Cuadernos de Turismo, nº 26, (2010); pp. 269-274 Universidad de Murcia
ISSN: 1139-7861

THE DYMAMIC STRUCTURE OF THE HOSPITALITY SECTOR IN IBIZA AND FORMENTERA. 1960-2000

Joan Carles Cirer Costa
Escuela Universitaria de Turismo de Ibiza

1. INTRODUCTION

The main focus of this report is the hotel structure of the islands of Ibiza and Formentera, —islands that from now on will be dealt as one—. They are one of the main destinations within the Spanish touristic offers, since they have contributed on an average of 5.5% of the total hotel beds/accommodations offered in this country between 1970 and 2000. We are analyzing a unique location within the worldwide *sun and beach* touristic destinations. Ibiza and Formentera are a worldwide famous recognized destination, but not so well known, as almost all hotels in the islands have been built and managed by purely local companies. Tourism in Ibiza started in 1933, and in 1936 the island already had a dozen lodgings focused on international tourism[1] that, in principle, closely followed the footpath of the Majorcan tourism, the most advanced in Spain since 1903[2]. The Spanish Civil War cut short this rapid development that was not recovered until twenty years later. At the beginning, it had a slow development, but after the international airport opened in 1964, it started *booming*. From that moment, tourism became the only source of income for the islands through the remarkable hotel industry development of local initiative.

The aim of this study is to analyze the tourist accommodation market of the islands in order to know its evolution from 1960 until 2000, trying to determine its main features: degree of competitiveness, appearance of domain situations, diversification of the offer, etc. From this information, we also try to understand the process that has allowed some local companies to use their experience to launch themselves to compete in the global tourism market. The spearhead of the Ibiza hotel industry is the company *Fiesta Hotels* —located in the 87th position worldwide[3]—, that has 51 hotels, 15 of them located in the Caribbean. The second company in Ibiza, *Sirenis* manages 6 hotels in Ibiza and

1 Cirer, J. C. 2004.
2 Cirer, J. C. 2009. That year the *Grand Hotel* in Palma de Mallorca was inaugurated.
3 Hotels, July 2009.

another 6 in the Caribbean. It is clear that both are authentic multinationals, especially the first one.

Our main interest is to know the mechanisms and growth development of the insular companies, some of which have reached a large size. The basic variable that interests us is the entrepreneurial dimension which we measure by the number of hotel beds/ accommodations managed by each chain. As none of the hundreds lodging companies of the island has ever traded in any stock market, and the publication of consolidated balance sheets was rare before the year 2000, there is no public accounting information, therefore we gathered information by doing personal interviews and newspaper information to find out to which chain belonged each lodging.

The article is based on nine five-year period between 1960 and 2000. This methodology makes this work a historical type study, that we believe is rare, since most similar analysis relating to a destination or country at any given time without taking into consideration the evolutionary aspects.

2. DEVELOPMENT OF THE TOURISM MARKET OF IBIZA AND FORMENTERA

As shown in Chart 1, from 1964 the tourism experienced an explosive boom with growth rates of 20% -30% per year that continued until 1973, when the first major crisis began. Such rapid growth can only be explained through the previous domain of the hotel sector *know-how*, —due to the thirty years experience—, and to the strong social support that the local people rendered to the tourism[4].

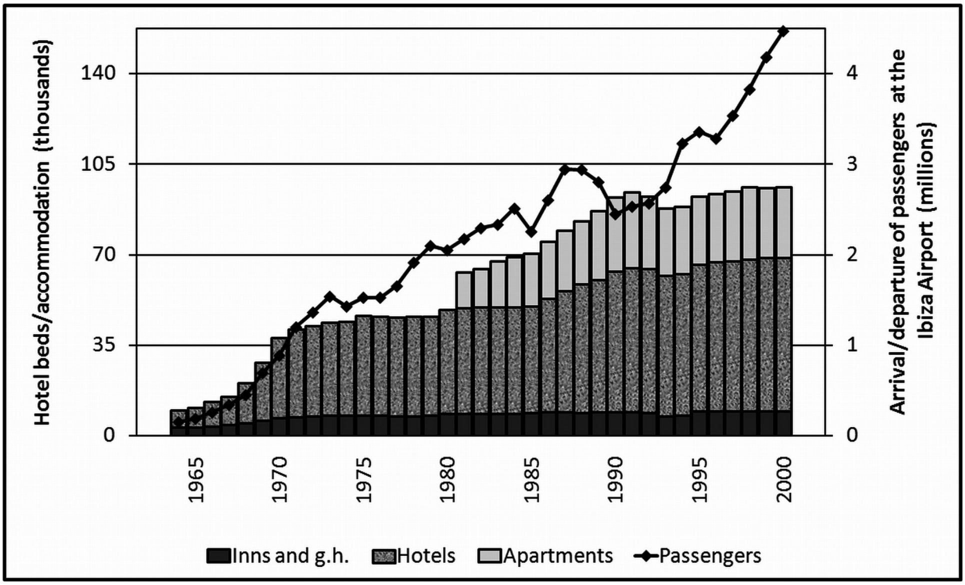
From 1976 to 1988 the accommodation industry expanded again due to the construction of tourist apartments. In that last year, a deep depression began, with falls of 20% in the number of tourists and closures of older and less competitive lodgings. Once the situation was overcome in the mid-nineties, the accommodation capacity did not return to grow in spite of the significant increase of the number of tourists arriving in the airport.

The tourist business was originally based on low standard small lodgings, —inns and guest houses— but since 1960 big hotels opened whose financing turned out to be very complex. Most of the funds were local and came from the agriculture export which at that time dominated the island economy, —the main crops were the almond and new potatoes—. As nobody had enough money to build a big hotel, it was necessary to get together with other numerous and disperse partners to raise the funds. The funds obtained from the banks and state were scarce, —tourism official credit—. The main source of external funding came from the English and German tour-operator that accepted to prepay the rent for several years of rooms that had not even been built[5]. When the sector matured in the seventies and eighties, these funding procedures typical of «pioneer» business disappeared for a financial structure more and more «traditional» with increasing resources on conventional bank loans.

---

4 Cooper, J. 2002.
5 Ramon, E. 2001.

Chart 1
EVOLUTION OF THE NUMBER OF TOURIST BEDS AVAILABLE IN IBIZA AND FORMENTERA AND THE VOLUME OF PASSENGERS AT THE AIRPORT IN IBIZA. OFFICIAL DATA.



3. DEVELOPMENT OF THE TOURIST ACCOMMODATION STRUCTURE

Table 1
STATISTICAL VALUES OBTAINED FROM TOURIST ACCOMMODATION LODGINGS CONSIDERED IN THIS STUDY

		1960	1965	1970	1975	1980	1985	1990	1995	2000
INNS AND GUEST HOUSES	Lodgings	10	29	113	135	146	156	161	166	168
	Average beds	53	56	50	49	47	46	46	45	45
APARTMENTS	Lodgings			18	48	91	172	294	325	341
	Average beds			78	76	89	84	82	82	80
HOTELS	Lodgings	1	16	98	116	118	120	143	151	160
	Average beds	74	183	285	316	315	314	319	326	319
TOTAL	Lodgings	11	45	229	299	355	448	598	642	669
	Average beds	55	101	152	157	147	132	129	130	128

The data in Table 1 indicates that inns and guest houses were no longer significant after 1970, mainly by adopting a non-tourist profile. The apartments began a rapid growth around the year 1975, while hotels were not built. The tourist apartments in Ibiza and Formentera have always been characterized to belong to small enterprises, since the typical lodging consists of a family business that exploits a single block of apartments. They usually have a small or medium size, low-standard, -1 or 2 keys are the most common category, and located relatively far from the beaches, in the second or third row.

Concerning the hotels it stands out the slowdown experienced by its construction between 1971 and 1985, and the stability of its medium size of around 150 rooms. These data suggest that at first the potential economies of scale was not sufficient to justify the construction of big hotels. Since the 90s, once all the beachfront lots were unavailable, and it was literally impossible to build, consequently even the average size was slightly reduced.

An important objective of this study is to check the competitiveness of the market and the eventual emergence of oligopolistic structures. For this, two instruments have been used: the market share of the five largest companies, and the Herfindahl index. In the first case it is found the emergence of a leading company, *Fiesta Hotels* in as early as 1970. This company, however, has maintained a rate within 18% of the hotel market over 30 years, since in that same time they began to build hotels outside of Ibiza to channel its major investment capacity. Its performance has been subsequently copied by the other major hotel groups in the island: when saturation of the market segment is perceived in Ibiza and Formentera is when the external expansion begins.

The data presented in Table 2 indicate that no company has achieved a dominant position in the market and therefore, never appears an oligopoly structure. In any case, it should be noted that the percentage of hotel beds/accommodations in the hands of the five largest groups has not stopped growing.

We believe that it should be noted that since 1975 the top four positions have always been in the hands of companies entirely from Ibiza, —owned by natives of Ibiza and managed from Ibiza. Foreign companies have only appeared briefly.

The data of Table 3 indicate that the tourist accommodation sector, considered as a whole, has experienced a remarkable growth without reducing the total competitiveness. However, in the hotel subsector, there is a slight trend towards concentration but without reaching high values.

Table 2

DYNAMICS OF THE ENTERPRISE CONCENTRATION IN THE HOTEL BEDS/ACCOMMODATIONS OF IBIZA AND FORMENTERA. PERCENTAGE OF HOTEL BEDS/ACCOMMODATIONS OPERATED BY EACH OF THE FIVE LARGEST COMPANIES

1970		1975		1980		1985		1990		1995		2000	
Fiesta	15	Fiesta	14	Fiesta	15	Fiesta	17	Fiesta	19	Fiesta	18	Fiesta	18
Carabela	7	Sirenis	7	Sirenis	7	Sirenis	7	Sirenis	7	Insotel	7	Sirenis	11
Sirenis	6	Carabela	7	Carabela	6	Carabela	6	Insotel	5	Sirenis	6	Insotel	6
Hawai	4	Molinos	4	Molinos	4	Molinos	4	Carabela	5	Carabela	5	INVISA	5
Barceló	3	Insotel	4	Insotel	4	Insotel	4	INVISA	4	INVISA	4	THB	3
	35		36		36		38		39		39		42

Table 3
EVOLUTION OF THE *HERFINDAHL* INDEX, OF THE SIZE OF THE REPRESENTATIVE COMPANY, AND THE NUMBER OF EQUIVALENT COMPANIES NECESSARY TO TAKE THE ENTIRE SECTOR

	All lodgings			Hotels		
	Herfindahl Index	Size of representative companies	Number of equivalent companies	Herfindahl Index	Size of representative companies	Number of equivalent companies
1970	0,029	997	35	0,044	1.215	23
1975	0,027	1.244	38	0,042	1.529	24
1980	0,025	1.310	40	0,043	1.586	23
1985	0,028	1.646	36	0,049	1.843	20
1990	0,026	1.988	39	0,054	2.461	19
1995	0,024	2.038	41	0,052	2.535	19
2000	0,026	2.242	38	0,056	2.860	18

4. CONCLUSIONS

1) Highlight the adjustment capacity of the sector to the demand of different segments, and to the changes this has had over forty years studied, a clear indication of good health that the *sun and beach* tourism model enjoys.
2) No minimum efficient size exists neither on lodgings nor hotel chain. The beach acts as a «specialized factor» in the sense indicated by M. Friedman, thus, there is no optimum size, but «an optimum distribution of firms by size[6]». The progressive depletion of this «specialized factor», the beachfront lots, implies a significant change in the future conditions of the sector which will undoubtedly vary its structure.
3) Most companies have grown at a rate similar to that of an overall sector, so that never market dominance situations have appeared. Those companies which had a larger investment capacity soon turned their growth potential abroad, giving up predatory practices on the rest of the sector. There has been price leadership by the major hotel chains due to the oligopolistic pressure from English and German tour-operators.
4) Between 1960 and 1973 Ibiza's lodging sector grew explosively and defined its main features. Since that time, industry structure shows a smooth and gradual evolution, without discontinuities. It is surprising to see how the different crises experienced by the island's tourism have had little relevance on the structure of the lodging sector.

6 Friedman, M. (2007).

REFERENCES

CIRER COSTA, J. C. (2004): *De la fonda a l'hotel*. Palma de Mallorca. Documenta Balear.

CIRER COSTA, J. C. (2009): *La invenció del turisme de masses a Mallorca*. Palma de Mallorca. Documenta Balear.

COOPER, R. J. (2002): «Una anàlisi d'alguns aspectes del canvi social i adaptació al turisme a Eivissa». *Estudis sobre el turisme a Eivissa i Formentera 3*. Ibiza. Ed. Mediterrània.

FRIEDMAN, M. (2007): *Price Theory*. New Brunswick. Transaction Publishers.

RAMON FAJARNÉS, E. (2001): *Història del turisme a Eivissa i Formentera*. Ibiza. Ed. Genial.