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Iberia Market Report 2018

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Welcome to our inaugural Iberia Market Report.

If Iberia were a country, it would be the most visited tourism destination on the planet. Combined, Spain and Portugal attract more than 100 million visitors each year, surpassing that of France, the world's No. 1 tourism destination, which attracted 88.9 million overseas arrivals in 2017.

Spain also ranked first in the World Economic Forum's Travel and Tourism Competitiveness Index 2017. In 2016, Spain saw a 7.8% increase in room nights, to 454 million nights.

Iberia has long led the way in terms of leisure tourism in Europe. Home-grown hotel brands, such as Meliá International, NH Hotels, Palladium Hotel Group and Pestana Hotel Group, now boast global portfolios and continue to grow from strength to strength.

In Spain, cities saw RevPAR up 10.6% in the first three quarters of 2017, while destinations in Portugal saw RevPAR jump 18.3%.

Investment in product and technological innovations have improved the quality of hotels. The five-star sector is the one seeing most growth at present.

In this whitepaper, we will look at the:

- RevPAR gains and tourism transference
- Challenges from Airbnb
- Impact of political turbulence
- Channel diversification
- New market opportunities

We talk to hoteliers working in the market at innovative, home-grown brands, as well as gaining insight from the European Tourism Association ETOA, and from Duetto's Customer Success team.

I hope you find this report interesting and useful.

Michael McCartan
Managing Director, EMEA
Duetto





1. Understanding the Iberian Hotel Market

The Iberian countries of Spain and Portugal are amongst the most popular tourism destinations in the world, attracting more than 100 million visitors between them each year.

Spain is the third most visited country in the world. The country received 82 million tourists in 2017. The country also ranked first in the World Economic Forum's Travel and Tourism Competitiveness Index 2017, ahead of 135 other countries. Tourism in Spain accounts for 10% of the country's GDP and is the third major contributor to national economic life. It is a popular destination for tourists from across Europe and the United States.

Portugal received 21.2 million visitors in 2016, attracted to its cities, historic landmarks and fabulous beaches. Popular destinations include Almada, Cascais, Lisbon, Porto and the beaches of the Algarve.

The region has enjoyed years of very strong growth, as tourists returned to Spain and Portugal in favour of North African and other Mediterranean resorts such as Egypt and Turkey. However, these markets are beginning to attract tourists back. That, coupled with the uncertainty from the Catalan vote for independence, and the spread of 'tourismphobia' as locals rally against the sharing economy, could set Iberia up for a challenging year ahead.

In this whitepaper we consider:

- | Market growth and hotel investment
- | The rise in direct bookings
- | Challenges for 2018 and beyond

1.1 Tourism transference

According to the January to September 2017 edition of the ECM-MKG Destinations Observatory tourist arrivals have continued to grow throughout the Iberian Peninsula following tourism transference from Mediterranean destinations affected by terrorist attacks, such as the French Riviera, Turkey, Egypt and North Africa.

Cities in Spain saw RevPAR gain 10.6% during the first three quarters of 2017, while Portuguese destinations saw RevPAR jump 18.3%.

According to Euromonitor's Travel in Spain report, the recovery of competitor countries such as Egypt, Turkey and North African destinations is likely to reduce arrivals to Spain in 2018 and beyond. The affordable prices of these alternative Mediterranean destinations are likely to fuel competition.

1.2 Market challenges

The disputed referendum in Catalonia on 1 October 2017 had an immediate impact on hotel RevPAR at properties in Barcelona, according to STR data. RevPAR at properties in the city dropped sharply following the vote, with hotels seeing a 27.5% decrease year-on-year for 4 October 2017.

The city had previously enjoyed strong performance throughout the year, even weathering the impact of the 18 August 2017 terror attack on its Las Ramblas tourist district. Barcelona posted its highest ever RevPAR level for both the month of August (€146.11) and September (€140.75), with double-digit increases seen in both months compared with 2016 figures.

"What we are finding right now is a reduction in the booking pace and reservations of about 15% to 20% for Barcelona market since the political instability started beginning in October," says José Ignacio Sánchez Butragueño, Vice President of Revenue Management for NH Hotels. "The good news for us is that we are gaining penetration by adapting our strategies to the current situation in Barcelona.

"When this instability will finish is difficult to understand and is out of our control. What we can do is attract the demand naturally coming to Barcelona and encourage the international market and the local market to visit Barcelona as they were doing before, since the situation in the city is absolutely normal and the city can offer the same attractiveness for business and leisure travellers as before." [Read Hotel Talk on pp12-16 for more on market challenges and opportunities.]

Another market challenge has been the rise of Airbnb and the sharing economy and the resulting "turismofobia" as locals have revolted against the sudden decrease in long-term rental stock, while landlords optimize revenue through the holiday-let sector.

In November 2016, Barcelona imposed a €600,000 fine on Airbnb and HomeAway for advertising unlicensed touristic apartments. However, by January 2017 the city had 18,000 Airbnb accommodation listings, nearly double the 9,500 it had listed in 2015.

Similar growth was seen in the sharing economy in Madrid, with Airbnb listings at 13,000 by 2016, double the 6,400 listings in 2015.

"The short-term rental sector will grow; the elasticity to capacity and related dispersal it provides is valuable. We would expect to see more strategic discussion taking place with providers and policy makers as a regulatory regime fit for purpose evolves," says Tim Fairhurst, Director of Policy at the European Tourism Association ETOA. [Turn to p8 for more market insights from ETOA]

1.3 Capital growth

According to PwC's European cities hotel forecast for 2017 and 2018, Spain saw a 7.8% increase in room nights in 2016, to 454 million nights.

According to PwC, hotels in Madrid saw significant growth in RevPAR in 2016, up 7.2%, thanks to rising occupancy rates, which averaged at 70.5%, up 2.1% from 2015. As a result, ADR reached its highest level since 2008 at €97.70.

While overall supply in the market decreased, the number of five-star hotel rooms in Madrid jumped by 12% in 2016. The five-star trend looks set to continue, with pipeline projects including the Four Seasons, which is set to open in 2019.

Hotel real estate transactions also hit record levels in Madrid, with the sale of Villa Magna, one of the most luxurious hotels in the city, achieving a price per room of €1.2 million.

Barcelona, Spain's second-largest city, has long been a popular destination with tourists, thanks to its coastal location and varied offering of museums, attractions and Catalan culture. In 2016, Barcelona-El Prat airport received more than 44.1 million passengers, up 11.5% on 2015 figures.

For the hotel sector, this increase translated into a 10.7% increase in RevPAR to €104.70, while ADR rose 8% to €136.70. Occupancy rates increased by 1.6% to 76.6%. 2016 saw more than 540 new hotel rooms added to supply in the city.

2017 proved a record year in terms of hotel investment in Spain, with the country seeing investment volumes increasing by 228% to €2 billion for the first half of 2017, according to data from global commercial property advisor, CBRE.

This increase was attributed in part to Spain's economic recovery, while CBRE also cited the country's attractive asset pricing and availability as being instrumental in investment growth.

Portugal enjoyed bumper numbers, and Porto hoteliers saw a mammoth 17% RevPAR increase.

Portugal's capital Lisbon saw RevPAR reach €73 in 2016, an increase of 8.2% compared to 2015, according to PwC. ADR in the city jumped 7.2% to €98, while occupancy remained steady: up 1% on the previous year.

Lisbon added 1,000 new rooms in 2017, a 5% increase on supply. As with Madrid, this new supply was largely focused on the upscale and luxury sectors.

Porto is set to increase its hotels market rapidly in the coming years, with up to 20 new properties offering 1,100 new rooms slated to open between 2017 and 2020.

Porto, Portugal's second-largest city, attracted 1.2 million guests in 2016, according to PwC. This led to a 4.3% growth in hotel occupancy to 73.5%, a new record for the destination. Hotels in the city saw a 12.1% increase in ADR to €81, with RevPAR up 17% to €59.

"Continuous investment in the quality of the hotels product [across Iberia] has resulted in RevPAR growth," says Juan Ruano, Duetto's Senior Customer Success Manager, EMEA. "Additionally, over the past 10 years, Portugal has seen slow growth in bed supply in comparison to Spain. Therefore, the higher demand has outpaced supply growth resulting in great rate growth across the country. We expect this trend to continue in Portugal moving forward." [Learn more from Juan Ruano on p17]

1.4 Record results

According to reports from the 2017 edition of FITUR, Spain's major hotel groups are riding a wave of booming visitor numbers, with executives buoyant on prospects for 2018 and beyond. Spain attracted a record 82 million tourist arrivals in 2017.

Spain's largest hotel company, Meliá International, posted positive results for the first nine months of 2017, with its hotels in Spain seeing significant growth. Overall, Meliá properties in Spain saw a 2.2% increase in revenue. Mainland coastal hotels saw a 6.5% increase in revenue, while Meliá properties in Menorca saw a 5.5% increase in revenue.

The company cited growth in both the MICE and "bleisure" segments as instrumental in its strong performance in key markets such as Madrid, Barcelona, Palma and Seville.

Meliá aims to have 100,000 rooms by 2020, with plans to invest €75 million this year in Spain.

NH Hotel Group enjoyed a strong 2017, with average daily rate (ADR) across the group rising from €77 in 2013 to around €96 in September 2017. The company has pledged to spend €30 million on its technology infrastructure in the next three years, as it works toward a goal of recurring net income of €100 million by 2019.

NH has 380 mostly urban hotels with almost 59,000 rooms in 31 countries. It has 10 NH Collection properties in the pipeline for Germany, Spain, France, Chile and Mexico, along with six new Nhow properties.

Barceló Hotel Group, Spain's third-largest hotel chain with 236 hotels in 22 countries, opened five new hotels in its home market of Spain in 2017. The group has further new properties set to open in its domestic market in 2018. Barceló closed 2017 with a 10% rise in income.

Data from SiteMinder and Euromonitor International has revealed that online bookings in Spain have doubled in the past five years. Spain earned €7.3 billion from bookings made through the Internet in 2017, up 98% on the €3.7 billion registered from Internet-based hotel bookings in 2012.

According to SiteMinder, direct hotel bookings have increased 113% in the past five years. Conversely, bookings via third-party sites have been dropping, although they still make up 57% of online hotel sales for the country.

Euromonitor predicts that Spain will continue to attract large numbers of inbound tourists, with tourism set to have a continued positive impact on the country's economy.

1.5 Business market

Barcelona and Madrid saw RevPAR increase by 12.9% and 18.6%, respectively, during the first three quarters of 2017, thanks largely to increased international business, according to the ECM-MKG Destinations Observatory. Lisbon saw RevPAR up 23.1% while Valencia, Bilbao and Malaga saw a 12% RevPAR increase.

Spain's capital city Madrid is ranked the third city in the world in terms of congress tourism, and is home to the annual FITUR international tourism fair. Barcelona is ranked fifth in ICCA's list of most popular destinations for meetings and events.

Key events in Spain in 2017 included the world's largest cardiovascular congress – the ESC Congress – in Barcelona in August, which attracted around 30,000 attendees. Hotels in the Sants-Montjuic area around the exhibition centre saw a 17.6% increase in ADR from 1 August through 16 October, according to STR data.

In 2017, Barcelona hosted the GSMA Mobile World Congress, the world's largest exhibition, conference and networking event for the mobile industry, with more than 100,000 delegates visiting the city.

Madrid also played host to the World Pride event, a celebration of the LGBT community, which attracted more than 3 million participants in 2017.

Lisbon is another bustling MICE destination. The city is host to the Web Summit for the next couple of years, which attracts in excess of 60,000 participants each year. In 2017, the city also hosted the European Association for the Study of Diabetes conference, with 18,000 delegates.

Business tourism is also growing in Porto. The city hosted a number of high-profile events in 2017, including the Industrial Engineering and Management Symposium (IEMS), the 19th International Conference on Enterprise Information Systems (ICEIS) and the 24th European Congress on Obesity (ECO 2017).



2. Product Innovation to Drive Success for Iberian Hotels



Tim Fairhurst, Director of Policy at the European Tourism Association

ETOA, provides Duetto with his expert insight on the Iberian market, including the likely impact of Brexit on Spain and Portugal, what new markets will come to prominence in 2018, and how the market needs to accept and adapt to the growth of alternative accommodation services, such as Airbnb.

Q. Hotels and resorts in Iberia enjoyed strong RevPAR growth in 2017. What drove this performance, and do you see this continuing in 2018 and beyond?

A. As the rate of RevPAR growth far exceeded growth in the number of rooms sold, there is a strong inference that competition for the same space markedly increased; Spain and Portugal were second and third, respectively, in average daily rate charged (STR, June-August 2017). This was partly driven by strong performance in the MICE sector and displacement of leisure business that might otherwise have gone to other destinations but for security issues.

Hotel room supply cannot quickly be increased, even if capital investment is available and political will supportive. Meanwhile, upgrades and renovations also tend to drive up the rate and, as the use of various business optimisation tools becomes more widespread, hotels have developed their ability to manage revenue. That said, tourism, especially intra-European tourism, remains cost sensitive, with consumers' ability to comparison-shop increased by online tools. A price increase without a commensurate increase in value will damage prospects long-term.

Q. Spain and Portugal have benefited from the drop in tourism to troubled Mediterranean markets such as Turkey, the French Riviera, Egypt and the Maghreb. Is this a trend that is likely to continue in 2018?

A. Consumers are increasingly sophisticated at assessing risk, though origin markets vary. European, North American and Chinese tourists are among the most resilient. Destinations that receive the transferred business have an opportunity to keep it through repeat and referred business so long as the quality of product, service and welcome is maintained. The market remains very cost sensitive; as consumer confidence returns we can expect budget to remain a significant factor in leisure destination choice.

Q. Political turbulence during autumn 2017 in Catalonia negatively impacted the hotel industry in the region, with Barcelona seeing a drop in occupancy. How do you see this situation developing in the future?

A. The disputed referendum and its surrounding circumstances were only briefly disruptive from the point of view of inbound tourism. We would expect it to have little if any medium- or long-term impact. Physical disruption and uncertainty around security in destination is a deterrent; politics itself is not. Both Catalan and Barcelona tourism authorities acted efficiently to provide current information to visitors. Visitors will continue to enjoy itineraries that include Catalonia and its neighbouring regions and countries; we would expect to see growth in France/Spain and Portugal/Spain combinations. Barcelona itself will remain one of Europe's premier city tourism destinations.

Q. The UK has been a key feeder market for Iberia. How will its planned exit from the EU affect this and what can Spain and Portugal do to limit impact?

A. Both countries should continue to be confident in the UK as a source market. Sterling was relatively weak against the euro in 2017, and demand remained strong; UK visitor spend per trip increased. The performance of the domestic economy in the UK, and consumer confidence related to that, will be the strongest factor driving continued demand.

The product range and favourable climate that Portugal and Spain offer remain as appealing as ever. Continued improvement in product innovation and destination management will help.

Q. As booking channels diversify, are resorts in Iberia beginning to break their dependency on tour operators, particularly fixed-rate contracts? And if so, what will the new business model look like in the future?

A. Hotels are understandably seeking to optimise revenue through channel management, with renewed focus on direct booking. At the same time, group tourism is proving very resilient, becoming increasingly diversified in scale and scope; most of it is placed by intermediaries.

ETOA's hotel members seek to increase their exposure to a variety of markets to whom direct marketing and transaction management is challenging; that often means working with operators who have relationships with origin markets that travel year-round. Some very outdated stereotypes about "mass tourism" distract from the product innovation that is taking place; niche travel is proliferating, and much of it is done in groups. Off-season business is welcome in seasonal resorts.

Q. Have you seen a move toward more hotel management contracts, as we see more international brands entering the market? Alternatively, is owner-operated still seen as a viable business model?

A. Hotel management has become a more specialised activity, as the market has transformed through technology and consumer behaviour. Hotel owners must also focus on asset management, so the appeal of working with a specialist partner who focuses on marketing and revenue management is clear. Outsourcing needs to retain healthy client mix in order to minimise over-dependence. We observe hotels seeking to increase their exposure to a variety of origin markets; management partners can respond to that.

Owner-operated self-evidently remains a viable model; the market includes some highly able independent hoteliers who successfully maintain distinctive product and service while competing effectively in various markets. Operators are keen to develop long-term relationships with hotels that are able to provide a service that suits their brand values; independents are often in a position to respond well to this.

Q. What new markets show potential for both Spain and Portugal for 2018 and beyond?

A. Increased flight connections between Iberia and China demonstrate demand. India is also showing strong growth in Europe: ETOA's operator members report demand for product away from the most famous sites and cities, a very encouraging development. Multi-country itineraries featuring both Spain and Portugal show great potential.

While the focus on new markets is important to ensure product and service are fit for purpose, it is vital not to forget established markets which still have very significant scope for long-term growth for which Europe has very strong appeal. As an example, ETOA's Portuguese members and partners report growth in single-country demand from the USA, an encouraging sign from Europe's most important long-haul destination. We would expect to see continued focus on short-haul origin markets, especially France.

Q. Airbnb and “turismofobia” have been main issues of contention for Spain’s hotel industry in 2017. What role do you see Airbnb playing in the Spain and Portugal hotel market in the future?

A. The short-term rental sector will grow; the elasticity to capacity and related dispersal it provides is valuable. We would expect to see more strategic discussion taking place with providers and policy makers as a regulatory regime fit for purpose evolves. Destinations where the proliferation of P2P rentals is a highly controversial topic need to consult carefully with their community as well as local business and industry. More data made publicly available would assist in better policy-making, and we would encourage all providers to share more information.



3. Hotel Talk

Senior executives from three of Iberia's largest hotel brands talk to Duetto about managing seasonal demand, balancing segmentation and channel mix, and new opportunities in the market.

The Iberian countries of Spain and Portugal have long been seen as European tourism hot spots. In 2017, both countries saw strong tourism growth, thanks in part to tourism transference from other markets such as Turkey, Egypt and North Africa. Will this growth continue in 2018?

Diego Fernández Pérez De Ponga, Corporate Director of Revenue and Distribution for Palladium Hotel Group, José Ignacio Sánchez Butragueño, Vice President of Revenue Management at NH Hotels, and Luis Monteiro, Chief Digital Officer of Pestana Hotel Group, tackle the topics most affecting the Iberian hotel market, including:

- | Impact of Brexit
- | Managing tour operator contracts
- | New inbound markets



Diego Fernández Pérez De Ponga As Corporate Director of Revenue and Distribution for Palladium Hotel Group, Diego is responsible for managing revenue at Palladium Hotels & Resorts, Fiesta Hotels & Resorts, Ushuaïa Unexpected Hotels and Hard Rock Hotels.



José Ignacio Sánchez Butragueño The Vice President of Revenue Management for NH Hotels has been working in the tourism sector since 2001, specialising in revenue management, e-commerce, distribution, sales and marketing.



Luis Monteiro As Chief Digital Officer of Pestana Hotel Group, Luis is responsible for all digital activities, including the company website, OTAs, marketing and product, and the call centre. Prior to joining Pestana, he worked at Google in charge of travel and retail for Spain and Portugal.

3.1 RevPAR Growth Potential

Q. Hotels in Spain and Portugal enjoyed strong revenue growth in 2017. Why do you think this was such a strong year, and do you see these business levels continuing in 2018?

A. Diego Fernández: The first thing we have to take into account is that we have had external factors that have modified the buying patterns of tourists because, as everyone knows, geopolitical situations have made Spain and Portugal two of the safest destinations in the world and also (with some exceptions) at a good price, which has made us have a lot of demand in recent years. This is gold for a revenue manager. ... If we have strong demand, we have good RevPAR.

The season of 2018 will surely have fewer customers than the previous ones since destinations like Egypt and especially Turkey are back in the minds of consumers, so we return to a very competitive environment that has not been seen since 2014-2015.

A. José Ignacio: In the Iberian Peninsula, we got a 5% increase in terms of total revenue for our properties last year. This was especially concentrated in Madrid, which has been booming since the start of 2017, and a great performance in Barcelona until the political instability in September and October. Until that moment Barcelona was booming as well, thanks to the great performance of the international market. The Iberian Peninsula is in a great place at the moment in terms of demand, not just in the cities but also in the secondary and third cities where the transient segments are also gaining growth.

A. Luis Monteiro: Portugal is on a very positive cycle. Portugal is a fashionable destination right now, and the awareness that people have of Portugal helps a lot. The Portuguese economy is in a positive cycle as well. We had our best year ever in 2016, it looks like we're going to [beat that] in 2017. And I hope that 2018 is going to be even better. So the cycle is positive.

3.2 Brexit Impact

Q. Spain has long been a popular destination with British travellers. How is the UK's exit from the EU likely to impact this?

A. Luis Monteiro: I look at risk. If you are diversified, you get different sources of risk, some positive, some negative. So the balance is going to be ideally positive, but at least neutral. I would apply this [here]. If you can think of the negative sides of the risk, you see yes, a lot of terrorist attacks here and there, a lot of instability politically, Brexit, etc. Brexit is about fluctuation of the pound, so translated, it is about risk in revenue management.

- A. **José Ignacio:** This market is important for leisure and business. Madrid and Barcelona will feel the impact, but it is quite unpredictable right now. Demand generation from the UK could also affect us positively by getting business from certain companies moving from London to European destinations such as Amsterdam, for instance. We are trying to adapt our sales strategy and portfolio strategy to this situation.
- A. **Diego Fernández:** I think that the British customer will continue to travel, but due to the depreciation of the pound, holidays will be shorter and destinations will change, although I see them still travelling within Spain and Portugal. I also believe that the sales of all-inclusive packages will be increased, helping families to maintain their total holiday budget. I believe that Spain and Portugal will not be affected much, as they are still the safest destinations in southern Europe.

3.3 Managing Seasonal Demand

Q. Spain is a popular summer holiday destination. What are the challenges of managing seasonal variances in demand?

- A. **José Ignacio:** Being mainly an urban hotels chain, seasonality does not affect us as much as a hotel chain mostly focused on resorts. We have a different seasonality compared to resorts where this impacts much more.

Our main impact is in second- and third-tier cities. We are trying to generate demand for city breaks. We are growing RevPAR during the weekends; Fridays and Saturdays grew by 12% in RevPAR last year. We are trying to focus and adapt our inventory to this leisure segment.

- A. **Diego Fernández:** The main challenge we have when we operate short seasons is there is little margin for error: A month with bad results can cost you all the benefits obtained for the rest of the season, so the teams work with quite a lot of pressure throughout the year.

Trying to have good opening and closing days is a challenge also, since it takes two to three weeks for a hotel to get into high occupancy levels and get good numbers without “throwing” the fare. In order to expand these seasons and be able to gain days of operation, we must give more importance to the MICE market to help us capture business in the lower seasons.

3.4 Tour Operators & New Channels

Q. Spanish hotels have historically depended on fixed-rate contracts with tour operators to bring volume to their properties. As traveller booking behaviours change, what new channels are you exploring to break this dependence?

A. **José Ignacio:** The dependency on tour operators is different between resorts and urban hotels. We have set a very clear strategy to shift our segmentation mix. Our fixed-price contracts with tour operators were shifted to a dynamic-pricing model. This shift from fixed pricing to dynamic pricing with tour operators has been one of the major tools for RevPAR growth.

A. **Luis Monteiro:** Normally, the temptation here is to say, "I prefer direct bookings; therefore, I'm going to do everything in my power to push direct bookings." We think that's wrong. It is an important piece of your profitability, yes, the share of online bookings, of direct bookings, but in the medium to long term, if you're not following and reflecting consumer behaviour, you're just going off on a tangent to go where the consumer is not. What we want to do is to make sure we reflect our mix of business in the segments different consumers actually shop.

3.5 Destination Growth

Q. What new destinations in Spain and Portugal will you expand into in the future?

A. **Diego Fernández:** We are exploring several opportunities both in Spain and in Portugal, including Mallorca, the Costa del Sol and Algarve. These destinations perfectly match our vision of hotel and product offer.

A. **José Ignacio:** In Seville, Valencia and Bilbao, we see opportunities to grow. We are opening new hotels in Madrid and Valencia this year. In Portugal, we may explore new opportunities in Lisbon and Porto and on top of that we are trying to reinforce our presence in the islands and coast.

3.6 New Inbound Markets

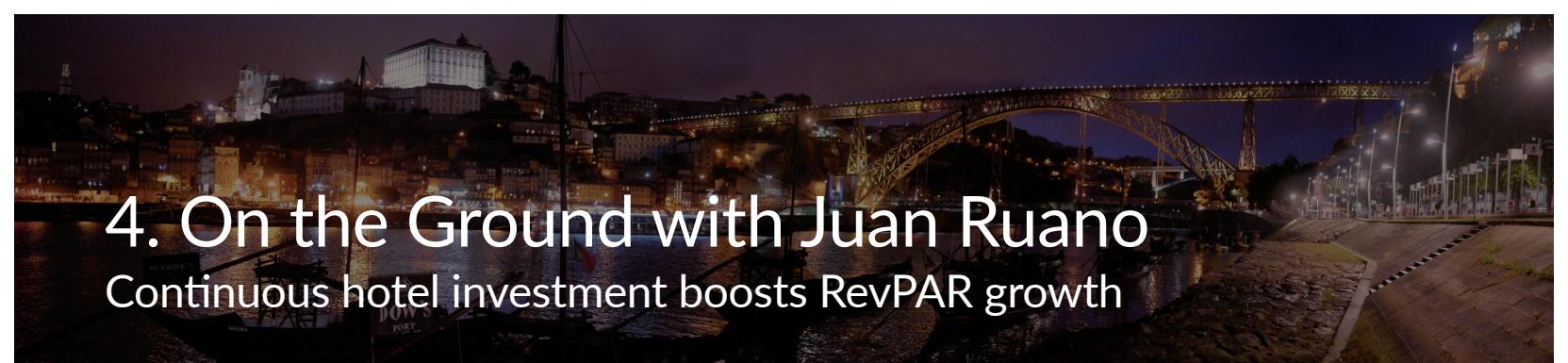
Q. What new inbound markets show potential for 2018 and beyond?

A. **José Ignacio:** The South American market and Mexico are very important, as we have presence there and big awareness in Argentina, Colombia, Mexico and Chile, and those countries are important for us in order to generate synergies from an inbound and outbound perspective.

The Asian markets, Russia and the Middle East are important. We are trying to generate demand from those markets, but we don't have the awareness there, so it is harder to penetrate.

A. **Diego Fernández:** I think the Asian market has incredible potential. A lot of companies have been developing this for years, and this year they are seeing their fruits, although there is still a lot of work to do in terms of getting more air connections or in visa policies. The Russian market is also growing again.

A. **Luis Monteiro:** If you walk around Portugal, you see people from everywhere in the world. A few years ago, that was not the case. This is about commercial transformation, so you can't diversify, internationalize, and grow at the same time if you're not consciously, purposefully working very hard to actually transform yourself commercially and be present in all these channels in a very strong way at the right price at the right time, but also in the right country.



4. On the Ground with Juan Ruano

Continuous hotel investment boosts RevPAR growth



Juan Ruano, Duetto's Senior Customer Success Manager, EMEA, has extensive hospitality experience in Iberia.

Here, we talk to Juan about the challenges facing the Spanish and Portuguese hotel industries, how investment in technology and analysis is vital to Revenue Strategy in Iberia, and the impact Brexit could have on these two destinations traditionally popular with the British tourist.

Q. Cities in Spain and Portugal saw strong increases in RevPAR in 2017. What is behind this growth, and will this continue in 2018 and beyond?

A. Markets such as Spain and Portugal benefit from long average lengths of stay but perform 'below par' over other destinations in terms of average spend by visitor. Historically, low-rated segments feeding these markets have been the reason of their success. However, continuous investment in the quality of the hotels product has resulted in RevPAR growth

Additionally, over the past ten years, Portugal has seen slow growth in bed supply in comparison to Spain. Therefore the higher demand has outpaced supply growth, resulting in great rate growth across the country. We expect this trend to continue in Portugal moving forward.

Q. The UK is one of the largest feeder markets for both Spain and Portugal. How do you think Brexit is going to impact this in both the short term, due to the devalued pound, and in the long term?

A. Uncertainty over the UK as one of the main feeder markets into Spain and the devaluation of the pound have been thoroughly discussed in Spain and Portugal since the Brexit referendum back in 2016. The influx of UK visitors, surprisingly for some, increased in 2017. However, despite the positive trends, the high end of the market has started to see the consequences of the devaluation of the pound.

Spanish and Portuguese operators are generally worried about the potential impact of a “hard Brexit.” Unfortunately, negotiations so far have added no clarity on the future relationship of the UK with the rest of Europe, adding uncertainty and pessimism, which is always detrimental to business.

Q. What are the challenges of managing seasonal demand in destinations such as Spain and Portugal?

A. Summer months are obviously the most popular months to visit Spain and Portugal. Operators and authorities have been working hard for years to limit truly low seasons. Extreme seasonality, which we see in other countries across Southern Europe and North Africa, are now a thing of the past for Spain and Portugal.

Both countries have a very healthy mix between resort and city break destinations, paired with balanced business and leisure demand, which is less affected by seasonality. Urban and historical destinations are a great alternative to the traditional “sun and sand” options. Madrid, Barcelona and Lisbon are leading European cities accommodating the MICE market.

Spain also offers ski resorts, which appeal to guests pursuing winter activities as well as offering rural tourism options during the summer months.

Local tourism boards are collaborating extensively with airlines across Spain and Portugal, supporting the launch to increase connections during shoulder seasons. The result is that we are seeing seasons being extended year after year in traditionally seasonal destinations such as the Balearic Islands.

Q. Historically, resort and hotel operators in Spain and Portugal have depended on tour operators, particularly fixed-rate contracts, to bring volume to their properties. How is this changing? How is the market working to break this dependence?

A. Industry statistics reflect changing habits in these markets. Tourists are increasingly staying away from organized packages and making their own travel arrangements, with hotels and serviced apartments benefitting from this.

Additionally, Spain has again seen a record in the number of visitors in 2017 (+9%), whereas Portugal grew year on year by +5.9%. This gives hotels great confidence to abandon the traditional fixed-contracts model, embracing direct and/or yieldable sources of business.

Q. What new inbound markets show potential for both Spain and Portugal for 2018 and beyond?

A. There has been an increase in interest from visitor markets outside of Europe, mostly from the United States. Emerging markets such as Brazil and Mexico have somehow become stagnant due to recession and political situations. The Russian market had slowed down in 2016, but statistics show this market now recovering very quickly.

With the fear on the consequences of a hard Brexit and the potential reduction of visitors from the UK, Spain and Portugal continue to target China and India. Both of these markets are predicted to experience healthy GDP growth over the next five years, so they could be great markets to continue growing visitors and/or compensate for the reduction in visitors from traditional markets.

Q. What changes have you seen to how clients approach Revenue Strategy in Spain and Portugal?

A. Things are rapidly changing. Traditionally seen as price analysts, revenue management professionals are being empowered to drive the change within their organizations, turning the hotel's commercial and pricing strategy into a much more dynamic and multi-department discipline. Leaving behind legacy systems, which have historically made pricing strategy hard to implement and distribute, seems to be the main priority amongst hoteliers.

To complement the above, a big focus is also on data points available to revenue managers. We never had so much data to analyse; however, there is a risk of "analysis paralysis." Therefore, technology that makes different data sources available, comparable and actionable is the key to helping revenue managers make better informed and more profitable decisions. Those organizations able to deliver exactly this are gaining a great competitive advantage against their competitors.

Q. What are the biggest distribution challenges facing hotels in Spain and Portugal at present?

A. Price parity issues and control over the prices distributed to different channels are the main challenges for most operators. Digital-marketing efforts to encourage business through direct-booking channels is ineffective if some "partners" undercut your pricing publicly.

Some hotels are very dependent on certain partners, which allow those to dictate the terms and conditions of their relationship.

All disparities hurt hotels and they must be identified and corrected so they do not reappear in the future.

Q. Finally, how do you see Revenue Strategy in Spain and Portugal developing in the next five years?

A. That's a big question! There are four key factors revenue managers need to be aware of and consider in 2018 if they want to succeed:

- Hoteliers need to increase their efforts to improve guest experience: Now it's about the evolution from loyalty programs to personalization.
- Embrace total revenue optimization and take efforts to optimise channels and reduce the cost of acquisition.
- Be aware of the evolution of lodging alternatives such as Airbnb. Residents are lobbying local governments to pass new regulations to stop the growth of this type of accommodation in key markets.
- Invest in new technology and additional data sources to drive and validate hotel's strategy.

5. Conclusion

2017 was undoubtedly a stellar year for the Iberian hotel market. However, hoteliers in Spain and Portugal should not expect this to continue into 2018. As other markets, such as Turkey, Egypt and the Maghreb return to favour, and the UK market starts to truly feel the impact of its reduced spending power due to the devaluation of the pound, hoteliers in Spain and Portugal will need to get tactical with their sales, marketing, e-commerce and Revenue Strategy.

Europe has long remained the No. 1 inbound market for Iberia, but new markets are taking notice. 2017 saw the launch of new air links between Barcelona and Seoul and Hong Kong, while Madrid welcomed new airline routes from India and China. Similar developments were seen in Portugal, with Capital Airlines now linking Lisbon with Hangzhou in China.

Internally, the market needs to accept that the sharing economy is here to stay. Airbnb may well be the biggest contender, but the holiday lettings business has long been a part of Iberia's tourism offering.

The arrival of Airbnb is indicative of the move to online booking channels by many tourists now looking at the Iberian market. SiteMinder's statistics show us just how powerful this channel is becoming. And this is a true positive for the Iberian market, as it moves away from the restrictive fixed-rate contracts imposed by many tour operators.

In addition to channel diversification, we are also seeing segment diversification. Spain and Portugal have become established as world-class destinations in the MICE segment. Now, the "bleisure" market is providing another fruitful avenue, as business travellers look to extend their stays and maximise on their travel opportunities.

What's certain is that 2018 and beyond is going to be a very exciting time for the Iberian market as it shifts gear away from its "mass tourism" stereotype and continues to develop a mature, diverse tourism offering that is truly market leading.

More Revenue Strategy Resources

E-book: The Ultimate Guide to Hotel Revenue Strategy:

<http://www.duettocloud.com/resources/ultimateguide.pdf>

How Big Data Can Help Hotel Revenue Managers Get to Perfect Pricing:

<http://duettocloud.com/big-data-can-help-hotel-revenue-managers-get-perfect-pricing/>

Learn More About Open Pricing:

<http://duettocloud.com/open-pricing/>

Duetto Concepts: Revenue Strategy vs. Revenue Management:

<http://duettocloud.com/videogallery/duetto-concepts-revenue-strategy-vs-revenue-management/>

Duetto Presents: NH Hotel Group:

<http://duettocloud.com/videogallery/duetto-presents-nh-hotel-group/>

Duetto Library:

<http://duettocloud.com/library/>

Learn how Duetto can enable a transformative Revenue Strategy for you

Duetto's team combines decades of experience in hospitality Revenue Strategy and cloud technology to help you optimize your entire team's collaboration toward greater profitability. Let's begin the conversation about the next breakthrough for your property.

<http://go.duettocloud.com/talk>

