

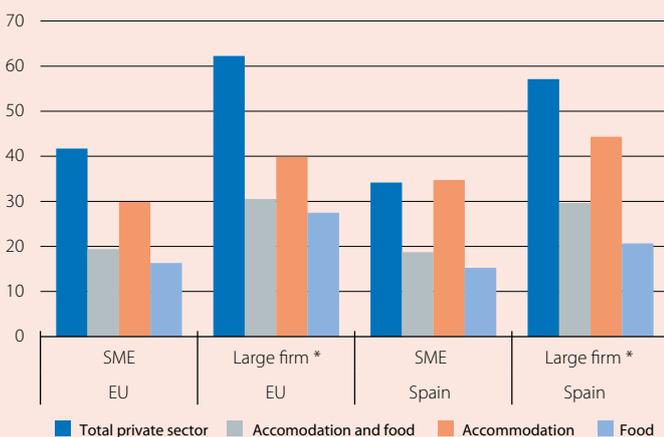
Quality of tourism supply: the challenge of keeping the leadership

Spain ranks first in the Travel & Tourism Competitiveness Index. Like gold medal-winning athletes, this prime position can only be achieved by a combination of many different factors. Obviously genetics play a key role: climate, natural resources and culture are all fundamental aspects to Spain's success as a tourist destination. But genetics are not everything. As elite athletes know only too well, remaining at the top requires constant training, ensuring you have the best equipment and surrounding yourself with the best trainers. Here we take a brief look at the main ingredients that should help the country to continue improving the quality of its travel and tourism (T&T) supply, such as firm size and investment, both in physical and human capital.

Spain's T&T sector is made up of around 400,000 firms from different spheres such as accommodation, food, transport, vehicle rental and travel agencies. The sector is highly atomised with a large number of small firms and relatively few large ones. According to the Tourism Satellite Account produced by the INE in 2015, 78.7% of T&T firms had two or fewer employees and only 1,108 firms (0.3% of the total) had 100 or more. SMEs therefore dominate the T&T landscape. A landscape in which very different situations coexist side by side in the industry's various subsectors. The accommodation sector is particularly successful in company size terms with 0.5% large firms (more than 250 employees), higher than the total economy's figure of 0.1%.¹ Large hotel companies employ 25.2% of the sector's workers in Spain compared with 18.7% in the EU. The subsector of food, on the other hand, tends to have few large firms and is much more biased towards small companies: only 10.7% of employees in the food subsector work in large establishments compared with 16.8% in the EU.

Labour productivity in the T&T industry

(Value added by employee, in thousands of euros)



Note: * Large firms have at least 250 employees. Data from 2014.

Source: CaixaBank Research, based on data from Eurostat.

Firm size is important because it is related to aspects that determine a firm's productivity, such as professionalisation, economies of scale, access to different sources of financing and the possibility to offer workers continued training. In fact, labour productivity data by firm size are very revealing:² large T&T firms are almost 30% more productive than small firms while both large and small are more productive in Spain than their European peers. Given that Spain also has a bigger share of large firms, the productivity gap for the Spanish T&T sector as a whole compared with the European sector is considerable, almost 20%.³

In the past few years, the hotel industry has invested significantly in renewing its facilities and modernising the hotel supply to reposition itself towards demand segments with more purchasing power. The supply of T&T accommodation in higher categories has increased significantly (4 and 5 stars),⁴ and these are also enjoying

increasingly higher occupancy rates, boosting the return on their investment. Earnings per room available have actually posted positive growth continuously since 2013 and, in the last year, have increased by 10.8% year-on-year (figure from April 2017, cumulative over 12 months). The sector has also improved its balance sheets and reduced its debt levels, increasing its capacity to develop new projects.

A wide range of investors, both national and international, are also finding Spain's hotel industry very attractive: in 2016 the sector attracted over EUR 2 billion in investment for the second year in a row.⁵ International investors contributed 64% of the total investment by volume, showing a preference for urban hotels in large cities. An increasingly wide range of instruments are also being used to channel investment: real estate investment vehicles (SOCIMI, REIT and specialised funds) were the most popular with 48% of the total, although international hotel groups have also become more interested. The emergence of this kind of investor is encouraging a trend towards separate hotel management and property ownership.

1. Data from Eurostat (2014), «Structural business statistics».

2. Apparent labour productivity of work is defined as gross added value divided by the number of workers.

3. Accommodation sector productivity in Spain and the EU is 44.3 and 39.9 for large establishments and 34.7 and 29.9 for small establishments, respectively. But it is the opposite for food establishments which are less productive in the Spanish case, irrespective of firm size.

4. 41.4% of hotel places were 4 or 5 in 2007, and 49.9% in 2015.

5. Deloitte report, (2017), «Expectativas 2017: The Experience Revolution. Travel, Hospitality, Leisure & Transport».

Large Spanish hotel chains listed on the Spanish stock market also boast considerable presence abroad: around 75% of their income comes from the rest of the world. However, T&T firms only account for 1% of total stock market capitalisation in Spain, a very small figure compared with the sector's importance for the economy (see the article «Tourism, a new *El Dorado* for the Spanish economy» in this Dossier). In the medium term, if the sector continues to consolidate, company size should also increase, making it easier for them to access foreign investment and capital markets.

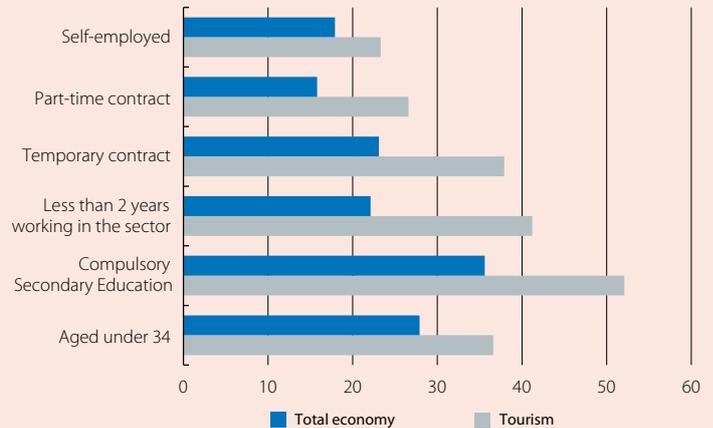
Another crucial factor to improve T&T quality of supply is training for human capital. The quality perceived by the client largely depends on the people providing the service.⁶ Consequently, remaining at the top of the competitiveness ranking not only means having the best physical equipment but also a better team. And here there is a lot of room for improvement. A typical worker in the T&T industry has lower qualifications and less work experience than those in the rest of the sectors. This is because T&T very often offers employment to young people with no work experience or low qualifications, with few options in other sectors.

The fact that the industry is very seasonal also means that a larger proportion of jobs are temporary and part-time. High job turnover also makes it difficult to improve employee skills and participation in continued training. The sector is also going through a far-reaching digital transformation, with the potential to change the nature of many of the services offered and the skills required by workers (see the article «Tourism 2.0: opportunities and challenges» in this Dossier). There is consequently still a long way to go to improve the skills of T&T workers by offering an attractive professional career within the sector, improving the specific training provided and attempting to combine better employment conditions with the flexibility required to adapt to the new technological paradigm.

In short, Spain's T&T sector has made a considerable effort to reorient its supply towards segments that generate the most value, as can be seen in its larger size and productivity, as well as the international presence of important Spanish groups. Like elite athletes, continued success is not guaranteed: the sector must go on making a constant effort in order to keep its international leadership.

Profile of tourism employees

(% of all employees)



Note: Data from 2013.

Source: CaixaBank Research, based on data from the OECD, (2015), «Supporting Quality Jobs in Tourism».

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6. See OECD, (2015), «Supporting Quality Jobs in Tourism».