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MERGERS AND ACQUISITIONS IN THE EUROPEAN TOURISM INDUSTRY: THE CASE OF SPAIN AND GERMANY

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Abstract

The purpose of this thesis is to provide an overview on the rise in mergers and acquisition deals in the European tourism industry. The peculiarities of the industry are exposed, together with the definition of merger and acquisition, and their types. The incentives, advantages and disadvantages are analysed as they have an importance in the merging or acquiring companies' decisions. Other relevant aspects studied are the negative effects that mergers and acquisitions can have on social welfare, which are the evidence of the need for regulation. The role of the European Commission as a competitive policy maker is summarized and a comparison of regulation policies between Spain and Germany is made. Finally, the growth strategy through mergers and acquisitions of *Globalia,* from Spain, and *TUI Group*, from Germany, are presented. The results show that, even if mergers and acquisitions can reduce consumer surplus and produce inefficiencies of allocation, they are still common. Competition authorities have allowed these deals due to the high concentration that exists in the tourism industry.

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1. Introduction

Tourism is a globalized sector, not just in terms of cross-border flows of customers, but also in terms of ownerships and investments (Hjalager, 2007). This paper aims to provide an overview on the increasing merger and acquisition activities in the European tourism industry. The study summarizes the incentives, benefits and advantages of mergers and acquisitions, together with their impact on society. Finally, the intervention of the European Commission and Germany's and Spain's Competition Authorities are analysed. Moreover, the examples of *Globalia* (Spain) and *TUI Group* (Germany) are provided, as companies whose strategic growth is based on merging and acquiring.

The methodology that has been followed is the collection of data from different articles and books, in addition to resolutions and laws from the Competition Authorities. The findings are that most of the cases that are reviewed by the European Commission or the Authorities of the Member States are ruled as clear, due to the high concentration of the industry and the small possibility of having negative impacts on society.

1.1. Importance nowadays

Hospitality and tourism are a growing industry, with an average annual growth of 5% in international arrival in the past five years (UNWTO, 2019). In 2018, it was the second-fastest-growing industry after the manufacturing industry (Xudoyarov, 2019).

Nowadays, Europe is the most important continent in terms of both outbound and inbound tourism (Ana, 2017). According to the latest report from the World Tourism Organization (UNWTO), the 51% of the international tourist arrivals in 2019 were to Europe, followed by Asia and the Pacific which accounted for 25%. In 2018, 80% of the travel from Europe were intraregional travels, meaning that departure and arrival were to an European country. In this case, Europe was closely followed by Asia and the Pacific area, which had 79% of interregional travel.

Regarding mergers and acquisitions, there has been fluctuation in the number of deals and their value over the last decades. The amount of transactions worldwide declined by an 8% in 2018, however their total value rose by a 4%. The value transactions in Europe in 2019 sum up to a third of the global amount that year (The institute of Mergers, Acquisitions and Alliances- IMAA-, 2019).

The IMAA ranked the mergers and acquisitions by sectors, classifying the hotel and lodging industry and travel services as number 25 and 57, respectively, out of 91 of the industries with most mergers and acquisitions. The hotel and lodging industry had 13.846 between 1985 and 2016, whereas the travel service sector had 4.228 deals, during the same period.

1.2. Peculiarities of the tourism industry

The UNWTO (n.d.) defines tourism as a social, cultural and economic activity that people do when visiting places of interest outside their country or their usual environment for leisure or business intentions.

Any company could merge or acquire, but the characteristics of the industry might affect the degree of importance of some advantages and disadvantages or their possibility to happen. Kandampully et al. (2001) explain some unique characteristics of the hospitality and tourism industry that differ from product services, such as:

- *Intangibility:* tourism services have no physical dimensions, implying that tourism cannot be displayed, sampled or tested before the purchase, which is why brand loyalty is more important in this industry than in others.
- *Inseparability of production and consumption:* it requires a simultaneous presence of customer and servicer.
- *Heterogeneity:* it has different standards and quality over time. Each service experience is different, because it is delivered from person to person, and both of their performances influence the experience perception.
- *Lack of consistency:* it is the result of heterogeneity, where uniformity is difficult to achieve. To overcome this, tourism companies invest in their personnel training.
- *Perishability:* tourism cannot be stored.
- *Difficulty to control quality:* their perishability and intangibility makes it difficult to control, test and evaluate quality.
- *Easy imitation:* it is impossible to keep competitors away from a location, and patents are almost non-existent.

Zhang (2020) also points out some specific characteristics from the hotel industry. First, it requires more financial capital for fixed assets and human capital. This peculiarity of high fixed investments leads to high exit barriers. Another characteristic is that the growth in leisure patterns is closely related to the hotel companies, meaning that if tourism gets more popular in a country, hotel companies may be doing mergers or acquisitions to enter the country. Finally, hotels do real estate investments, and it will be closely related to what happens in that industry.

Because of these singularities, we can conclude that the hospitality and tourism industry has larger leverage, has more risk and is more capital-intensive and competitive than other sectors (Signal, 2015).

1.3. Definition of Mergers and Acquisitions

Cunill (2006) gives the following definitions of mergers and acquisitions. A merger is a fusion of two or more companies, generally of a similar size, leading to the creation of a new company and dissolution of the original companies. In contrast, an acquisition implies that one company purchases the other, taking control over his ownership.

Other authors, such as Majaski (2020) and Gaughan (2007) would not agree with these definitions. Majaski explains that acquisitions are sometimes referred to as a hostile takeover, because one company absorbs the other. Contrary to Cunill, she believes only the first one continues, meaning that the second one goes out of existence. Cunill defines this phenomenon as absorption, an acquisition where the company purchased disappears. On the other hand, Gaughan has a different opinion from the commonly accepted definition of merger, he defines merger as a combination of two businesses in which only one persists, implying that the merged or acquired firm disappears.

As can be seen, the two terms have become increasingly blended. According to Majaski, acquiring companies may refer to an acquisition as a merger. This is because acquisitions are usually thought to be hostile and to have a worse connotation than mergers, which have a voluntary and friendly nature. Furthermore, Cunill points out that from a strategic analysis point of view the three terms have no differences, which is why they are used as synonyms.

1.4. Types of Mergers and Acquisitions

Gaughan (2007) categorizes mergers depending on the relationship between the companies into: horizontal mergers, vertical mergers and conglomerates. In *horizontal mergers* two competitors combine to reach a higher market power together. This type of mergers can be forbidden on antitrust regulations. When two firms merge *vertically* it means that the two companies are part of a vertical chain, that they have a buyer-seller relationship. Finally, a *conglomerate* merger occurs when the companies are not competitors nor vertically related. Between 1981 and 1998, roughly 70.000 mergers were announced worldwide, horizontal mergers accounted for 42 percent, conglomerate mergers for 54 percent and vertical mergers 4 percent (Gugler et al., 2003).

We can also find congeneric mergers, market-extension mergers and product-extension mergers (Hayes, 2020). A *congeneric merger* involves two companies that sell related products to the same client, such as a TV and a cable producer. A *market-extension* merger combines businesses that retail identical goods but in different markets. And a *product-extension* merger joins two firms who sell related products in a specific market.

Mergers and acquisitions can also be divided according to the geographical division. They can be domestic, within the same country, or cross-border, when companies have their headquarters in different countries (Hitt et al., 2007). The percentage of cross-border mergers are increasing every year. Between 1981 and 1990, only 16 percent of the global merger were cross-border. At the end of the century, it rose to 25 percent. The regions leading the amount of cross-border merger are Japan, with 53 percent, and Western Europe, with 33 percent (Gugler et al., 2003).

2. Incentives, Advantages and Disadvantages of Mergers and Acquisitions

2.1. Incentives

Not all companies have the same reason to merge or acquire and usually the final decision is influenced by a combination of incentives (Cunill, 2006).

Gaughan (2007) exposes that the most common reason is *growth* or *expansion*. This expansion can be of a line of business or into a new geographical area, and it will be quicker with external growth. Through this expansion, companies can gain synergies, which occur when the combination of two entities is more profitable than the two of them operating alone. Gaughan states that getting these operating synergies (economies of scale or scope) and financial synergies (lower capital cost) is another main motive for merging or acquiring. A third main reason is diversification, defined as growing outside a company's current industry (Gaughan, 2007). With all these approaches, companies aspire to increase their efficiency and profitability (Cunill, 2006).

Some other economic reasons are achieving *horizontal and vertical integration* (Gaughan, 2007). Horizontal combinations can increase market shares and power, while vertical combinations (backward or forward) can be done to assure a reliable source of supply or distribution channel. As Cunill (2006) explains, some companies aim to reduce competition and to improve the stability of results with these combinations.

Furthermore, there are other motives that can play an important role in the decision to merge or acquire (Gaughan, 2007), such as: *improving management*- or solving management problems (Cunill, 2006)-, *improving Research and Development, improving distribution and tax benefits*. Another reason to merge is when a company aims to find an outlet for surplus funds or raise the value of shares (Cunill, 2006).

Gaughan (2007) also mentions the hubris hypothesis by Roll (1986). This hypothesis explains some combinations through the role of the manager's pride, who has its own goal. Trying to achieve this, he might be willing to pay a premium for a company that already has an objective market value assigned. The manager's subjective and superior value is viewed by himself as the accurate one.

2.2. Advantages

Incentives and advantages for mergers and acquisitions have a close relationship. As it was mentioned, most organizations have more than one incentive to merge or acquire, and through the combination they may achieve those objectives together with other advantages. Each advantage reachable can be an incentive for a company, and even if the companies had one or more specific incentives, they could reach other different advantages. Therefore, some advantages closely linked to the purpose of merging or acquiring are: growth, synergies, diversification, reducing competition, increasing market share and market power, improving management, improving research and development, improving distribution, tax reductions.

Furthermore, the following advantages can come from choosing external growth over internal growth, which is common in the tourism industry (Cunill, 2006):

- External growth is a more rapid process than internal investment, and this time reduction is key in an unstable environment.
- As the firm already existed in the market, the acquiring firm can increase his market share without the risk of overcapacity, such as in mature sectors.
- It enables the acquisition of technical and human resources or intangible assets, which are not in the market.
- It can overcome the entry barrier of a specific market, such as in countries with legal restrictions.

Mergers and acquisitions have an important role in cross-border deals, because it provides the know-how of the target market, indigenous staff and distribution network (Gaughan, 2007).

Other advantages that a company can gain through merging or acquiring are (Ceausescu, 2008):

- Marketing advantages (buying a market presence, unifying departments and protecting an existing market)
- Production advantages (raising productivity, buying technologies and skills, sheltering supplies and reaching economies of scale)
- Finance and management advantages (improving quality management, obtaining cash flow resources and tax advantages)
- Risk spreading
- Independence (from a supplier or distributor)

2.3. Disadvantages

The process of merging or acquiring is not easy, and some disadvantages may arise. Ceausescu (2008) summarizes a few disadvantages as follows:

- High costs
- Dislike for suddenly takeover from customers, corporate financiers and banks
- Incompatibility of their organization culture
- Asymmetric information
- Personal goals as driving forces

Other complications that might appear are:

- Even though there have been improvements in the financial analysis of companies, mistakes can happen in the valuation of the company acquired or both companies involved in the merger (Cunill, 2006).
- It is important to account for structural and cultural conflicts (Cunill, 2006), more so given that the tourism industry has a large human force.
- Given that the shareholder's aim is to maximize profits minimizing the risk, it may not always align with the management goals or decision to merge or acquire (Gaughan, 2007).

Another disadvantage, that Gaughan (2007) points out, is that when a horizontal merger is incentivized by higher market power and increased prices, there is a possibility of not achieving that goal. If the market has low barriers to entry and no differentiation, new competitors will enter once the merged company raises prices, making the market more concentrated. This implies that even if the merged company initially increases market share, at the end, that would not be translated into higher power or price.

He also emphasises that most of these conflicts could be avoided with a clearly defined growth strategy, by doing a careful analysis of the companies' compatibility, strategies and business cultures.

3. Welfare implications

As we have seen, companies can gain advantages from mergers and acquisitions, however, as Papatheodorou (2006) states, it is important that buyers also benefit from it. This could happen thanks to a decline in price, quality improvement or product innovations. The effects that a merger or an acquisition can have on social welfare differ depending on the market conditions. As we have mentioned, one characteristic from the tourism industry is that it is a broad market with heterogeneous products.

The welfare implications can be determined through market power and prices or diversification.

3.1. Implications of increasing market power and prices on social welfare

In a perfect competition market structure, the market price set is the marginal cost, which maximizes social welfare (Shy, 1995). The tourism industry, as many other industries, has a market structure closer to perfect competition than to monopoly. Nevertheless, it does not have a pure perfect competition market structure, hence social welfare is not maximized. Furthermore, when a merger takes place in the market, its structure moves closer to a monopoly structure and further from the perfect competition.

Many economists have studied mergers and their consequences. Some of them have tried to measure the welfare loss when concentration is increased. Although, Gaughan (2007) believes that some authors have failed in determining deadweight loss in both monopoly and oligopoly market structures.

The most direct consequence of a merger is an increase in concentration, which leads to the most analysed impact of merger: increasing market power of the merged companies, and therefore, decreasing market power of competitors. Gaughan (2007) defines *market power* as the ability to set the price above the competitive level. Cabral (2000) explains the impacts of an increase in companies' market power as follows. Firstly, with greater market power companies can set higher prices, over the marginal cost, which leads to a transfer from consumer surplus to sellers' profits. This implies that there is a deadweight loss, because the decrease of consumer surplus cannot be covered by the increase in profits, leading to a lower social welfare. Secondly, inefficient allocation of resources occurs, due to an increase in the price but not in quality or value, which reduces the number of units sold. Lastly, there is productive inefficiency due to a reduction in competition, which gives firms less incentives to be cost efficient.

Although there is a consensus on the decrease of consumer surplus, the impact of mergers, or of increasing concentration, on social welfare (total surplus) has not reached a general conclusion among economists. Some authors would not agree with Cabral's statement, that social welfare is reduced after a merger. For example, Kim and Signal (1993) reach the conclusion that it is complicated to measure if the decrease in consumer surplus is covered by the increase in producer surplus, which makes it difficult to determine the effect on social welfare. They base their study on airline mergers between 1985 and 1988. Their findings are that prices rose due to an increase in concentration and market power, leading to a transfer from consumer surplus to producer surplus. However, producers also gain efficiency due to operational synergies, such as sharing hubs.

3.2. Implications of diversity changes on social welfare

Aside from the impact that mergers and acquisitions have on market concentration and price, they also have an additional effect on diversity, which will have an influence on welfare as well (Mazzeo et al., 2012). Escrihuela (2011) shows that mergers can increase welfare if the differentiation is enhanced after the merger. However, the previous scenario will occur only if products are close substitutes (Mazzeo et al., 2012).

As we have already mentioned, tourism products are heterogenous. They can be differentiated vertically, through quality, and horizontally, through different varieties (Papatheodorou, 2006). Mazzeo (2012) suggests that in this type of market, with highly differentiated products, a horizontal merger could reduce consumer surplus. This could be due to the high degree of differentiation that implies that firms almost do not compete. In this case, the merger would change market power, but would have little impact on prices and offerings.

Even though there have been numerous studies and simulations on specific industries, Mazzeo (2012) states that this dimension of product variety changes is not usually part of merger policy decisions, due to the absence of a general framework to determine welfare changes.

3.3. Overall effect on social welfare

As we have seen, there is not a generally approved theory about the impacts of a merger, given the peculiarities that different industry may have. However, it is commonly thought that, from a social point of view, increasing market power has negative effects. Its main negative impacts are reduction of consumer surplus, deadweight loss, inefficient allocation of resources and productive inefficiency.

4. Regulatory framework

Given the possibility of negative effects to society and the market competition, mergers and acquisitions are subject to public regulation. In Europe, the European Commission, created in 1958, has the authority to regulate mergers, under the legal basis of the Regulation (EC) No. 139/2004 by the Council of the European Union.

However, not all mergers are overviewed by the Commission. Their merger control procedures only investigate larger mergers with a European dimension. This dimension implies that the companies had reached certain worldwide or European turnovers after the combination (For more details about these specifications, see Appendix 1). Due to these specifications, the Commission examines around 300 mergers every year.

On the other hand, the smaller mergers will be regulated by the Member States' competition authorities. Even though the competency areas of the European Commission and the Members' authorities are clearly defined, there is a procedure that tolerates the transfer of cases between Member States and the Commission, when a firm involved or the Members' authority requests for it.

4.1. Role of the European Commission

The European Commission bases its merger decisions on a main legislative text *EU Competition Law Rules Applicable to Merger Control*, updated last in December, 2014. Given that this regulation prohibits mergers and acquisitions that would significantly reduce competition in the Single Market, there are worth mentioning the articles 101 and 102, which specify those mergers that shall be prohibited (For more details about the articles, see Appendix 2 and 3).

For a merger with an EU dimension to happen, the European Commission has to have approved it, concluding that it does not significantly reduce competition. But the Commission is not actively looking for the mergers with an EU dimension that could occur. It is the responsibility of the merging parties to notify the Commission before the merging process happens.

The Commission's merger control procedures are public and available on their website. This information shows the guidelines for the analysis of the case after the notification. First, there is a *Phase I: investigation*, where the Commission has to reach their first conclusion within 25 working days. If there is the possibility of the merger seriously altering competition, the time is extended to 35 working days, and the merging companies might present remedies- that could also be offered in *Phase II*). These remedies should guarantee continued competition on the market, and the Commission, through an independent trustee, evaluates if they are feasible and enough to discard competition concerns.

In *Phase I*, a first conclusion is reached. The merger can be: approved, without any condition, approved relying on the suggested remedies, or pending approval, with the initiation of *Phase II: investigation*, due to competition concerns.

When a *Phase II* is opened, the Commission has 90 working days to do an in-depth research of the merger's impacts on competition. If the Commission concludes that the merger can impede competition, it notifies the parties about its preliminary conclusions. Then, parties can consult the case file and request an oral hearing by the competition Hearing Officer.

After this process, the final decision is published on their website. The Commission can reach three resolutions: approving the merger with no conditions, clearing the merger subject to remedies; or forbid the merger, when no adequate remedies were suggested by the involved companies.

4.2. Spanish and German Competition Authorities

American were the pioneers of Antitrust laws, with the Sherman Antitrust Act in 1890 against cartels and informal agreements (Quack and Djelic, 2005). The first move on Europe to unify forces was in 1957, when the Treaty of Rome was signed and the European Economic Community (EEC) or 'Common Market' was created. This does not imply that, before there was not any kind of merger control in Europe, since European countries had and have independent regulatory bodies. The case of Germany and Spain as European Member States are synthesized below, together with their history and competition authorities that supervise smaller mergers in both countries.

The case of Germany:

As Quack and Djelic (2005) remark, between World War I and II, Germany suffered hyperinflation and cartel activities increased. After World War II, American authorities occupied Germany and introduced decentralization laws in 1947, due to the belief of the role of cartels in the establishing of the Nazi Empire. These laws were the first attempt to regulate competition in Germany. Later, they evolved during a decade, until 1958, when the Act Against Restraints on Competition (ARC), also referred to as German Antitrust Act, came into force. It is not a coincidence that this Act was enacted a year after the Treaty of Rome was signed, being the first step into a European Regulatory Framework.

The *Bundeskartellamt* (Federal Cartel Office or FCO) has had the German competition authority since 1958, when they published the ARC. This act was created to protect competition in the Federal Republic of Germany, independently if restraint came from inside or outside the country. Due to changes in the country and global economy, the Act has been amended 10 times.

Beinet (1997) explains that given the low number of mergers and acquisitions in Germany the first Antitrust Act was able to protect some competition issues. Even though, as Payne (2002) mentions, the country was delaying a new Act for decades. The first evidence was the hostile takeover of Krupp and Thyssen in March of 1997. Later, at the beginning of 2001, Allianz, one of the largest German insurance companies, merged with Dresden Bank, the second largest German bank. This merger showed the need of a framework of rules for mergers, acquisitions and public takeovers (Payne, 2002). It is also remarkable that, since the first amendment, the German competition authority (FCO) had developed their laws quite independently from the European competition laws. Therefore, one of the most important amendments is the seventh amendment in 2003, which included some changes due to the modernisation principles of Regulation 1/2003 of European Competition Law (Weitbrecht and Zühlke, 2006). However, as Weitbrecht and Zühlke (2006) highlight, the article 81 of this Regulation explains that EC will prevail over national competition law in all situations where EC law is applicable.

The most recent Amendment of the ARC is the 10th Amendment, which entered into force on January 19, 2021. As it is stated on the Press Release of the FCO (2021), the new Amendment, "ARC Digitalisation Act", has updated the German law to include protection of competition regarding the digital economy (For more details about the major changes explained on the Press Release, see Appendix 4).

The case of Spain:

The competition authority in Spain is the National Commission of Markets and Competition (*Comisión Nacional de Mercados y Competencia* or CNMC) since 2013. It was created to guarantee, preserve and promote the proper operation and transparency in all markets for the benefits of users and companies, through ensuring efficient regulation (CNMC, nd). Its main functions are:

- Enforcing the Spanish and European antitrust laws
- Promoting competition
- Promoting market unity
- Settling disputes
- Overseeing every economic market

The CNMC is the result of the combination of 7 previous Commissions, created between 1995 and 2011. These Commission are the National Energy Commission, Telecommunications Market Commission, Rail Regulation Commission, State Council for Audio-Visual Media, National Postal Sector Commission, Airport Economic Regulation Commission and the National Competition Commission (CNC) from 2007 (CNMC, n.d.). This unification to create a new independent body, aligns with the liberalization of the country, ending of state monopolies and the adaptation to European regulations.

Before the 1960s, Spain had a traditional interventionist economic policy. But during the 1960s, as Pack (2006) remarks, Spain opened to the European tourism, while it was under Franco's dictatorship.

After the EC was created in 1958, Spain's first competition law was published in 1963, which was the first move towards liberalization. Since then, many of the state monopolies have been privatized. The country took a second step toward the European policy in the 1970s, when the new Constitution was introduced in 1978 (OECD, 1999). Finally, the third reform came during the 1980s, when a new Competition Act was published in 1989.

As the OECD (1999) explains, the aim of the new Act was to guarantee the existence of enough competition and economic efficiency while protecting the public interest, and while not being incompatible with regulating laws.

The Competition Act 15/2007 from July 3, 2007 is the most recent version of the Act and it is the Competition Law applicable to this day. The changes introduced in this new version have improved the independence of the competition body and the efficiency of the legal framework (De Cos et al., 2011).

Similarities of FCO, CNMC and EC:

The German and Spanish merger control processes are quite similar to the European Commission. As other State Members, they work closely with the Commission to achieve a Single Market. In the end, all competition authorities aim to protect consumer, entrepreneurs and the society.

As the process from the EC, the FCO or the CNMC can clear a merger or acquisition in Phase I or II, and if the competition could be compromised, in Phase II, the merger or acquisition can be prohibited. Moreover, the merging parties must notify their respective body, depending on the turnover reached. Finally, they all have publicity on their website, where resolutions can be found, which is the topic of the next chapter.

5. The growth strategy of Globalia and TUI Group

Some of the mergers or acquisitions notified to competition authorities are cleared and others are prohibited. In the tourism sector most of them have been cleared due to the high degree of concentration of the industry. However, having the approval of the merger control body does not imply that the merger or acquisition will be successful. Some examples of resolutions are specified below, together with the study of the growth strategy of *Globalia* (Spain) and *TUI Group* (Germany).

These two tourism groups have in common that they both were successful in their strategy up until now. Furthermore, both have tried to increase their market power and have a better position among competitors by merging or acquiring horizontally. But they also aim to reduce cost and increase the efficiency of their distribution channel by merging vertically. Another outcome of their larger structure is that they can tailor and reach a bigger audience with different quality services and product.

5.1. Globalia

Globalia is the first and one of the biggest Spanish travel groups. As it is stated in *Globalia*'s webpage, the Company is built by a set of companies that compete successfully in different sectors. It has an airline (*Air Europa*), a travel agency (*Halcón Viajes*), a tour operator (*Travelplan*), a welcoming travel agency (*Welcome*), a hotel chain (*Be Live*), a handling company (*Groundforce*) among other firms.

Globalia was created in 1971 by Juan José Hidalgo, as a travel agency, *Halcón Viajes*. In 1988, it was followed by the tour operator, *Travelplan*. Since then, the growth of the company through merger and acquisition started, together with some companies they created from the ground. Hidalgo acquired the airline *Air Europa* by majority participation, in 1991. In 1998, all the companies under Hidalgo's control were combined to create the holding *Globalia Corporación Empresarial*. Between 2000 and 2020 more companies were acquired by *Globalia*, such as Iberotours, the travel agency *Viajes Ecuador*, *Iberrail*, *MK Tours*, *Tubillete.com* and the bedbank wholesaler *Marsol*.

Some of *Globalia*'s acquisitions were big enough to be supervised by the CNMC. In 2003, the resolution for the acquisition of *Viajes Ecuador, Wagons Lits Viajes* and *Iberotours* was cleared, because it did not block competition in the market they operated (CNMC, 2003).

Globalia's most recent decision is to merge their travel agency, *Halcón Viajes*, with *Ávoris*, travel agency from Barceló. The process of merging has not begun yet, even though the CNMC cleared the merger in 2020.

All these processes than *Globalia* has gone through have allowed them to compete among bigger companies, as Ledo (2019) states. Nowadays, after the merger of their travel agency, *Globalia*'s biggest competitors are *Viajes el Corte Inglés* and *TUI Group.*

5.2. TUI Group

TUI Group is nowadays one of the largest tourism companies in Europe. Its growth strategy is similar to *Globalia*, in the sense that they used merger and acquisition to expand. However, as they mention in their webpage, *TUI* is a bigger group. It has tour operators, 1,600 travel agencies and online travel agencies, five airlines, over 400 hotels, 17 cruise liners and many incoming agencies.

The business has more than 70 years of experience since it started as *Preussag AG*, in 1923. *TUI AG* entered the market in 1997, when *Hapag-LLoyd* was acquired, and *TUI Travel* was created in 2007, as a result of the merger of the tour operating division of *TUI AG* and *First Choice Holidays PLC*, from the UK. Nowadays, their divisions, *TUI AG* and *TUI Travel PLC*, became *TUI Group* due to the natural progression (TUI, n.d.)

As Dittmann (2008) points out, it is impressive how *Preussag*, a diversified conglomerate of old economy businesses, such as metal, steel, mining, shipbuilding and plant construction, evolved into TUI, a firm whose actual core business is tourism and logistics. Its first step into the concentrated tourism industry was in 1997, when *Preussag* bid for *Hapag-Lloyd AG*, a company that worked in global container shipping, airlines, travel agencies and luxury cruises. This shift was the evidence of the growth in the tourism and service market, compared to the manufacturing economy that previously dominated Europe (Dittmann et al., 2008).

After *Preussag*'s acquisition of *Hapag-Lloyd*, between 1997 and 2004, they acquired other 26 companies, being 16 of those from the tourism sector (Dittmann et al., 2008). Some other acquisitions that helped the group grow and diversify from its older industrial businesses were *Thomson Travel Group*, *Fritidsresor* and *Nouvelles Frontières* and shareholdings in the hotel groups *RIU* and *Magic Life* (TUI, n.d.).

Since *TUI Group* operates in a wider geographical range, there have been resolution by the EC, FCO and CNMC, which have been all cleared. Some concentration authorizations by the EC are the acquisitions of *Hapag-Lloyd, First Choice* and *Canadian Pacific Steamship Company.*

TUI also have sold some companies and assets. In 2004, the CNCM cleared the acquisition of a travel agency that was part of *TUI Spain* by the travel agency *Viajes Iberia* from *Iberostar Group.* And, in 2009, the CNMC and the FCO authorized the acquisition of *TUIfly* flight routes by *Air Berlin*.

As Viardot (2014) remarks, the group has grown vertically and horizontally to adapt to the evolution of the industry, which know consists of customer that look for individualization and other that rather have a standard service.

5.3. Consequences of Globalia's, TUI Group's and other mergers and acquisitions

It is difficult to determine the consequences of these type of mergers on the tourism sector, as it is a fragmented industry. It has been concluded that it is a competitive market, but it can be divided into different submarkets, such as airlines, accommodations, food and beverage (F&B) and intermediaries (Travel Agencies and Tour Operators). Each one of this segments has their market characteristics.

In the European hotel industry, the presence of international brand has increased, and, according to Peters and Frehse (2005), there is a lack of research about its impact on concentration. A study by Eurostat concludes that 99'4% of Spanish accommodation and F&B companies are considered small businesses (up to 49 workers), but only 75'2% of employees in that sector work for small enterprises. In Germany, the 97'6% companies in the sector are small, and 72'9% of the workers in accommodation and F&B work for those businesses. This numbers are common in the other European Countries. In the hotel industry, the result around market share do not differs from the previous data, as the ten largest hotel companies own less than 5% of the total amount of supply (Myncke et al., 2014). Even though, bigger companies and internationalized hotels have a stronger and standardized strategy, smaller businesses are able to compete through differentiation. These could lead to the assumption that *Globalia*'s and *TUI Group*'s mergers of hotels barely increased concentration and did not produce a negative impact on society or competitors.

However, the impact of mergers and acquisitions in the air passenger transport is different because it is a higher concentrated industry. Based on Planestats' (2016) analysis of the concentration of European airlines, in 2005 the five biggest airlines had almost 40% of the total seats, while in 2015 they had 50% of the total capacity. At the same time, the 30 biggest airlines accounted for almost 80% of seats in 2005 and almost 90% in 2015. Due to this reason, as Shen (2017) points out, some studies have proved that the price rises in the routes directly affected by a merger, although, there is not much empirical. Furthermore, the structure of the air transport has suffered modifications in recent years, due to a reduction of the governmental intervention (Mantecchini et al., 2013). Airlines had to adapt their strategies, and like in other sectors with high concentration, Fu, Oum & Zhang (2010) point out that companies who do not reach the same level of efficiency as their competitors end up bankrupt or merged.

Lastly, the market of tourism intermediaries has over 78.000 players, whose majority are small companies. Although, it is also dominated by the bigger corporations. The five biggest companies own 70% of European market share (Myncke et al., 2014). As they mention, the British market was dominated by TUI after acquiring First Choice Holidays in 2007. They also point out that in this sector many major players have been able to achieve their position by acquiring their competitors or distributors. As we have seen in the regulation chapter, these transactions are always reviewed by the European Commission due to their reach. This merger was cleared with remedies, the Commission ruled that *TUI Group* had to sell their Irish division to avoid an almost monopolistic market power for the group in that region.

6. Conclusion

This research has provided a better understanding of the growth in the number of mergers and acquisitions in the European tourism industry. Starting with the reasons for merging or acquiring, its advantages and the inconveniences that companies may face. Followed by stating the damaging effects that this kind of activities can have on society, which is the main motive for their regulation by Competition Authorities. Lastly, the European Commission and Competition Authorities of Germany and Spain have been compared, together with an example of each country, *TUI Group* and *Globalia*, respectively.

The finding suggests that the large presence of mergers and acquisitions in the European tourism industry is due to the possibility of growth and expansion, either geographically or in terms of product diversification. However, the disadvantages and social impact should not be neglected. Most of the inconveniences that may arise for the company could be avoided by having a clear growth strategy developed and an analysis of the merged or acquired companies. Furthermore, these types of deals are supervised by the European Commission and other Competition Authorities from European countries because of their negative impact on society. Their main effects are reduction of consumer surplus, deadweight loss, inefficient allocation of resources and productive inefficiency.

Moreover, the European Commission, the FCO from Germany and the CNMC from Spain, have similar merger control procedures and work closely to assure that mergers and acquisition will not harm consumers, competitors or society in general.

Lastly, as seen through the examples of *Globalia* and *TUI Group*, most of the mergers and acquisitions are approved by regulatory bodies. The main reason is usually that they do not obstruct competition, given that the tourism market is slightly concentrated. However, there are different segments and activities in the tourism sector that have a higher concentration (such air airlines and intermediaries), and therefore, may experience a more significant impact when a merger or acquisition happens.

Given the peculiarities and scale of the tourism market, a more complete analysis is needed, as it would provide a better comprehension of the results and consequences after a merger or acquisition happens in this industry.

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Appendix

Appendix 1: EU dimension specifications

There are two alternative ways to reach turnover thresholds for EU dimension.

The first alternative requires:
(i) a combined worldwide turnover of all the merging firms over €5 000 million, and
(ii) an EU-wide turnover for each of at least two of the firms over €250 million.
The second alternative requires:
(i) a worldwide turnover of all the merging firms over €2 500 million, and
(ii) a combined turnover of all the merging firms over € 100 million in each of at least three Member States,
(iii) a turnover of over €25 million for each of at least two of the firms in each of the three Member States included under ii, and
(iv) EU-wide turnover of each of at least two firms of more than €100 million.

In both alternatives, an EU dimension is not met if each of the firms archives more than two thirds of its EU-wide turnover within one and the same Member State.

Appendix 2: Article 101

1. The following shall be prohibited as incompatible with the internal market: all agreements between undertakings, decisions by associations of undertakings and concerted practices which may affect trade between Member States and which have as their object or effect the prevention, restriction or distortion of competition within the common market, and in particular those which:
(a) directly or indirectly fix purchase or selling prices or any other trading conditions;
(b) limit or control production, markets, technical development, or investment;
(c) share markets or sources of supply;
(d) apply dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage;
(e) make the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts.

2. Any agreements or decisions prohibited pursuant to this Article shall be automatically void.

3. The provisions of paragraph 1 may, however, be declared inapplicable in the case of:
- any agreement or category of agreements between undertakings,
- any decision or category of decisions by associations of undertakings,
- any concerted practice or category of concerted practices,

which contributes to improving the production or distribution of goods or to promoting technical or economic progress, while allowing consumers a fair share of the resulting benefit, and which does not:
(a) impose on the undertakings concerned restrictions which are not indispensable to the attainment of these objectives;
(b) afford such undertakings the possibility of eliminating competition in respect of a substantial part of the products in question.

Appendix 3: Article 102

Any abuse by one or more undertakings of a dominant position within the internal market or in a substantial part of it shall be prohibited as incompatible with the internal market in so far as it may affect trade between Member States.

Such abuse may, in particular, consist in:
(a) directly or indirectly imposing unfair purchase or selling prices or other unfair trading conditions;
(b) limiting production, markets or technical development to the prejudice of consumers;
(c) applying dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage;
(d) making the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts.

Appendix 4: Major changes on the 10th Amendment of the ARC

- Having a faster and more effective intervention in the digital world in cases of rapid growth of digital platforms. Even though their procedures were successful against the abusive power of Amazon and Facebook, they hope to stop larger platforms to achieve bigger market power in earlier stages.
- Shortening the legal process by skipping Düsseldorf Higher Regional Court, and sending the appeals against decisions directly to the Federal Court of Justice.
- Addition of internet-specific criterias regarding control of abuse. Such as access to data relevant for competition or power of intermediation.
- Regarding merger control, the turnover thresholds have been raised. The mergers that will be subject to control are the one when:
    - one company achieves an annual turnover in Germany of at least 50 million euros (which previously was 25 million euros);
    - and the other, or one of the others involved, achieves an annual turnover in Germany of at least 17.5 million euros (which previously was 5 million euros).
- For some sectors, notification of the merger is compulsory even if the turnover threshold is not reached.
- Implementation of the ECN Plus Directive to improve the effectiveness of cartel control.
- Administrative proceeding changes to take faster and more efficient actions, with changes in the access of files and informal advice for companies from the Chair of a Decision Division.

Appendix 5: Glossary (Cabral, 2020)

Economies of scale: decline in the average cost of an output due to an increase in the amount of production.

Economies of scope: lower average cost of production of two different outputs together, than if they were produced independently.

Market power: ability that companies have to set prices above cost, specifically above marginal cost, in the market they operate in.

Consumer surplus: difference between the consumers' willingness to pay and the price paid.

Producer surplus: profit of the firm.

Total surplus or social welfare: sum of total producer surplus and total consumer surplus.

Deadweight loss: combined loss of consumer and producer surplus.

Allocative efficiency: allocation of resources in their most efficient use

Productive efficiency: proximity of the actual production cost to the lowest cost possible.