

*German capital
and the development of the Spanish seaside tourist
industry (1950s-1990s)*



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Why bringing tourism to the EBHA 2018 Conference?

Over the past seven decades seaside tourism has become a leading industry in both advanced and emerging economies.

In the Mediterranean area tourism has played and still plays a crucial role as a driver of domestic economic development and international integration.

Led by local and foreign companies, the seaside tourism industry shapes landscapes and markets while challenging social organizational patterns.



Focus

- We explore the role of foreign capital and knowhow in the development of the Spanish seaside tourism industry through the lens of **two early strategic alliances between local and German firms: Riu-TUI (1954-1990s) and Iberostar-Neckermann (1979-1990s).**
- Spain, a major tourism destination and a historically relevant recipient of foreign direct investment, has developed a strong domestic and since the 1990s also international seaside tourism industry.
- Based in Palma de Mallorca and family owned and managed, Riu and Iberostar are leading companies in terms of turnover, hotel rooms and employees.

Table 1: Business figures of the leading Spanish family hotel groups (June 2017)

Company	Turnover (1)		Total number of hotels	% of owned hotels	Number of rooms	Number of employees	Number of countries with hotels	Number of brand names
	Hotel business	Travel business						
Meliá Hotels International	2.562	0	384	12,2%	98.855	44.405	45	7
Barceló Group (2)	1.317	1.538	229	17,0%	50.486	30.500	21	4
Iberostar Hotels & Resorts	1.361	664	110	49,1%	36.757	27.100*	17	2
Riu Hotels& Resorts	2.011	0	95	86,3%	43.902	26.687	19	1
H10 Hoteles	505	0	57	84,2%	15.700	6.000	8	3
Palladium Group	434	0	42	71,4%	12.566	11.799	6	9
Piñero Group (3)	532	234	26	100,0%	13.639	15.000	4	2

Notes (1) Turnover in 2016. (2) Barceló includes Crestline (USA), fully acquired in April 2017. (3) Piñero includes €21M sales in real estate and €5M revenue from other activities.

Aims and methodology

- We intend to bring business history and the tourism industry into ongoing debates on foreign direct investment and economic development (Lall & Narula 2004, Velde 2006, Wilkins 2010, Rodrik 2010, Jones 2014).
- As historians, we are particularly interested in **the long term impact of foreign firms on the growth, building or upgrading of capabilities and learning processes of local business actors.**
- Thus, based on **new empirical evidence**, we look specifically into:
 - The entry and growth strategies of the hotel operators TUI and Neckermann.
 - The long term impact of both partnerships on the learning process and capability upgrading of Riu and Iberostar prior to their own internationalization in the 1990s.

Sources

- Extensive collection of written and oral sources linked to Joan Riu's recorded personal memoir (2016) and above all the Iberostar Business History Project (2012-2017).
- Written sources: c. 4,000 historical documents, c. 300 advertising brochures, and c. 2000 photographs.
- Oral sources: 71 interviews with 61 individuals directly or indirectly linked to Riu and Iberostar.
- This paper relies heavily on contracts and correspondence between Riu and Iberostar with their German partners and interviews with Carmen Riu, Miguel Fluxà, Wolfgang Beeser and Peter Fankhauser.

Research questions

- How do foreign operators interact with local actors?
- Do strategic alliances contribute to build/upgrade local capabilities?
- Does foreign capital and knowhow help local firms grow and internationalize?

Riu & TUI at a glance

- 1953: self-made entrepreneur Joan Riu (1908-1996), born Catalan and briefly emigrated to Venezuela, purchases Hotel San Francisco in Majorca.
- **1954: steady cooperation agreement** with travel agent Dr. Tigges (TUI since 1968 merger Touropa + Scharnow-Reisen + Hummel-Reisen + Dr. Tigges-Fahrten) to access the German market.
- **1977: Riu-TUI joint venture (60/40) to build and manage new hotels** in the Balearic Islands (joint venture based on Riu's 1971 proposal).
- 1985: Riu-TUI expand to the Canary Islands.
- 1991: Riu-TUI go international: Dominican Republic and Jamaica.

Iberostar & Neckermann at a glance

- 1956: Local entrepreneurial family member Lorenzo Fluxà acquires Spanish travel agent Viajes Iberia.
- 1962: His son Miguel joins the firm and starts developing not only the inbound but also the outbound and hospitality business areas.
- **Late 1960s: Loose cooperation with German touroperator Neckermann** (Thomas Cook since 2001).
- 1973: Fluxá launches its own touroperator, Iberojet (outbound).
- **1979: Exclusive representation agreement between Iberojet+Iberia and Neckermann**, which enters Iberojet providing financial and commercial support to the new firm Iberostar, fully owned by Fluxà family. (Parallel agreement between Fluxá and British operator Intasun, instrumental to create first Spanish operator abroad, Sunworld).
- 1979-1980: Viajes Iberia establishes inbound companies in the UK (Iberotravel) and US (Visit us).
- 1990s: Iberostar's internationalization in the Caribbean with Neckermann's commercial, not financial, assistance.

Comparative analysis: TUI-Riu and Neckermann-Iberojet

- **TUI**: top German tour operator.
 - **Riu always focused on the hotel business.**
 - Dr. Tigges/TUI = Riu's only foreign partner.
 - Focus: sun & beach tourism.
 - Geographical expansion: Mallorca, Canary Islands, Caribbean.
 - Over time strong international portfolio.
 - **Terms of partnership: lasting joint venture (60/40).**
- **Neckermann**: second German tour operator
 - **Iberostar starts as a travel agent** before entering the hotel business and becoming a diversified group
 - Neckermann starts collaboration with Iberostar using Viajes Iberia as inbound agent.
 - Neckermann becomes leader in Spanish market through Iberostar's partnership.
 - Iberostar has other foreign partners.
 - Focus: sun & beach tourism.
 - Geographical expansion: Mallorca, Canary Islands, Caribbean.
 - Over time strong international portfolio.
 - **Terms of partnership: joint venture (55/45) in tour operator Iberojet and joint venture (75/25) in hotel management company but hotels fully owned by Iberostar. Financial assistance to build hotels negotiated on a one by one basis up to 40%. Bond weakens over time, dissolution of joint ventures.**

Comparative analysis: Entry and growth strategies of German partners

- **Spanish initiative** in both cases! Riu seeks tour operator to sell beds of its new hotel, Dr. Tigges the most receptive (1954). Riu also proposes and designs joint venture. Iberostar looks for a partner for its inbound activity (late 1960s). However, in 1979 it is Neckermann's idea to secure accommodation for its customers through Iberostar.
- **Exclusivity agreements** in both cases aimed to: 1/ secure accommodation in a tight, competitive environment (TUI vs. Neckermann); 2/ take advantage of knowledge of local market and socio-cultural environment; 3/ simplify business model, concentrating outbound business in one local agent (Neckermann) and 4/ overcome Spanish restrictions to FDI.
- **Gentleman's agreement** in both cases, showing clear preference for informal, trust-based, flexible relations that grow gradually to last and outlive mergers. Trust was crucial in the early stages of both partnerships, when Spanish social and economic backwardness discouraged business partners.

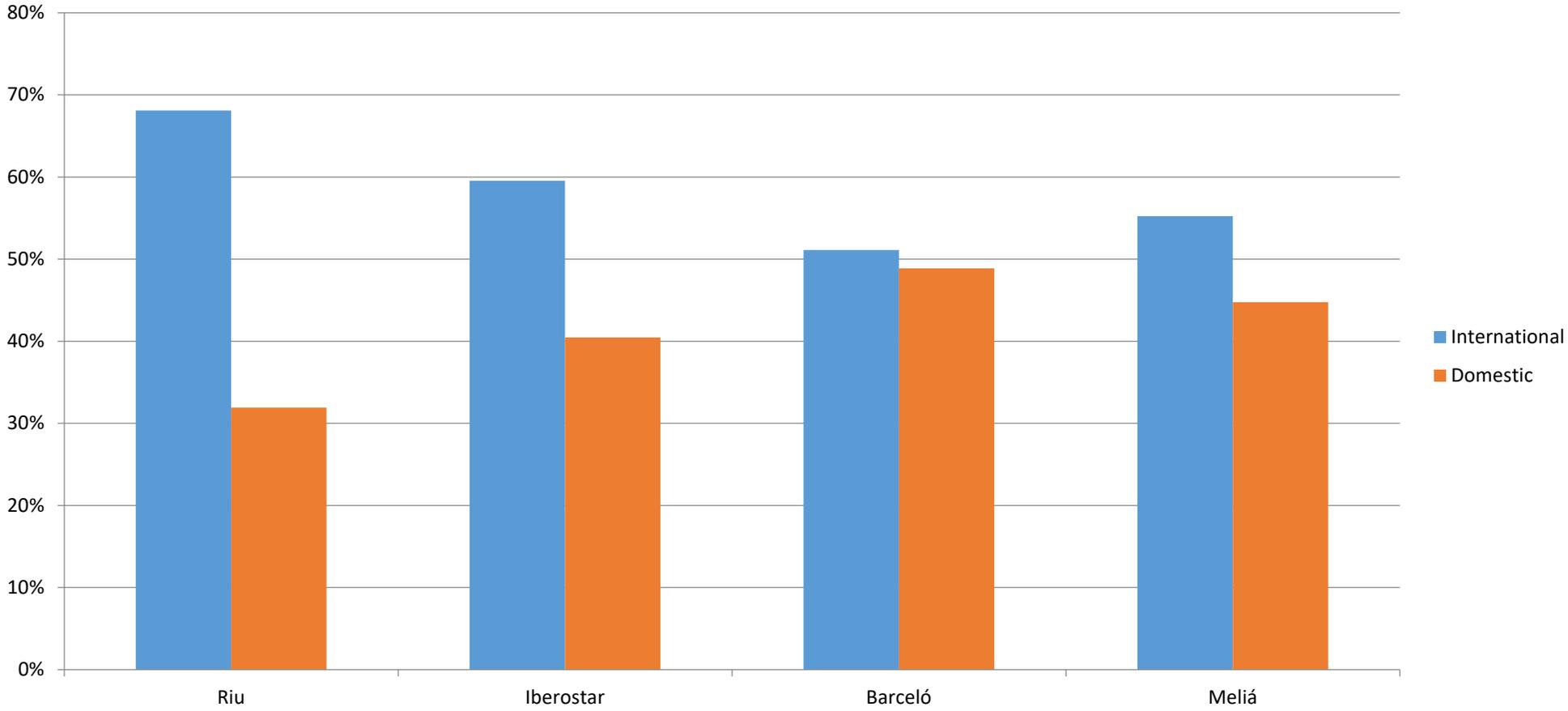
Comparative analysis: Long term impact on Spanish partners

Both partnerships seem to have triggered a **learning process** that requires further analysis. Note that over time TUI-Riu have strengthened their business focus and cooperation. In contrast, Neckermann's partnership fuelled Iberostar's business diversification and growing independence.

Such learning process included:

- Adoption of a (German) **market oriented growth strategy**.
- **Self confidence building**.
- **Diversification** (Iberostar).
- **Increase in size and quality standards** of Spanish hotels.
- **Brand and reputation building** using German partners as platforms.
- Exploration of **new domestic markets** beyond Majorca.
- **International mindset**. Note that both Spanish firms venture into the international market without German assistance. Later on, however, TUI replicated its collaboration model with Riu and Neckermann provided crucial financial and commercial support to Iberostar's foreign operations.

Figure 2: International and domestic hotels of the four largest Spanish family firms, as % of total portfolio (2017)



Conclusions

- **What does our research add to the understanding of the interaction between FDI and economic development?**
- Recent scholarship states that globalization is changing the driving forces of FDI. Existing local infrastructure and capabilities and proactive policies to attract FDI have become crucial to increase the transfer of capital and knowhow and their impact on local economic development.
- The stories of TUI-Riu and Neckermann-Iberostar show that:
- **Local actors did play a relevant, proactive role** in the 1950s-1980s knocking on German companies' doors, creating trust-based bonds, using their local knowledge and advantages, and learning directly and indirectly from TUI and Neckermann.
- But: Although this proactivity unfolded in a relatively backward, adverse environment, Majorca's capital and capitalists had been actively involved in the local tourism industry since the early 20th century (Manera 2009; Vallejo 2013, 2014). There was a local institutional infrastructure that survived the dramatic change of the rules of the game under Franco's regime. Riu and Iberostar benefited from Spanish Government's new FDI-friendly and tourism promoting policies after 1960.
- Both partnerships contributed to **build and upgrade Riu's and Iberostar's capabilities.**
- But: Preexisting capabilities were relevant in both cases (departing from very different circumstances) as in other local firms.
- Both partnerships increased Riu's and Iberostar's **knowledge of and self-confidence in the international market.**
- But: Foreign capital was not a requirement to go international. Local leading groups Meliá and Barceló internationalized without foreign assistance. And Riu and Iberostar entered the Caribbean on their own.

Further research directions

Gather more quantitative and human resources development related data.

Place Riu's and Iberostar's ventures in the context of TUI's and Neckermann's global expansion.

Explore and compare growth and learning processes of Majorca's leading hotel groups.

Examine Riu's and Fluxá's involvement in local and national collective action.

Estimate impact of German FDI on Majorca's tourism industry since the early 20th century.

Compare German strategies with those of other European leading tourist operators and hotel groups.



Thank you!