International growth of hotel chains

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Majorcan Hotel Chains

University of Balearic Islands
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GADE

Final Report of Business Administration Degree
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# TABLE OF CONTENTS

1. SYNOPSIS .................................................................................................................. 5

2. INTRODUCTION ......................................................................................................... 6
   2.1. Subject .................................................................................................................. 6
   2.2. Reason .................................................................................................................. 6
   2.3. Purpose ................................................................................................................. 6
   2.4. Objectives ............................................................................................................. 6
   2.5. Methodology and analysis process ....................................................................... 6

3. OVERVIEW OF THE FIELD ..................................................................................... 8
   3.1. Tourism at present ............................................................................................... 8
   3.2. Hotel chain ......................................................................................................... 9
      3.2.1. Concept ....................................................................................................... 9
      3.2.2. Organizational structure .......................................................................... 9
      3.2.3. Worldwide hotel chains ......................................................................... 10

4. STRATEGIES ............................................................................................................. 11
   4.1. Competitive strategies ....................................................................................... 11
   4.2. Growth strategies ............................................................................................... 12
      4.2.1. Vertical and horizontal integration ......................................................... 12
      4.2.2. Diversification and specialization ........................................................... 13
      4.2.3. Franchising .............................................................................................. 14
      4.2.4. Alliances and joint ventures .................................................................. 15
      4.2.5. Mergers and acquisitions ........................................................................ 16
      4.2.6. Management contracts and rentals ......................................................... 16

5. INTERNACIONALIZATION ....................................................................................... 18
   5.1. Concept .............................................................................................................. 18
   5.2. Global strategy ................................................................................................... 18
   5.3. Advantages and disadvantages ......................................................................... 18
   5.4. Main international hotel chains ....................................................................... 19
   5.5. Main international destinations ..................................................................... 20

6. THE MAIN HOTEL CHAINS OF BALEARIC ISLANDS ........................................... 21
   6.1. Introduction ....................................................................................................... 21
   6.2. Meliá Hotels International ............................................................................... 24
      6.2.1. Company overview ............................................................................... 24
<table>
<thead>
<tr>
<th>Section</th>
<th>Company</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.2.2.</td>
<td>Brands / Hotels lines</td>
<td>24</td>
</tr>
<tr>
<td>6.2.3.</td>
<td>Business model</td>
<td>25</td>
</tr>
<tr>
<td>6.2.4.</td>
<td>Management model</td>
<td>26</td>
</tr>
<tr>
<td>6.2.5.</td>
<td>Business strategy</td>
<td>26</td>
</tr>
<tr>
<td>6.2.6.</td>
<td>Target tourism segments</td>
<td>27</td>
</tr>
<tr>
<td>6.2.7.</td>
<td>Expansion strategy</td>
<td>27</td>
</tr>
<tr>
<td>6.3.</td>
<td>Barceló Hotels &amp; Resorts</td>
<td>30</td>
</tr>
<tr>
<td>6.3.1.</td>
<td>Company overview</td>
<td>30</td>
</tr>
<tr>
<td>6.3.2.</td>
<td>Brands / Hotels lines</td>
<td>30</td>
</tr>
<tr>
<td>6.3.3.</td>
<td>Business model</td>
<td>31</td>
</tr>
<tr>
<td>6.3.4.</td>
<td>Management model</td>
<td>32</td>
</tr>
<tr>
<td>6.3.5.</td>
<td>Business strategy</td>
<td>33</td>
</tr>
<tr>
<td>6.3.6.</td>
<td>Target tourism segments</td>
<td>33</td>
</tr>
<tr>
<td>6.3.7.</td>
<td>Expansion strategy</td>
<td>33</td>
</tr>
<tr>
<td>6.4.</td>
<td>Riu Hotels &amp; Resorts</td>
<td>36</td>
</tr>
<tr>
<td>6.4.1.</td>
<td>Company overview</td>
<td>36</td>
</tr>
<tr>
<td>6.4.2.</td>
<td>Brands / Hotels lines</td>
<td>37</td>
</tr>
<tr>
<td>6.4.3.</td>
<td>Business model</td>
<td>38</td>
</tr>
<tr>
<td>6.4.4.</td>
<td>Management model</td>
<td>38</td>
</tr>
<tr>
<td>6.4.5.</td>
<td>Business strategy</td>
<td>38</td>
</tr>
<tr>
<td>6.4.6.</td>
<td>Target tourism segments</td>
<td>39</td>
</tr>
<tr>
<td>6.4.7.</td>
<td>Expansion strategy</td>
<td>39</td>
</tr>
<tr>
<td>6.5.</td>
<td>Iberostar Hotels &amp; Resorts</td>
<td>40</td>
</tr>
<tr>
<td>6.5.1.</td>
<td>Company overview</td>
<td>40</td>
</tr>
<tr>
<td>6.5.2.</td>
<td>Brands / Hotels lines</td>
<td>41</td>
</tr>
<tr>
<td>6.5.3.</td>
<td>Business model</td>
<td>42</td>
</tr>
<tr>
<td>6.5.4.</td>
<td>Management model</td>
<td>42</td>
</tr>
<tr>
<td>6.5.5.</td>
<td>Business strategy</td>
<td>42</td>
</tr>
<tr>
<td>6.5.6.</td>
<td>Target tourism segments</td>
<td>42</td>
</tr>
<tr>
<td>6.5.7.</td>
<td>Expansion strategy</td>
<td>43</td>
</tr>
<tr>
<td>7.</td>
<td>CONCLUSIONS</td>
<td>45</td>
</tr>
<tr>
<td>8.</td>
<td>BIBLIOGRAPHY</td>
<td>46</td>
</tr>
<tr>
<td>9.</td>
<td>APPENDICES</td>
<td>52</td>
</tr>
</tbody>
</table>
INDEX OF TABLES AND CHARTS

Table 1. Worldwide ranking of hotel chains by number of rooms .................... 10
Table 2. Worldwide ranking of hotel chains by revenues. ............................. 10
Table 3. Worldwide ranking of franchisers hotel chains. .............................. 15
Table 4. Worldwide ranking of hotel chains by management contracts. ......... 17
Table 5. Worldwide ranking of hotel chains by number of countries occupied. 19
Table 6. Positioning of Majorcan hotel chains in the worldwide ranking by number of rooms. ............................................................................ 22
Table 7. Positioning of Majorcan hotel chains in the ranking of Spanish hotel chains by national presence. ............................................................. 23
Table 8. Positioning of Majorcan hotel chains in the ranking of Spanish hotel chains by international presence. .................................................. 23
Table 9. Number of countries and hotels of Majorcan hotel chains at present. 23
Table 10. Meliá hotels by brand. ................................................................. 25
Table 11. Meliá hotels by contract types / regime property distributed per geographic segment. ............................................................... 28
Table 12. Barceló hotels by brand. ............................................................... 31
Table 13. Barceló hotels by geographic region. ........................................... 34
Table 14. Riu hotels by brand. .................................................................... 37
Table 15. Riu hotels by geographic region. .................................................. 39
Table 16. Iberostar hotels by hotels lines..................................................... 41

Chart 1. Meliá rooms by contract types / property regime. ......................... 26
Chart 2. Number of Meliá international establishments per country. .......... 29
Chart 3. Barceló hotels by contract types / property regime......................... 32
Chart 4. Number of Barceló international establishments per country .......... 36
Chart 5. Number of Riu international establishments per country............... 40
Chart 6. Number of Iberostar international establishments per country.......... 43
1. SYNOPSIS

Nowadays, internationalization is a fact increasingly performed by all the companies. They develop a lot of strategies to become global, as in the case of tourist firms. The best example to observe their expansion is reflected in the hotel chains, since they have experienced a high growth in the last years to international destinations. The increment of tourism demand has driven this trend, and the companies have been able to respond successfully.

The Majorcan hotel chains are a set of successful cases, which stand out by its strategy of growth and international thinking. They have a specific way to do business, and it makes their study really interesting.
2. INTRODUCTION

2.1. Subject

The subject of this work is the study of the internationalization of the hotel chains and in particular the four main Majorcan hotel chains.

2.2. Reason

The reason to select this subject is the importance of the hotel chains worldwide and its international growth. The success of the hotel chains and their strategies could be interesting to understand how they add value to their firm and become leaders in the tourist market.

2.3. Purpose

The purpose of this work is to analyse the hotel chains, their strategies and internationalization, and to focus on the expansion of the main hotel chains of the Balearic Islands, that is, Meliá, Barceló, Iberostar and Riu.

Their models of expansion will be studied in order to know about their strategy and positioning respect to the competition, which are the key of their successes.

2.4. Objectives

The objectives to achieve in this analysis are the following:
- To have an idea about international tourism in the current context.
- To explain the market positioning and development of the hotel chains.
- To study the strategies of growth of the hotel chains.
- To focus on the strategy of the main hotel chains of the Balearic Islands.
- To analyse the expansion of these hotel chains until now.
- To expound the reasons and consequences of the expansion.
- To establish conclusions of these expansions and their achievements.

2.5. Methodology and analysis process

The formal aspects in the execution of this degree final report follow the regulations of the Economics and Business Faculty of the University of the Balearic Islands for the 2012/2013 academic year.

The methodology used to make this report is based on a bibliographic and electronic search of information, applied to the subject in question. The information resources were provided by the university’s catalogue of resources available in its webpage, referring to the tourism sector. These resources are the library, the electronic resources and magazines, and information provided by the tutor. The internet tool has also taken importance in the execution of the report, in relation to the information about the Majorcan hotel chains. All the consulted documents are specified in the bibliography and appendix sections of this report.
The development of the report has carried out individually, on a subject previously agreed with the tutor.

Regarding the analysis process, it has been made firstly with a global view of the field in order to introduce better into the main subject of the report, which is the expansion of the Majorcan hotel chains.

The report begins with a synopsis of the subject and an introduction. The third section consists on an overview of the field. The fourth section includes the main competitive strategies and the development of the growth strategies followed by the companies. Once explained that, it introduces to the internationalization subject. Finally, the report focuses on the main subject, the Majorcan hotel chains. The last section of this report consists on the conclusions about the subject.
3. OVERVIEW OF THE FIELD

3.1. Tourism at present

The tourism is an economic activity that results on the relation between revenues and entertainment basically. However, the travels due to businesses, for study or religious reasons are also included in the term of tourism. All the movements outside the usual place of residence are considered tourism.

It was in the middle of the last century when the tourism had its peak. Although there was the crisis of petroleum in the 70’s, it didn’t prevent that the standard of living grew in the countries with a strong economy. Then, the tourism became the economic engine of a lot of countries. The strong tourist firms and tour operators internationalize and the competition between companies increments, in order to respond to the tourist's demand. New tourist destinations appeared and, with the technology revolution, the tourist sector experienced an internationalization process with a strong competition due to alliances and other kinds of strategies. Tourist firms, such as hotel chains, developed these tourist destinations and invested on emergent economies destinations in order to attract tourists of developed countries they are positioned.

In the present economic crisis that the world endures, all the sectors of the economy are affected, but the tourism has survived and it has been converted into the most important for a lot of countries. It is for that reason that the tourism is a sector that we must not give up.

In spite of the worldwide economic uncertainty, the international tourism has continued to grow in 2012, according to the World Tourism Organization (UNWTO, or OMT, Organización Mundial del Turismo). This Organization estimates that the tourism produces 9% of the GDP, taking into account the direct and indirect effects of the activity. It also forecasts that the worldwide tourism will increment in 2013 between 2% and 4%. The arrivals of international tourists have increased globally 4% in 2012, and according to the UNWTO it seems that they will grow between 3% and 4% in destinations like Asia, Africa and the Americas.

The huge growth of the BRIC countries (Brasil, Rusia, India and China) contributes to the growth of the tourism industry around the world. A new middle class appears in these emerging markets and their higher revenues and incomes create more possibilities to travel.

At the head of the worldwide destinations ranking (2011) defined by the OMT (Organización Mundial del Turismo) we find France, United States, China, Spain and Italy (see the table of appendix 1). Most of the countries take part of Europe. However, according to the forecasts the main sources of growth will be Asia and America, whereas tourism in Europe will increment more moderately.
3.2. **Hotel chain**

3.2.1. **Concept**

A hotel is a form of accommodation in which a person or groups of people can enjoy services like bedrooms, food and drink, and other services like gym, swimming pools, spa, leisure activities, sports, and so on. Hotels are differentiated according to class, from simple to luxury, and to type guest accommodated. Hotels can be also differentiated by kind of target customer (rural hotel, sun and beach hotels, etc.).

This service establishment must offer a minimum of comfort, and must follow several conditions to acquire official recognition, like hygiene, security conditions, and others.

A Hotel chain is a group of hotels with a horizontal concentration, which can be managed both by property of the same person / organization and by hotel management contracts or leasing.

3.2.2. **Organizational structure**

A lot of hotel firms have a simple structure, with a proprietary or founder that has the decision power in the company, that is, a centralized structure. When the business is successful, the firm increases the number of operative units and becomes a hotel chain.

Then, the structure could turn into a functional structure, with different managers to supervise the different areas, that is, a decentralized structure. This kind of structure has more complexity in the management and it causes some difficulties in the adaptation of the environment changes. The different areas of the firm could be Finance, Marketing, Human Resources, Administration, Operations and R&D.

There is also the possibility of creating divisions in the company organization, with a manager for each division. It occurs when there are different business or products lines oriented to distinct markets and consequently with specific strategies. This structure is a Strategic Business Unit for each business and it has its own client’s portfolio and target market. The president has also a high level of autonomy.

Finally, a combined structure could be imposed in a hotel chain, with functional and divisions areas. An employee of a functional area is subordinated by a functional manager but they are also controlled by a divisional manager.

The hotel industry is oriented to the services and the clients take part of this business, like employees. The main goal is to satisfy their needs, and all the activities are oriented to achieve it. This is the reason of the importance of the customers, the demand and their satisfaction.
3.2.3. Worldwide hotel chains

The top 325 hotel chains of the famous North American magazine “Hotels” (last publication July/August 2012) includes the main important hotel chains of the world classified by number of rooms.

The following table indicates the worldwide positioning of 5 largest hotel chains in 2011 by number of rooms, including the location of the headquarters (country) and the number of hotels of each chain around the world.

Table 1. Worldwide ranking of hotel chains by number of rooms.

<table>
<thead>
<tr>
<th>Ranking’s Position</th>
<th>Company name</th>
<th>Headquarters (country)</th>
<th>Rooms</th>
<th>Hotels</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>InterContinental Hotels Group</td>
<td>UK</td>
<td>658348</td>
<td>4480</td>
</tr>
<tr>
<td>2</td>
<td>Marriott International Inc.</td>
<td>USA</td>
<td>643196</td>
<td>3718</td>
</tr>
<tr>
<td>3</td>
<td>Hilton Worldwide</td>
<td>USA</td>
<td>633238</td>
<td>3843</td>
</tr>
<tr>
<td>4</td>
<td>Wyndham Hotel Group</td>
<td>USA</td>
<td>613126</td>
<td>7205</td>
</tr>
<tr>
<td>5</td>
<td>Accor</td>
<td>France</td>
<td>531714</td>
<td>4426</td>
</tr>
</tbody>
</table>

Source: own elaboration based on Hotels’ 325 ranking (Hotels magazine), 2011.

In the previous ranking, we can observe the high number of establishments of these hotel chains, which are mainly American. We can conclude that the hotel chains with a high number of rooms and hotels are consequently located in a lot of countries around the world.

Are their revenues in the same magnitude? The answer is yes, obviously. In the next table, we can see the ranking of the most important hotel chains by revenues, according to their annual report of 2011.

Table 2. Worldwide ranking of hotel chains by revenues.

<table>
<thead>
<tr>
<th>Ranking’s Position</th>
<th>Company name</th>
<th>Headquarters (country)</th>
<th>Revenues (in billion U.S. dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>InterContinental Hotels Group</td>
<td>UK</td>
<td>20.2</td>
</tr>
<tr>
<td>2</td>
<td>Marriott International Inc.</td>
<td>USA</td>
<td>12.3</td>
</tr>
<tr>
<td>3</td>
<td>Hilton Worldwide</td>
<td>USA</td>
<td>8</td>
</tr>
<tr>
<td>4</td>
<td>Accor</td>
<td>France</td>
<td>6.1</td>
</tr>
<tr>
<td>5</td>
<td>Starwood Hotels &amp; Resorts</td>
<td>USA</td>
<td>5.6</td>
</tr>
</tbody>
</table>

Source: own elaboration based on annual reports of the hotel chains, 2011.

Once more, the American hotel chains stand out with high revenues, although the top 1 is an English chain. In short, mainly USA hotel chains are positioned worldwide among the largest, but the European (in this case, France and UK) hotel chains take importance and positioning around the world.
4. STRATEGIES

To begin with, a simply definition of strategy could be useful in order to introduce into the subject. A strategy consists on:

- A set of actions with the aim to reach a goal or solution to a problem.
- A plan chosen to bring about a desired future using the most effective and efficient resources.
- A long-term decision.
- An identification and selection of the business fields the company wants to work on.

There are two dimensions of strategy, that is, the corporate strategy and the business strategy.

4.1. Competitive strategies

4.1.1. Concept and development

According to Porter’s theory, the competitive strategy consists on carry out actions in order to confront successfully the five competitive forces and to obtain a higher profitability. These five difficulties, which determine the competitive intensity and the attractiveness of the market, are referred as micro environment of a company (internal analysis).

Referring to the hotel chains, we can resume the main important forces of this industry. As entry barriers we can found strong brand positioning and customer loyalty, geographic factors, high capital investment and the high learning curve of the established hotel chains. The buyer power could be the required customization of the product offered and the low price sensitivity, both of them related to the loyalty of the customers. However, the bargaining power of suppliers could be the diverse distribution channels, high levels of competition among them, and the large number of substitute inputs. Regarding the substitutes, their threats are mainly the low quality; a customer is less likely to switch from hotel chains to another product or service. The hotels are assigned to consumers which are looking for a certain/specific kind of services according to their needs and it might be a threat of substitutes. To finish with the five forces, the rivalry between hotel chains could be less affected with the large industry size and its fast growth in the present market.

To complete this previous analysis, one approach could be the PESTEL analysis, that is, political, economic, social, technological, environmental and legal analysis. We can study the macro environment of the firms with the analysis of these factors that affect indirectly the organization but cannot be controlled by it (external analysis).

Then, in a competitive strategy development it is important to analyse the environment, the main competitors of the hotel chain, and to identify the threats and opportunities of the firm. The SWOT analysis could be a good way to reach this task, specifically the analysis of strengths, weaknesses, opportunities and threats.
4.1.2. Kinds of competitive strategies

There are basically two ways to be successful respect to the competitors: cost leadership and benefit leadership or differentiation.

On the one hand, the cost leadership consists in maintaining the same quality of your product with a lower cost than the competitors. That is, it consists in offering to the customer a similar product or service than competitors but with a lower price. There are some conditions to develop this kind of strategy. One of them is to have a high market share with a high volume of products in order to profit from the economies of scale, that is, the cost advantages that the firm obtains due to size, with costs generally decreasing with increasing output (learning effect). Then, the firm can achieve a higher economy of scale and a higher size. A high productivity is also required to achieve these advantages, combined with a competitive technology to keep the lowest costs. The company has to establish a standardization policy, in order to produce more and to have better costs.

On the other hand, the benefit leadership consists in maintaining the same cost of your product with a higher perceived quality than the competitors. That is, the company offers a product or service that is considered unique in front of competition; a product that consumers expect to be offered and they perceive different from the reference. The firm must have some skills and competitive advantages to reach and develop a differentiation strategy. This kind of strategy creates a loyalty of the customers to the firm and their products and services. Consequently, the demand will be less sensitive to the variations of prices, in comparison with cost leadership.

Another interesting strategy to take into account is the niche strategy. It is a strategy with a high segmentation of the market, and it is concentrated on a specific segment. When the firm focuses on this segment, it can apply a cost or benefit leadership or both in order to be more competitive in the segment or niche.

The two main strategies are generally applied in large firms because of their higher resources. However, the niche strategy could be more appropriate for smaller companies that want to apply this strategy exclusively.

4.2. Growth strategies

There are several strategies of growth for the hotel chains. The most common are diversification and specialization, franchising, joint ventures, merger and acquisitions, and management contracts and rentals / leasing. The last ones are included into vertical and horizontal integrations.

4.2.1. Vertical and horizontal integration

When a company carries out all the levels of the production chain, from the acquisition of the inputs to the delivery of the output to the consumer, it is a company vertically integrated.
However, the horizontal integration consists on the union of some companies in the same level of the production chain in order to increase the bargaining power over suppliers and to control of the distribution and sales.

The reasons to integrate vertically could be to achieve a better quality control of the final product’s components but there are also some disadvantages. One of them is the fact that the suppliers become competitors for the firm that integrate vertically the activities covered by suppliers before. Sometimes competition with suppliers makes more difficult to achieve the necessary supply of resources, because of the relationships’ deterioration.

The horizontal integration is more practiced by hotel chains that the vertical one. There are some factors that contribute to this practice. Some of them are the economies of scale, and the synergies caused by the combination of activities, which are more efficient than used individually. However, the horizontal integration has some disadvantages, like higher management costs.

4.2.2. Diversification and specialization

To begin with, the diversification consists on modify the activity field of the company and to assign news or current resources to other activities different to the existing ones. Specifically, when the company introduces a new product in a new market or adds a new activity distinct to the current activities. It is a way to increase the supply of the firm, to enter into new horizons, to raise the firm potential growth, with the incorporation of new competences.

However, the specialization is the intensification of the efforts dedicated to the same current activities. We concentrate the same resources but in a more intensive way.

There are basically two forms of diversification: the homogeneous and the heterogeneous. The first one is defined as an incorporation of new activities that are related to the current activities, in order to produce synergies. The second one is characterized by the absence of relation between the new and current activities before diversification, but some kind of synergies in the financial field or management skills, for example.

Within the homogeneous ones, there are two kinds of diversification: the vertical and horizontal diversifications. The vertical consists on the firm’s participation in activities located in different production levels, integrating suppliers or customers’ activities. The horizontal is characterized by a similarity between the company’s new clients and its current ones, together with the use of the same distribution channels.

It is important to know when hotel chains can diversify, the reason, how to do it and their implications for the firm. It is better for them to diversify when it hasn’t the possibility to grow through the specialization. The reasons could be the need to invest a surplus of money, a risk reduction, an attempt to strengthen the firm’s competitive position or a need to revitalize the firm’s activities portfolio. The decision of diversification requires having some competences and creating synergies between the current ones and the new competences to acquire.
In order to diversify in a successful way, the most appropriate organizational structure could be the divisional structure that provides flexibility and autonomy required by the diversification strategy.

4.2.3. Franchising

The franchising consists on the usage of another business model by means of a contract. A firm, the franchiser, grants other companies, the franchisees, the right to commercialize certain types of products and/or services in exchange for some kind of financial compensation. The contract includes the use of a shared name and a common layout, design and presentation for the premises where the franchisees run their businesses. It also includes shared know-how and on-going technical and commercial support given to the franchisees by the franchiser. It is important to mention that the franchiser must be in a good financial position in order to be successful in franchising.

There are two kinds of franchising: the product franchising and the business-format franchising. The first one is a contract to carry out sales of a product or service of a franchiser. However, the business-format franchising not only involves a product or service but also the acquisition of a global commercial strategy, that is, marketing programs, staff training, quality controls, standards, etc.

Another kind of franchising is the conversion franchising, which refers to the situation in which someone with a successful small business is offered the opportunity to convert his independent business into a kind of sales point or "subsidiary" for a parent company. And so, thereafter, if the proposal is accepted, the business would no longer be known by its former name, but rather by the name of the franchiser chain. The independent business profits from the consumers recognition, a greater marketing impact and a constant process of modernization.

A lot of hotel chains include the franchising in their growth strategies in order to avoid high financial commitments that takeovers involve and to benefit from the royalties. But there are some disadvantages like the breach of contract regarding the quality controls that has a negative effect on the hotel chain’s reputation or the possible rivalry between franchiser and franchisee.

We can see in the next table the top 5 franchisers hotel chains. These hotel chains are also worldwide positioned as the largest hotel chains with highest revenues, if we compare with the previous tables of our study. Then, the conclusion is that their most important growth strategy, and consequently their success, seems to go to franchising.
Table 3. Worldwide ranking of franchisers hotel chains.

<table>
<thead>
<tr>
<th>Ranking’s Position</th>
<th>Company name</th>
<th>Headquarters (country)</th>
<th>Franchises</th>
<th>Total Hotels</th>
<th>% Franchises</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Wyndham Hotel Group</td>
<td>USA</td>
<td>7192</td>
<td>7205</td>
<td>99 %</td>
</tr>
<tr>
<td>2</td>
<td>Choice Hotels International Inc.</td>
<td>USA</td>
<td>6178</td>
<td>6178</td>
<td>100 %</td>
</tr>
<tr>
<td>3</td>
<td>InterContinental Hotels Group</td>
<td>UK</td>
<td>3832</td>
<td>4480</td>
<td>85 %</td>
</tr>
<tr>
<td>4</td>
<td>Hilton Worldwide</td>
<td>USA</td>
<td>3205</td>
<td>3843</td>
<td>83 %</td>
</tr>
<tr>
<td>5</td>
<td>Marriott International Inc.</td>
<td>USA</td>
<td>2467</td>
<td>3718</td>
<td>66 %</td>
</tr>
</tbody>
</table>

Source: own elaboration based on Hotels’ 325 ranking (Hotels magazine), 2011.

4.2.4. Alliances and joint ventures

An alliance is an agreement between two or more firms that they decide to cooperate in order to achieve specific goals.

There are two kinds of cross-border alliances: the non-equity cross-border alliances and the equity cross-border alliances. The first one is an investment vehicle in which profits and other responsibilities are assigned to each party according to a contract. Each party cooperates as a separate legal entity and bears its own liabilities. For example, strategic R&D alliances could be a non-equity alliance. However, the equity alliances involve a foreign direct investor’s purchase of shares of an enterprise in an enterprise other than its own. Some examples of equity alliances are joint ventures or mergers.

The reasons to make alliances could be to obtain advantages in technology, in competition, synergies, financial supports, reduction of the risk and so on. There are also specific reasons respect to the internationalization and globalization, such as the requirements of the countries in which the firm want to penetrate and the reduction of risks in certain countries.

Referring to the joint venture, it is considered as an equity cross-border alliance and consists on an agreement between two independent companies that want to create another new independent company. The reasons to make a joint venture are mainly, in the case of international joint venture, the contributions of each company in order to satisfy their own needs. The home company gives to the foreign company an access to the new market and a knowledge about it that ends up being more efficient than a subsidiary. The foreign company gives to the home one technology and an access to international markets.

There are also some disadvantages when a company decides to make joint ventures. The main important is the integration of two different corporate
cultures in a new company, which provokes conflict and disagreements making decisions.

In the case of hotel chains, they carry out strategic alliances with long term orientation in order to reach corporate objectives and increase its competitiveness with their combined resources. An example of strategic alliance or partnership of a hotel chain could be with a tour operator.

4.2.5. Mergers and acquisitions

A merger is an external growth strategy that consists on an agreement between two companies in order to join and create a new company which dissolves the prior companies. The two firms disappear and there is another company created.

However, the acquisition is when a company buys a part of a company or the company as a whole. The acquired company can maintain its own legal entity, different from a takeover, which is a kind of acquisition that happens when the acquired firm disappears.

The enterprises decide to merge or acquire another company in order to achieve synergies in finance, management and operations. Another reason is a better competitive positioning of the new firm, access to new technologies, shared know-how in order to have profits of synergies, to search financial supports and to achieve risk diversification, an easy market entry, growth limitations in home market, etc.

For the hotel chains, the acquisition of another firm requires high investments but there are a lot of advantages such as a higher positioning in the hotel industry, an access to new segments and more geographical positioning.

4.2.6. Management contracts and rentals

A management contract is an agreement between two firms, in which one of them will manage the other in return for a financial compensation. Referring to the hotel chains, it is called as a hotel management contract. The management firm or hotel chain takes decisions and directs a hotel, and this one covers the expenses, capital investment but also takes risks and liabilities.

The advantages as a hotel chain to manage another hotel could be the lower initial capital to invest and the reduction of the risks. However, the profits obtained are mainly distributed to the owner of the hotel, and the hotel chain cannot benefit from the increase in value of the hotel.

In the following table, we can observe the top 5 hotel chains with the higher number of hotels managed by management contracts, in 2011.
Table 4. Worldwide ranking of hotel chains by management contracts.

<table>
<thead>
<tr>
<th>Ranking’s Position</th>
<th>Company name</th>
<th>Headquarters (country)</th>
<th>Managed Hotels</th>
<th>Total Hotels</th>
<th>% Managed Hotels</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Marriott International Inc.</td>
<td>USA</td>
<td>1021</td>
<td>3718</td>
<td>27 %</td>
</tr>
<tr>
<td>2</td>
<td>Home Inns &amp; Hotels Management Inc.</td>
<td>China</td>
<td>698</td>
<td>1426</td>
<td>49%</td>
</tr>
<tr>
<td>3</td>
<td>Extended Stay Hotels</td>
<td>USA</td>
<td>685</td>
<td>685</td>
<td>100%</td>
</tr>
<tr>
<td>4</td>
<td>Accor</td>
<td>France</td>
<td>671</td>
<td>4426</td>
<td>15%</td>
</tr>
<tr>
<td>5</td>
<td>Westmont Hospitality Group</td>
<td>USA</td>
<td>655</td>
<td>659</td>
<td>99%</td>
</tr>
</tbody>
</table>

Source: own elaboration based on Hotels’ 325 ranking (Hotels magazine), 2011.

If we compare with the previous table of the top 5 hotels with franchises, there is higher number of franchises than managed hotels. We can conclude that the franchising as a growth strategy predominates. However, some hotels such as Extended Stay Hotels and Westmont Hospitality Group manage mainly their hotels by contracts, which it required low capital investments.

The rental is another strategy to grow with a low investment. The owner of the local agrees to rent it in exchange of an annual fixed income or an annual variable income, which consists on a minimum fixed income combined with a variable income depending on business results. The advantages of renting could be the flexibility, the possibility to be only in charge of own firm operations and not fixed assets and to manage better its cash flow when it is a fixed payment. There are advantages but also disadvantages, and the hotel chain needs to confirm this alternative is profitable.

An interesting example is the long-term agreement to manage the hotel “George V” in Paris carried out by Four Seasons Hotels and Resorts hotel chain. In an approach to international growth, this hotel chain decided to acquire this luxurious hotel in order to gain positioning in Paris. However, Four Seasons had to overcome a lot of challenges, such as the cultural differences, the specific French laws, staff training, differences in the corporate and organizational culture, etc.
5. INTERNACIONALIZATION

5.1. Concept

The internationalization is the growing tendency of the companies to operate across national boundaries. The internationalization of the firms grew over the last half of the twentieth century partly because of liberalization of both trade and investment, and also because doing business internationally had increased its economies of scale and of scope.

Worldwide capital movements were liberalized by most governments, particularly with the advent of electronic funds transfers. The introduction of the Euro (2002) has impacted international business economically. Moreover, the technological developments make global communication and transportation relatively quick and convenient.

In relation to tourist companies, the main reason of international expansion is the increment of international tourism and the opportunities created since then in potential markets and popular destinations. The tourism industry is becoming global and the hotel chains reach large market segments, which affects its behavior to grow. Other reasons could be to diversify their strategic risk, or expand their achieved knowledge.

5.2. Global strategy

In terms of strategy, the global strategy consists of becoming a multinational firm, exporting, importing, international outsourcing or establishing partnerships with firms from other countries. When a company wants to become global, it has to choose between economies of scale and responsiveness to local conditions in order to apply a specific global strategy.

There are three types of global strategy: adaptation, aggregation and arbitrage. These AAA strategies depend on industry conditions and competitive position of the firm. The first one, adaptation, consists of adapting the product or service to the different preferences. Aggregation tends to achieve economies of scale by grouping devices and standardizing the product or service. And finally, arbitrage tries to locate different parts of the supply chain in several countries.

The global strategies also depend on the organizational structure of the company, and tend to be associated. For example, a firm with a functional organization usually pursues an arbitrage global strategy.

In the case of hotel chains, the organizational structure is mainly combined by a functional part and strategic business units per regions. Then, the global strategy followed by hotel chains could be a combination of adaptation and arbitrage depending on its different locations.

5.3. Advantages and disadvantages

There are a lot of benefits from internationalization. One of them is a faster growth of the company developing its business globally. The adding volume for the company can also increase its value. Another one could be the
decreasing in costs when the firm is labour-intensive. The access to cheaper inputs may enable the firm to source raw materials or labour at lower prices, achieving economies of scale. The bargaining power of hotel chains over its suppliers also increases with internationalization, since they are larger than suppliers and purchase in large quantities.

To become international, there are also some obstacles to take into account. One of them is the government, which can complicate the internationalization because of preservation of national workers in terms of employment, handicaps in administrative processing, and so on. Another obstacle could be the differences in culture (conflict of interests), which involve more control of the host company to manage the international one. In addition, quality of the product and the wages in relation to the productivity are other factors that concern hotel chains. It is really important to take into account the quality of the supplied product in order to maintain firm’s image and reputation across boundaries. Another constraint could be the international competition with the companies of the country in which the firm is established.

5.4. Main international hotel chains

The internationalization of the firms is a fact more and more present in the current worldwide situation. The firms need to think globally in order to be more competitive and have an understanding of the international cultures to internationalize successfully.

This ranking shows the Top 5 hotel chains according to the number of countries in which they are located (in 2011):

Table 5. Worldwide ranking of hotel chains by number of countries occupied.

<table>
<thead>
<tr>
<th>Ranking’s Position</th>
<th>Company name</th>
<th>Headquarters (country)</th>
<th>Rooms</th>
<th>Hotels</th>
<th>Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Best Western International</td>
<td>USA</td>
<td>311894</td>
<td>4086</td>
<td>100</td>
</tr>
<tr>
<td>1</td>
<td>InterContinental Hotels Group</td>
<td>UK</td>
<td>658348</td>
<td>4480</td>
<td>100</td>
</tr>
<tr>
<td>1</td>
<td>Starwood Hotels &amp; Resorts Worldwide</td>
<td>USA</td>
<td>321552</td>
<td>1090</td>
<td>100</td>
</tr>
<tr>
<td>4</td>
<td>Accor</td>
<td>France</td>
<td>531714</td>
<td>4426</td>
<td>92</td>
</tr>
<tr>
<td>5</td>
<td>Hilton Worldwide</td>
<td>USA</td>
<td>633238</td>
<td>3843</td>
<td>88</td>
</tr>
</tbody>
</table>

Source: own elaboration based on Hotels’ 325 ranking (Hotels magazine), 2011.

We can see that these hotel chains are located in more than 80 countries around the world. It indicates its great magnitude in terms of international positioning. In addition, they are also the hotel chains with higher revenues annually. Then, we can conclude that the main hotel chains tend to globalize their business and grow across boundaries.

In Spain, a third party of the national exports consist of services (in the last third trimester of 2012) and the internationalization of the Spanish firms
moves on the country. It means that services and internationalization gain importance in these years of recession.

5.5. Main international destinations

Referring to the main destinations, several hotel chains are ramping up their expansion into China and Latin America.

China has become one of the potential markets for USA hotel chains because of its rapid urbanization, growing middle class and popularity as an international destination. Latin America is also a potential destination for these hotel chains in response to strong economic growth.

However, Spanish hotel chains dominate in recent years Latin America and the Caribbean, especially with all-inclusive hotels. Some hotel chains like Meliá Hotels International, Riu Hotels & Resorts, Iberostar Hotels & Resorts and Barceló Hotels & Resorts expand their reach into these destinations. In Mexico, as in other major Latin American markets, the hotel chains are expanding because of its economic potential, and increasing demand from local entrepreneurs and other business travellers. Some of them are also planning to expand in emerging markets like Colombia and Costa Rica.

China, Vietnam, Indonesia and the United Arab Emirates are others planned destinations for Spanish hotel chains, as well as the established destinations of the United Kingdom, Austria, Italy and Germany.
6. THE MAIN HOTEL CHAINS OF BALEARIC ISLANDS

6.1. Introduction

6.1.1. Tourism in the Balearic Islands

It was at the beginning of the 20th century when Balearic Islands’ tourism was stimulated by the creation of the “Foment del Turisme de Mallorca”, an organization focused on the promotion of the tourist offer. Although the First World War restrained the expansion of the tourism, it kept growing for the following years. At that time, there were three kinds of tourists: long-term tourists (rental housings), short-term tourists (hotels) and transition’s tourists (cruises). After the Spanish Civil War, the tourism increased a lot with the allowed entry of foreign tourists in 1950.

In the sixties the tourism experienced some favourable changes, such as the growing European standard of living, the creation of charter airlines, and the liberalization of the Spanish politics towards Europe. This last fact caused the massive construction of hotels in the islands.

The mass tourism appeared with the growth of the European economies. The apparition of the Tour operators and charter airlines provided to the tourists’ holiday packages with hotel and flight at very low prices. This fact stimulated the apparition of this kind of tourism practised by travellers with low revenues. The Balearic climate is also appropriate for the mass tourism, that is, mainly sun and beach. All these facts boosted the tourism in the islands and consequently the hotel industry. In 1960 was the beginning of this modern tourism, which became the most important sector for the Balearic Islands. However, there was an international economic recession of the petroleum in the middle of the seventies, in which the tourism decreased a lot. The economy had to adapt to these crisis conditions. It caused the growth of extra-hotel offers and the birth of the hotel chains. During the eighties, there was a new expansion phase, with a constant growth of tourism.

Until now, in the Balearic Islands the predominated tourism has always been the mass tourism of sun and beach. Some other alternatives were created in order to struggle against the seasonal variation of this kind of tourism, such as the rural tourism and the golf tourism.

According to the Institute of Tourists Studies (FRONTUR and EGATUR inquiries)¹, Balearic Islands received 10.1 millions of tourists in 2011 (17.8 % of the total number of tourists in Spain).

The main tourists were from Germany and England, which represented 65.8 % of the tourists. The other percentage is composed of European countries (Italy, Nordic countries, France, etc.). We can also take into account the Russian tourists, which have increased in the last years.

¹FRONTUR is the survey of Tourists Movements in Borders and EGATUR is the survey of Tourist Spending. These two surveys are carried out by the IET (Instituto de Estudios Turísticos, that is, Tourism Research Institute), of the Ministry of Industry, Energy and Tourism of Spain.
Their main accommodation was the hotel, with 75.4% in relation to the total number of tourists. The other kinds of accommodation were the rented housing and own houses. Their preferred organizational way to travel was the holiday packages, and this resulted in the expansion of the hotel chains. The average stay of these tourists was about 8 nights, with 11 nights for non-hotel tourists (mainly rental housing) and 7 nights for hotel tourists, and the total average spending of each tourist is about 937 euros.

6.1.2. Market positioning

We will study in this report the following hotel chains of the Balearic Islands:

- Meliá Hotels International
- Barceló Hotels & Resorts
- Riu Hotels & Resorts
- Iberostar Hotels & Resorts

The reason of this selection was its worldwide positioning and success, taking into account that they are some of the most important Spanish hotel chains around the world.

The four hotel chains of this study are positioned in the top 325 hotel chains of the famous North American magazine “Hotels”.

The following table indicates the worldwide positioning of these hotel chains in 2011, in terms of number of rooms.

Table 6. Positioning of Majorcan hotel chains in the worldwide ranking by number of rooms.

<table>
<thead>
<tr>
<th>Ranking’s Position</th>
<th>Rooms</th>
<th>Hotels</th>
<th>Revenues (million Euros)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meliá</td>
<td>16</td>
<td>90264</td>
<td>354</td>
</tr>
<tr>
<td>Barceló</td>
<td>30</td>
<td>41565</td>
<td>163</td>
</tr>
<tr>
<td>RIU</td>
<td>31</td>
<td>41544</td>
<td>105</td>
</tr>
<tr>
<td>Iberostar</td>
<td>40</td>
<td>25680</td>
<td>79</td>
</tr>
</tbody>
</table>

Source: own elaboration based on Hotels’ 325 ranking (Hotels magazine) and other data from annual reports (revenues), 2011.

We can see that these hotel chains have a strong positioning regarding international hotel chains; specifically, they are between the forty best hotels chains in relation to the top 325. Then, it could be interesting to study their worldwide developments and strategies, taking into account their high number of hotels. Barceló was the hotel chain with higher revenues of these services in comparison with the others, followed by Meliá.

According to the “Hosteltur” ranking, the Majorcan hotel chains are considered into the most five important in Spain. The next table includes their national presences in 2012, respect to Spanish hotel chains, in terms of number of rooms/establishments in Spain.
Table 7. Positioning of Majorcan hotel chains in the ranking of Spanish hotel chains by national presence.

<table>
<thead>
<tr>
<th>Ranking’s Position</th>
<th>Rooms</th>
<th>Establishments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meliá</td>
<td>34914</td>
<td>153</td>
</tr>
<tr>
<td>Barceló</td>
<td>13258</td>
<td>49</td>
</tr>
<tr>
<td>RIU</td>
<td>12507</td>
<td>42</td>
</tr>
<tr>
<td>Iberostar</td>
<td>9696</td>
<td>33</td>
</tr>
</tbody>
</table>

Source: own elaboration based on Hosteltur magazine ranking of hotel chains, 2012, part I.

With these results, there is not the doubt about the importance of these hotel chains in Spain. They have a lot of establishments in our country, but also a large international portfolio.

If we take into account their global positioning in relation to other Spanish hotel chains, the Majorcan stand also out. In the next table, we can see the number of their international establishments regarding Spanish hotel chains. Then, we can compare clearly its strong positioning in both national and international presence ranking. This is their international presence in 2012, respect to Spanish hotel chains, in terms of number of rooms out of Spain.

Table 8. Positioning of Majorcan hotel chains in the ranking of Spanish hotel chains by international presence.

<table>
<thead>
<tr>
<th>Ranking’s Position</th>
<th>Rooms</th>
<th>Establishments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meliá</td>
<td>43082</td>
<td>153</td>
</tr>
<tr>
<td>RIU</td>
<td>30574</td>
<td>66</td>
</tr>
<tr>
<td>Barceló</td>
<td>24510</td>
<td>92</td>
</tr>
<tr>
<td>Iberostar</td>
<td>20367</td>
<td>56</td>
</tr>
</tbody>
</table>

Source: own elaboration based on Hosteltur magazine ranking of hotel chains, 2012, part II.

According to their annual reports and other information of their websites, the next table indicates updated information about the number of countries which they are located worldwide, and also their total number of hotels around the world (approximately).

Table 9. Number of countries and hotels of Majorcan hotel chains at present.

<table>
<thead>
<tr>
<th>Countries</th>
<th>Hotels</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meliá</td>
<td>35</td>
</tr>
<tr>
<td>Barceló</td>
<td>16</td>
</tr>
<tr>
<td>RIU</td>
<td>16</td>
</tr>
<tr>
<td>Iberostar</td>
<td>16</td>
</tr>
</tbody>
</table>

Source: own elaboration based on annual reports and other data of the Majorcan hotel chains, 2013.
As we can see, these hotel chains distribute its hotels in a lot of destinations and they have reached a large hotels portfolio. This is another reason about the study of their international expansions, since its global positioning results very interesting taking into account the high number of countries they are located.

6.2. Meliá Hotels International

6.2.1. Company overview

Meliá Hotels International is the leading hotel chain of Spain based in Mallorca and number 16 in the last Hotels’ 325 world ranking (Hotels magazine, 2011). According to Hosteltur magazine ranking of 2012, it is also the largest Spanish hotel chain. Meliá Hotels International has more than 350 hotels around the world, and nowadays is located in 35 countries on 4 continents.

The founder, Gabriel Escarrer Juliá, opened the first hotel in 1956 in Palma de Mallorca and he expanded its company onto main national tourist destinations in the 70’s. Later, the international expansion began with the acquisition of a hotel in Indonesia. The company decided to purchase hotels and became the leading hotel group in Spain.

In the 90’s, the company continue growing and developed in the Americas. Later, Meliá consolidated its presence in Europe. In 1996, the company was brought to the Spanish stock market and it also carried out a high number of takeovers and cross-mergers in the late 90’s and early 2000’s.

The company entered into new markets, like USA and China. In 2011, Sol Meliá became Meliá Hotels International, since the hotel chain has established a Strategic Plan for the period 2012-2014 as an approach to internationalization and the development of its managing ability. The firm also signed partnerships with two Chinese hotel chains, Jin Jiang and Greenland Group.

6.2.2. Brands / Hotels lines

Meliá Hotels International owns nine brands, all of them distributed into the following lodging segments:

- Premium -> Gran Meliá Hotels & Resorts, ME by Meliá and Paradisus Resorts.
- Upscale -> Meliá Hotels & Resorts and Innside by Meliá.
- Midscale -> Tryp by Wyndham and Sol Hotels.
- Lifetime vacation -> Club Meliá.

The Premium brands include different kind of hotels designed according to the target customer needs and characterized by their luxury and exclusivity. Some of them are also characterized by their privilege location. The Upscale and Midscale gather hotels from major cities, urban hotels for business and leisure, and resort hotels located in top tourist destinations. Club Meliá is a vacation club located in the most exotic destinations. Finally, Meliá has also another brand called Meliá Rewards, which consists on a loyalty scheme for the
guests with a lot of advantages. Then, Meliá carries out a customer loyalty management to reinforce the brand’s preference of its customers.

In the next table we can observe the number of hotels by brands and its percentage referring to the total number of Meliá hotels.

**Table 10. Meliá hotels by brand.**

<table>
<thead>
<tr>
<th>Nº of hotels</th>
<th>% of total hotels</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gran Meliá Hotels &amp; Resorts</td>
<td>10</td>
</tr>
<tr>
<td>ME by Meliá</td>
<td>6</td>
</tr>
<tr>
<td>Paradisus Resorts</td>
<td>7</td>
</tr>
<tr>
<td>Meliá Hotels &amp; Resorts</td>
<td>95</td>
</tr>
<tr>
<td>Innside by Meliá</td>
<td>11</td>
</tr>
<tr>
<td>Tryp by Wyndham</td>
<td>105</td>
</tr>
<tr>
<td>Sol Hotels</td>
<td>81</td>
</tr>
<tr>
<td>Club Meliá</td>
<td>36</td>
</tr>
</tbody>
</table>

Source: own elaboration based on each Meliá brands’ websites.

We can conclude that the higher percentage of hotels is under Tryp by Wyndham brand of the company, followed by Meliá Hotels & Resorts brand. Sol Hotels has also an important percentage, which it means that Meliá Hotels International centralizes its business to upscale and midscale segments.

In 2011, Meliá decided to open a hotel in Mallorca focused on adults only. This trend, followed by other hotel chains, is a popular concept expanded in USA and Canada.

**6.2.3. Business model**

Meliá was created as a family business under the name “Sol Meliá” for decades. Meliá Hotels International is nowadays a Group made up of companies dedicated to tourist activities and more specifically in the operation and management of hotels under ownership, rental, management or franchise arrangements, and in vacation club operations. The Group is also engaged in the promotion and participation of businesses related to leisure and tourism.

The business model of Meliá is divided into four areas: Hotels (responsible of operations in the Meliá hotels), Asia-Pacific (to increase its presence in this continent), Real Estate (to maximize profitability of real estate assets) and Club Meliá (a members club to complete the range of holiday products).

At the moment, the systems of the Group for operating hotels are distributed in different contract types or property regime, that is, property, management, rental and franchise, according to a strategic low intensity of capital.
As we can see in the graph, most of the contracts acquired by the Group consist on management, that is, hotel management contracts. However, Meliá is also the owner of an important percentage of hotels, which represents a quarter of total development strategy. Even so, 74% of the hotels are not under its property, allowing the Group to keep presence in key destinations.

6.2.4. Management model

The Hotels area has evolved in 2011 towards a hybrid management model by both brand and region, which at the same time ensures the personality of the brand and the efficiency of operations. It seems to be a structure based on strategic business units, with a manager for each brand / division and geographic area.

6.2.5. Business strategy

Meliá develops different strategies depending on the destination. It has a regiocentric business activity, and tries to integrate and coordinate its marketing program within regions.

Its main thinking is the global growth, but acting locally. That is, Meliá strategy is based on the glocalization, global view but customized to the different destinations worldwide. The hotel group develops and sells services intended for the global market, but adapted to suit local culture and behavior.

Its diversification strategy, both geographically and by segments and products, is its main strength. However, Meliá applies two strategies, one focused on the economic situation or recession (in this case, Spain) applying a contingency plan with the aim of reducing the cost per stay, and another focused on high growth and improvement internationally in emerging markets. Then, its strategy in terms of competitiveness could be a combination of cost and benefit leadership.

This is the reason for which Meliá manages basically hotels by contracts, franchises and rentals. The Group wants to focus on an initial low capital
investment in order to reduce the risks and to be easier to enter into new markets, allowing short-term development.

The company has developed again the program to build loyalty based on improving the confidence and satisfaction of their clients (Meliá Rewards), and another program called Revenue Management in order to study the evolution of its segments and compare with the market demand. The e-commerce strategy has also allowed Meliá to increase its sales through direct channels.

6.2.6. Target tourism segments

Its target market is focused on urban and resort segments. The holiday tourism is covered by a 60% of rooms dedicated to this segment, and the rest of the percentage is focused on urban tourism.

If we take into account their different brands, Meliá brands include all the possible segments, but it tries to be positioned as a leader hotel chain in midscale and upscale segments, with 80% of its portfolio dedicated to these segments.

6.2.7. Expansion strategy

Its international expansion began in 1985, with the acquisition of a hotel in Bali (Indonesia). The company decided to purchase the Hotasa hotel chain and added 32 hotels in its power. Then, Meliá became the leading hotel group in Spain and maintained its position up to now.

In the 90’s, the company continue growing and developed in the Latin America. Then, Meliá acquired a strong presence in Europe, the Americas, Caribbean and Mediterranean. In 2000, Meliá acquired Tryp Hotels, a Spanish hotel chain, and ten years later, it accorded a global partnership with Wyndham.

At present, Meliá Hotels international has hotels located in destinations like China, the Persian Gulf, and the USA. Traditional markets such as Europe, Latin America and the Caribbean are also maintained.

But the question is: How do Meliá become a leader hotel company?

Its strategy is based on an international growth plan, reinforced with its strong brand positioning and a management model based on management contracts and rentals or leasing. In 2012, Meliá Hotels International has included 3 hotels in its portfolio almost every three weeks.

According to its business model of combining contracts and property, the following table shows all the establishments of Meliá by geographic segment and classified by contract types. The data are from 2012.
Table 11. Meliá hotels by contract types / regime property distributed per geographic segment.

<table>
<thead>
<tr>
<th></th>
<th>Property</th>
<th>Rental</th>
<th>Management and Franchise</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Americas</td>
<td>23%</td>
<td>0%</td>
<td>77%</td>
<td>22%</td>
</tr>
<tr>
<td>EMEA*</td>
<td>11%</td>
<td>64%</td>
<td>25%</td>
<td>15%</td>
</tr>
<tr>
<td>Premium Europe**</td>
<td>43%</td>
<td>29%</td>
<td>29%</td>
<td>5%</td>
</tr>
<tr>
<td>Mediterranean</td>
<td>32%</td>
<td>12%</td>
<td>56%</td>
<td>27%</td>
</tr>
<tr>
<td>Spain</td>
<td>9%</td>
<td>50%</td>
<td>41%</td>
<td>30%</td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>0%</td>
<td>0%</td>
<td>100%</td>
<td>2%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>20%</td>
<td>29%</td>
<td>51%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: own elaboration based on 2012 year-end results of Meliá.

*EMEA: Europe, the Middle East and Africa.

**Premium Europe: Meliá Premium brands located in Europe.

We can observe that some percentages result different from the previous graph about 2013 data. However, management contracts and franchises remain the most important growth strategies, mainly through low capital intensive formulas. As we can see, the higher percentages of managed or franchised hotels by Meliá are located in Asia Pacific and the Americas. According to rental contracts, Meliá has a high number of rented hotels in EMEA and also in Spain. Its own hotels are mainly located in Premium Europe. If we take into account the percentage by geographic segment, we can conclude that its main locations are the Americas, Mediterranean and Spain.

In conclusion, Meliá applies a different strategy to internationalize depending on the geographic segment. That is, the Group focuses its development model of rentals, management contracts and franchises in strategic markets that it wants to expand. In the European market which Meliá owns Premium hotels, the strategy that stands out is the property, since the Group wants to maintain its positioning in these markets with a long-term orientation.

However, Meliá established a Strategic Plan for the period 2012-2014 with hotel management as a core idea to make profitable the company assets (asset light model). The hotel chain has carried out some sale transactions in order to aim for a business model with more managed hotels, optimizing the value of their brands and their management capacity.

The recent signatures of the Group are located in some present markets, and it seems to be with an intention of maintaining position in consolidated markets. The most important future inclusions are located in European Cities, Latin America and also China.

As a matter of fact, its priorities continue being Latin America and the Caribbean. However, Asia is another market that Meliá want to reinforce, concretely in China, Indonesia and Vietnam. In the last month of December, Meliá became partner with Greenland Group, one of the most important Chinese estate agencies. On the one hand, Meliá made an agreement to manage two hotels in Jinan and Tianjin under the Meliá brand. On the other
hand, Greenland will grow in the Germany market through this alliance, with the conversion of a Melià establishment to its urban hotel brand. This new alliance will allow the estate agency to expand in Europe, and it will also consolidate the strategic expansion of Melià into the Asian market, with their brands Innside and Paradisus. The vice-president forecasts that China will become the main tourism engine, and this is the reason why Melià wants to reinforce its positioning. Besides, Greenland Group will provide knowledge about Chinese culture to the hotel chain in order to improve its Chinese customer relations and its Chinese food supply, since they are their main tourists in Europe.

Melià expanded in Shangai a hotel under its brand Gran Melià in 2010, and it has planned to open two other hotels in China and one in Vietnam, in addition to the two hotels mentioned before. Together with its partnership with the hotel chain Jin Jiang, Melià will achieve its goal to grow in this region and to position its brand.

The Group will continue to expand into the main European cities in France, Italy, United Kingdom and Germany. Melià will open some hotels focused on business travels. However, the hotel chain also wants to add value to its portfolio with some innovative hotels in Spain in order to increase entertainment component of its demand, such as Calvià Beach Resort by Sol Hotels. This resort opened its doors in 2012 and includes four different hotels. Two of them are renovated and assisted by two international companies that modernized the area, which are Wave House and Nikki Beach. In this way, the hotel chain ensure a higher level of quality combined with new entertainment experiences, like wave pools with music and bars.

The following chart includes the number of Melià’s international establishments in the specified countries. These international establishments are mainly located in Cuba, Germany, Croatia, Portugal and Brazil. All of these destinations correspond to the geographic segments of Europe, Latin America and emerging countries like Brazil.

Chart 2. Number of Melià international establishments per country.

Source: own elaboration based on Hosteltur magazine ranking of hotel chains, 2012, part II.
To sum it up, the expansion plan of Meliá Hotels International consists of incorporation in its portfolio of more than 100 hotels, in order to reach 500 hotels in three years. The objective is to maintain its positioning in the top tourist destinations, with a hotels management-oriented model, but also expand into emerging markets, mainly Asia and Brazil.

6.3. Barceló Hotels & Resorts

6.3.1. Company overview

Barceló Hotels & Resorts is a Spanish hotel chain owned by Barceló Group. This Group is one of the leading Spanish tourist companies based in Palma de Mallorca and focused on the tourism industry since its founding in 1931. It has a hotel and travel division and has become one of the most important companies of the world. Their main activity is located on 4 continents, with 140 hotels in 16 countries and 505 travel agencies in 22 countries, and it is number 30 in the last Hotels’ 325 world ranking (Hotels magazine, 2011).

Barceló hotel division is also the 3th largest Spanish hotel chain, according to Hosteltur magazine ranking of 2012.

The main activity of the Barceló Group began in 1931, with the establishment of the transport company Autocares Barceló in Mallorca. Since 1954, its activity also started as a travel agency, and the travel division Viajes Barceló was created in 1964.

At the beginning of the 60’s, the company acquired their first hotel in Palma de Mallorca and it became the first hotel of Barceló Hotels and Resorts, the hotel division of the group. This family business, founded by Simón Barceló, created a new kind of hotels focused on family entertainment (the Pueblo hotels), which are known nowadays as resorts. Their first family hotel was established in Palma as a new conception of tourism, and they began its expansion firstly in Balearic Islands and then to the Iberian Peninsula in 1970.

The hotel chain began its international expansion mainly in the Caribbean, once it had expanded in Spain. Later, Barceló grew to Central America and USA, in which it made a lot of agreements and strategic alliances in order to become the leader Spanish hotel chain in these areas. Its conquest to the Americas continued in the South, and the hotel chain made larger its portfolio occupying the entire continent. The European market was also reached by Barceló and the hotel chain opened a lot of hotels in this region.

The hotel chain continued to grow in Africa, Latin America and the Caribbean. In Europe, Barceló opened new hotels in Italy and Germany, and also some hotels in Turkey and Morocco.

6.3.2. Brands / Hotels lines

Barceló Group centralizes its business in two main divisions: hotel and travel. Referring to hotel division, there are two hotel chains, that is, Barceló Hotels & Resorts and Crestline Hotels & Resorts.
The group is positioned as a prestigious international hotel chain with a hotel portfolio of 98% in the 4 and 5 star category, both urban and holiday hotels. Then, Barceló Hotels & Resorts wants to cover all segments under a single brand, the same name with little modifications.

Their different kinds of hotels are: Large Resorts, Holiday Hotels, Urban Style, Spa Hotels, Golf Hotels, Luxury Hotels, Adults Only Hotels and Meet Barceló. The first two types are located in tourist destinations. Urban Style is focused on hotels located in the cities centre. Spa, Golf and Luxury Hotels have specified facilities as their names indicate. Adults Only Hotels consists on a new trend with exclusive services and facilities focused on the adult segment. However, Meet Barceló hotels are fully equipped for conventions and congresses. According to their annual report of 2011, all these hotels are included into three brands, distributed into the next lodging segments:

- Premium ➔ Barceló Premium
- Midscale-Upscale ➔ Barceló
- Inexpensive hotels ➔ Barceló Comfort

In the following table, there is a distribution of Barceló hotels by brand, with the number of hotels and its percentage according to total number of hotels.

### Table 12. Barceló hotels by brand.

<table>
<thead>
<tr>
<th>Nº of hotels</th>
<th>% of total hotels</th>
</tr>
</thead>
<tbody>
<tr>
<td>Barceló Premium</td>
<td>54</td>
</tr>
<tr>
<td>Barceló</td>
<td>82</td>
</tr>
<tr>
<td>Barceló Comfort</td>
<td>5</td>
</tr>
</tbody>
</table>

Source: own elaboration based on annual report of Barceló, 2011.

We can conclude that Barceló hotels are mainly focused on midscale and upscale segments, which it means that the company wants to be positioned as a prestigious international hotel chain.

### 6.3.3. Business model

The portfolio of this hotel chain is composed by three kinds of contracts. In the next graph we can observe the different percentages of each type, according to data of its webpage (2013).

![Contract types]

Source: own elaboration based on press releases of Barceló website, 2013.

As we can see in the above graph, Barceló mainly develops its hotel expansion by management contracts (42% of total hotels).

Barceló was created as a family business but nowadays it is a Group made up of companies dedicated to hotels and travel companies. Its main development model is based on a low intensity of capital, with 65% of managed and rented hotels, facing 35% of own hotels.

In 2006, Barceló participated in the creation of Playa Hotels & Resorts, which corresponds to the minority property specified in the previous graph. This hotel chain had as an objective to acquire all-inclusive resorts in Latin America and the Caribbean, and it was managed mainly by Barceló Hotels & Resorts.

6.3.4. Management model

Barceló has a regionalized management model, characterized by its efficiency and flexibility and managed by regional managers. These regional managers form a business structure diversified by geographic areas. They take care of the organization, planning, supervision and management of the hotels in a specific region and they also create synergy within their locations and other regions. This decentralization allows the regional managers to be more adapted to the different markets and environments and to centralize its regional structure in strategic areas or with economies of scale, supported by a central light structure.

In this way, each regional manager is responsible of some hotels in the same region, and the manager of each hotel is totally responsible for its business.
6.3.5. Business strategy

Barceló Hotels & Resorts focuses on glocalization as its services development. The hotel chain provides hotels with a distinctive local character of the destination, geographical and social surroundings according to its location, but also with the maintenance of its chain standardization. The brand tries to adapt their hotels to local culture, and the hotels are also adapted to local climate and environment of the specific destination. Its positioning is characterized by the communication to its guests about the authenticity of their hotels and the combination of their personal touch with their standard brand distinction.

Its business activity framework is mainly regiocentric, that is, the market consists of regions (e.g. Europe, Asia, or the Americas). The firm tries to integrate its business structure within regions.

In 2005, the company approved a strategic plan for 5 years to achieve a total portfolio of 200 hotels in the 4 and 5 star category. One of the main goals of Barceló Hotels & Resorts is clearly to be positioned as a luxurious hotel chain within the midscale and upscale segment.

Then, in the following years, the company created new luxurious categories such as Palace Deluxe related to the brand Barceló Premium. It could indicate us its tendency to a benefit leadership in their business strategy, since the hotel chain is worried about offering better quality of their products, and it want to obtain differentiated competitive positioning.

6.3.6. Target tourism segments

The balanced portfolio of Barceló Hotels & Resorts is divided into two kinds of hotels: urban hotels (46% of total hotels) and leisure hotels (54% of total hotels). The two percentages are almost equal, but there is a preference to centralize in leisure segment.

Barceló decided to establish different kinds of hotels in response to market demands. In this way, the company has segmented its supply and it has been adapting its hotels to popular segments, with specialized hotels for golf, families and children, only adults, health and beauty, and also for congresses and conventions (Meet Barceló sector). Barceló distributes mainly its vacation resorts in the Caribbean and its urban hotels in Europe, according to its supply specialization and geographic segments, and the other kinds of hotels depending on the stay.

Moreover, the company tries to focus on upscale segment, with a significant hotel portfolio in the 4 and 5 star categories and located in the most desired destinations.

6.3.7. Expansion strategy

Its international growth started in 1981 with the acquisition of Turavia tour operator, and in 1985 the company expanded to Punta Cana and opened the Barceló Bavaro Beach Resort, the first hotel of a Spanish hotel chain in Dominican Republic.
In the 90’s, the hotel chain continued opening new hotels in Costa Rica and Central America, and also in USA, being again the first hotel chain of Spain to expand there. In these years, Barceló Hotels & Resorts expanded to Europe and focused on urban tourism, also in Spain to maintain its positioning in this consolidated market.

With the agreements of some British companies (First Choice tour operator; Dawnay Shore Hotels Plc, owner of Paramount Hotels), the group achieved its implementation as one of the most influential companies in the worldwide tourism sector. Barceló also launched a joint venture with BBVA group and FCC group (Grubarges).

At the beginning of the 21st century, the hotel chain signed a strategic alliance with Martinsa-Fadesa, a Spanish property developer, in order to carry out a joint running of hotels.

Barceló Hotels & Resorts is the leader Spanish hotel company in USA, since it has acquired some hotel operators such as Crestline Capital, and it has created the branch Barceló Crestline Hotels & Resorts. The group made also an agreement with the American patrimonial society Highland Hospitality that allowed it to continue its growth in USA, and it acquired a minor share of Apple Vacation, one of the largest American tourism groups.

Then, the expansion of Barceló Hotels & Resorts includes mainly destinations in USA, Latin America and Europe.

The following table shows us the hotel division of Barceló Group by geographic segment

<table>
<thead>
<tr>
<th>Geographic Region</th>
<th>% of total hotels</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe and the Mediterranean Basin</td>
<td>46%</td>
</tr>
<tr>
<td>Latin America and the Caribbean</td>
<td>21%</td>
</tr>
<tr>
<td>USA</td>
<td>33%</td>
</tr>
</tbody>
</table>

Source: own elaboration based on press releases of Barceló website, 2013.

As we can observe in the previous table, the higher percentage of Barceló hotels is located in Europe and the Mediterranean. Comparing to the percentage in USA, the company owns a high number of hotels in only one country. This data show us its high interest to be positioned in USA, since Barceló made agreements with American companies.

Barceló’s philosophy about expansion consists on anticipating all contingencies and planning each of its new hotel openings. Thanks to this philosophy, in the last few years, the Barceló Group has added over 25,000 rooms and 100 hotels (new constructions or currently operational) to their portfolio.
Barceló Hotels & Resorts has known how to expand to strategic destinations, since the hotel chain was pioneer in establishing hotels in the main present tourist locations (USA and the Caribbean).

After many years of expansions, mainly in the Americas and Europe, the last years have been conservative in these terms. Some projects have been stopped because of the domestic and international economic crisis. Barceló cancelled 21 hotels leased in the United Kingdom since 2007 because of the high rent they were submitted to pay. Then, the hotel chain began a renovation plan of their hotels taking advantage that some of them had less occupancy. Barceló uses this measure to overcome the situation with the objective to offer a higher quality of its product in order to catch new markets, improve their prices and then, their revenues. In fact, with the renovation of its first international hotel in the Dominican Republic, Barceló has obtained profits and has planned another one in a Caribbean Barceló resort during the off season of 2013. The hotel chain also pretended to go for a business model based on a hotels management model in order to obtain capital with the sale of hotels (e.g. in Barcelona and Hamburg).

However, to continue growing and catching new markets, the hotel chain established a joint venture in 2011 with the Italian firm Turismo Italia in order to manage hotels in Roma and Milan for 5 years. The contracts types are rentals or management, depending on the property of the hotels (company or third-party). The hotels are assigned to business and leisure segments, and the two companies will share their know-how and their market positioning, which will allow them to obtain joint advantages. Moreover, Barceló made an agreement with Aran Group Hotel to expand its portfolio and enter into the transalpine market of Italy.

In the next chart, we can see all the international establishments of Barceló Hotels & Resorts located in different countries. The destinations are mainly USA and Mexico, which it shows once more its Americas-oriented expansion. Barceló has also hotels in Costa Rica and the Dominican Republic, and it maintains its portfolio in Spain with 49 hotels, which it nearly becomes equal to the number of North American hotels.
Barceló Hotels & Resorts’ portfolio comprises a total of 140 hotels, with around 38,000 rooms in 16 countries at the beginning of 2013, according to press notes of its Group website. The hotel chain has been overcome this situation with its health and broad experience in hotel management, and the projects for following years are more optimistic and centred to hotel management. The hotel chain will begin for this year a renovation plan, together with new openings, and it will continue with its priority to hotels management business in order to dissociate from hotels property.

In fact, the hotel chain has made a management agreement with Hydra Beach SA in order to incorporate Greece as a new destination, with the opening of a hotel during May of 2013. This year, the hotel chain has also announced the opening of a new hotel in Italy, which will be its fifth in this destination. For next projects, Barceló is interested in Jamaica as a possible future destination.

6.4. **Riu Hotels & Resorts**

6.4.1. **Company overview**

Riu Hotels & Resorts is a Spanish hotel chain and number 31 in the last Hotels’ 325 world ranking (Hotels magazine, 2011). It is also the 4th largest Spanish hotel chain, according to Hosteltur magazine ranking of 2012. The company has over 100 hotels in 16 countries distributed on 3 continents.

The hotel chain was born in Mallorca in 1953 as a family business, founded by Juan Riu. The business started that year with the purchase of a hotel in Palma de Mallorca.

In the 60’s, Riu became partner with a German tour operator, Dr Tigges, known as TUI nowadays since 1968. This helped to Mallorca to promote tourism in this destination, with also charter operations between Germany and
Mallorca. During the following years the hotel chain was expanding in the Balearic Islands. In 1976, Riu Hotels SA was established along with TUI, a Real Estate development company, to build new hotels.

In the middle of the 80’s, the hotel chain opened its first hotel out of the Balearic Islands, concretely in Gran Canaria (Canary Islands). Its expansion began from then on, and it was successful, as today the Canary Islands is one of its main destinations, with over 20 hotels located there.

Its international expansion was carried out in 1990 with its first hotel in the Dominican Republic. The hotel chain began to grow in America and currently has over 30 hotels. In 1993 TUI and Riu created a company called RIUSA II SA as a joint venture, which operates the Riu line of hotels.

Years later, the company continued as a family business with the generational change-over after the death of the founder’s son. During the 90’s early 2000’s, the hotel chain expanded to some countries around the world, mainly located in the Latin America and the Caribbean. Ten years later, Riu launched an urban hotel brand and opened some hotels under this brand.

Since 2005, Riu is TUI AG shareholder, and currently one of the main shareholders with 6% of shares.

6.4.2. Brands / Hotels lines

The world of Riu Hotels & Resorts consists of some brands such as ClubHotel, LUCA Hotels, Riu Palace and Riu Plaza. There are different kinds of Riu hotels, which are Holiday Hotels, Urban Hotels, All-inclusive Hotels, Adults Only Hotels, Golf Hotels and Wellness Hotels. Regarding Holiday Hotels and Urban Hotels, they are located in the best beach destinations and the centre of large cities, respectively. Golf and Wellness Hotels are focused on specific facilities for golf fans and wellbeing of their guests. All-inclusive Hotels include all services for customers with no restricted opening hours. The concept of Adults Only has also been adopted in Riu hotels in order to satisfy customer demand. Loyalty programmes, like Riu Partner Club, Riu Class and Riu Corporate Club, has been created to encourage loyal buying behaviour, with another program tailored to children entertainment called RiuLand.

In the next table we can observe the number of hotels by brands and its percentage referring to the total number of Riu hotels.

Table 14. Riu hotels by brand.

<table>
<thead>
<tr>
<th>N° of hotels</th>
<th>% of total hotels</th>
</tr>
</thead>
<tbody>
<tr>
<td>Riu Plaza</td>
<td>2</td>
</tr>
<tr>
<td>Riu Palace</td>
<td>27</td>
</tr>
<tr>
<td>LUCA Hotels</td>
<td>1</td>
</tr>
<tr>
<td>Clubhotel</td>
<td>26</td>
</tr>
<tr>
<td>Others Riu Hotels</td>
<td>46</td>
</tr>
</tbody>
</table>

Source: own elaboration based on Riu Hotels & Resorts’ website, 2013.
Riu hotels are distributed by 4 and 5 stars categories mainly, with 48% and 45% of total hotels respectively. The other percentage (7%) corresponds to hotels of 3 stars. Then, according to lodging segments, Riu owns mainly midscale and upscale hotels, since more than 90% of their hotels are included into 4 and 5 stars.

6.4.3. Business model

In the same way as the other hotel chains, Riu Hotels & Resorts was created as a family business, and it continues growing with this business model.

Riu believes that, by remaining family-owned, the business can be managed in a way that gives it flexibility and agility, allowing it to make decisions faster than more bureaucratic listed competitors.

There are not specific data about property regime of its hotels portfolio. We only know that Riu managed 12 hotels of Iberotel hotel chain (TUI Group) in 1999, located in Tunisia, Morocco, Bulgaria and Cyprus. In the case of Morocco and Bulgaria hotels, the hotel chain used the franchise as a contract type and included more hotels in the following years under franchise. For the other hotels, Riu mainly acquires its hotels in terms of property.

6.4.4. Management model

The company management is shared by two Chief Executive Officers. They are Carmen Riu and Luis Riu, a brother and a sister. This family business remains firm nowadays with a good climate of understanding; Carmen is responsible for Finance, Administration, Human Resources, and IT, and Luis for the expansion of the chain and the Marketing and Sales.

They have a team of managing directors to run the day-to-day operations of the hotel chain and to know how each division of the operation is performing.

6.4.5. Business strategy

Riu is characterized by a benefit leadership, since they attach more importance to the satisfaction of their customers than financial profits. They want to maintain their best standards of quality in all their hotels, which means a gradual approach to growth.

Riu Hotels & Resorts has an organic growth strategy, that is, it comes from existing businesses of the hotel chain. Their strategy is to improve their portfolio and to launch new product lines, such as Adult Only Hotels. Its main thinking is to offer better hotels to their customers, instead of buying more hotels and increase its portfolio. The hotel chain is focused on quality and takes into account customer needs. Then, its strategy is the specialisation.

Its philosophy is based on a high quality and a personalized treatment to its customers, which is the key of Riu Hotels & Resorts success. In fact, one of the products incorporated in the hotel chain is Riu Gastronomy, which consists on a fine food in order to offer the best quality for its guests. Then, they will be able to find Italian, Steakhouse, Mexican, Asian and Japanese restaurants offered at hotels with the All-inclusive service included.
6.4.6. Target tourism segments

The company’s business is focused on the holiday hotel sector and over 60% of its establishments offer the renowned All Inclusive by RIU service.

Although Riu has launched an urban brand, it is specialized in holiday resorts with destinations mainly of sun and beach.

6.4.7. Expansion strategy

Riu Hotels & Resorts began its expansion firstly to the Canary Islands, once established in the Balearic Islands. The reason to choose this destination was mainly its non-seasonal nature, which allows the hotel chain to maintain their hotels opened all year long. Riu became the leader in this destination in allocation supply and it decided to establish some central offices in Gran Canaria, such as Human Resources Department and Staff Training Centre.

Then, the hotel chain continued growing with its first international hotel, Riu Taino, in Punta Cana (Dominican Republic). Riu expanded other destinations such as Cuba, USA, Mexico, Jamaica and Madeira. At the end of the 90’s, Riu acquired a vacation establishment in Gran Canaria, which is its most important hotel of Spanish portfolio. Some years later, the company take under management 12 hotels of Iberotel hotel chain (TUI Group) in Tunisia, Morocco, Bulgaria and Cyprus. Some of these hotels were added under franchises, and the hotel chain also incorporated more hotels through franchise.

In 2010, Riu launched its new urban hotel brand, Riu Plaza, and the first hotel of this brand was opened in Panama. Then, the hotel chain built other urban hotel in Mexico.

The expansion of Riu Hotels & Resorts includes mainly destinations like America and the Caribbean. We can see in the next table the percentage of international hotels distributed per region.

Table 15. Riu hotels by geographic region.

<table>
<thead>
<tr>
<th>Region</th>
<th>% of total hotels</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>17.7%</td>
</tr>
<tr>
<td>Central America</td>
<td>3%</td>
</tr>
<tr>
<td>Caribbean</td>
<td>15.7%</td>
</tr>
<tr>
<td>Europe</td>
<td>44%</td>
</tr>
<tr>
<td>Africa</td>
<td>19.6%</td>
</tr>
</tbody>
</table>

Source: own elaboration based on Riu Hotels & Resorts’ website, 2013.

The hotel chain is mainly located in Europe continent, concretely Spain, and in Africa, in countries like Cape Verde, Tunisia and Morocco.

In the following chart we can observe the international hotels portfolio per country of Riu Hotels & Resorts in 2012, which allow us to compare its presence in depth.
Chart 5. Number of Riu international establishments per country.

Then, Mexico is the international destination with a higher number of hotels, followed by Tunisia and Dominican Republic.

The future projects of Riu Hotels & Resorts consist mainly on new openings in the Americas. These new openings will be located in Jamaica, Panama and USA. In fact, the hotel chain has planned to open a Riu Plaza hotel in New York in 2015, and it has also decided to establish another urban hotel under this brand in Berlin (Germany) for the next winter 2013.

The hotel chain will carry out renovations in some hotels located in Spain, Mexico, Bulgaria, Turkey and Tunisia, all of them planned in this year.

6.5. Iberostar Hotels & Resorts

6.5.1. Company overview

Iberostar Hotels & Resorts is a Spanish hotel chain owned by Iberostar Group. The Iberostar Group is one of the leading Spanish tourist companies and it has three divisions, that is, a hotel division (Iberostar Hotels & Resorts), a real-estate division (Iberostate Golf, Villas & Condos) and an inbound travel division (Iberoservice), which consists on services management. Its hotel division, Iberostar Hotels & Resorts, is a Spanish hotel chain and number 40 in the last Hotels’325 world ranking (Hotels magazine, 2011). It is also the 5th largest hotel chain in Spain, according to the Hosteltur magazine of 2012. The company has over 100 hotels in 16 countries distributed on continents.

The Iberostar Group was created in 1956 by the Fluxá family. The origin of this business group date back to 1877 with footwear companies (Camper and Lotusse). In fact, Antonio Fluxá founded the first footwear production company in the Balearic Islands. His son, Lorenzo, continued with the firm’s international expansion with the acquisition of a small travel agency called Viajes Iberia. The company was taken from generation to generation, and it turned to the tourism business with the creation of a travel agencies network. In 1973, Miguel Fluxá
founded the tour operator Iberojet and opened travel agencies around the world. Later, he extended the range of services by entering the hotel sector and opening the first Iberostar Hotels & Resorts in Mallorca and the Canary Islands in 1987.

After its expansion in Spain, the hotel chain decided to grow in the Caribbean, and opened its first international hotel in Punta Cana (Dominican Republic) in 1993. Five years later, the company created an airline for charter flights with hubs in Palma de Mallorca, Madrid and Tenerife. It also founded Iberojet Cruceros, and continued to grow becoming one of the country’s leading tourism group. In 2004, the company constituted Iberostar Foundation, a non-profit making organization directed to social actions.

In 2006, Iberostar Group sold its outbound travel companies and decided to focus on its hotel division. It also maintained Iberoservice, its inbound travel division. The firm launched a new range of luxury hotels The Grand Collection and also sets up its real-estate division Iberostate.

In 2011, the company consolidated its hotels portfolio and continued to expand to different countries. Iberostar has also built consolidated alliances with leading tour operators in Europe, USA and Canada.

6.5.2. Brands / Hotels lines

Iberostar Hotels & Resorts provides four different lines of hotels, which are The Grand Collection, Iberostar Premium Gold, Iberostar Premium and Iberostar. The Grand Collection includes luxury hotels of 5 stars for adults only, a new trend expanded in different hotel chains, located in privileged areas of each destination with exquisite cuisine and first-class facilities. In this line there are also city hotels to enjoy with the family. Iberostar Premium Gold consists on 5-star hotels with exclusive all-inclusive services for the whole family. However, Iberostar Premium is a line with a lower star category (4 and 5-star) with excellent services and facilities for everybody. Finally, Iberostar line of hotels includes 4-star hotels with the best quality with affordable prices.

In the following table, we can observe the number of hotels by each line, with its representative percentage in relation to the total number of hotels.

Table 16. Iberostar hotels by hotels lines.

<table>
<thead>
<tr>
<th>Nº of hotels</th>
<th>% of total hotels</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Grand Collection</td>
<td>8</td>
</tr>
<tr>
<td>Iberostar Premium Gold</td>
<td>12</td>
</tr>
<tr>
<td>Iberostar Premium</td>
<td>34</td>
</tr>
<tr>
<td>Iberostar</td>
<td>30</td>
</tr>
<tr>
<td>Other hotels</td>
<td>16</td>
</tr>
</tbody>
</table>

Source: own elaboration based on Iberostar Group’s website, 2013.

Iberostar Premium line of hotels has the higher percentage of hotels, which means that the hotel chain focuses on upscale lodging segment. In fact, all the hotels of this chain are included into this segment.
Regarding the types of hotels, Iberostar has added value to its hotels with exclusive services, such as golf, wellness and spa, wedding programmes and convention centres.

6.5.3. Business model

Iberostar Hotels & Resort is a family-owned business with more than 50 years’ experience in the tourism sector.

There are not specific data about property regime of its hotels portfolio. We know that the goal of the hotel chain is to obtain a portfolio with 200 hotels, with a catalogue of 50% of managed hotels and the other 50% by property. With an important percentage of hotels by property, the hotel chain will be able to influence much better in the quality and standardisation of the product.

6.5.4. Management model

Iberostar Hotels & Resorts was founded as a family business. The fourth generation of the Fluxá family is now directly involved in running the company, in keeping with its enterprising spirit, and the hotel chain is committed to continuing to invest in those countries it already operates in and to extending its business activity to new destinations and markets.

The hotel chain has a regionalized management model, managed by regional managers. Then, the structure of the business will be diversified by geographic areas, according to its global presence.

6.5.5. Business strategy

Iberostar Hotels & Resorts tries to continue adapting the company to new market needs and trends, working to maintain its quality standards and customer satisfaction. The hotel chain wants to improve every year, and it reinvests its profits to add value to the company providing innovative products to meet the expectations of the most demanding guests. Then, the philosophy of Iberostar Group has been to reinvest in technology, expand into new sectors and develop new products to satisfy customers’ demand in order to achieve a differentiated product. In that case, its main strategy to compete is the benefit leadership or differentiation, since the hotel chain wants to offer always the best quality for its customers.

The hotel chain is also strongly working on brand recognition, since they want to introduce an urban segment of hotels in its portfolio.

6.5.6. Target tourism segments

Iberostar Hotels & Resorts has a clear tendency to focus on vacation tourism, since the hotel chain has not developed its urban brand until 2011. The company wants to be present in the world’s main holiday destinations and facing the best beaches, offering the best quality to its customers. Its objective is to provide the quality guarantee that everybody is looking for when they go on holiday.
However, with the inclusion of this new segment, the hotel chain will pretend to convert its portfolio in a combination of holiday and urban hotels.

**6.5.7. Expansion strategy**

Iberostar opened its first hotels in the Balearic Islands and Canary Islands in 1987. Its internationalization process began seven years later with the opening of a hotel in Punta Cana. The hotel chain continued to grow in Mexico in 1997 and then in Cuba. The same year, Iberostar also expanded to the Mediterranean, concretely in Greece. The other destinations were Brazil (2005), Jamaica (2007), Cape Verde (2009) and Budapest (2011).

The hotel chain has a high presence in Tunisia, Mexico, Cuba and the Dominican Republic. Greece has also gathered importance, since it was one of its first destinations. We can confirm the previously mentioned data in the next chart about the international presence of the hotel chain, updated with the information of its website in relation to its current positioning.

**Chart 6. Number of Iberostar international establishments per country.**

![Chart showing number of Iberostar international establishments per country.](image)

Source: own elaboration based on Iberostar Group’s website, 2013.

As we can see, its main regions are the Americas and the Mediterranean, in particular Tunisia. However, the hotel chain has planned to continue its expansion policy with new vacation projects in consolidated markets.

Moreover, Iberostar wants also to develop an urban segment with hotels located in cities such as Paris, London, Buenos Aires, Bogota or Cartagena, which have a high touristic interest. The hotel chain tries to take advantage of its consolidated client base (more than 40% is made up of repeat customers) in order to introduce this new market niche, with a clear cross selling opportunity. The objective is to move its model of quality hotels to the city, taking into account its important customer base.

Then, Iberostar Hotels & Resorts opened in Budapest its first urban property, in order to attract the business segment to know the brand and chose...
it in its holidays. This new establishment opened in 2011 was operated under Grand Collection brand. The hotel chain also incorporates new urban hotels in Colombia (Cartagena) and Argentina (Buenos Aires).

In 2012, Iberostar Hotels & Resorts purchased 100% of the Thomas Cook shares in five Spanish establishments. These hotels are located in Mallorca and Cadiz, which it responds to the strategic expansion plan of the company to grow in destinations with a consolidated presence.

In the same year, the hotel chain announced the incorporation of ten establishments in its portfolio by an alliance with Corbis Group. Then, the chain will incorporate Thailand, the north of Fuerteventura and Menorca as new destinations. Most of them are in the remodelling or building process.

Cuba is another location in which the hotel chain wants to expand and consolidate its presence. In fact, Iberostar opened last year its 9th hotel in this destination, and it incorporate it in its portfolio under a management contract.

The last incorporation of Iberostar Hotels & Resorts in 2013 is the fabulous Son Antem hotel of Mallorca, by a management contract with the hotel chain Marriot. This contract by 5 years is renewable and it will consist on the management of the hotel, the two golf courses and its residential compound.

Iberostar has nowadays a portfolio with at least 100 hotels, 63 of them out of Spain, and it is expanded in 16 countries. The hotel chain will continue with its expansion strategy in consolidated destinations, as well as the extension of its urban segment, in order to become the leading tourism company. Iberostar aims to improve its holidays by creating new resorts of the highest quality to meet the increasing demand in the sector.
7. CONCLUSIONS

- The development of the tourism has increased the need to become global. However, the reasons of the expansion of Majorcan hotel chains are different. Some of them took advantage of the purchase of hotels; others were partner with a tour operator, or simply look into the possibility of expansion.

- The main lines of hotels practised by the Majorcan hotel chains are based on entertainment and wellbeing facilities, such as golf and spa, and also focused on specific customer segments. Adults Only concept has been applied in these hotel chains as a new hotels trend, as well as hotels for congresses in the case of Barceló.

- The Majorcan hotel chains have expanded mainly in the same areas, which are Latin America, the Caribbean and Europe. However, Meliá has also experienced in China. USA was another destination in which Meliá and Barceló has opened hotels.

- In terms of target tourism segments, the Majorcan hotel chains are more specialised in vacation tourism. However, Meliá and Barceló were first to diversify and to include urban hotels in their portfolios, which at present have a high importance and are located in big cities. Riu and Iberostar have also experienced in the urban segment, but some time later. They are more specialised in holiday tourism.

- There are a lot of strategies to grow, but these hotel chains only follow some of them, such as diversification through new brands, management contracts, joint ventures, acquisitions and leasing.

- Their business models are traditionally family-owned, but they are more and more inclined to a modern management model based on a lower capital intensive, with management and leasing contracts. This is the case for Meliá and Barceló hotel chains, in comparison with Riu and Iberostar hotel chains which have more propensities to property regime.

- Given the magnitude of the crisis, the sale of hotel properties can be a significant capital contribution for hotel chains, which foster them to generate revenues through this procedure.
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9. APPENDICES


Source: Hosteltur website.

### Ránking mundial de destinos por llegada de turistas extranjeros

<table>
<thead>
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<th>Rank</th>
<th>Full year</th>
<th>Change</th>
<th>Source</th>
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<td>1 France</td>
<td>TF 77.2</td>
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</tr>
<tr>
<td>2</td>
<td>2 United States</td>
<td>TF 51.2</td>
<td>1.2%</td>
</tr>
<tr>
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<td>3 China</td>
<td>TF 31.2</td>
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<tr>
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<td>4 Spain</td>
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</tr>
<tr>
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<td>5 Italy</td>
<td>TF 41.2</td>
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<td>6 Turkey</td>
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<td>8 Germany</td>
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<td>9 Malaysia</td>
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<tr>
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<td>10 Mexico</td>
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