CUBA'S TOURISM INDUSTRY: SOL MELIÁ AS A CASE STUDY

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When assessing Cuba's ability to overcome the socioeconomic crisis which resulted from the disintegration of the USSR and the Eastern European communist bloc, the Cuban tourism industry is of vital importance for two reasons. Firstly, the progressively critical condition and poor yields of Cuba's traditional main economic sector, the sugar industry, with receipts of only US$971 million in 1996,[2] in contrast to the rapid development and growth of tourism, have placed the latter as Cuba's main source of foreign currency revenues. Secondly, the tourism industry has proved to be a useful instrument for bringing about much needed change into Cuba by: (i) introducing non-orthodox-socialist concepts through tourist contacts with the Cuban people; (ii) encouraging the regime to adopt socioeconomic and legal reforms; and (iii) drawing the attention of the international community, thus eventually influencing both Cuban internal politics, and U.S. foreign policy towards Cuba.[3]

Moreover, as an emerging sector, tourism can ideally play a strategic triple role as a hard currency generator, a technology transfer instrument (both for marketing and management skills) and a development catalyst for infrastructure.[4] Since 1990, gross revenues in hard currency from tourism have grown over six fold, reaching US$1.54 billion in 1997, of which 50% was generated in related economic activities.[5] Thus, the tourism industry has considerably energized other sectors; for instance, in 1997 airline travel[6] earned US$160 million, entertainment and culture US$23 million,[7] and retail sales of national goods a reported US$150 million.[8] Hence when evaluating Cuban tourism profitability, one should consider that unlike other Caribbean countries, Cuba includes revenues from other sectors in the tourism industry. Although lack of information has prevented analysts from making an accurate assessment of the

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2. In fact, sugar exports were second to nickel with a total US$1.350 billion in 1996, compared to US$971 million, both on an fob basis (EIU Country Report 1st quarter 1998, p. 6).

3. Not in any order of importance.

4. Françoise. L. Simon, "Tourism Development in Transition Economies: The Cuban Case," *The Columbia Journal of World Business*, Vol. 30, No. 1 (Spring 1995), p. 27.

5. Sectors not directly associated with tourism. Growth, however, has been based on a large import component.

6. In 1997, 99% of passengers from international flights, and 31% of all domestic travelers were tourists.

7. Of which 92% was in hard currency.

8. Iraida Calzadilla Rodríguez, "El turismo es el corazón de la economía," *Granma* (28 February 1998), p. 3.

net revenues, the net income is estimated to be about 33% of the reported gross figure.[9]

The relative high rate of growth, considerable revenues and strategic economic advantages maintained by the tourism industry within the last eight years has recently led government economic strategists to consider this industry as "the heart of the economy."[10] In February 1998, Dr. Carlos Lage, Vice President of the Council of State of the Republic of Cuba and overall economic spokesperson for the government, said that the sector was, and would remain in the future, the country's largest source of U.S. dollars, generator of new employment opportunities and financial resources, and a vast market for domestically-produced products and services.[11]

By comparison, in 1990, the tourism sector had gross revenues of only US$250 million. In 1988, fewer than 300,000 tourists visited Cuba. In 1987, the island accounted for 3% of the tourists visiting Caribbean area countries. In contrast, in 1997, Cuba accounted for 7% of the tourists visiting the Caribbean.[12] According to Vice President Lage, the tourism sector in Cuba grew at an annual rate of 19.3% from 1990 through 1997, compared with 4.3% for the Caribbean area countries as a group.

As of March 1998, there are 21 joint ventures in tourism, with over US$600 millions in capital. Nineteen of those are hotel companies which will eventually manage 10,900 rooms. Of those, 2,500 rooms are fully operational and the rest in the design or construction stages.[13] Cuba currently has 181 hotels of varying quality with 28,000 rooms, most of which are two-star and three-star, and 23 joint ventures in this sector.[14] The tourism sector within Cuba directly employs approximately 71,000 workers or about 1.6% of the total national workforce of approximately 4,500,000.[15]

By the year 2010, Cuba officially expects to receive 10 million tourists, generating gross profits and tax revenues of US$5 billion, which would be twice the hard currency generated by the entire economy in 1997.[16]

As the largest corporation in the industry and the pioneer of large scale projects in a semi-socialist economic and political regime and an unknown market, Sol Meliá's performance substantially affects the initiatives of competing corporations. While its success may create an incentive for potential investors, any substantial failure may discourage both potential investors and companies operating on the island. As discussed in the latter part of this paper, an empirical analysis shows that the island has been consistently Sol Meliá's most profitable market during the last years, and this giant company has proved to be Cuba's most influential strategic asset in the tourism industry.

SOL MELIÁ AS A CASE STUDY

This analysis of Sol Meliá, the leading foreign corporation in the Cuban tourism industry, has been restricted due to lack of available data specifically covering Cuba, and the reluctance of managers to be interviewed because of the tense political and economic

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9. Simon, "Tourism Development," p. 30. Cuban officials recently reported that 38% of gross revenue in 1997 was net profit. Reuters News Report (11 May 1998).

10. Minister C. Lage, stated: "*Yo no diría que el turismo es uno de los sectores más importantes, el turismo es el corazón de la economía*." See Calzadilla Rodríguez, "El turismo," p. 3.

11. *Economic Eye on Cuba*, (23 February-1 March 1998).

12. Notice that Cuba's 1.17 million tourists in 1997 do not represent a very sizeable percentage of the total 18 million visitors to the Caribbean during that year; however, comparatively, it is a substantial achievement for a crippled economy developing its tourism industry during the last 6 years.

13. EIU Country Report, 1st quarter 1998, p. 22.

14. *Economic Eye on Cuba* (23 February-1 March 1998).

15. Ibid.

16. More realistic estimates foresee a more conservative figure.

climate between the United States and Cuba.[17] Sufficient information, however, has permitted the formulation of two meaningful conclusions. First, even though 1997 was a disappointing year, particularly for the region of Varadero, overall Cuba has been one of the most profitable divisions for the Spanish corporation in the 1990s, and certainly the leader in the Caribbean in terms of revenues generated by management fees.[18] And second, given the high levels of profitability, the comparative market advantages which the corporation enjoys in Cuba and its vast investment commitments, Sol Meliá is likely to continue to be the leading joint venture partner and the most important catalyst of foreign capital inflow into the Cuban tourism industry.[19]

General Global Profile

As early as 1976, the top twenty hotel companies in the world accounted for 67% of the rooms in the *Service World International*'s top 100 largest chains. The economies of scale afforded by pooled marketing efforts and shared computer reservation system has allowed the leading hotel chains to effectively dominate the market. This rapid growth has been made possible through a flexible ownership and management control system. As in the case of Cuba and its joint ventures, management contracts have become an increasingly popular form of operation since they allow the chains to expand with minimal capital investment, while the owners have the advantages of being part of a larger, standardized, and well-organised chain. Accordingly, the absence of an entrepreneurial class, foreign exchange and skilled labour in the developing world has led to the rapid intrusion of large-scale foreign capital and management in the lodging industry.[20] It is in this context that Sol Meliá should be primarily studied.

At present, Sol Meliá is ranked 14th in the world international hotel companies.[21] Operating 205 buildings with 53,000 rooms (100,000 beds) in 25 countries of four continents, Sol Meliá is the largest hotel corporation in Spain and the third largest in Europe. Over 19 million persons annually stay at hotels. In 1997 the company reported a competitive room occupancy of 71%.

Sol Meliá, founded in 1956 by Gabriel Escarrer, its current president, has 21,000 employees and a presence in Europe, America, the Mediterranean Basin and Asian Pacific, through its eight brands: Gran Meliá, Meliá, Meliá Comfort, Sol Ilite, Sol Club, Sol, Sol Inn and Paradisus, covering the different market segments. The company is structured in five independent business areas which have a general management status: European Urban Hotels, European Resort Hotels, America, Cuba and Asian Pacific. Management is organised under five main areas of activity: Economic-Financial, Marketing, Human Resources, Consulting and Systems, and Maintenance.[22] Sol Meliá is also a pioneer in the hotel sector incorporating advanced sales and marketing systems, launching the first loyalty programme in the sector (the Mas card) and signing strategic alliances with other leading companies such as Iberia, Avis and American Express.

Total net profits after tax for 1997 were reported to be US$37.2 million,[23] an increase of 20.04% over

17. To insure the safety and security of individuals, the names of employees are not disclosed in this essay.

18. Sol Meliá 1996 Management Report, p. 76.

19. The Spanish corporation maintains that its present operation and expansion in Cuba do not contravene the U.S. Helms-Burton law, which seeks to punish foreign companies investing in property confiscated after the 1959 revolution. See "Spain's Sol Meliá Expanding Hotel Chain in Cuba," Reuters, Havana, (April 9, 1998), http://www.netpoint.net/~CubaNet.

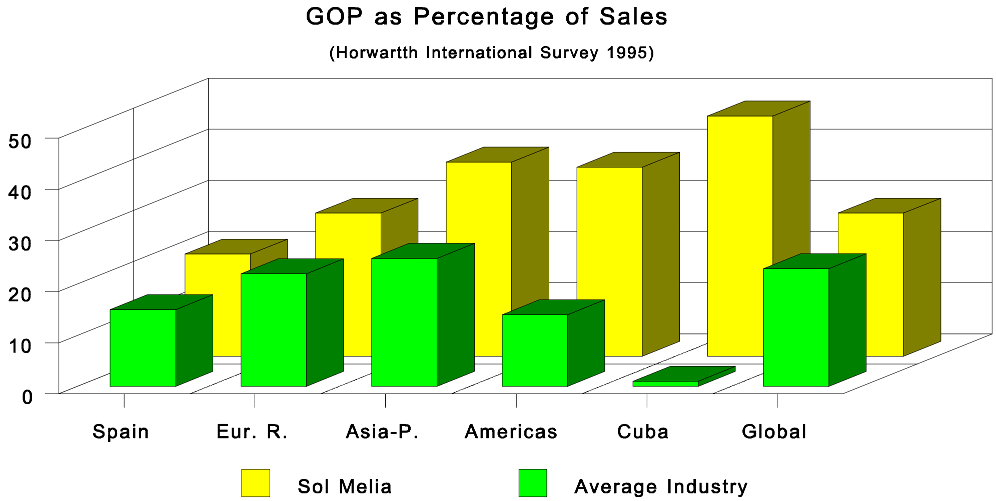
20. See Keith G Debbage, "Oligopoly and the Resort Cycle in the Bahamas," *Annals of Tourism Research* (1990), pp. 513-527.

21. According to U.S. magazine *Hotels.* See Luz Marina Fornieles, "The Privilege of Being Pioneers," *Cuban Foreign Trade,* No.2 (1997), p. 5.

22. Sol Meliá was founding member of the Quality Management Club and received the 1993 Principe Felipe Prize for Business Excellence. At the European level, it was the first hotel company to obtain ISO 9002 Certification for hotel management services in its eight brands and, at the national level, the Meliá Lebreros in Seville was the first hotel to receive the ISO 9000 Quality Certificate.

23. 5,723 million pesetas (US$1=153.8 pta).

Figure 1. Gross Operating Profits Sol Meliá vs Industry Average, By Division



the previous year. Income for management services in 1997 reached US$86.9 million,[24] an increase of 16.4% over 1996. Sol Meliá, which was the first Spanish hotel company to be quoted on the stock exchange, saw its share value increase by 42% in 1997.[25]

Latin America: The Latin American region has the second highest estimated growth potential for tourism from 1997 to 2007 according to the World Travel and Tourism Council. The region is a key market for Sol Meliá in terms of fee contribution (around 21% of total fees for 1997), brand recognition, language and culture, and hotel owner relations. It is also the most profitable Division in the Sol Meliá portfolio in terms of GOP[26] margins at the hotel level, in fees obtained per hotel or available room, in occupancy-average daily rate (ADR) mix and finally in profitability from investment in minority stakes.

According to Oscar Ruiz, Chief Financial Officer, in recent years Sol Meliá has found very attractive acquisition opportunities in Latin America that have not been fully exploited due to the company's policy not to purchase real estate assets, save for certain minority stakes in hotels. The desire to capitalise on these opportunities is the main reason for the creation of MIA, a subsidiary that will build or acquire hotels that are as profitable as others managed by the corporation.

Current Profile in Cuba

Of the 340 joint ventures currently operating within the island, Sol Meliá manages the largest in the tourism industry and channels substantial foreign capital into Cuba. Although Cubanacán is its largest partner in Cuba, the company also manages three hotels with the Cuban State Gaviota Group.[27] In 1997, 56% of Sol Meliá's hotels in Cuba were located in Varadero, 20% in Holguín, and 24% in Havana. *Meliá Cohiba*, located in the capital was the most profitable, while *Meliá Varadero* was the least in 1997.

Ownership Structure of Sol Meliá-Managed Hotels

CIHSA, a Spain-based corporation, has a 50% share

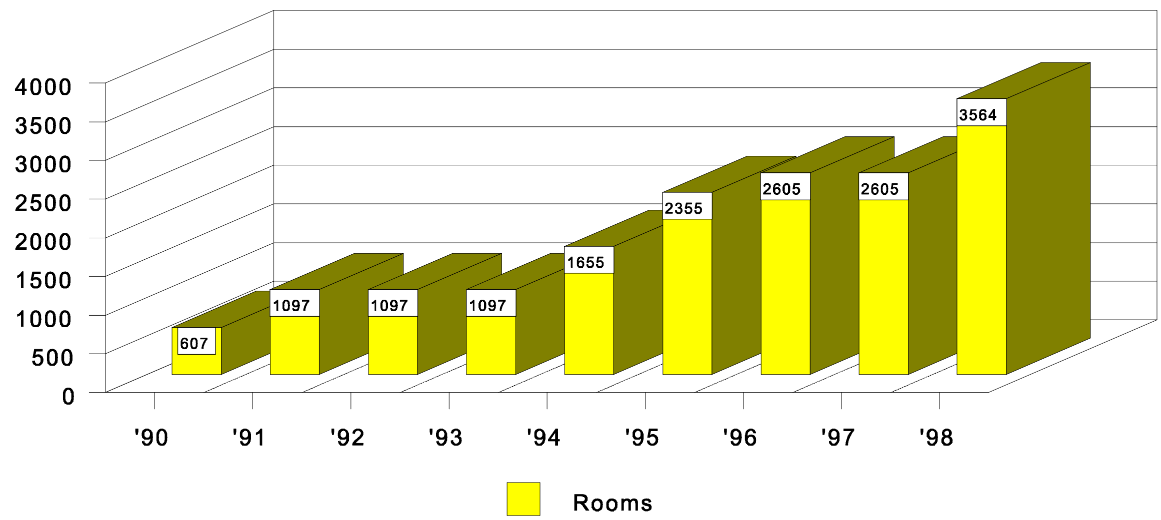
24. 13,370 million pesetas.

25. See Sol Meliá, *Annual Report 1996* and "Sol Meliá: Profile as a World Leader," (April, 1998). See www.solMeliá.es.

26. Gross Operating Profits.

27. *Sol Río de Mares*, in Holguín with 238 rooms; *Sol Club Río de Luna* also in Holguín with 218 rooms, and *Sol Club Las Sirenas* in Varadero with 250 rooms.

Figure 2. Sol Meliá Growth in Cuba, 1990-1998 (Number of Rooms)



in the *Meliá Varadero*, a 50% share in the *Sol Club Palmeras*, and a 50% share in the *Meliá Las Américas*, all of which are located in Varadero. The remaining 50% share in the three hotels is held by Cuban government-operated Cubanacán S.A.. The ownership of CIHSA is as follows: Sol Meliá S.A. (33.5%), Mr. Enrique Martinón, a Spain-based investor (50.5%), and a Barcelona-based corporation controlled by two individuals (16%). The Barcelona-based corporation, however, is seeking to sell its 16% share of CIHSA for US$7 million, stating that the purchaser can expect a minimum annual rate of return of 15% on the investment.[28]

Operational Expansion in Cuba and Elsewhere

In April of 1998, Sol Meliá announced that it was expanding its hotel chain in Cuba to 11 by the end of 1988 from the then-current 8 hotels. Company sources have confirmed that three new hotels, with a total of nearly 1,000 rooms, would open later this year (1998) in Havana, the eastern province of Holguín, and Cayo Coco key, off Cuba's northern coast. The two new hotels outside Havana are to be run on management contracts, while Sol Meliá is investing an unspecified amount in the Havana unit.[29] The new resort *Meliá Comfort Habana*, located in the city's most elegant and exclusive area of Miramar, adding 409 rooms, should be completed in August 1998; *Meliá Cayo Coco*, with 250 rooms is scheduled to open in November, as well as *Meliá Río de Oro*, with 300 rooms, located on the coast of the northern province of Holguín.[30] In the next 10 years, Sol Meliá is likely to operate another 14 hotels that are expected to be built on the island.[31]

Cuba's new resorts in 1998, are significant in absolute terms, but small within Sol Meliá's rapid expansion plans world wide. The investments made throughout 1997 in the *Meliá Tulum* (Mexico), the 667 rooms/apartments *Gran Meliá Caracas* complex and the *Meliá Sancti Petri* amount to 2,324 million pesetas, each of them with an expected rate of return

28. See *Economic Eye on Cuba* (9-15 February 1998).

29. "Spain's Sol Meliá Expanding Hotel Chain in Cuba," Reuters, Havana (April 9, 1998), www.netpoint.net/~CubaNet.

30. Prensa Latina, La Habana (8 April 1998), www.sol Meliá.es.

31. Emily Valere, "Cuba Sees Tourism Doubling by 2000," Bloomberg, Port-of-Spain, Trinidad. (13 May 1998).

of more than 20%. Of strategic importance has been the management contract signed for the *Meliá Bruselas* (Brussels), which represents a further step towards the expansion objectives in the main cities of Europe. In the Dominican Republic, the incorporation of the *Meliá Santo Domingo* and the *Meliá Juan Dolio* has positioned the company as leader in this important tourist destination.[32] In total, the company added 27 hotels globally in 1997, and signed agreements with 12 hotels which are to be added before the end of the year 1998. There are 34 additional signed agreements for hotels to be added in the next three years, and 35 in an advanced stage of negotiation. For 1998, the company believes that general conditions remain positive for the European Resort and City Divisions.

According to Carlos Pareda, Sol Meliá director of the Cuban Division in 1994,[33] the island's safety environment for tourists is a key competitive advantage vis-a-vis its Caribbean neighbors.[34] It is important to highlight the significant disparity between street crime and burglary. While Sol Meliá hotels, and most tourist areas, are heavily patrolled by police forces, once the tourist leaves the resorts the danger increases.[35] Sol Meliá's initiative to enter the Cuban market despite the structural problems and the threat of U.S. measures against company interests dwells also and mainly on Cuba's current situation: absence of U.S. competitors and the potential for profitability which Cuba is expected to offer once economic and political relations with the United States are improved.[36]

The deficiencies of the basic product (lack of differentiation, segmentation and specialization) have resulted in a very low repeat rate, not only for Sol Meliá, but for all major hotel joint ventures. While Sol Meliá's repeat rate ranges between 8% and 10%, LTI's all-inclusive type resorts have reported 12%.[37] Shifts in marketing strategy have borne little improvements in the return rates. Consequently, the main strategy continues to be basically expansionary and quantitative in number of tourists rather than qualitative in terms of tourist expenditure. This market oriented policy has been adopted based on the present limitations and potential for improvement in the future. Additional resorts in 1998 may even reduce further Sol Meliá's occupancy levels in Varadero. For example, *Sol Palmeras'* 33.71% occupancy rate from 1 September to 30 November 1997, could decline to 28% for the same period in 1998.[38]

Comparative Analysis: The Cuba Division vs All Others, 1996-1997

Using data from the latest Company Official Report available (1996), the performance of the Cuban Division of Sol Meliá can be compared with the other four Divisions (European Urban Hotels, European Resort Hotels, America, and Asian Pacific). Despite some fluctuations in total net revenues and low repeat rates, the Cuban Division has been a very profitable market for Sol Meliá. From 1992 to 1995, the overall results of the Cuban resorts were comparatively higher than during the 1996-1997 period. In 1995, the Cuban Division generated 8.1% of all revenues with less than 3% of the company's facilities. The following year, 1996, the Cuban Division accounted for 9.8% of total revenues with only 3.9% of the global holdings, due mainly to a 33% increase from the previous year in management fees. As the

32. Sol Meliá, letter from the Chief Financial Officer, 1997.

33. Currently, Gabriel Canaves Picornell is the Director of the Cuban Division. Sol Meliá, *1996 Annual Report*.

34. Simon, "Tourism Development," p. 35.

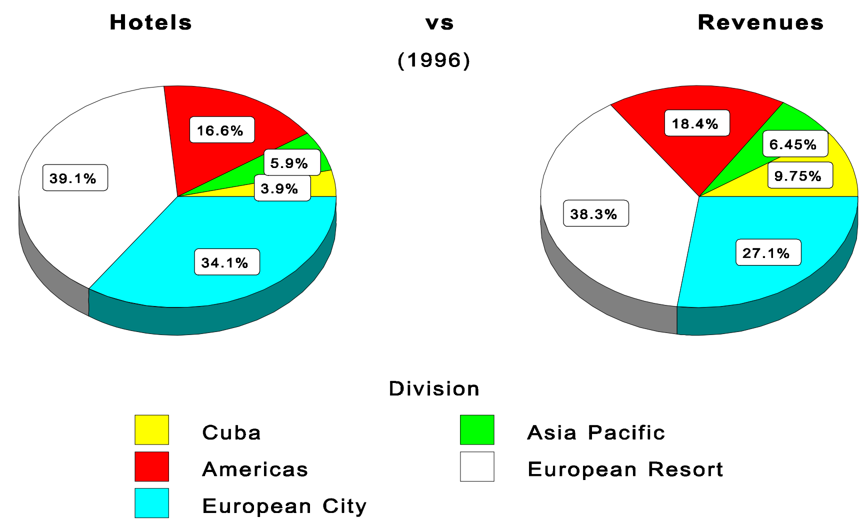
35. Most crimes committed against tourists, however, are property thefts committed when the tourists leave their items unattended. Cuban authorities have recently created a Special Unit for Crimes Committed Against the Tourist. Source: Author's interviews with policemen on the island in 1996 and 1997.

36. Source: Author's interview with 3 middle-level managers in Varadero, 1997 and 1998.

37. Simon, "Tourism Development." p. 37.

38. *Sol Palmeras Varadero:* Occupancy rate in September 48.89%, October 27.85%, November 24.39%. Source: Sol Palmeras' *Booking Mensual Cristalizado,* September-November, 1997 (unpublished).

Figure 3. Sol Meliá: Ratio of Hotels and Revenue, 1996



Source: Sol Meliá 1996 Financial Report

figure below shows, no other Division came close to this level of profitability. In 1996, the eight hotels included in the Division registered an average occupancy rate of 75.7% and an average daily rate (ADR) of 7,842 pesetas, generating revenues of 833 million pesetas for Sol Meliá in management services.[39] Whether it can be sustained as in other Divisions is a different issue.

Profit levels in first three quarters of 1997 were lower in the Cuban Division that in the others mainly due to a low occupancy rate and the negative effect of the rising dollar on the demand for Cuba from European visitors. Instability and uncertainty in profitability levels due to European currency exchange fluctuations vis-a-vis the U.S. dollar may not continue to hinder demand from European visitors after January 1999 when the Euro is expected to replace 11 European currencies. Despite the low returns of the Cuban Divisions in 1997, better results are expected for 1998 as the winter season in the Cuban Division is promising according to the bookings and contracts made to date. To put this into context, the following analysis of the company's five Divisions may prove helpful.

In terms of price, in 1997 Sol Meliá hotels in the Dominican Republic (DR) and Cuba were very similar within the hotel quality rating system. Tour operators in Madrid, for example, sold a 14 night package at the *Meliá Varadero* (five star) for 199,000 pesetas (US$1259 approximately) for the low-season month of May. The same package at the *Meliá Bavaro* in the DR cost 194,200 pesetas (US$1229). *Meliá Cancún* in Mexico, however, was more expensive—352.600 pesetas (US$2231), almost twice the price for similar services.[40]

The good performance of the European Resort Division together with the consolidation of leisure and convention activity in several cities in the European City Division have compensated the under-performance of the Cuban and Asian hotels in 1997. According to a company report, the newly added *Meliá Las Sirenas* and the contribution of *Meliá Cohiba* have also offset the lagging resorts in Varadero. The negative effect of the rising dollar on the demand for

39. Sol Meliá *1996 Annual Report*, pp.15-16. See the Appendix for full data.

40. See *Unidad* Magazine, Servicios Integrales de Turismo, S.A., 1997.

Cuba from European visitors has affected the occupancy rate of the Cuban Division[41] which has nevertheless experienced an increase in management fees of nearly 22%.

According to company reports, prospects for 1998 also look positive for the European Resort Division in light of the contracts negotiated with tour operators for the coming year, with average increases in prices of 4-5% and greater presence in all feeder markets. The favorable conditions initiated in the second quarter of 1997 in the European City Division seem to be holding for 1998, driven by the buoyant Spanish economy.

The economic environment in Asia has affected the performance of this Division, which in spite of this has benefited from an increase in management fees of 46% thanks to the contribution of the *Gran Meliá Jakarta*, added in the second half of 1996, and the *Meliá Bali*, which was closed the first three months of 1996 for refurbishment. Although the impact of the financial crisis in Asia was not very detrimental in terms of fee generation until the fourth quarter of 1997, such effects in 1998 must be closely followed.

The performance of the Americas Division has been considered satisfactory by the company's standards, with an increase in fees of 30% helped by the prosperity of the Latin American economies and the effect of the management contracts added in 1996 and 1997 in this Division, about 39% of the total. The Americas Division's prospects are very promising not only from an operational point of view but also from an expansionary point of view thanks to MIA, although the effects will not be fully evident until the year 1999. Sol Meliá, together with Inmotel Inversiones and the Escarrer family, has recently founded a company whose main activities are centred on the ownership of hotels in Latin America and the Caribbean (not including Cuba). The management contracts that this new structure will provide Sol Meliá are intended to be as profitable as the first 15 most profitable management contracts in the company's portfolio.

Cubanacán: Sol Meliá's Main Joint Venture Partner

Sol Meliá's alliance with Cuba's Cubanacán is not a unique condition of the Cuban Division, as it is often thought given the legal constrains and peculiarities of the Cuban market. Sol Meliá's business strategy relies often on strategic alliances and joint ventures with other market leading companies. Globally the company has formed alliances with suppliers, tour operators, travel agencies, hotel owners, financial institutions, real estate developers and other hotel companies, whenever mutual benefits can be obtained from synergy and the globalization of the activities. For example, of the 41 hotels that joined Sol Meliá in 1996, 26 arrived through management agreements, 14 through franchise agreements and 1 through a commercial alliance; 17 of these 41 were in the form of joint ventures.

Cubanacán was formed after the Cuban government dismantled the Instituto Nacional del Turismo (INTUR), the monolithic, inefficient, bureaucratic state organization which was in charge of the island's tourism since 1959. Grupo Cubanacán is an entrepreneurial holding company in the field of tourism and trade. Some of its facilities are marketed through joint ventures and other trading companies. It employs over 20,000 workers in the hotel industry, trade and services to tourists, while Sol Meliá employed 21,000 (December 1996).

Grupo Cubanacán has set up nine branch offices in various European and American countries, and eighteen companies which operate the following facilities:[42]

- 51 hotels (three, four and five-star) located at beaches, cities and countryside areas;
- 52 restaurants and coffee shops at beaches and cities in Cuba;

41. In 1997 the occupancy rate fell to 69.2% from 75% in 1996; however revenue per available room (REVPAR) and ADR increased substantially. See the Appendix.

42. Cuban Ministry of Tourism; Cubanacán website, www.Cubanacan.cu.

- a chain of shops;
- 3 marinas, 13 scuba diving centres and various nautical sites at beaches throughout the country;
- 38 health centres and hotels specialized in health tourism;
- a tour agency to guarantee full services to tourists;
- a transport agency which offers transfers, car rental and taxi cabs; and
- a Conference Center at Varadero beach.

Cubanacán's strong position has allowed the development of another sector which is increasingly strengthening in the Caribbean: businesses and financing facilities to other economic sectors in Cuba and abroad. In pursuing this objective, the Group has set up nine business associations with important foreign enterprises. The Cuban Ministry of Tourism expects growth for this Group to reach a total of 5,500 rooms by the year 2000, of which over 2000 rooms will be located in Havana and around 1300 rooms at Varadero Beach. Such growth will further strengthen the role of Grupo Cubanacán as leader in the field of tourism in Cuba.[43] Even though Sol Meliá has recently signed additional management agreements with Gaviota and other Cuban government tourism entities, Cubanacán's dominance of most of the island's four and five-star hotels will constrain the Spanish giant to limit the scope of joint venture agreements.

CONCLUSION

A few significant conclusions may be drawn from this analysis. Despite general structural and sectorial deficiencies, Sol Meliá's financial reports indicate that the company has been relatively successful in obtaining substantial profits from management fees in Cuba. Sol Meliá's financial success in Cuba, its considerable consistency in channelling investment into the industry, and the recent increase in management contracts with its Cuban counterparts—reaching 11 in 1998—have shown the potential of the island for investment in the tourist sector. Due to the adverse, current political externalities, this potential seems limited to large multinationals which can manoeuvre the financial and commercial obstacles created by U.S. foreign policy towards Cuba.

The island has been able to benefit from an experienced management company. Sol Meliá's regional operational success from 1990 to 1996 was due mainly to lack of competition in the market, which is guaranteed by the structural and operational inability of the Cuban Ministry of Tourism to create competing enterprises on the island. Similarly, these characteristics have been a major incentive for Sol Meliá and other companies to become pioneers in an uncertain and unknown market, handicapped by macroeconomic inefficiencies and socialist management policies.

While Cuba has been relatively successful in attracting a large low-budget segment of European tourists, the island has become increasingly vulnerable to the strength of the U.S. dollar. This problem, however, is also reflected in the other Caribbean destination that are direct Cuban competitors (e.g., Isla Margarita and Dominican Republic).[44] This trend in Cuba was clearly illustrated by the poor performance of Sol Meliá's hotels in Varadero in 1997. Joint efforts between the Cuban Ministry of Tourism and Sol Meliá's marketing strategy to increase demand from Canada and Latin America may produce more favorable results in 1998 and subsequent years. Despite these drawbacks, the company has the ability to compensate from more stable markets in other parts of the island. Hence, aided by consistent increases in revenue from management fees, Sol Meliá continues to profit from its operation on the island.

43. Id.

44. In March 1998, for example, there were independent hotels in the East and South coasts of the Dominican Republic selling all inclusive packages at $18-$25 per day. The independent hotels (not chain affiliated) are the first to suffer when the dollar strengthens in Europe.

Appendix

Table 1. Sol Meliá: Basic and Incentive Fees by Division 1996-1997

Management Fees, Revenue by Division Fees Revenue (million pta.)		1997	Increase 96/97	1996
European Resort	Basic	2.341	10.34%	2.122
	Incentive	1.212	5.00%	1.153
	Total	3.552	8.46%	3.275
European City	Basic	1.773	0.00%	1.773
	Incentive	669	23.42%	5.42
	Total	2.442	5.48%	2.315
America	Basic	895	36.66%	655
	Incentive	1.148	25.18%	917
	Total	2.043	29.96%	1.572
Asia-Pacific	Basic	405	41.49%	286
	Incentive	399	50.55%	265
	Total	804	45.85%	551
Cuba	Basic	704	25.22%	562
	Incentive	311	14.62%	271
	Total	1.014	21.77%	833
Total Basic		**6.118**	**13.34%**	**5.398**
Total Incentive		**3.737**	**18.71%**	**3.148**
Grand Total		**9.855**	**15.32%**	**8.546**

Note: Basic fees include franchise fees.

Table 2. Sol Meliá: Hotel Statistics by Division 1996-1997

		Occupancy (%)	Revenue/ room	Average Daily Rate
European Resort	1997	80.41%	4.905	6.100
	%1996	1.88%	7.87%	5.88%
	1996	78.93%	4.547	5.781
European City	1997	63.14%	5.724	9.065
	%1996	3.38%	4.25%	0.84%
	1996	61.08%	5.491	8.990
America	1997	65.77%	9.318	14.168
	%1996	-0.43%	24.27%	24.80%
	1996	66.05%	7.498	11.353
Asia	1997	57.97%	4.009	6.967
	%1996	-11.16%	-17.25%	-6.85%
	1996	65.26%	4.881	7.480
Cuba	1997	69.02%	7.276	10.542
	%1996	-8.87%	22.50%	34.43%
	1996	75.74%	5.940	7.842
Total	1997	70.36%	5.732	8.147
	%1996	-0.73%	7.83%	8.63%
	1996	70.88%	5.316	7.500

Source: Sol Meliá *1997 Financial Report*.