311). It can be challenging to interview a person who is considered to be part of the elite, but also giving. During the interviews in this research, however, there seemed to be a pleasant balance between the interviewer and the interviewees.

Interview is a complex interactions situation. But this method can take us into the mental world of the individual and lets us understand the logic of how he sees his world (McCracken 1988, 21). An interview has to be well-planned and many issues need to be taken into account. In this research a good planning is ensured by an operationalization table (Appendix 2), where the planning process can be seen. Both the planning and the interview stages are done carefully in this research. Previous experience of the interviewer of a similar interview situation helps also the formulation of questions and putting them in a rational order. Wilkinson and Young (2004, 214) recommend questioning the exact right people about the topic; they know the topic and the questioning will be at the right level. This recommendation was applied in this research and it facilitated enormously successful interview making.

5.4 Data analysis

Qualitative research material can be analyzed in various ways (Hirsjärvi & Hurme 1988, 116). Analyzing qualitative data is perhaps the most difficult task when doing a case study (Ghaurri 2004, 117). Analyzing the data can be a problem, because just telling the story of the firm is not enough. In a case study it is beneficial to learn dialect between the researcher and the case. Possibilities for analyzing interview results are coding, grouping, summarizing or providing a coherent framework for the researched issue. In this research the researcher has transcribed the interview material and then grouped the material according to the sub objectives. After the routine work it was time to really ponder the results and find the main points. The material should be let to speak for itself, so that the whats and hows of it can be related. (Holstein & Gubrium 1997, 126–127)

The decision-making process such as the market choice can be researched by careful examination of the processes. It has been said that a qualitative study should not attempt to reach a final conclusion or a dramatic climax (Wolcott 1991, 55). Therefore the aim is to only describe the international market selection at SOK's hotel business and the meaning of location for the company in this process. Simultaneously the possibilities of generalization into other cases are pondered. The researcher is trying to be as careful as possible not to go beyond what she has studied in the research. Routine work as well as hard thinking are needed from the researcher to analyze the interview material properly.

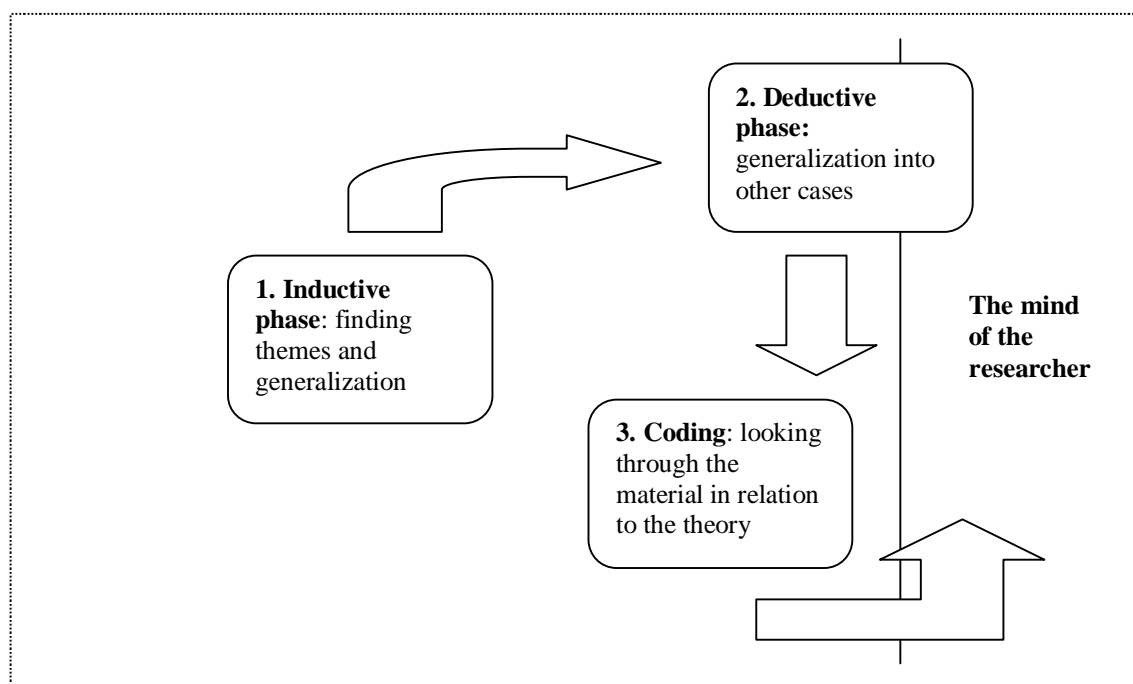


Figure 8 Analyzing interviews (adapted from Hirsjärvi & Hurme 1988, 122)

In the first phase of analysis of the interview findings the material is read through a couple of times and different themes related to the sub problems are sought. Sorting out the material is an essential task and it is done with a focus in mind. It takes a long time, but it does not require own thoughts from the researcher. The researcher tries to find the main points, what is important to know (Wolcott 1991, 33). The most difficult part is to find the essential information and ignore the rest of it. In the second phase of the analysis the researcher has to involve her own mind (Figure 8). Search for the answers to the research questions is focused and the possibilities of generalization of this case to other cases are presented. The material has to be looked at through the researcher's lenses and put into an order. The third phase of interview analysis is coding, which means looking at the interview material keeping in mind the theory. This part also involves strongly the mind of the researcher. (Hirsjärvi & Hurme 1988, 122–123)

5.5 Trustworthiness

Trustworthiness is about persuading the readers that the findings and research itself is worth paying attention to (Lincoln & Guba 1985, 290). Lincoln and Guba (1985, 301–319) have created means which facilitate the clarification of trustworthiness in particular in a qualitative research: they are credibility, transferability, dependability, and confirmability.

Credibility means that the researcher should show that the results are equivalent to the reality (Tynjälä 1991, 390). What increased the credibility of the research is that the interviews were held in Finnish, which is the mother tongue for both the interviewer and the interviewees. That facilitated mutual understanding. Possibility to record the interviews facilitates the checking of what was really said later. A positive effect on the credibility of the research had the fact that the interviewees were definitely the right people to be asked; they knew tremendously about the issue and they both had also a long experience in the company. Neither one of them seemed to be interested in affecting the results, on the contrary. The interviewees told the truth about the issue in a sheer open way. Preparedness for the interview was high on both sides. Researcher also made a table of operationalization, which facilitated the growth of credibility in this research.

The facts which had a negative effect on credibility were the timing of the first interview and the little bit subjective view of the both interviewees. The first interview was held on a Monday morning and it did not seem to be the best timing. The first interviewee focused greatly on the profitability issues, which probably resulted from the background of the interviewee. The second interviewee then was more concentrated on the brand issues, which was obvious considering her background. The interviewer also acknowledged the fact that the both interviewees did not seem to want to tell quite everything. The reason for that might be that S Group is just such a large operator and one person cannot really know all. One issue in credibility is that the researcher had to translate the results in English and therefore there might be some unclearness in the terminology. However, a strong assumption is that the impressions of the interviewees and the results are equal. Enough clarifications were asked to ensure that.

Transferability describes how well the results could be transferred to another context (Tynjälä 1991, 390). The case company is well selected as explained in Chapter 5.2, which has a positive effect on the transferability. SOK is a typical hotel business

which is internationalizing. The results can be transferred to another large hotel business operating at the same geographic area, but the generalization to other kind of businesses, or even hotel businesses not operating under a Cooperative Wholesale Society, would be hard to justify. Hotel business is unique because the meaning of exact location is vital. In SOK the situation is also special because it is a Cooperative Wholesale Society and the customer-owners have a particular focus. The geographic area gives special limits to the internationalization as well. The eastern European countries are so close to Finland and therefore they are usually entered in a relatively early phase. They also have their unique characteristics, which have an effect on the determinants of the international market selection and also on the location choice. The international market selection process could proceed a little differently for a company coming from another country than Finland.

Dependability consists of different evaluation factors of the research situation (Tynjälä 1991, 391). The interview situations in the research were without distractions in quiet offices with plenty of time. The interviewees felt calm and were not particularly busy. The interviewer lacks of experience and was a little nervous in the situations, which weakens the dependability of the interview. The researcher could have asked the questions more clearly and could have pried just a little bit more. All in all, the situations were open and casual. Both the first interviewee and interviewer have studied in the same university and the second interviewee asked immediately to use informal speech with her, which made the situations more relaxed. The atmosphere was pleasant and the interviewees were clearly interested in helping students.

Confirmability means a certain kind of objectivity and distance of the researcher on the situation (Tynjälä 1991, 391–392). Quantitative research is often challenging because of the high dependability on human contacts. Human distractions cannot be avoided. In this research the amount of human distractions is little, because the interview situation was fairly formal and the researcher does not have any kind of personal contact on the case company. The point of view of the researcher is not subjective. Description of the results strives for clearness so that anyone could come up with the same ideas given the same research material. Therefore the different phases of research are described well earlier in this chapter. However, the human distraction might have happened when the direct quotations, which are utilized to enliven the text, were translated from Finnish to English by the researcher so that the research can be understood in one language.

6 THE ROLE OF LOCATION IN THE INTERNATIONAL MARKET SELECTION IN HOTEL BUSINESS OF SOK CORPORATION

6.1 Company presentation

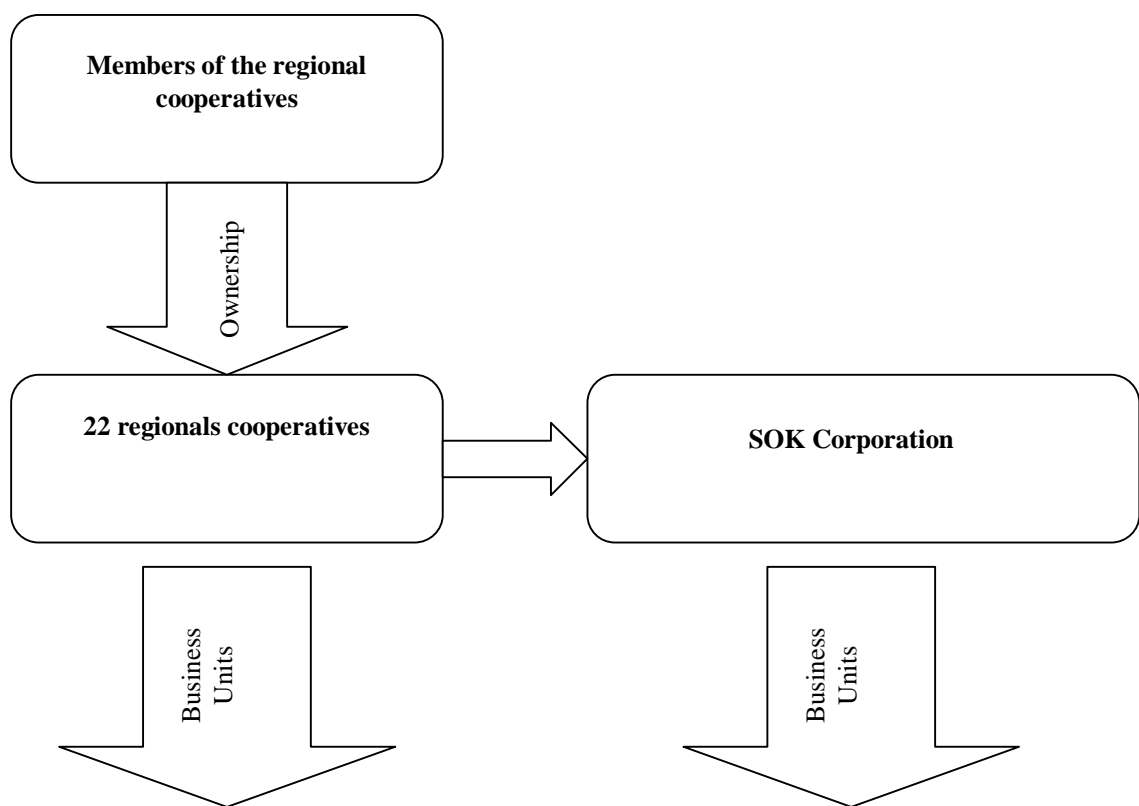


Figure 9 Structure of the S Group

The S Group consists of 22 independent regional cooperative enterprises and SOK which is owned by the local cooperative stores (Figure 9). SOK functions as a central organization and takes care of S Group's strategy, some purchasing, expert and supporting services. The principles behind cooperative ideals are open membership, democracy and the distribution of profits. The oldest, still-existing cooperative in Finland is Vähäväkisten Osuusliike, which was established in Turku in 1901. Shortly

after that SOK was established in 1904 as the central organization of the cooperatives and in few years SOK grew to become the largest wholesale supplier in Finland.

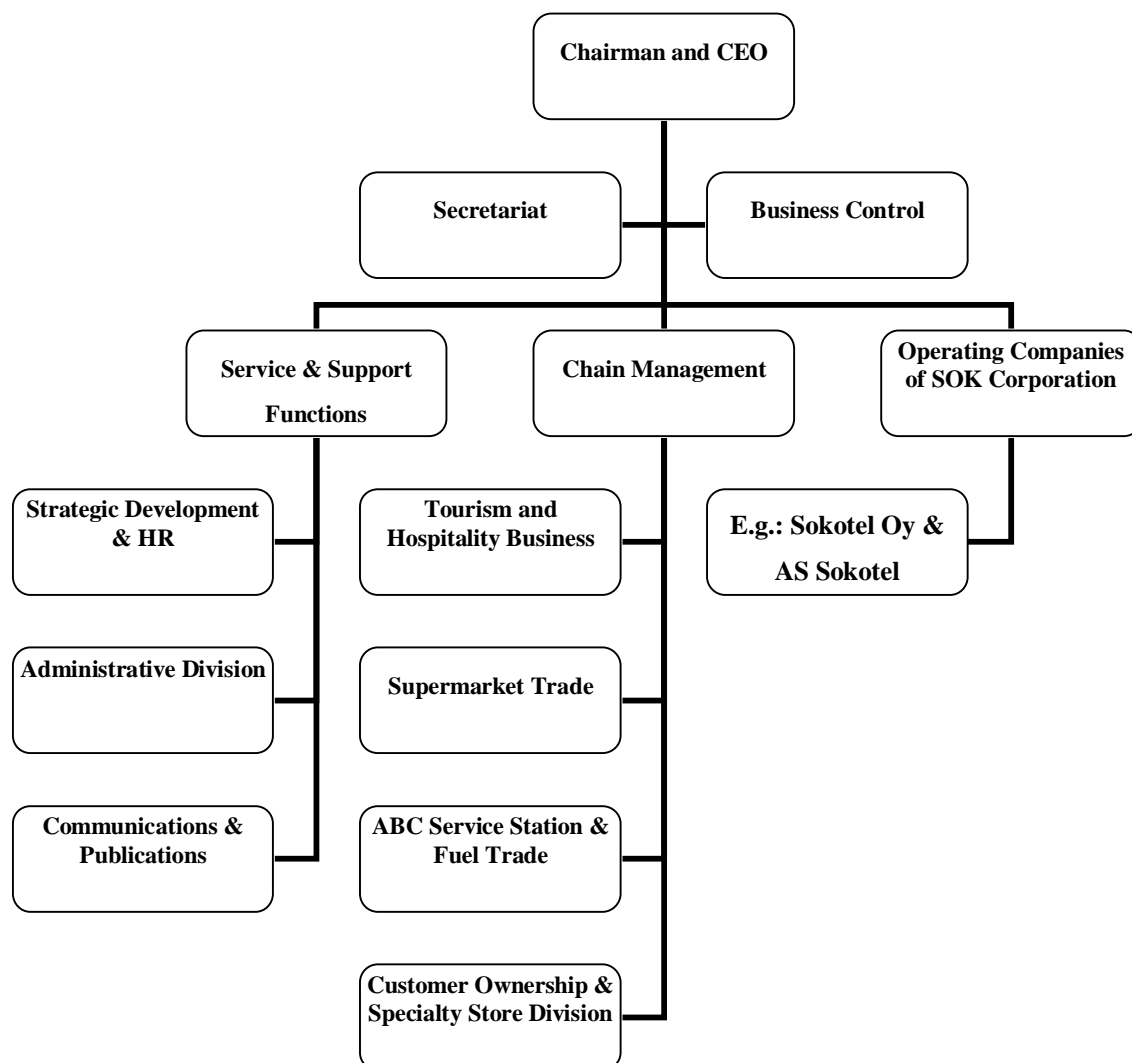


Figure 10 SOK Corporation organization

Operating companies of SOK are: Hankkijamaatalous Oy and Agrimarket Chain Management, Maan Auto Oy, Spar Finland Oy, Tapiolan Sokos Oy, Rainex Yrityspalvelut Oy, Sokotel Oy and the operating companies in the Baltic Area (Figure 10). S Group provides services for the supermarket trade, service station store and fuel trade, the department store and speciality store trade, the hotel and restaurant business, the vehicle and automotive accessories trade as well as the agricultural trade. In addition, S Bank just opened in the end of year 2007.

Sokotel Oy takes care of the hotel and restaurant business of the S Group in Finland, whereas AS Sokotel takes care of the hotel and restaurant business in Estonia and

OOO Sokotel in Russia. In general, the S Group's strong mission is to provide services and benefits to its customer-owners. Cooperative stores are cooperative societies and their owners are also their customers; they are also called customer-owners.

The basic idea in S Group plainly is a very responsible service task towards the customer-owners. (Tapio Satta 2008)

S Group works on 'a people first' strategy. It offers comprehensive services to its customers and rewards customer loyalty. Customers become members by paying a cooperative contribution. The customer-owners are paid bonus based on the amount of purchases they have done in a month. They also get special prices on products and services as well as 'Yhteishyvä'-magazine sent to their homes. The core values of cooperative business model are democracy, integrity, initiative, impartiality and local presence. S Group does a good job in fulfilling these values and being close to its employees as well as its customer-owners.

The S Group's operations are organized into nationwide chains and it strives for socially responsible business activities that are close to the normal people. S Group values Finnishness and regionality. It is owned by Finnish people and it cannot be sold to foreign ownership. The four pillars of S Group's strategic thinking are: a focus on its customers-owners, cost efficiency, a comprehensive and actively evolving network of locations and a diverse range of services in addition competence development, information-based management and networks of cooperation. The S Group's target is the mid market and its values are: customer focus, excellence, responsibility, renewal and partnership.

Table 3 Key figures of S Group, SOK and AS Sokotel in 2006 and their development

| Key figures in 2006 (2005) | S Group | | SOK | | AS Sokotel | |
|--------------------------------|---------|----------|-------|---------|------------|-------|
| Net turnover (Million EUR) | 9 777 | (8 633) | 6 834 | (4 209) | 19 | (18) |
| Operating profit (Million EUR) | 341 | (400) | 23 | (62) | 3 | (3) |
| Employees | 34 045 | (28 092) | 8 570 | (4 928) | 242 | (236) |

Key figures of S Group, SOK and AS Sokotel are detailed in Table 3. At the moment there is not unfortunately any information of the key figures of OOO Sokotel, because its operations have started so recently. S Group is a major player on the Finnish market,

it has about 1 500 locations in Finland. Its turnover was close to ten billion euros and net operating profit was 341 million euros in 2006, in addition it employs about 35 000 people altogether in S Group. SOK's turnover then was close to seven billion euros in 2006 and net operating profit around 23 million euros. The small amount of outcome can be explained by the great amount of investing and starting operations recently. S Group is popular among customers and in 2006 over 127 000 customer-owner household joined to cooperative stores. At the end of year 2006 over 1.6 million customer-owners belonged to the S Group.

In 2006, hotel and restaurant business altogether brought 7% of the sales in S Group. The increase in sales of hotel and restaurant business in S Group has been a little over 10% over the past couple years. The hotel operations in SOK Corporation are divided into three parts: **Sokos Hotels**, **Radisson SAS Hotels** and **Holiday Club Spa Hotels**. There are 39 Sokos Hotels in Finland and one in Tallinn, Estonia (Sokos Hotel Viru). Furthermore two Sokos Hotels, the Sokos Hotel Vasilievsky and the Sokos Hotel Olympic Garden, will be opened in St. Petersburg in Russia in 2008. Sokos Hotels are targeted for business travelers, but also for vacationers. There are seven Radisson SAS Hotels in Finland. They are a part of an internationally well-known hotel chain, which is mainly designed for business travelers. Holiday Club Spa Hotels on the contrary are resort hotels, targeted mostly for vacationers but also for conference guests. There exist nine Holiday Club Spa Hotels and one of them is in St. Petersburg, Russia (Holiday Club St. Petersburg).

S Group began its internationalization with its hypermarkets (Prisma) and hotel business. The Sokos Hotel Viru is operated by AS Sokotel, which employs around 250 people and its turnover in 2006 was 19 million euros. The Sokos Hotel Viru in Tallinn with its 516 rooms, five restaurants and conference facilities was the first hotel abroad belonging to the S Group. The Viru Hotel became Sokos Hotel Viru in 2003.

By the summer 2008 SOK will have three hotels (operated by OOO Sokotel) and around 1 000 rooms in St. Petersburg. The Holiday Club St. Petersburg was opened in January 2008 and it has about 300 rooms, eight conference auditoriums, and its seven restaurants and a spa will be opened in the spring in 2008. The two Sokos Hotels that will be opened in St. Petersburg in the summer in 2008 will offer multifaceted services for instance for business customers. The Sokos Hotel Vasili will be a 260-roomed-hotel with a restaurant, couple of bars and meeting rooms. The Sokos Hotel Olympic Garden is planned to have 348 rooms, meeting facilities and two restaurants.

Sokos Hotel is the most important hotel brand of SOK. In 2006 Sokos Hotels had sales of 146 million euros, whereas Radisson SAS Hotels which belong to SOK had sales of 42 million euros and Holiday Club Spa Hotels sales of 19 million euros. SOK was the largest hotel operator on the Finnish market at least in 2006 with its 52 hotels and 8 941 rooms at that time. On the second place was Restel with 44 hotels and 6 902 rooms and on the third place Scandic Hotels with 23 hotels and 4 512 rooms. S Group has a good proportion of the Finnish hotel business market share, about 25%.

6.2 International market selection

In S Group a competition strategy is made for the whole group and part of it is SOK. The competition strategies of the subsidiaries are included in the competition strategy of SOK. All the decisions are based on the strategy, also the decision on internationalization and the choice of the market and the location. There exist exact euro amounts up to which the subsidiaries can decide themselves and then what the board of directors in SOK has to decide. When the question is about a new location, it always goes via SOK's board. It is a well-defined procedure with many levels. No market is chosen by accident. It has to be verified that it makes sense to have the will to go to a certain market.

Both Satta and Palokangas share the thought that the basic idea in market selection is to go where there are needed aspects for profitable business and profitable growth. With internationalization growth is looked after. In S Group they also consider greatly of the customer-owners.

Our intention is to provide products and services to the customer-owners. We try to look at this (decision) from that point of view that in which markets we should operate to fulfill this task. (Tapio Satta, 2008)

SOK's hotel business has been internationalizing to the areas that are geographically close such as Tallinn and St. Petersburg. The reason is exactly the fact that their customer-owners travel there often. SOK's internationalizing strategy has been to internationalize in the first phase to the Baltic States. The close area internationalization has been the strategy in the whole S Group and for instance S Group has consumer good

trade in all the Baltic States (Estonia, Latvia and Lithuania). The hotel and restaurant services in addition to the consumer good trade are now the business areas of S Group which are internationalizing.

The internationalization process in the whole can take years before the unit is ready to operate. For example in St. Petersburg, the case company had people already during a couple of years before the opening of the first hotel. More often the hotels belonging to S Group abroad are newly built for their purpose, which lengthens the project. It can be a long process for instance in Russia, where the market is new and unknown and familiarization with the legislation and authorities is needed.

It can take some time, whether it is an already existing unit so that there has been a hotel or a market, versus you built it. (Sari Palokangas, 2008)

It is essential to find the right partners and learn how to make business on that market, because it facilitates the renting process as well. When the real estate is rented instead of building, the actual re-branding process does not take such a long time. But the mental side, so that the functions correspond to the expectations of Finnish standards, can last longer. In Finland the location choice process is simpler and does not take such a long time, because the market is well-known, and S Group is a well-known operator on the Finnish market.

In searching for suitable locations they have noticed that number one destination for them is Estonia and there in particular **Tallinn**. In SOK they feel that Tallinn is so close to Helsinki that it is almost seen as part of the domestic market. In the Sokos Hotel Viru there used to be around 80% Finnish customers. It was almost more Sokos Hotel than the Finnish Sokos Hotels, because of the large proportion of Finnish customers. But now when Estonia is part of the EU the vodka tourism of Finnish has decreased¹ and so have decreased the stays of Finnish tourists in Viru as well. Now it has to attract more and more local customers with its restaurant services. On the other hand the tourism has increased in Tallinn after it joined the EU because the tourists and business travelers from other EU countries come more frequently to Tallinn. This means more customers

¹ Estonia is still the most popular travel destination among the Finns, but the amount of stays has decreased little over the years. In 2004, 740 000 trips were made to Estonia by the Finns whereas it was anymore 719 000 trips in 2006 (Tilastokeskus 2006). Finns are a significant nationality group among the travelers in Estonia. In 2004, 61% of all the tourists in Estonia were Finns (Melin 2007, 11).

also for the Sokos Hotel Viru. An important point of view in market selection is the attraction of Tallinn and Russia to business customers.

When it comes to hotel business, serving the business customers has a significant role, and through that ensure the profitability. (Tapio Satta, 2008)

St. Petersburg has been an attractive market to the case company because it is an enormous city so close to Helsinki and one can travel there even by train from Helsinki. It is only about 300km away and there is about as much population in one city as there is population in the whole of Finland. Possibilities for profitable business are seen. In St. Petersburg they also have ideal positive associations of Finland and there are many potential customers. Russian customers might already know the brand of Sokos Hotel because they travel quite a lot nowadays to Finland and fill the Sokos Hotels for example over the New Year's. On the other hand the Finnish brands are made familiar to the Russian customers in Russia and this can benefit also the hotels located in Finland.

Another aspect that has had an effect on the market choice of Russia is that for the most part the mid-market is uncaptured in hotel business in Russia. For instance in St. Petersburg there are a little over 10 5-star hotels and a considerable amount of low-market hotels, but the mid-market is fairly totally untouched. The hotel brands of SOK such as Sokos Hotel and Holiday Club hit well for the mid-market. They are casual brands with good quality.

We believe that with our hotel brands we will find a strong position on the (Russian) market. (Sari Palokangas, 2008)

Everything does not have to shine and still SOK is able to procure a good price for the rooms, because the demand for mid-market hotels is strong. It is a significant strategic opportunity for the case company and it is also socially wished that they enter the Russian market.

Palokangas emphasizes that it makes more sense to penetrate the St. Petersburg market first strongly before expanding the operations in Russia. On the other hand the case company is not interested in expanding to Moscow with their hotel business, because all the best sites are already occupied and there they would have to choose a

location in the edge of the city. In this decision location has become an essential part of the decision-making process in an early phase together with the city choice. Moscow is such a large city that the case company is not that interested in entering the market; the prices of sites have risen rapidly. When the demand increases, increases the price level as well.

Now that SOK has been collecting experience in Russia they have also noticed the following benefit in operating both in Finland and in Russia. The high season for tourism is at different times in these countries, therefore they can utilize the same employees in both countries. As a result the Russian customers can obtain service with their own mother tongue in Finland. In other words the internationalization can also make the human resource management (HRM) work more efficiently.

Even though Sweden and particularly Stockholm are seen as part of the immediate close markets SOK has not been focusing on it. There is no particular reason for that. There would be Finnish customers, but it is just that more potential is seen in the Baltic States and Russia. S Group sees it beneficial to concentrate the internationalization efforts, perhaps later the preparedness to enter the Swedish market grows. However, if they could obtain an excellent location in the center of Stockholm with reasonable expenses, Satta does not see it as an impossible opportunity for a hotel already now. Sweden is psychologically close and the culture is similar to that of Finland. In that way it would be an easy market to enter and already the Finnish travelers coming on a one-day-cruise to Stockholm could keep one hotel booked out.

There are many aspects to consider when SOK decides on a new market choice. The different factors in the environment such as the attractiveness of the market and the different factors in the firm such as the already existing contacts account for the choice. An analysis of the possible markets is needed to calculate where success could be probable. Feasibility studies are done and investigated carefully. All the risks have to be calculated and the preparedness to invest checked. According to Palokangas, the fact that the Estonian culture is so similar to the Finnish culture might have affected the choice of the Sokos Hotel Viru being the first S Group hotel abroad.

There has to be focus in internationalization as well, because the resources are limited. With concentration better growth is possible and critical volume is reached. In March 2008 SOK announced its plans to open the first Prisma hypermarket in St. Petersburg (Salminen 2008, 7). The internationalization efforts of S Group are highly concentrated. Palokangas thinks that the decision to expand hotel business to the Baltic

States has initially come when the decision about consumer good trade expansion there came. She states that it makes more sense to make the internationalization of S Group's operations more concentrated.

6.3 The role of location in the international market selection

Location, location, location, you can never repeat it too many times, it is very important that you have a good location. (Tapio Satta, 2008)

Consults and cooperation partners assist SOK in finding the right locations. General management has the responsibility for making a profit and therefore it also decides the location on the chosen market. They present the idea to the board and when they accept the location choice, commitment to the location is done. The decision-making process, on steps taken before the operating management begins making a profit in the unit, is well thought and has many levels. Feasibility studies are done and future demand trends are calculated for 5–10 years. Rental agreements of hotel are usually done for 10 to 15 years, so the location decision cannot just be based on intuition. According to Satta, it is vital that the decision-making process is complex because the choice is questioned and pondered many times before making the final decision. Therefore only rarely bad decisions are made.

As Satta emphasized that even with a good product in a bad location you have problems. Making profit in a bad location is an exhausting task. The costs of the location are the other side of the coin. Satta sees it as essential to monitor the statement of earnings beyond the operating level. One should consider well the logic of earning, which means that the real estate has to be obtained with competitive rental terms. It does not make any sense to acquire a location which does not enable profitability. Capital incomes have to be managed well. In the negotiations you have to be skilled to win a good deal for the rental agreement for the coming 10, 15 or 20 years. Therefore, the location choice often takes a long time, its profitability has to be well pondered and calculated. The preparation phase has to be done carefully. You have to ensure that the operating management that begins there has a chance to succeed. It is team play and everyone has to do his part well in order for the company to be successful.

We don't enter any market if the market is not interesting, but if we don't get a location which matches the location criteria, we don't enter the market either. (Tapio Satta, 2008)

First the right set of markets (region) and the exact markets with the right kind of customer-mix and the price-level are chosen and after that it comes to the location choice. It has to be checked for what kind of products there is sufficient demand potential, in other words what kind of hotels could sell well on that market. The countries and cities are chosen first and then suitable locations are searched.

In SOK it has been clear from the beginning that they enter the close markets, in particular the eastern markets such as Russia and the Baltic States. Entering the Estonian market it is exactly Tallinn and not any other city for SOK's hotels, same with the Russian market and St. Petersburg. After the markets are chosen, begins the making of feasibility studies of the locations and search after locations that fulfill the criteria matching the company brands. For instance SOK is searching after a good location for a hotel in Riga, but has not been able to find one yet. They have had many site options already, but one criterion has been that the location has to be on the right side of the river. The location should be at the same side of the river as the old town etc. Satta said that it is no location that interests them if it is on the other side.

Even though their focus is now on St. Petersburg, if they could find a perfect location for example in Riga they would enter that market immediately. All the Baltic States are seen as potential in their strategy. Preparedness to react when opportunities open up is important. For instance in the case of the Viru Hotel in Tallinn Palokangas believes that it might have been the location that came first and after that the decision to expand there was made. The basic idea about internationalization to the Baltic States existed already but when such a suitable real estate was for sale it was the time to enter the Estonian market.

Yes, it is always so, that we have first the decision on that we go there and how we go, if we built new or if there is something already existing. (Sari Palokangas, 2008)

Usually the region, the country and the city are chosen before the location. As one might expect the decision between building a new hotel or renting one is also done before the location decision. But Palokangas also suggested that now that SOK is

already operating intensively in St. Petersburg, it could be possible to make an investment decision based on location information. If an excellent, already existing hotel real estate is found, it could be a strong initiative to make another hotel in St. Petersburg, even though it would not be in the plans and a new location is not currently being sought.

Location is always vital, but there are also minor differences in the meaning of location in different cities.

It depends greatly on the size of the city: the larger the city, the broader are the location possibilities. (Sari Palokangas, 2008)

The main point is that the location has to be central in that market. The customer cannot feel that it is too far away from the center. They are often sheer feeling-issues notes Satta. For instance in St. Petersburg the hotel does not have to be situated in the thought center because it is such a large city. According to Palokangas the distance to the airport in St. Petersburg can be more decisive sometimes, because the traffic there can get fairly jammed. The principals are the same but the absolute distance from the city center can vary in different cities. In St. Petersburg, SOK has chosen the Vasily Island even though it is not in the center, but it is an interesting surrounding and the traffic connections are good. When the traffic connections are excellent, the location does not have to be so central. According to Satta, Sokos Hotel also has more possibilities in choosing the location, because it is a strong brand and customers may choose it even though the location is not in the center. The familiarity and safety issues play a significant role. Sokos Hotel can also offer more competitive price to the customers when they choose a location which is not so central.

In Tallinn, the Sokos Hotel Viru, however, has an extremely central location. In Tallinn one also has to have an extremely central location in contrast to St. Petersburg for instance. The center is smaller and the competition there is increasing. Therefore the meaning of an excellent location increases. Satta says that there is always room for a hotel which has a very central and good location. Even in the center of Helsinki, where degree of utilization of hotel rooms is around 65%, it would make sense to start a new hotel business, when a most central location could be obtained at a reasonable price. The competition is at the strongest in the edges of cities.

With a hotel one has to think for a very long time before making the decision (on location), one has to be pretty sure, because giving up on it in the middle of everything, is not easy. (Sari Palokangas, 2008)

Prime-location is sought always but it can mean different things for the different brands. In all the cases the accessibility has to be good, the attractiveness of the location has to be strong and there has to be natural customer flows. With money one can obtain almost any location, but a profit-making business has to consider also what is an affordable price of the location for them. The costs related to location choice or in particular building a new hotel can be enormous. The calculations made by SOK are realistic, even pessimistic. Hotel business is sensitive to economic fluctuations and the situations can change drastically. The location choices are evaluated after they are done at least when it is time to consider the renewal of the rental agreement. Unsuccessful locations are often the ones where the costs become too high or the location itself is not central enough. The equation of prime-location and costs has to be balanced.

6.4 Most vital features of the location

...whether it is in Finland or on the international markets nearby, the location has to fulfill the criteria that match the brand. (Tapio Satta, 2008)

SOK begins the search for brand criteria fulfilling locations for its hotels as soon as the strategy to enter a certain market and city is accepted in the company. Palokangas states that it is essential for someone to get to know the market and find out where it makes sense to be located and where one has to be located on that market. First of all for all the hotels in SOK the town has to be large and significant enough (more than 30 000 inhabitants) and have a certain something. If the competition is not fierce, also a smaller city can come in question. Locations too close to Helsinki are uninteresting, because it is thought that the customers coming from Helsinki will not stay overnight too close to home. The brand identity of the hotel has to also match well the location in all the cases. Different operators have different criteria for it and the meaning of a couple hundred

meters in the location varies depending on the exact hotel. For some it is more essential to have a certain location than for others.

It very much begins with the thought of what the customers want and expect from the location. (Sari Palokangas, 2008)

The kinds of activities that are looked for inside and around the hotel depend on the hotel brand. Palokangas suggests that it is particularly important to notice what kind of customers are reached for, when looking after a location abroad. Locals and travelers can have different kind of expectations. According to Satta, when the hotel is only concentrating on vacationers, the free-time activities have to be extremely entertaining. At least the location has to be suitable for conferences so that business customers can come there to hold a conference and thereafter enjoy the free-time activities. The well-being of workers is seen as an essential aspect in many companies today and the hotel business can benefit from it.

All the hotels in SOK have a balanced product-mix and the location has to support all parts of it. It has to be defined if the planned hotel is a center hotel or more a destination hotel and the location is sought accordingly. However, more often the location is found first and then the hotel brand, with which SOK enters the market, is chosen. Satta mentioned that in Sokos Hotel 55% of the business comes from business customers and 45% from vacationers, whereas in Radisson SAS 70% comes from business customers and 30% from vacationers. In Holiday Club 10% of the business comes from business customers and 90% from vacationers. They are all very different kind of brands, which explains the differences in the business/vacationer relation. This is on purpose in order to serve all the different customer groups appropriately. SOK aims for a balanced product range also in its hotel business.

It (the location choice) depends on, who is the customer, where the business comes from, what is the relation of business and leisure time travel, what is the proportion of domestic and foreign travel, what kind is the restaurant entity and does the hotel include some auxiliary services. (Sari Palokangas, 2008)

The different hotel brands of SOK require various qualities based on the location. Holiday Club Spas call for free time activities, whereas Radisson SAS hotels are more

intended for business travelers and therefore need to be located in a slightly larger city on a center location. As an international brand Radisson SAS also has more detailed requirements for the hotel building itself and what it has to include. This restricts the location choice. Sokos Hotel then again is more likely to work in most places, it is the most adjustable of the hotel brands of SOK.

The hotel restaurants in S Group are never intended only for the hotel customers and therefore in the location choice the other customer groups have to be paid attention to. For instance the restaurants should be accessible other than only through the reception. It increases the amount of customers. In Sokos Hotels about half of the business comes from restaurant services, therefore it has to have a central location in the town, where there are natural customer flows. The amount of pedestrians in the area has to be large enough. Customers do not go far away to a restaurant. Also for Radisson SAS the restaurant services have a significant meaning but they differ from the restaurant services of Sokos Hotels, and that is why Radisson SAS hotels can also have a little bit more distant location. In Radisson SAS restaurants it is more about conferences and banquets. Holiday Club hotels can succeed further away from the city centers. Holiday Clubs are decided for vacationers and the product consists of free-time activities, spas etc. The restaurants in them do not have that significant role. However, Holiday Club Spas have to have a central location in the leisure time center.

More often the location is chosen before the exact restaurant services are decided. The space gives the possibilities. The order is more so that the location affects the restaurant mixture. The discussion about the desired restaurants can be held earlier if SOK is building a totally new hotel and then the location can have an effect on that. Anyhow, it is rare that SOK builds new hotels and the management can have a word in what kind of restaurants there should be.

*The location is so, when you succeed in it, you will always make profit.
(Tapio Satta, 2008)*

For a location to be suitable for a case company hotel, it cannot be too far distanced from the railway station, the airport and the city center main street and the main sights. In particular in Finland a true center location is sought, but in any case SOK will not choose a location in a total periphery. Customers expect a central but calm location and it can be a real dilemma to find one. The hotel does not have to be located in the city

center, but there has to be some engaging reason to open a hotel such as an airport nearby.

Central location is not easy to define according to Satta. A good regional center can already be a central location. It depends on the hotel type, what is a central location. Whether the hotel is focused on conferences, restaurants, leisure time or accommodation, the central location is different. Today all the other auxiliary services increase in meaning in hotel business. The focus is on differing their own product and being more fascinating. Satta explained that even though there are almost 10 Sokos Hotels in Helsinki and its surrounding, they are all different and attract different kind of customer groups. Sokos Hotel Tornio is an individual upscale product with a true central location in contrast to Sokos Hotel Vantaa, which is a popular middle scale hotel far away from the center. Sokos Hotel Vantaa attracts still significant amounts of customers, because some customers do not want to drive to the center and want to leave their cars and overnight outside the center. Assortment management enables directing the demand to the hotel that best corresponds to the expectations of the customers. More customers want different kind of hotels and services. When there is enough demand for a product, creating it will certainly grow the market share for that company. In the center of Helsinki, SOK would be always ready to have more hotels, but it is just that the hotel business does not have as good ability to pay the high price than other businesses obtaining locations for offices.

All the hotel locations in SOK have to fulfill certain criteria. Just obtaining a location, any kind of location is not the purpose. The locations have to have **good traffic connections, accessibility, good customer flows, enough place for parking** and when possible shopping centers or **other activities near**. The central location depends greatly on the surrounding infrastructure. Different kind of logistic advantages as well as agglomeration benefits need to be taken care of in the location decision. Paying attention to the management and synergy effects as well, it is not smart to have the different units very scattered. Similarly, the characteristics of the available real estate such as its amount of rooms and square meters have a vital meaning. The real estate has to function well as a hotel and for example there should be access to all the floors with a lift.

It is very important in general that the real estate has the right amount of square meters in the right place. (Sari Palokangas, 2008)

Nowadays there is an international trend towards huge shopping centers, where there are many operators and one of them can be a hotel and its restaurants. They are often extremely good win-win situations, because the attractiveness of the destination increases when the service supply in the area increases. For instance, Holiday Club hotels often now have spas, various restaurants, conference centers, movie theatres and shops. They are interesting entities. The first real shopping center hotel of SOK will be opened in Flamingo shopping center, which will be opened in the fall of 2008. The largest amusement spa of the Nordic countries will be opened in this hotel. In this Holiday Club hotel there will be around 350 rooms (Nikula 2008, 10). Another stimulating possibility for a new hotel investment could be in Espoo, because the Sello shopping center area is developing fiercely.

Satta sees these shopping center locations as very potential, because there is a great amount of natural customer flows. Such leisure time centers can be fairly distant and still successful. When the image of the destination is strong enough, SOK can also choose a location which is a little further away. Nowadays the lack of snow affects the location choice as well: snow cannot anymore be the only reason to select a location. The locations in Lapland need to have a reputation as being multifaceted. For instance Holiday Club Spa Hotel Katinkulta is an excellent example, because there are diversified activities which are available all year round. Whether it is rainy or sunny, the client should be able to do something.

Different partnerships for example with restaurant entrepreneurships may also offer opportunities for diversified destinations. The total attractiveness of the destination plays a significant role in the location choice in SOK. One sensible reason for that is the growing interest of airlines towards the destination, when the destination is fascinating enough. For example Finnair can begin new routes inside Finland to an attractive vacation destination, and thereby assist SOK by helping the customer to reach the destination. All the customers do not use a car when traveling to the hotel destination.

The level of the location is vital as well. According to Satta, it is important to have the hotel restaurant services on the street level, when possible. It is always more challenging when they are on upper floors. In Sokos Hotel Tornio for example they have started to serve high-level breakfast in the Ateljee bar on the 14th floor to attract more customers (Vanhanen 2008, 35). The feedback from customers has been excellent.

The case company is a large, reliable operator, which rents the real estates usually at least for 15 years. Satta sees it as a significant strategic advantage on its side in many negotiation situations. The risk is low for investors and SOK Corporation has often a fortunate position in negotiations related to location as well. Smaller hotel businesses have more difficulties because their ability to pay the rent can be doubted, in particular if the economic situation changes. For example SOK's hotel business was able to make profit during the latest recession with the help of its restaurant operations, and also its large size facilitated its ability to pay and survive during that period of time. Different kinds of risks and possible changes in the future have to be calculated well from the both sides of the negotiation.

6.5 A summary of main empirical research findings

The main empirical research findings which rose up from the research results of the case company SOK Corporation are presented below in Table 4. International market selection in SOK Corporation is strongly related to the strategy of the company as could be assumed. The whole strategy in S Group is closely based on the idea of serving the needs of the customer-owners well. The role of customer-owners is essential in the case company. SOK's hotel business expands to areas where profitable growth is expected and where the customer-owners travel. Now that is seen in the geographically close countries such as Russia and Estonia.

The most important determinants that have an effect on the market choice in the case company are proximity, market potential, wants of customer-owners, location, infrastructure and costs. The set of possible markets is chosen first and from that mixture suitable markets and cities are chosen at the same time. Thereafter it is time to look for excellent locations. If a decent location is not found in the desired city, they can enter another market first and keep on looking for suitable locations in the first choice market. On the other hand, when an excellent location opportunity opens up in a certain market, in particular in a familiar market, SOK can enter that market first even though the plans would be to enter some other market in the first place. In a way location is a part of the market choice all the way along. Unquestionably the meaning of location is significant.

Table 4 Main research findings about SOK

| | |
|-------------------|--|
| Finding 1 | Region is chosen first, and then country and city are chosen simultaneously, and thereafter, it is time to select the right location. |
| Finding 2 | The city chosen is dependable on the suitable free locations. |
| Finding 3 | Most important determinants in the international market selection are: proximity, estimated market potential, customer-owners, location, infrastructure and costs. |
| Finding 4 | There are differences in the meaning of location in different cities. In a larger city, there are broader possibilities for locations. In some cities the competition is harder and the location more vital. |
| Finding 5 | It depends on the hotel type, what is a central location. Business hotels have to be more in the center than resort hotels. Resort hotels then have to have a central location in the destination. |
| Finding 6 | Location has to match the brand criteria well. The different brands have little different requirements for the location and for the real estate itself, such as the amount of square meters. |
| Finding 7 | Shopping center locations are seen as very potential, because the synergy effects are strong and customers can be attracted with the wide range of services. |
| Finding 8 | Most important determinants in the location selection are: good traffic connections, accessibility, good customer flows, parking lots, activities near and a suitable real estate. |
| Finding 9 | There is always demand for a hotel on an excellent location. |
| Finding 10 | When a suitable location is not found, the company may change its internationalization plans and do not enter the intended country or city. |
| Finding 11 | The restaurant services of the hotel play a significant role in the location choice. The restaurant services have to be suitable for the specific location. |
| Finding 12 | When there are already operations on a market and it is familiar, the location is more likely to be the only initiative to expand international operations in that country. |

There are differences in the meaning of location in different cities; in some it has a more distinctive meaning than in others. For instance in Tallinn there are fewer functioning locations than in St. Petersburg. The size of the city is one explanation for that. A good location always depends on the hotel type and the city. The restaurant

services inside the hotel also have an effect on the location choice. Some restaurants are intended more for non hotel customers than others, then the meaning of a central location increases. Every time the location has to have good traffic connections, good accessibility, customer flows, enough places for parking, activities near and the real estate itself has to be suitable. The real estates are often rented in hotel business and therefore the real estate itself gives some limitations to the location selection. Both the location and the real estate have to match the brand criteria of the hotel. Nowadays there is also an increasing trend towards hotels which are situated in shopping centers. This serves well the customers, who do not like to make any gratuitous trips. It can be said that there is always place for a hotel on an excellent location, no matter how densely the hotels would be located on that area. There are constantly customers who would like to be more in the center, but there are no rooms available.

7 CONCLUSIONS

In this chapter a concluding discussion takes place. The purpose is to widen the point of view beyond the case company. At first the various theories discussed in this thesis are compared with the case company and then managerial recommendations and suggestions for further research are presented.

7.1 Theoretical discussion

The main research findings mentioned in Table 4 are collected together below in Table 5 and linked according to the sub problems and theory background.

Table 5 Main research findings in relation to the theory

| Sub objectives | Main research findings | Reflection based on the theory |
|--|------------------------|--|
| In what phases of the international market selection is the location taken into account? | 1, 3, 10, 12 | The market selection process proceeds from global to local level as suggested in the theory. However, it came up that the region has more essential meaning in the process and that the country and the city are chosen simultaneously before the location. The location has a vital meaning in the process and when a suitable location is not found, it can change the plans of the company. The location can also in some cases be the only determinant to enter a market, when the specific region is already in the plans of the company. |
| What kind of effects does location have on the international market selection? | 2, 4, 5, 11 | If a suitable location is not found, some other city or market can be entered. However, the meaning of the location varies in different cities and with different hotel types. The location also has an effect on the restaurant services that are chosen for the hotel. |
| What kinds of features of the location have the most vital meaning? | 6, 7, 8, 9 | The locations have to have good traffic connections, accessibility, good customer flows, parking lots, suitable real estates and activities near, such as shopping centers. All in all, the location has to match the brand criteria. |

In SOK the market selection process was identified as a vital process as suggested in the theory. The research supported the fact that it can be a systematic or unsystematic process. The case company had experience of both, even though the systematic process was significantly more used. The case company also proceeded from the global level to local level following the theory, but the country and city had been so far chosen simultaneously.

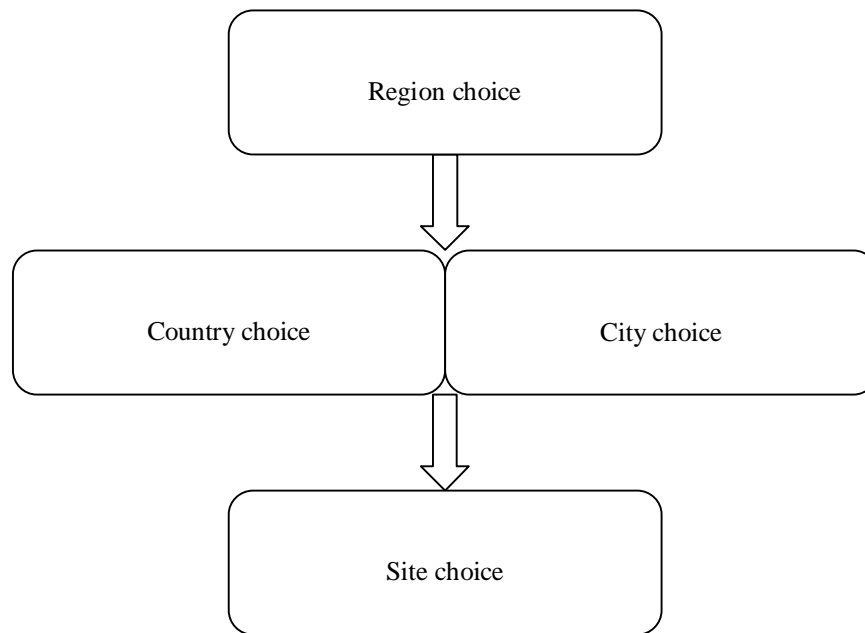


Figure 11 The locational decision in SOK

The theories about the importance of the location in the international market selection could be proved in the research. (Figure 11) SOK indicated strongly that when a suitable location is not found, it can change the company's internationalization plans.

The region played a more decisive role in the case company than what the theory proposed. SOK is definitely region-oriented in its international expansions; this was one type of internationalization for hotels which was identified in Chapter 4.2. The following five steps could be identified in the international market selection of SOK: 1) decision on the business strategy, 2) finding the region, 3) evaluating the possible countries, 4) selection of the countries and cities and 5) choosing the location.

The most important determinants in the international market selection in SOK's hotel business are: proximity, market potential, wants of customer-owners, location, infrastructure and costs. They all were mentioned in the theory, except the wants of customer-owners. That brings a special flair to a company which is operating under a Cooperative Wholesale Society. The other important determinants mentioned in the theory were labor characteristics, government and political factors, economic environment, legal environment, social and cultural factors as well as quality of life. Quality of life is included in the market potential determinant of the case company according to the researcher. The other determinants are perhaps more important in production internationalization than service internationalization.

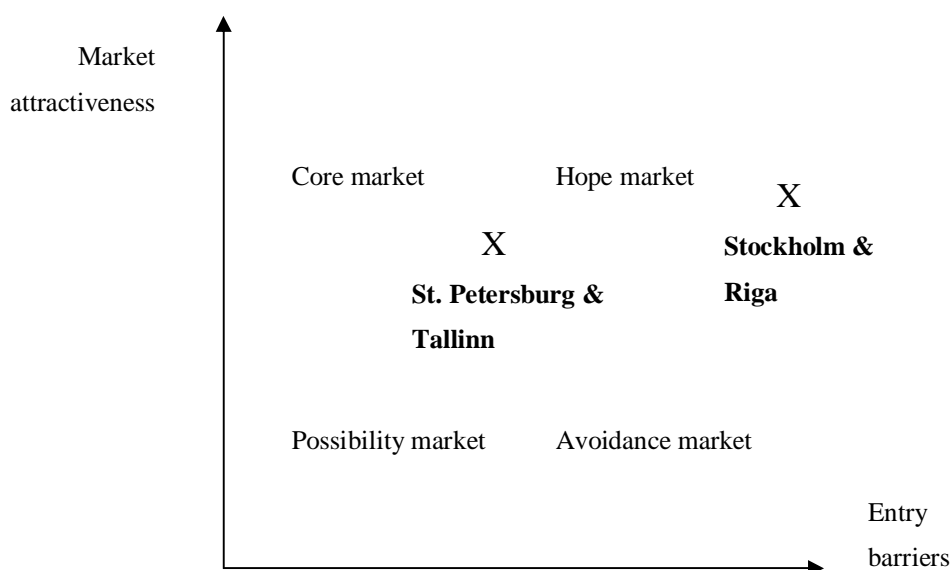


Figure 12 The market attraction and the entry barriers in market selection in SOK

The markets/cities SOK has chosen so far for its hotel business internationalization are between core markets and hope markets (Figure 12). The market attractiveness in both of them is seen as high and the entry barriers are not significantly high. In Stockholm and in Riga there is high market attractiveness, but also the entry barriers are high, and therefore SOK has not entered these cities yet.

The determinants that form the market attractiveness as well as the market barriers axel come from the environment and inside the firm. The research supports the theory that the determinants which have an effect on the market choice rise both from the environment and inside the company itself. However, the environmental influence seems to have a stronger effect. The market potential is more vital than the limitations rising inside the firm. From the environmental factors international hotel business structure, degree of internationalization, stimuli to internationalize, host country characteristics, market potential and the wants of the customer-owners seemed to be the most significant

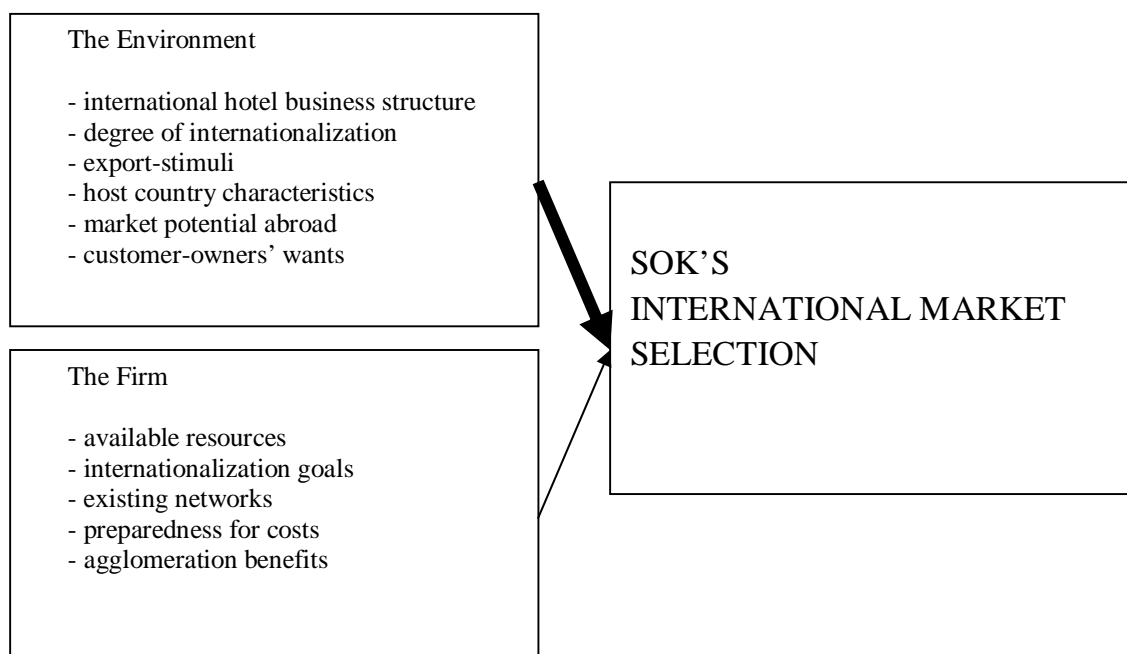


Figure 13 Some determinants of SOK's choice of foreign markets

The determinants rising inside the firm did not seem to be equally essential with the environmental determinants (Figure 13). A large company seems to be more focused on the opportunities rising from the new markets chosen than the weaknesses or threats that there might be. Larger companies have more freedom in the market choice than smaller ones, because the restrictions are not that strong and they have many skilled decision-makers involved in the process.

The research also supported the fact mentioned in the theory part that the decision whether to enter a market or not depends on the relationship between the demand and the costs and where to locate within that market depends more on the competitors. The fact that the competition is stronger on well-defined, small areas than between cities holds true according to the case company as well. However, the effect of competitors in the location choice was not as strong as indicated in the theory. The success factor of familiarity in large hotel chains was also true with the case company. The Finnish customers enjoy the kind of surroundings they are used to in their home country, also in the case company hotels abroad. It truly is profitable for the hotel chains to follow their customers.

Choosing the location is definitely choosing the customers, as suggested in the theory. In the case of SOK it was obvious that they choose locations for their hotels according to where their customer-owners are. Serving the needs of customer-owners

is the main principal of cooperative societies. The location also affects the customer satisfaction effectively in hotel business and therefore it has a strong linkage on the international market selection, as mentioned in the theory.

An excellent location has to be found before the city is entered. A new finding in the meaning of location in hotel business was that the meaning of the location can be different in different cities. In some cities the competition is harder and the location increases in meaning. On the other hand in some cities for instance a short distance to the airport from the hotel can be more vital than a central location, because of the traffic connections. The 'special' accessibility does appear to have significance. In addition, it depends on the hotel type, what is a central location.

The research also gave a new point of view of the significance of the restaurant services in location choice. The restaurant services have to match the location as well as the hotel brand itself. Otherwise the criteria that were mentioned in Chapter 4.3 being the most important factors in hotel location choice are also true in the case company. Thus this list of factors can then be proven to be fairly comprehensive.

According to the theory the hotels are classified according to the location, but in reality the locations are sought according to the hotel type. The theory proclaims also that the relative location is more important in the international market selection than the site and that was the situation also by SOK. In particular for hotels the features of the location are more important than the size of the site. The research reinforces also the force of the calculations of the shared effects of the different locations inside one company.

From the location theories mentioned above, the bid rent theory seemed to be the most useful one considering the hotel business. It is obvious that the price level of land is higher in the city center and hotel chains have to calculate carefully how much they are willing to pay for a certain location. Even though hotels do not need a large piece of land, they are still not as eager to pay the high price as some other businesses which benefit more from the location in the commercial sphere.

The phenomenon of service clustering and formation of increasing number of shopping centers in order to offer the customers more specialized shopping experiences is current according to the research as well as the theory. No matter what the location is, the location has to match the brand criteria well. It is probably one of the most important features of the chosen location. That rose up strongly from the research that the limitations set by the brand to the real estate is one extremely essential factor in the

location choice process. In particular, when the hotels more often are rented and the chain has to commit to the specific real estate for a long time. The fact mentioned in the theory, that hotel chains usually internationalize by acquiring or merging with an existing hotel in order to avoid inferior sites, was also true in the case of SOK. Only in St. Petersburg the case company was forced to build the hotels itself, because there were no suitable real estates free.

7.2 Managerial recommendations

Market selection is unquestionably a challenging decision. The companies should ponder for a long enough time before making any decisions on the market choice and make even **pessimistic calculations** about the future. The situations and markets can change over time. Certain cities can become too small later and the attractions there get closed down. Just as well the city can grow to be extremely popular and this makes the competition even harder. Above in Chapter 6.2 it was mentioned that the Sokos Hotel Viru has to fight for its customers because the amount of stays by the Finns has decreased. However, the decrease in the amount of travels by the Finns to Estonia is not remarkable and therefore the researcher considers that the changed situation is more due to the increased supply and competition among hotel business in the city. One cannot predict all, but care should be practiced in the international market selection.

Hotel business is extremely **sensitive to fluctuations** and it is one of the first expenses people cut off, when a recession comes. The businesses also begin to consider then if they could avoid meetings and conferences that last overnight and thus avoid hotel expenses. The hotel and restaurant business in general is affected by various factors. For example, when there is an international catastrophe in some part of the world, it affects the amount of traveling in every country immediately.

Market selection is suggested to be done from the country choice proceeding to location choice, but it seems to function exceptionally well when **the region is chosen first and then country and city are chosen at the same time**. When the overall region is chosen first, it gives a broader point of view to the decision maker. In addition, when the country and city are chosen simultaneously, it limits the location alternatives and accelerates the process.

The location should be taken as a vital part of the market selection, because it is **an essential part of the hotel product**. It has effect on the company's success and cannot

be changed easily. The location comes together with its surroundings and the whole entity has to match with the company brand. If the hotel chain has strong brands, it can be successful at a less desirable location, because the customers may choose the familiar brand over the location. Suggestion is to keep the overall image of the company strong and reinforce the specialization of the different hotel brands. Positive brand images facilitate the location choice among other beneficial aspects. On the other hand, strong brands have more detailed requirements for the location and the real estate. A good balance should be found, where the brands are effective, but do not set too high expectations or limitations.

All in all, good knowledge of the market is essential in order to know where one should be located. The differences between countries and cities should be noticed as well. The importance of customers' wants cannot be emphasized enough. It might be a smart idea to **follow the customers** to a market. Customers who already know your brand facilitate the international expansion, in particular when the hotel chain is quite small. Otherwise in a case of a small hotel chain, the restrictions should be noted and the already existing experience and networks utilized in the market selection process.

Even though the market and location decisions should be done carefully and with long-term plans in mind, sometimes being **brave** and experimenting courageously with new locations can be worthwhile. The new shopping center locations look to be interesting for all kinds of services. Thus, customers can be given what they expect and even more. Specialization of brands and bringing the desired experiences to the customer is the way to operate in today's hotel business.

7.3 Suggestions for further research

This research contained only one case study and in the future it would be interesting to study the meaning of location in the international market selection also in other cases. SOK is a unique and interesting case operating under Cooperative Wholesale Society. It gives a special point of view to the research, and therefore, it might be worthwhile to research another kind of hotel business as well and see whether the customers have a significant role in the market selection process. Different sized hotel chains can have differences in the international market selection process and they would be intriguing to study.

SOK is in an early phase of its hotel internationalization and it would make sense to repeat the research for instance after five years and check if the determinants and processes are still the same as they are now. When more international experience is gathered, the results could change a little. Evaluation of the current location choices in SOK would be an alluring research topic. How well do the selected locations in St. Petersburg seem to work after 10 years of business operating?

There are countless possibilities to study the hotel internationalization and the market selection process is just one of the ways. Another vital question besides 'where' in internationalization is 'when'. The age and development level of the hotel companies internationalizing would be a compelling research topic. Also location is only one determinant in the international market selection process, just as well another determinant such as the infrastructure or the proximity could be chosen for a closer research.

The close connections and the proximity of the Baltic States and Russia to Finland give certain influences to this research. A similar kind of study could be repeated in another geographical area and test if the geographical proximity plays as vital role in another set of countries. Particularly interesting would be to study the international hotel chains coming to Finland and see what their location choice criteria are.

In addition, the synergy effects of cooperation with various partners in internationalization would definitely be a useful research topic. The benefits gained from service agglomeration for instance in shopping centers and with different kind of restaurants are fascinating. Which cooperation partners are the most beneficial and which ones should be the closest to the hotel and which ones can be a little further away?

The concentration in internationalization effects is also an intriguing research topic. What kind of benefits do the large companies gain when they internationalize to the same market with different kind of operations? It is unknown how much the shared effect of different locations of different business units should be calculated. The ways how to best utilize these agglomeration benefits could be studied.

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Interviews

Palokangas Sari, Senior Vice President of Tourism and Hospitality Chain Management in S Group, Interview 27.3.2008.

Satta Tapio, Vice President of Sokotel Oy, Interview 4.2.2008.

APPENDICES

Appendix 1: Earlier studies on hotel internationalization

| Researchers | Year of Publication | Research method | Research problem & Main findings |
|-----------------------|---------------------|---|---|
| Altinay, Levent | 2007 | A single embedded case study of an international hotel firm, interviews and document analysis used as data collection techniques. | The purpose of the study was to evaluate the factors which influence a multinational hospitality organization's franchise decision-making process. The main finding was that the two most important variables on the franchise decisions are the key stakeholders of the organization and different country markets. |
| Quer, Claver & Andreu | 2007 | Secondary data from various resources about Spanish hotel firms' international entry decisions. | The purpose of the study was to find out the influences of different variables in choosing the entry mode in a foreign country. One main finding was that cultural distance reduces the likelihood of choosing equity entry modes. |
| Velo & Mittaz | 2006 | Using a case study methodology to compare the data (obtained through interviews) with the base case. | The purpose of the study was a comparison of the problems faced by three major international hotel chains (Mövenpick, Kempinski and Radisson) when expanding into emerging markets with the base case of Moscow Aerostar hotel. The research also found out which skills should be enhanced in order to produce professionals mentally equipped to face challenges in internationalization of hotels. These skills are for example: open mindness, culture awareness, planning and adaptational capacities. |
| Johnson & Vaneti | 2005 | Questionnaire survey of 14 samples. | The purpose of the study was to find out which are the most important variables to an international hotel operator when it decides to go international. Key finding was that where there is high political risk, lower levels of resource commitment are preferred. |
| Frehse, Jörg | 2002 | Quantitative study through questionnaires. | The purpose of the study was to measure international service competencies in an alpine hotel. One of the main findings was that more than half of the hotel guests select the hotel based on its location rather than the hotel itself. |

| | | | |
|--------------------------|------|--|---|
| Rodriquez, Ana Ramon | 2002 | Secondary and primary sources (questionnaire answers of 20 international Spanish hotel companies). | The main objective of the study was to verify whether the concepts derived from the transaction-cost, agency and the strategic theories of organizational capability and knowledge can explain the mode of foreign expansion. They showed that the choices of entry mode in global strategies are consistent with the transaction-cost theory. |
| Roper, Brookes & Hampton | 1999 | A case study, data obtained through interviews. | The aim of the study was to research how far a local/ global perspective is utilized by international hotel groups and the impact it has on the performance of the group. Main finding was that geocentric approach was noted to be the "ideal approach". |
| Contractor & Kundu | 1998 | Questionnaire to hotel firms with foreign operations (covers about 60 % of them). | The objective of the study was to analyze organizational form choice in the international hotel sector. The main finding was that higher equity and control modes are preferred by companies with longer international experience and geographic reach. |
| Dunning & Kundu | 1995 | Questionnaire survey of 118 firms in 18 countries. | The purpose of the study was to measure the meaning of ownership and locational factors as well as international advantages in affecting the decision on internationalization of a hotel. They found out that international experience is the only factor, which is statistically significant across the entire sample. |
| Kundu, Sumit | 1994 | Questionnaire survey of 110 samples & secondary data. | The purpose of the study was to explain the determinants of globalization in the hotel industry. One of the main findings was that the size and growth of the host country as well as opportunities for tourism were found to be the most important variables influencing the location choice for hotels in developed countries. |
| Dunning & McQueen | 1982 | Primary and secondary data. | The purpose of the study was to collect new information on the structure of the international hotel industry at that time. Some of the main findings were that US-based multinational hotel corporations accounted for about 50% of all the multinational firms and the leading 26 firms accounted for about 80% of the total number of foreign hotels. |

Appendix 2: Operationalization table

| The purpose of the study | Sub objectives | Theory background | Interview questions |
|---|--|---|---------------------|
| The purpose of the study is to describe the role of location in the international market selection process in hotel business. | In what phases of the international market selection is the location taken into account? | International market selection (IMS) & IMS in hotel business | 2, 3, 4 |
| | What kind of effects does location have on the international market selection? | The role of location in the IMS & the role of location for hotels | 5, 6, 7 |
| | What kinds of features of the location have the most vital meaning? | IMS in hotel business & the role of location for hotels | 8, 9 |

Appendix 3: Interview questions

1. Could you tell me something about your background?

International market selection

2. Who makes the decision on international market selection? And location?
3. What kind of strategy SOK has towards internationalization? The degree of internationalization? Where? Plans for the future? How is the international market selection done? Which phases does it include? How long does it take? (picture)
4. What are the most important determinants in international market selection? Why?

Role of location in the IMS

5. When do you start thinking about the location on the selected market? Is the location choice simultaneous choice with the market choice? Does it happen differently in different cases, could you tell some examples?
6. What kind of meaning the location plays in the international market selection process? Why?
7. Are there differences in the meaning of location between the various market selection processes? What kind of differences?

Most vital features of the location

8. What kind of meaning the location plays in general in your company? Why? What kinds of locations are sought for what kind of hotels? In what kind of cities? What kind of locations inside the cities?
9. What kind of features of the location are “musts” for your company and what are “wishes”? Why? What lacks of the location could result in withdrawing from a market? Why?

Appendix 4: Interview questions in Finnish

1. Voisitteko kertoa jotain taustastanne?

Kansainvälinen markkina-alue valinta

2. Kuka tekee päätöksen kansainvälisestä markkina-alue valinnasta? Ja liikepaikan valinnan?
3. Minkälainen kansainvälistymisstrategia SOK:illa on? Miten paljon kansainvälistytään ja minne? Tulevaisuuden suunnitelmat? Miten kansainvälinen markkina-alueen valinta tehdään? Mitä vaiheita siihen kuuluu? Kuinka kauan se kestä? (kuva)
4. Mitkä ovat tärkeimmät tekijät, jotka vaikuttavat kansainväliseen markkina-alue valintaan? Miksi?

Liikepaikan merkitys kansainvälisessä markkina-alue valinnassa

5. Missä vaiheessa liikepaikka aletaan ottaa huomioon uutta markkina-alueita valitessa? Onko liikepaikan valinta yhtäaikainen valinta markkina-alueen valinnan kanssa? Onko eri tapausten välillä eroja, voisitteko kertoa esimerkkejä?
6. Minkälainen merkitys liikepaikalla on kansainvälisen markkina-alueen valinnassa? Miksi?
7. Onko eri markkina-alueiden välillä eroja liikepaikan merkityksessä? Millaisia eroja?

Tärkeimmät liikepaikan ominaisuudet

8. Minkälainen merkitys liikepaikalla on yleisesti? Miksi? Minkälaisia liikepaikkoja etsitään minkä tyyppisille hotelleille? Minkälaisissa kaupungeissa? Minkälaisia liikepaikkoja kaupunkien sisällä?
9. Mitä ominaisuuksia liikepaikalla tulee ehdottomasti olla, jotta se on hyvä? Miksi? Minkälaiset liikepaikan ominaisuudet ovat taas vähemmän tärkeitä, mutta silti toivottavia? Miksi? Minkälaiset puutteet liikepaikassa voivat johtaa siihen ettei tietyille markkinoille mennä ollenkaan? Miksi?