

**THE LOW COST TOURIST ACCOMMODATION SECTOR IN BARCELONA: AN ANALYSIS OF MARKET FORCES OPERATING IN THE LOW COST SEGMENT AND A STRATEGY FOR FUTURE DEVELOPMENT**

**A Capstone**

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**FOREWORD**

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**EXECUTIVE SUMMARY**

It has been a long time already that low cost tourism strategy is rising in all over the world. Development of low cost carriers is affecting also the accommodation type of tourists in destination. It was affected not only because of financial scenario of the world but also high competition between tourism destinations. Even though most European cities already added a low cost model to their segmentation, Barcelona is facing several problems to do that. The reason could be already maximum inbound tourist numbers or no ability to apply this model to expand segmentation of incoming tourists. On the other hand the city is facing big social problems, started by the local communities and local neighbors of noisy and polluted touristic apartments. There are a lot of different protest especially during the summer against illegal tourist apartments. Also Barcelona is facing the problem of having lots of illegal tourist establishments such as hostals, hostels and tourist apartments. These illegal establishments are not only causing social problem with local communities but also financial damage to the budget of the region. For this reason it was decided to analyze the future of the low cost tourism accommodation as a business proposition in Barcelona, with the main objective of analyzing the feasibility of the future of the low cost tourism business in Barcelona and also hostal accommodation type being the solution of above stated social and economical problems.

The study consists of two main parts: the review of the literature and the business analysis of the low cost accommodation type with specifying on hostals. The data was collected regarding Barcelona as a touristic and industrial city and the low cost tourism in the world as a business area. Moreover, the research was made about the actual scenario of the low cost accommodation in Barceloa and it was compared with different cities around the world. The second phase, focuses on explaining the data of the first stage and developing a business analysis of the lodging industry. The analysis is made by using different data as well as special tools are TOWS analysis and Porter's Five Forces.

The result of the analysis clearly shows that there is a place for low cost accommodation in the lodging market of Barcelona. It is profitable business and investors should be gathered to develop this new kind of lodging. Opening a hostal in Barcelona has a positive impact and rapid turnover of the investment but also has positive impact on government budget and social aspects of the city.

The actual scenario of the hostal business is not favorable as there is an intense level of rivalry in industry and a number of establishments are continuing to grow. However, these issues could be easily solved with the government involving and regulation the accommodation industry in the city, as a result of analysis by Porter's Five Forces.

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**INTRODUCTION**

**1.1 STATEMENT OF THE PROBLEM**

The low cost accommodation in Barcelona has been suffering since the beginning of tourism era in Barcelona in 1992. After Olympic games Barcelona started to build an image of not cheap summer tourism destination as well as a destination of luxury business tourism. There more than 20 convention centers in Barcelona and in 2014 Barcelona received 1969 different events only in one year. It helped to the city to improve to be known as a tourism destination however in new era of low cost tourism Barcelona is still suffering.

The city has everything to add low cost tourism to the inbound tourism segment: being summer tourism destination for almost 5,000,000 people, availability to receive guests during all year long and also a price difference from other similar tourism destinations in Europe. Even though statistics show that 60% of tourists are coming for vacations and only 24% with business purposes government is showing an interest to this 24% more than 5,000,000 people coming to vacations. It could be a result of getting more profit from businessmen than leisure tourists however study shows that leisure tourists are staying an average 3,7 nights where in the case of businessmen it is 2,3.

Barcelona is a destination for a lot of low cost carrier companies in the past 5 years. This made Barcelona be reachable for tourists with a fixed, average or below average income. The prices for attractions, food and shopping are also admissible whether prices for accommodation are not.

There is a huge gap in establishment of accommodation types in Barcelona that makes a problem even bigger. From all hotels in Barcelona the most place in market is occupied by 4 and 5\* hotels. Where numbers of 1, 2 and 3\* hotels stayed the same during last decades. Being luxury is now a trend for Barcelona where prices are high for tourists with fixed budget. Here we are opening another problem of illegal accommodation or different platforms that allow tourists to find different low cost accommodation types. The problem here is more national where local public is against of these kinds of “apartments for tourists”. Local communities regularly taking part in protests against this kind of accommodation and government is losing money by not regulating this “apartments for tourist” and internet platforms.

Another big problem of Barcelona and Catalonia is that the government of Catalonia cannot regulate illegal established properties that are used as touristic accommodation types. Most of them are low cost lodging types and includes hostels, hostals, touristic apartments and 1 or 2 star hotels. According to Consell Comarcal Del Barcelones, for one official authorized accommodation in Barcelona there are two illegal functioning. Consell Comarcal Del Barcelona faces the problem of illegal establishments in the price application and tax regulation. As in high season prices could be raised up to 25 euros per bed in hostels. Besides that Generalitat de Catalonia wants to take over control of hostels and other low cost accommodation types to apply a taxation form on them. Government cannot apply a taxation to these properties as they are nor legally registered. As other legal establishments are paying 0,50 to 2,50 euros per night per person as a touristic tax. The price depends on the level of hotel, as if 1 star hotel or apartments are paying 0,50 euros per night per person, 5 star hotels are paying 2,50 euros. The price does not depend on the area of the room.

Consequently, these internal and external problems of socio-economic structure are barriers for development a low cost accommodation types in Barcelona.

**1.2 PURPOSE OF THE STUDY**

Accommodation is one of the biggest fixed cost travelers have. If the traveler manage to reduce lodging cost that leads to big savings. It is what many backpackers were doing for decades. By reducing accommodation cost they were able to travel for longer distance and for more cities and countries. In fact, even for not budget tourists, one of the best ways to take a cheap holiday is to cut down on accommodation expenses. Since a tourist have to stay somewhere every night, reducing this expense can save a lot of money off the total cost of the trip.

As stayed above, Barcelona does not seem to have favorable conditions to the practice of the low cost accommodation. Beside, the ratio of hotel types in Barcelona is very unbalanced, as the city wants to go follow with improving 4\* and 5\* hotels. For this reason it was decided to analyze the future of the low cost accommodation as a business proposition in Barcelona, with the main objective of the feasibility of the future of an accommodation business in Barcelona. The specific objectives of this work are:

* To evaluate the micro economic scenario of accommodation industry
* To compare the current situation of Barcelona with other destination in the world-class
* To ascertain the potential barriers and improvements to the opening of a hostal businesses
* To analyze success and failure cases in low cost accommodation types
* To suggest proposals to future development of low cost accommodate
* To recommend a possible solution for social problems of the city

**1.3 RESEARCH QUESTIONS**

In order to analyze the feasibility of the future of low cost accommodation business in Barcelona it is important to think about the questions that are related to the chosen country, such as:

* What is the actual scenario for the budget accommodation business?
* How does the financial scenario of Barcelona affects the market?
* Why is the budget accommodation different from another types of accommodation?
* What problems do new establishments face when entering the market
* What kind of problems do budget accommodation type faces?
* How can the government affect on budget accommodation?
* What are the future perspectives of the budget accommodation?

Answering these questions this study provides a useful business and environmental analysis guide to everyone who wants to start and who is interested in accommodation in Barcelona. Moreover, it delivers an interesting solution of the current scenario in the city and shows the strong strategy of hostal accommodation type, which is helpful for investor and for government perspective to analyze their current politics and to try to improve it.

**1.4 RESEARCH METHODOLOGY**