“I don’t know what we should do. All I know is that new horizons of opportunity are opening up for the company and we cannot afford to miss the chance the market is offering us.”

That was the idea that crossed the mind of Virginia Garcia, Marketing Director of Paradores, after looking over the pages of the business daily, Expansión, as she did each morning. The crisis being faced by the tourism industry as a result of the economic recession and the uncertainties arising from the threats of terrorism and war were changing the Spanish tourism scene.

Virginia had a lengthy career behind her in the hotel and catering sector during which she had held a number of sales management posts. She was recruited by Paradores in 2000 as marketing director with the aim of boosting the chain’s image and increasing sales. She joined the company just as it was embarking on a four-year programme of major investments in building and renovation work at various of its establishments. However, since then things had changed.

The figures in the article Virginia Garcia was reading revealed a worrying downward shift against the sector’s forecasts. The ongoing economic crisis, and the delay in any signs of the hoped-for recovery, were beginning to worry the top managers of hotel chains. Their fears were confirmed when the volume of reservations for the coming months fell short of the previous year’s figure.

Nevertheless, Virginia Garcia read between the lines: “the current uncertainty is inducing customers to take their holidays at home rather than go abroad. Rural tourism, activity breaks and natural settings are emerging powerfully as alternatives to the sun and sand formula, which is now a mature and saturated model in Spain.” It looked as though Paradores was being served a new customer segment on a plate. All that remained was to work out how to attract these new customers with the right marketing strategy.

In 2002 the company’s publicity and communications had followed more or less the same lines as in previous years. The main aims were to bolster the chain’s brand image and highlight the values that made Paradores different. This had taken the form of advertising (radio, press, magazines, billboards, etc.), promotions (special rates aimed at particular groups), a loyalty programme (the Amigos de Paradores card), stands at trade fairs, attending food events, sponsoring golf championships, and other similar events.

The challenge was now greater – if that were possible – as Paradores’ supply of accommodation would soon expand by 12% due to the expansion and reopening of establishments that had been closed and which had needed a relaunch. A series of new openings on this scale had not taken place since 1968. This was the outcome of the four-year investment plan, which was due to end in 2004 with all the chain’s establishments modernised following an investment of 173 million euros.
In this context it was essential to maximise the returns from the establishments in operation and increase turnover without ceasing to offer high levels of service to customers.

Virginia García did not try to hide her concern. As marketing director she had to show short-term results. She hesitated over the alternative she should opt for to meet this new challenge, but she knew that she had to react in time, be aggressive and carry out all the marketing actions necessary so that by the end of the year Paradores would be ready to look to the future with optimism.

THE HOTEL INDUSTRY

Spain was a world leader in the hotel industry. In 2002 a total of 60 million tourists had stayed in Spain’s hotels and other similar establishments, 0.1% more than in 2001.

However, visitors’ stays were getting shorter. Tourists spent 222 million nights in Spain in 2001, 2.6% less than the previous year. One interesting fact was the behaviour of Spanish tourists: both the number of visitors and number of nights had grown from the previous year (by 1.2% and 1.5%, respectively). This had offset the drop in the number of foreign visitors, both in terms of numbers of visitors (-1.2%) and nights (-5.4%). In percentage terms this meant that foreigners accounted for 61% of nights spent in hotels whileSpaniards made up the remaining 39% (see table 1).

TABLE 1
GENERAL DATA ON TOURISM IN SPAIN

<table>
<thead>
<tr>
<th>NUMBER OF NIGHTS SPENT IN HOTELS IN 2002</th>
<th>NUMBER OF VISITORS IN 2002</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>
% INTERANNUAL VARIATION IN NUMBERS
OF NIGHTS SPENT IN HOTELS BY

% DISTRIBUTION BY DESTINATION OF VISITORS
FROM SPAIN STAYING IN SPANISH HOTELS
Thus, the average length of stay was 3.7 days, 0.1% less than in 2001. The average length of time foreign visitors stayed was 5.1 days compared with 2.6 days for Spanish visitors.

The sector was clearly seasonal. Some 49% of stays were concentrated in the months between June and September. In 2002, the months of March, August and December were the only ones in which there was an increase, compared with the months of June, July and September, during which the number of hotel stays dropped. For each month, the number of foreigners in Spanish hotels was down on the previous year.

The number of hotel rooms had risen by 2.2%. Spanish hotels had on offer an average of 1 million beds for guests in 2002, some 23,000 more than in the previous year. Four- and five-star hotels saw the biggest increase in the number of beds offered, as can be seen in table 2.

**TABLE 2**

HOTELS IN SPAIN (2002)

<table>
<thead>
<tr>
<th>Category</th>
<th>No. hotels</th>
<th>Beds</th>
<th>Occupancy*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>13,518</td>
<td>1,079,355</td>
<td>55.33</td>
</tr>
<tr>
<td>Hotels:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gold stars</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Five</td>
<td>90</td>
<td>31,812</td>
<td>51.74</td>
</tr>
<tr>
<td>Four</td>
<td>894</td>
<td>292,806</td>
<td>60.32</td>
</tr>
<tr>
<td>Three</td>
<td>1,832</td>
<td>387,520</td>
<td>64.48</td>
</tr>
<tr>
<td>Two</td>
<td>1,519</td>
<td>118,751</td>
<td>50.88</td>
</tr>
<tr>
<td>One</td>
<td>1,048</td>
<td>52,203</td>
<td>41.78</td>
</tr>
<tr>
<td>Hostels:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Silver stars</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Three and two</td>
<td>2,547</td>
<td>89,176</td>
<td>39.70</td>
</tr>
<tr>
<td>One</td>
<td>5,587</td>
<td>107,087</td>
<td>34.20</td>
</tr>
<tr>
<td>Year-on-year change</td>
<td>2.22</td>
<td>-4.72</td>
<td></td>
</tr>
</tbody>
</table>

* annual average

**NUMBER OF BEDS PER REGION**

![Number of beds per region chart](image)
With this increase in supply and decrease in the number of stays, the average hotel occupancy level fell to 55.3% (4.7% less than in 2001). Average occupancy of hotels fell more than hostels.

If we analyse the market according to the nationality of the visitors coming to Spain, we can distinguish the following:

- **International visitors**

  In 2002 Spain was visited by 52 million tourists. The country’s pulling power as a tourist destination is reflected in its position—second after France—in the ranking of tourist destinations worldwide.

  The Balearic and Canary Islands were the preferred destinations for foreign visitors, accounting for 38% of overnight stays in 2002. This fact confirmed that Spain continued to be a sun, sea and sand destination.

  British and German visitors accounted for 32% and 27% of overnight stays by foreign tourists in 2002. British tourists, whose numbers had grown by 2.4% on the previous year, were the top originating market. Germans, hard hit by the economic crisis, had been the main market in 2001, but lost their top position with a drop in overnight stays by German tourists of 17%. The number of tourists from other principal countries of origin also dropped, in particular from Sweden and the United States with a drop of more than 8%. By contrast, the number of British, French and Italian tourists grew by just over 2%.

  For foreign visitors leisure remained the principal motivation for visiting Spain (90%), whereas only 10% of visitors came to Spain for business.

- **Domestic tourism**

  Spaniards took 128 million trips in 2002. Of these, 36% involved a stay in a hotel and the remaining 64% were short stays in second homes. Of this tourism, 91% was in Spain, resulting in 86.5 million overnight stays, and the other 9% was abroad. The main reason for travelling was leisure (88%), with just 12% of trips being made for business purposes.

  Broken down by Autonomous Region, Andalusia, Catalonia, the Valencia Region and the Canary Islands concentrated more than half of overnight stays by Spanish residents in 2002. Inland regions such as Aragón, Castilla y León and La Rioja began to see increases in numbers, together with Galicia and the Basque Country, which registered year-on-year growth of over 3%. This contrasted with the situation in the Balearic Islands, where there had been a drop of more than 6%.

**STRUCTURE OF THE MARKET**

The Spanish hotel market is highly fragmented: 70% of hotels are independent, and often family-run, small or medium-sized enterprises.

On 1 January 2002 there were more than 13,000 hotels and similar establishments in Spain, of which 40% were hotels and the rest hostels or guest houses. Altogether they offered the public around 1 million beds, of which 82% belonged to hotels. The average number of beds per establishment was 164 for hotels and 24.1 for hostels and guest houses.

There were 2,817 hotels with three or stars, receiving 41 million customers a year and meeting 66% of demand for hotel beds.

In the opinion of experts in the sector, in 2003 there would probably be oversupply in the market, particularly in the case of the sun, sea and sand destinations. This was causing increasingly
competition and forcing independent hotels to join large groups in order to take advantage of the brand image and corporate services. This consolidation of the industry had been apparent in recent years in the percentages of establishments belonging to a hotel chain: in 2003 over 65% of four- or five-star hotels belonged to a hotel chain.

Sector experts believed that the situation in 2003 would herald more stable demand, less affected by the crises in the urban/business market, and a holiday market in which there was an excess of poorly differentiated offerings in typical sun, sea and sand destinations.

SALES AND DISTRIBUTION CHANNELS

Global distribution systems (GDS), reservations centres, tour operators and travel agents all acted as intermediaries distributing travel and tourism products. There were also other alternative channels, such as the Internet, which had taken on particular importance as a result of the progressive development of the so-called “new economy”. However, their impact had been greater in the case of airline tickets than hotel beds, where the role the agencies played in advising customers was still important. Travel agents therefore continued to hold first place among the hotels’ sales channels.

The hotel could sell its available space in a variety of ways: indirectly, through global distribution systems (which act as intermediaries reserving places which they then distribute to tour operators or travel agents) or through tour operators (who reserve places after having distributed them to travel agencies). Recently, direct sales to customers were growing, through telephone reservation centres and the Internet (see table 3).

In 2003 a change was observed in the distribution system due primarily to the struggle between all the actors in the market to remain competitive. This translated into efforts to cut costs, basically by shortening the chain of intermediaries.

Hotels were trying to bring their tourism products and services to the end user, above all to guide demand, but also in order to reduce intermediation costs. This led to a concentration of processes.
and services in the hands of an ever smaller number of actors through processes of both vertical and horizontal integration.

However, it was also noticed at the same time that there was an increase in the number of new intermediaries relying on new technologies, which not only enabled them to give better support to travel agents, but would also allow customers to access hotels directly, cutting out the role of the travel agents as intermediaries.

Small hotel owners in Spain found themselves in the position where they had to choose between projecting themselves onto the world through major global distributors, or preferring national coverage using local distributors or, thirdly, as can be seen in certain cases, setting up their own reservations centre. The creation of strategic alliances between the different actors was becoming a necessity to achieve synergies, reach new markets and achieve sufficient critical mass to obtain the economies of scale with which to offset the effects of decreasing unit margins.

MARKET OUTLOOK AND TRENDS

The preliminary earnings figures for 2002 had shown that the “11th September” syndrome had yet to be overcome. The terrorist attacks had had an impact on tourism in the preceding year, but the effect was mainly local and short-lived. This proved the theory whereby uncertainties arising from an economic situation that failed to improve as rapidly as might be hoped were a more serious threat to international tourism than the fear of terrorism.

As regards its effect on Spain, its scant dependence on the American market, the fact that its destinations were firmly entrenched in the main markets and the uncertain progress of events in possible alternative destinations allowed for greater optimism, at least in principle, and significant inflows of foreign tourists were forecast. Moreover, Spain benefited from the fact that tourists generally perceived it to be a safe destination and one which had so far offered good value for money.

Nevertheless, new perils lay on the horizon for Spanish tourism. So far the sector had lived off the beaches that had been so attractive to tourists. But that was changing: other Mediterranean destinations, such as Turkey, Croatia or Greece were as much as 20% cheaper, something against which Spain could not compete. Many of the German tourists that no longer came to Spain had gone to these countries.

There were a lot of mature destinations in the sector. Tourists were better informed, more demanding and had a wider choice. In short, it was not longer possible to sell the same product as twenty years ago. The rising cost of living was driving foreigners away. And those that came spent less and tended to opt for non-hotel accommodation, such as apartments.

As regards purchasing habits, there was a certain tendency to fragment the holiday period, resulting in more frequent short breaks over the course of the year and consequently a reduced average length of stay.

Another trend was a decline in air transport compared with land transport, despite the parallel increase in demand for low-cost airlines. The appearance of these airlines had caused a serious loss for both traditional airlines and tour operators, which saw their monopoly of package holidays undermined, with an increase in partial packages or tailored holidays. As a result of all these factors, the industry –which had already set out on a price war some years ago to which no end was in sight– was also in the throes of a battle for competitiveness.

It was also possible to observe a continuous trend towards later booking, due in part to uncertainty, which was forcing hotel chains to run last-minute special offers to avoid being left with empty beds. The effects of 11 September accentuated this trend, which was already typical of Spanish, Italian
and French holidaymakers, but not of German and British ones, who had always booked their holidays a long way in advance.

Lastly, a change in preferred destinations had been observed, with an increasing taste for destinations away from the coast. Visitors to these locations looked for holidays that offered an experience, which could include immersion in the local culture or being close to nature. There was a certain degree of preference for “active leisure” products, through which holidaymakers could experience new sensations and enjoy their holidays to the fullest extent.

Virginia García thought for a moment as she finished reading the financial press:

“Tourism and travel form part of a consumer’s habits, so that, despite the problems caused by terrorism and the global economic slowdown, people are still willing to travel. Nevertheless, the models have undergone a series of changes and many European countries have seen their inland tourism increase: more domestic tourism, an increase in travel by train or road, more individual excursions, more direct reservations, shorter stays, and an increase in the use of cut-price airlines.

Although no one can doubt that the coast is where the sector obtains the bulk of its earnings, inland tourism is taking off strongly. Spain is diversifying its rural, nature, adventure and cultural tourism... and Paradores is ideally placed in this new context.”

Virginia García concluded, with a smile on her lips:

“Now we just have to find how to ensure customers see it that way too.”

THE HISTORY OF PARADORES

Paradores was founded in 1928 by the Marquis de la Vega-Inclán who, with the backing of king Alfonso XIII, promoted the idea of creating a series of establishments intended to make areas of natural beauty better known and facilitate the sports of the age (i.e. hunting and fishing).

The original idea was soon combined with another idea in need of action, that of restoring unique or historic national heritage buildings that had been abandoned for one reason or another, or which were in need of restoration, and subsequently adapting them for use as hotels. Thus the two aims were achieved, and attractive existing buildings were made better use of, thereby avoiding the cost of building new ones. The first Parador, in Gredos, came into existence in 1928 and was opened by the king. It was soon a success.

From the outset, the mission of Paradores was –and it still is today– clear: to develop a quality tourism product, enable the restoration of historic buildings for the purposes of tourism, promote tourism in little-known areas, promote traditional regional gastronomy, create an incentive to discover cultural and natural destinations, and to do all this in the most profitable way possible.

Since then Paradores has embarked on an intense activity of restoring palaces, old convents, medieval castles, etc., restoring tapestries, ceramics and pictures, selecting traditional dishes for its menus, accompanied by typical deserts and local wines, and ensuring these establishments have all the facilities today’s customers require: swimming pools, meeting rooms, tennis courts, etc. And it does all this with the desire that, at any Parador, the guest can enjoy a comfortable and complete journey through the history, culture and natural beauty of Spain.

Paradores was incorporated in 1991 when the independent body Administración Turística Española (Spanish Tourism Administration) was turned into the state-owned company Paradores de Turismo de España, S.A. However, this was only a change in its legal structure, as the company’s purpose remained the same: the management and operation of the state’s chain of tourism establishments and installations. Thus, the company Paradores de Turismo de España,
S.A. became the company that contributes to the preservation and maintenance of Spain’s historical and environmental heritage with the aim of selling “Spain as it is”.

More than seventy years after its creation, in 2003 the company managed 86 establishments spread across Spain, located in places of outstanding natural beauty and the finest historical and artistic settings (see Annex 4).

THE COMPANY

Paradores de Turismo de España, S.A. was positioned as a hotel chain in which guests could enjoy a unique natural or historic setting as well as the regional cuisine.

One hundred percent publicly owned, Paradores de Turismo de España, S.A. reported to the State Secretariat for Trade and Tourism. Thus, the chain was a key tool in the development of the government’s tourism policy, and a leading company in the Spanish tourism industry. Wherever its establishments were located, they not only enjoyed tradition and a sense of history, but were on occasions also major local employers.

The management of Paradores felt that the chain should distinguish itself on the basis of the following differential attributes:

- The outstanding quality of both the accommodation and cuisine.
- Excellent customer service.
- A concern for nature and the environment.
  - Specialisation in the cultural, historical and nature tourism segments.

One of the objectives that Paradores wanted to achieve was that each guest should learn something about the history and culture of the area in which the Parador was located.

- A carefully chosen menu: always making use of traditional cookery and the characteristic products of the zone.

The company had hotels in 16 of Spain’s 17 Autonomous Regions and 86 of its establishments were located away from urban centres. Thirty-nine of its hotels were unique buildings: 10 palaces, 12 castles, 8 convents, 5 historic groups of buildings, 3 old hospitals and 1 monastery. The chain was very varied in terms of the kinds of building it comprised. However, as Virginia García was well aware, the image of a castle was what came to the public’s mind, although only 35 of its 86 hotels were actually historic buildings or monuments.

Nevertheless, all the chain’s hotels had a series of common characteristics, which may be summed up as follows:

- Restored historic or artistically valuable buildings offering the possibility of discovering Spain’s culture and artistic riches.
- Buildings that were located, as a rule, in places of great beauty, in the villages and medium-sized towns of Spain, away from large cities and beach resorts.
- A combination of history, tradition and culture in the building itself, combined with a high degree of comfort.
- A decor based on furniture, tapestries, carpets, paintings, etc. of the classical style, restored by the company itself. The interior decoration and room decor helped create a period atmosphere in many of its hotels.
The average size of the chain’s establishments was 62 rooms. This meant that in many cases capacity was limited. In many of its hotels there were architectural restraints making it difficult to provide rooms suitable for meetings, banquets, conventions, etc.

The chain also ran 84 restaurants, 39 of which were in historic buildings. These restaurants served approximately 3 million meals a year, of which 50% were for guests who were not staying at the hotel. Thanks to the effort Paradores was making to bring regional cookery to a broader audience, restaurant sales accounted for 47% of revenues, a high figure compared to other hotel chains (see table 4).

### TABLE 4

<table>
<thead>
<tr>
<th></th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>%VAR 01-00</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. meals served</td>
<td>2,780,328</td>
<td>2,908,585</td>
<td>2,778,359</td>
<td>-4.48</td>
</tr>
<tr>
<td>Meals for hotel guests</td>
<td>1,336,826</td>
<td>1,492,071</td>
<td>1,406,239</td>
<td>-5.75</td>
</tr>
<tr>
<td>Meals for non-hotel guests</td>
<td>1,443,555</td>
<td>1,416,514</td>
<td>1,372,120</td>
<td>-3.13</td>
</tr>
</tbody>
</table>

**Segmentación Restaurante 2001**

**Restaurant Segmentation 2001**

- **Grupos / Groups**: 13%
- **Menú / Set menu**: 20%
- **Banquetes / Banquets**: 15%
- **Menú Dos / Set menu Two**: Buffet / Buffet 2%
- **Carta / A la carte menu**: 48%

### THE PARADORES CUSTOMER

Paradores achieved an occupancy rate of 79% in 2002, well above the sector average. Clearly the market segment in which the company operated was the leisure segment. Approximately 85% of customers stated holidays or leisure as the main reason for their stay. Guests stayed at the hotels with family members in 67% of cases and friends in 20%. The remaining 15% were business trips.

As regards occupancy rates, these varied greatly depending on the day of the week. On an average weekend in 2001 occupancy reached 86%, while from Sunday to Thursday it dropped to 73%.
In order to increase occupancy rates from Sunday to Thursday, Paradores considered targeting promotional activities at business travellers by aiming measures at specialist companies and travel agents. Nevertheless, this strategy, which was one being pursued by Spain’s big hotel chains, was more difficult in the case of Paradores as it did not have hotels in the main Spanish cities (Madrid, Barcelona, Seville, Valencia or Bilbao).

According to Virginia García’s data, customers of Paradores were usually loyal. As many as 30% of customers had visited more than 10 establishments and 20% had visited more than five. A considerable percentage (60%) visited Paradores because they already knew the chain, and 20% had it recommended to them by friends or family.

Moreover, 70% of guests made their own bookings without using an intermediary either by going through the Paradores central telephone reservations system or by phoning the hotel directly. The remaining 30% used travel agents or tour operators. It is worth noting that 12% of bookings were made online using the Paradores web page in 2002, an option that was only available to holders of the Amigos de Paradores card and travel agents.

Broken down by origin, it was observed that 56% of customers were from Spain, of whom 41% lived in Madrid, 13% in Barcelona and 5% in Valencia. Foreigners, who accounted for 44% of customers, came mainly from Great Britain (22%), Germany (16%) and the United States (13%) (see Annex 2).

Virginia García went over the data extrapolated from the profile obtained from the 180,000 holders of the Amigos de Paradores card, which was a large enough sample to be representative. She wondered whether these data would enable a more precise segmentation to be performed based on age, education, profession, preferences, interests, etc. (see Annex 3).
CUSTOMER PERCEPTIONS

According to Virginia García, “Paradores enjoys a good brand image, it is a well-known brand. It breaks away from the idea of providing accommodation pure and simple to offer the customer ‘something different’.”

The following conclusions could be drawn from the most recent customer surveys:

▪ Particularly among women, Paradores had a better image than other hotels of a similar category.
▪ In general, customers did not have a clear idea of how much Paradores cost, but believed that they were expensive and always full.
▪ Customers were loyal, they came back and they spoke well of the brand.
▪ They felt there was a lack of technical resources.
▪ They considered the hotels to be peaceful, a place to rest.
▪ Customers highlighted the differentiated product, the unique and unmistakable style of Paradores.
▪ They praised the unique settings.
▪ Customers appreciated the high-quality cuisine.
▪ They valued national coverage, with the possibility of travelling routes or circuits.
▪ Hotels were seen as being more suitable than Paradores for business trips and equipped with better outside services and animation activities.
▪ Paradores were seen as being more suitable than hotels for weekend trips and for breaks of less than a week.
▪ The advantages of normal hotels that customers mentioned were: centrally located, better communications, cheaper and more modern, better equipped and with more facilities.
▪ The advantages of Paradores that customers mentioned were: better located, quieter and more peaceful, located in historic monuments and offering better customer service.

THE COMPETITION

Paradores’ situation vis-à-vis its competitors may be summed up as follows:

▪ There were 2,817 hotels with three or more stars in Spain. Paradores, with its 86 establishments, accounted for 3.05%.
▪ The average hotel size in Spain was 133 rooms, whereas Paradores’ average size was 62 rooms.
▪ An average hotel stay was 3.7 nights. An average stay in Paradores, 1.6 nights, during which 58% of customers ate lunch and dinner once and 78% had breakfast in the hotel.
▪ The total number of hotel guests in hotels with three or more stars was 41 million, of which Paradores accounted for 1.5 million.
- Paradores’ market share was 1.4% in terms of nights spent, and 3.6% in terms of total guest numbers.

The major hotel chains represented serious competitors for Paradores, especially in the urban segment. In most cases they had more rooms and facilities and were able to host events while also making an effort to improve their restaurant services. Moreover, the preference for charming hotels in non-coastal tourism locations had given rise to a burgeoning business that the major chains were unable to resist, and they had therefore established lines of unique hotels. Table 6 shows a map comparing the hotels’ positions.

**TABLE 6**

**QUALITY-CATEGORY POSITIONING (URBAN/HOLIDAY)**

![Quality-Category Positioning Diagram]

**QUALITY/PRICE POSITIONING**

![Quality-Price Positioning Diagram]
MAIN COMPETITORS OF PARADORES

Bearing in mind the characteristics described above, the main direct and indirect competitors of Paradores in the Spanish market are those described below:

SOL MELIÁ-BOUTIQUE HOTEL

In 2003 Sol Melía was the largest Spanish hotel chain, number 10 in the world ranking and number 1 in the holiday hotels segment. It comprised a number of brands, such as Meliá, Gran Meliá, Tryp, Sol and Paradisus.

The Sol Meliá chain had a line called “Boutique Hotel” set aside for the most exclusive hotels in the chain. These were small establishments located in historic buildings in the historic and monumental centres of cities, such as old convents in the classical baroque style of the late 16th century, restored and fitted out with the latest technology and highly personalised service.

There were ten hotels with this name, including in particular the Meliá Colbert, a 38 room hotel located in the centre of Paris, and Meliá Trujillo, built in a restored old convent in Trujillo (Cáceres).

AC HOTELES

In 2003 this chain had 44 hotels. Its expansion plans included opening 13 new hotels the following year, which would take it beyond 5000 rooms in Spain and abroad. Its vocation was to offer customers a broad network of hotels with similar innovative characteristics while maintaining a high level of quality and customer service to meet the needs of the most demanding customers.

Although it aims primarily at business customers, AC has also begun restoring a number of historic buildings to use as hotels. These include AC Palacio de San Esteban, which has 51 rooms and is in a former convent in Salamanca. It has done something similar with the Palacio de Santa Ana in Valladolid, which is built on the ruins of an 18th century monastery, and in Cuidad de Tudela (Navarre) which had 42 rooms and was located in an old stately home in the historic centre of the city. Nevertheless, the jewel in the crown for AC Hoteles is the Hotel Santa Mauro, a five star hotel in a former palace in the centre of Madrid.

NH HOTELES

NH was present in 16 countries around the world with a total of 195 hotels in operation (either owned by the chain, leased, or managed by it on a long-term contract) with a total of 22,400 beds. It also owned the Dutch Krasnapolsky chain and the Jolly Hotels chain (Italy, Amsterdam, Brussels, Paris and New York). It also had a 94% stake in Sotogrande, S.A.

In Spain it operated through the NH Hoteles and NH Express brands. It had 86 establishments in 47 Spanish cities and its range included hotels in unique city-centre locations. The chain also had hotels in areas under development and on industrial estates, where no hotels previously existed.

It was a brand that customers could identify and with which they related ideas such as guaranteed quality, innovation, modernity and comfort.

NH had not yet entered the small hotels segment, although the Collection line brought together its most emblematic establishments. These included NH Abascal in Madrid and NH Calderón in Barcelona, both of which had more than a hundred rooms.
BARCELÓ HOTELS & RESORTS

Barceló was one of the fastest-growing hotel chains. From 22 hotels in 1988 it had expanded to 142 in 2002 and its aim was to reach 200 by 2005. It had more than 30,000 rooms in 18 countries around the world. The brand included hotels directly owned by the chain, managed by it or under franchise.

Barceló Hotels & Resorts was present in both the holiday sector (60% of its portfolio of hotels) and in city and business hotels (40%). The company’s strategy focused on growth in the quality segment through the acquisition of four- and five-star hotels.

The keys to this growth lay in the consolidation of a tourism and urban accommodation product offering an excellent quality/price ratio as its main competitive weapon against other hotel chains.

In addition to competition from the major hotel chains, the executives of Paradores were aware of competition from rural tourism, a business that was acquiring ever greater acceptance and which, in many cases, was receiving strong support from the Autonomous Regions.

Over the course of 2001 some 1.1 million tourists had stayed in rural tourism establishments, giving rise to 3.3 million overnight stays. Of these tourists, 89% were from Spain and had accounted for 83% of stays.

NEW MODELS OF COMPETITION

Thus, the so-called “rural hotels” and “charming little hotels” were springing up as a new form of competition by offering a similar service to that of the Paradores. Located in places that were at times remote, but which made it possible to enjoy a historic setting and more personal service, they were enjoying rapid growth. Part of this growth was due to the creation of associations that were helping small hotel owners to get themselves known and to take advantage of economies of scale to make their survival easier. The aim of these initiatives, which also included international networks such as Relaix Chateaux, Relaix du Silence and The Leading Small Hotels of the World, was to promote the creation of hotels that broke away from mass tourism.

RUSTICAE

Rusticae was a seal of quality that brought together a selection of “hotels with personality” that exuded tradition, hospitality and service. It comprised over a hundred hotels spread up and down the length and breadth of Spain, none of which had more than 30 rooms. The organisation was backed up by foreign representatives in Germany, Argentina, Australia, Belgium, Canada, the United States, the Netherlands and Switzerland. The network divided its establishments into three categories: simplicity, charm and elegance. It demanded of all hotels that they have a distinctive architecture and careful decor. The hotels were small, located either in a natural setting or historic centre, peaceful, and offered professional and personal service. They were all conceived to offer a unique experience to guests looking for cultural, historic and geographic enrichment.

Rusticae ran a reservations centre which charged a commission (between 2 and 10%) and provided sales and marketing promotion for its member hotels. It also acted as a purchasing centre. Membership fees depended on the number of rooms in the hotel and varied between €2,175 and €4,267. Requirements for membership included having no more than 30 rooms, management by a family or small business (as only the owners of the hotels could join), and lastly, meeting the quality standards set for each category.
ESTANCIAS DE ESPAÑA

Estancias de España was an association set up in 1991 which brought together hotels located in unique buildings such as convents, castles and country estates throughout Spain. Its aim was to restore and preserve Spanish heritage. The network consisted of 65 establishments, which offered training, a reservation centre, and links with the European Federation of Historic Accommodation.

CHARMING HOTELS

Charming Hotels had focused on Andalusia to offer its customers accommodation in small hotels in historic cities, country estates, monasteries and convents. The company had some fifty associate hotels and operated as a reservations centre. Its market was mainly tour operators (particular in Britain and Germany) and it offered its customers inland tourism in charming hotels, although it also served Spanish customers.

THE LEADING SMALL HOTELS OF THE WORLD

This hotel chain formed part of the Leading Hotels of the World chain which had 18 offices worldwide and offered a system of worldwide reservations, a purchasing centre, sales and marketing support, quality audits and financial services, all in order to ensure the highest possible standards of luxury under a single brand, in the best five-star hotels in the world.

Members of The Leading Small Hotels had a maximum of a hundred rooms per hotel in hotels that were unique in character, design and atmosphere. In order to join this prestigious organisation it was necessary for them to operate in accordance with strict standards of excellence generally accepted in the industry for five-star or luxury hotels, as well as comply with the specific service requirements demand by The Leading Hotels organisation. This involved undergoing a quality audit which included visits by secret inspectors posing as guests who measured the level of service, cuisine and products, in other words, all the aspects affecting customer comfort and satisfaction. Once a committee had approved a hotel’s membership it would join for a period of three years, during which periodic inspections would take place. This became an important benchmarking tool for improvements, training and future inspections.

Despite all of the foregoing, Virginia García had her own view of the sector:

“Given that Paradores operates in the Spanish market its competitors are actually few and far between. The types of location and characteristics of the various establishments in our chain means we have few potential competitors at the moment, particularly in our out-of-town locations.

In these locations, competition mainly comes from hostels, small or medium-sized hotels, guest houses and rural tourism. However, Paradores customers know that none of these places can offer the quality of accommodation, restaurant, or personal service they can find with us. That is to say, customers come to Paradores for the setting, the building, the food and the degree of confidence that the chain offers.”

The marketing strategy at Paradores

In order to design a marketing strategy Virginia García had identified three target segments: individuals, companies and travel agents. However, she did wonder if she should try to achieve a more detailed segmentation. Virginia García’s aim was for Paradores to be the first choice for all three segments.
The budget Paradores had devoted to marketing over the last few years, including all communication activities (advertising, sponsorship, public relations and promotions) had been the following:

- 1997: 490,000 euros
- 1998: 880,000 euros
- 1999: 1,400,000 euros
- 2000: 1,600,000 euros
- 2001: 1,800,000 euros

For the purposes of comparison, the competition had invested the following sums in 2001:

- Grupo Sol Meliá: 3,900,000 euros
- NH Hoteles: 1,700,000 euros

One fact that stood out about the Spanish hotel business was its low level of advertising expenditure as a proportion of turnover. The industry’s spending specifically on advertising was just 2% of total advertising spending in Spain 2002, despite the fact that tourism was the country’s largest economic sector, accounting for 12% of GDP.

The split between the means of advertising used in the transport, travel and tourism sector in 2001 was as follows: 45% radio; 29% television; 12% newspapers, magazines and colour supplements; 10% abroad; and 4% in cinema advertising.

When she joined the company, Virginia García analysed the way in which advertising had evolved at Paradores. Paradores used the conventional media (television, press, foreign media, cinema, the Internet, etc.) but did not use unconventional media (direct mail, junk mail, letter-box stuffing, etc.)

Over the period from 1985 to 1991 the advertising campaigns that had been run had the following characteristics:

- They were concentrated particularly in the months of October to March (period of lowest occupancy).
- They contained a high degree of brand image content, showing attractive locations and food, and facilities for businesses.
- In recent campaigns clear sales messages with direct references to price had begun to be introduced (with expressions such as “from ...”, “for less than you think ...”, etc.)

No advertising campaigns were run between 1991 and 1996, with the exception of small-scale activities (mainly in newspapers) on specific promotions Paradores was running (“golden days”, two-night specials, etc.) until the first half of 1996 when an image-building campaign was run on television. From 1997 to 1999 image and promotion campaigns were run, together with publicity reports and advertisements of specific offers aimed at the business sector, the over sixties, etc. Other advertising activities (interviews, reports, reviews in restaurant guides, etc.) contributed to building the brand image.

When Virginia García joined the company in 2000, she carefully chose to continue the existing strategy. She began the campaign by maintaining the strategy of brand communication, and advertising new promotions and offers.

Paradores dedicated 60% of its marketing budget to advertising. This was split as follows: 65% was spent on corporate advertising in line with the company’s strategy and the remaining 35% was used more tactically to advertise promotions. The budget in the preceding year had therefore been €1.2 million.
Approximately 40% of the total budget was spent on radio advertising in the form of three-minute commercial slots providing information content. Radio programmes were chosen for a target audience concerned both with the content of the programme and the presenter who would endorse the product. Radios was used to build loyalty in existing customers and acquire new customers through the status of the endorser and the frequency of advertising (six months), as this gave considerable reach.

The remaining 60% of the total budget was spent on visual media, supplements and, above all, thematic magazines relating to the sort of leisure and free time activities offered by Paradores. The predominant format was full-colour spreads run in parallel with the radio advertising (see Annex 4).

PROMOTIONAL AND LOYALTY-BUILDING ACTIVITIES

Over these two years, Virginia García had come to realise that it was important to offer promotional and loyalty-building products. She therefore set the following activities in motion:

- A five-night card. Paradores’ star product. The card allowed holders to stay at any of the chain’s establishments for five nights at a price of €69.12 a night.
- Two-night special. 20% discount on the official rates for stays of two or more consecutive nights at the same Parador.
- *Días Dorados* (“Golden Days”). 35% discount on the official rate for the over sixties.
- *Pasaporte Semana de Ensueño* (“Dream week passport”). A promotion intended to increase occupancy during the week. It offered six consecutive nights from Sunday to Friday for €62.84 a night so holders could plan a route staying at Paradores with a maximum of two nights in any given establishment.
- *Escapada Joven* (“Young break”). Aimed at the 20 to 30 age group, with a fixed price of €37.70, meaning a discount of 20-25% on the normal rates (depending on the Parador). A big step forward in the chain’s policy to capture younger customers: the Escapada Joven offer led to a total of 2,886 rooms occupied in 2002.
- *Amigos de Paradores* (“Friends of Paradores”) loyalty card. At the end of 2002 there were 180,000 holders of the card, and revenues from cardholders accounted for 14.5% of the chain’s turnover. It had become a free service to bring Paradores closer to its habitual customers and to reward them with points that would entitle them to free accommodation in Paradores at any time. Moreover, cardholders received advance news about Paradores (new openings, new publications, programme and route launches) and enjoyed a number of other advantages (welcome drink, free parking, gifts for children under 14) and exclusive special promotions. Points were given when paying the bill for accommodation or the restaurant at a rate of 1 point for every three euros (500 pesetas) and for special operations at a rate of 1 point for every 12 euros (2,000 pesetas). Cardholders were sent quarterly statements showing them how many points they had earned, together with news of all the advantages members could enjoy during the period.
- Paradores shop. As a sign of customers’ appreciation of the Paradores brand there was growing demand for branded gift and souvenir items. To meet this demand Paradores set up its shops in 2000. These were intended to offer customers a complementary service and bolster the brand image.
In addition to these initiatives, Virginia García ran a number of other marketing activities:

- A series of familiarisation trips, presentations and direct promotion activities had been organised with the chain’s traditional channels, and the participation of Paradores in travel agents’ professional groups and associations continued to be backed.

- Paradores had also collaborated with Turespaña on the international level to run campaigns in thirteen countries and it had taken part in the main tourism trade fairs, direct promotion activities and workshops. An increase had been achieved in the presence on the overseas market through new collaboration agreements with travel agents and tour operators specialising in selling Spain as a tourist destination.

- Paradores had also tried to strengthen its positioning in the domestic market by promotion actions aimed at capturing business tourism through activities focusing on specialist firms and travel agencies.

- Finally, Paradores, had decided to be included in the loyalty scheme in Club AVE for frequent travellers on Spanish high-speed railways, and the Spanish airways’ Iberia Plus programme, which had over a million members.

THE FUTURE

Virginia García, the marketing director of Paradores, had to establish a marketing plan for 2003. There was a lot to decide and time was short, so she tried to summarise the possible alternatives while she savoured a cup of coffee.

Paradores possessed a highly-positioned brand and image. This had undoubtedly been the reason for the company’s success. However, Virginia García wondered if a strategy based on selling “tradition” might not limit the future expansion of the company; its image of quality, offering special locations, and consequently high price, hindered its repositioning and prevented its reaching new segments. Perhaps the company had stagnated and had reached the most this positioning would permit, while the top management demanded that it increase the occupancy of its hotels. Would it be necessary to change this image that had built up over seventy years or should it be the basis on which the chain’s future was built?

On the one hand, the market was showing increasing interest in inland tourism based on nature and characterised by being rural and active. In particular, there was a segment of the younger population that it needed to attract, but who still looked upon Paradores’ service as being high priced. The studies conducted showed that a broad swath of the population considered Paradores’ prices to be out of their reach, despite the fact that the chain had not put its rates up since 1998. In comparative terms, Paradores’ rates were below those of luxury hotels, but the customer perception was the opposite (see table 7). Given this divergence, Virginia García was in two minds whether it would be better to raise rates to take advantage of customer perceptions, drop them to reach other segments, or simply clear up the confusion with an advertising campaign based on prices.


**TABLE 7**

**COMPARATIVE PRICE TABLE**

**(PRICE OF DOUBLE ROOM WITH NO DISCOUNT)**

<table>
<thead>
<tr>
<th></th>
<th>Salamanca</th>
<th>Zamora</th>
<th>Madrid</th>
<th>Granada</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meliá Boutique</td>
<td>90</td>
<td>85</td>
<td></td>
<td></td>
</tr>
<tr>
<td>AC Hoteles</td>
<td>122</td>
<td></td>
<td>318</td>
<td>134</td>
</tr>
<tr>
<td>NH Hoteles</td>
<td>131</td>
<td>130</td>
<td>103</td>
<td></td>
</tr>
<tr>
<td>Rusticae</td>
<td></td>
<td>65</td>
<td>174</td>
<td>132</td>
</tr>
<tr>
<td>Estancias de España</td>
<td>70</td>
<td>63</td>
<td>127</td>
<td></td>
</tr>
<tr>
<td>The Leading Small Hotels of the World</td>
<td></td>
<td></td>
<td>283</td>
<td></td>
</tr>
<tr>
<td>Charming Hotels</td>
<td></td>
<td></td>
<td>95</td>
<td></td>
</tr>
<tr>
<td>Paradores</td>
<td>94</td>
<td>109</td>
<td>109*</td>
<td>207</td>
</tr>
</tbody>
</table>

* Chinchón-Madrid

There was a lot of interest in the company in making efforts to capture younger customers. As they said, today’s young people are tomorrow’s customers. Nevertheless, they did not want to lose the company’s identity in order to reach this target audience. Previous advertising campaigns had managed to boost the brand image, as the level of brand awareness was 100% (aided awareness). Paradores enjoyed considerable prestige thanks to its distinctive offering based on its unique style. This was difficult for competitors to imitate and levels of criticism were low (21% of respondents said there was “nothing to criticise”) making Paradores a great brand. Trying to reach a larger segment of the population might make it necessary to advertise prices, which could damage the quality image that had been so carefully built up.

At the same time, the opening of new refurbished hotels called for a relaunch while maximizing the returns from the hotels that were in operation. This would have to be done in a way that did not overlook existing customers and which continued to reward their demonstrated loyalty. Looking at other hotel chains’ strategies, Virginia García also wondered if it would be possible to create sub-brands to attract new customers through diversification without losing current customers or if they should carry on with a single strong brand which brought together the essence of the business.

Also, growing competition meant they had to consider the option of joining a chain, association, or other organisation bringing together charming hotels in Spain or the world. However, would this affect the image of Paradores or the way they were managed?

It would be necessary to define what they wanted to communicate (quality, price, environment, activities, etc.) and at what time and by what means. Once the strategy had been defined, an exhaustive analysis of the promotional policy would be needed and a decision would have to be made on whether to maintain or modify the current promotional services and whether or not to set up new promotions, more closely matched to the new profiles.

“We have a highly desirable brand. Therefore, assuming Paradores’ unique and distinctive product, what we need is to get our message across better in order to increase occupancy. Although customers’ perception is that all Paradores establishments are of high historic and monumental value and are located in unique settings, there is still a series of attributes that are not clearly defined in consumers’ minds, such as the broad range of services, activities, and in particular, the concept of “active tourism”.”

Virginia García didn’t yet know if Paradores should focus on these attributes, or if they should focus on the current segment, young people, the business segment, sector professionals, or several of
them at once, with the consequences that this would have for the development of a marketing plan. She also thought about the possible effects of sacrificing part of the budget without focusing on existing customers.

Lastly, she considered the great challenge of increasing occupancy from Sunday to Thursday. The marketing activities carried out over the last two years had managed to increase occupancy on these days by 8%, but they were still a long way from achieving the levels of occupancy Paradores had at the weekends. What marketing activities should they envisage in order to increase occupancy throughout the week? And who should they be aimed at?

With all these questions in her mind, Virginia García decided that it was time to prepare a report with Paradores’ marketing plan for 2003.
ANNEX 1
MAP OF PARADORES
ANNEX 2
NUMBER OF BEDS OCCUPIED BY CUSTOMER TYPE

GROWTH IN CUSTOMER NUMBERS
ANNEX 2 (CONTINUED)
BEDS OCCUPIED BY FOREIGN CUSTOMERS IN 2001

- GERMANS 16%
- FRENCH 12%
- BRITISH 22%
- ITALIANS 4%
- BENELUX 8%
- PORTUGUESE 4%
- SWISS 4%
- NORDICS 3%
- U.S. 13%
- JAPANESE 3%
- OTHER NATIONALITIES 17%
ANNEX 3
DETAILS OF PARADORES CUSTOMERS

**Age**
- >60: 23%
- 51 to 60: 19%
- 41 to 50: 22%
- <30: 8%
- 31 to 40: 28%

**Preferences**
- Coast: 25%
- Historic monuments: 39%
- Nature: 36%

**Post or job**
- Professionals: 26%
- Top executives: 22%
- Middle managers: 10%
- Administrators: 6%
- Other categories: 28%
- Retirees: 8%

**Hobbies and interest**
- Cultural visits: 24%
- Food & drink: 22%
- Concerts: 14%
- Hiking: 17%
- Water sports: 9%
- Golf: 6%
- Skiing: 8%
Imagina una risa. Ahora atrévete a llévala. Para escuchar siempre, ¡imposible!
No en Paradores. Ven y escúchale el silencio, el ruido, el viento... ¡Maravilloso!
En Paradores, entre el eco del castillo.

Risas entre el eco del castillo
Fabricadas en Paradores

Ref: 94900

Para más información, visita www.paradores.es, en el 91-514 85 85 o en tu agencia de viajes.
ANNEX 5
PARADORES DE ESPAÑA:
BALANCE SHEET AND PROFIT AND LOSS STATEMENT (2001)

**Balance Sheet** (thousands of pesetas)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Circ. assets</td>
<td>10,191,912</td>
<td>10,930,324</td>
<td>10,830,537</td>
<td>9,329,188</td>
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<tr>
<td>Tangible assets</td>
<td>24,093,261</td>
<td>18,501,790</td>
<td>22,400,282</td>
<td>19,311,319</td>
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<tr>
<td>Total fixed assets</td>
<td>24,279,906</td>
<td>18,807,375</td>
<td>34,471,818</td>
<td>29,737,699</td>
</tr>
<tr>
<td>Total assets</td>
<td>34,471,818</td>
<td>29,737,699</td>
<td>34,471,818</td>
<td>29,737,699</td>
</tr>
</tbody>
</table>

**Profit and loss statement** (thousands of pesetas)

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>36,967,640</td>
<td>36,452,075</td>
</tr>
<tr>
<td>Other income</td>
<td>375,883</td>
<td>452,310</td>
</tr>
<tr>
<td>Total income</td>
<td>37,343,523</td>
<td>36,904,385</td>
</tr>
<tr>
<td>Staff expenses</td>
<td>16,224,913</td>
<td>15,782,642</td>
</tr>
<tr>
<td>Restocking expenses</td>
<td>7,276,250</td>
<td>7,370,086</td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>9,479,464</td>
<td>9,404,377</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>32,980,627</td>
<td>32,557,105</td>
</tr>
<tr>
<td>Gross profits</td>
<td>4,362,896</td>
<td>4,347,280</td>
</tr>
<tr>
<td>Net profits</td>
<td>3,088,963</td>
<td>2,885,361</td>
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</tbody>
</table>