

Croatian tourism – Reality and perspectives

Survey result

Study

Zagreb, July 2007

This study was realized by Roland Berger Strategy Consultants with the help of students from EFZG

STRATEGIC PARTNERSHIP

of

**Roland Berger
Strategy Consultants
and**

**University of Zagreb,
Faculty of Economics and
Business (EFZG)**

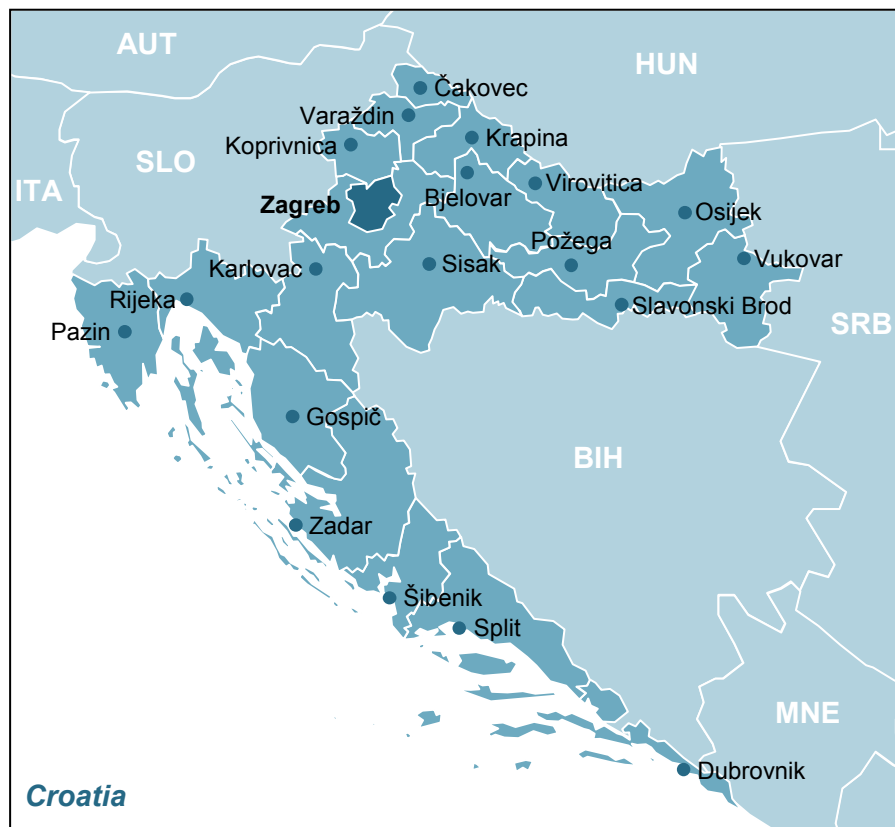
Signed in Spring 2006

CONTENT OF THE PARTNERSHIP

- Support in the strategic and operational enhancement of Croatian business
- Joint academic research and realization of studies
- Lecturing at the university
- Internships for top students

As one outcome, this study will derive a "barometer" for the Croatian tourism industry – Reality and perspectives

Motivation and objective of the study



- Tourism is a key driver of the Croatian economy
- In order to assess its status quo and perspectives, Roland Berger Strategy Consultants conducted a study
- Significant support for the elaboration of the study was provided by students of EFZG
- The objective of the study is to derive key development guidelines for the further development of Croatian tourism, out of the view of the players within the Croatian tourism value chain

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0. Management summary

Management Summary (1)

Development of Croatian tourism

- Croatian tourism is well developed from a revenue point of view (Croatia is on rank 8 in Europe by revenues per arrival)
- With 18.4% of GDP (EUR 6.3 bn) in 2006, tourism revenues are a major driver of Croatia's economy
- Tourism arrivals are growing with a CAGR of 7% while relative overnight stays are decreasing – Levels of 1989 are not reached yet, neither by arrivals nor by overnight stays
- The importance of the "classic" three incoming countries is decreasing (from 39% to 36% of total arrivals 2000/2006), also the importance of Croatians as tourists (from 20% to 17% 2000/2006) – Fastest growth is coming from other countries (growth with a CAGR of 19% from 2000 to 2006), lead by France, UK and the Netherlands
- The seasonality has improved over the last six years, however the typical "beach and fun" curve prevails with winter tourism de facto not existing

Management Summary (2)

Strategy

- In the view of the players in tourism, the strategic goals for Croatian tourism by 2010, as defined by the Croatian government, are implemented only half way through
- The top three strategic goals according to the players are
 - Development of a spatial plan
 - Ecological and sustainable development
 - Integrated service portfolio
- Even though there is acknowledgement of infrastructural improvements realized by the government, the second most urged governmental support is seen for improvement of infrastructure. This accounts especially for
 - Waiting times at toll stations/borders
 - Inner-city/-village traffic along the coast
 - Optimized air and rail connections
- Germany, Austria and Italy are and are seen to be the most important source countries for Croatia in five years. UK, France and Russia are seen as main other source countries

Management Summary (3)

Image (1)

- 58% believe that the own region and Croatia per se is well presented internationally by local tourism boards and some 33% perceive Croatia to be very well presented internationally
- In order to improve the regional image internationally the predominant measure as seen by the participants is the enhancement of promotion and marketing
- The enhancements of service offerings and tourism infrastructure are seen as other two important measures, with environmental protection on fourth place
- Branding (of destination) and the development of regional tourism master plan are rated surprisingly low
- Greece and Spain are seen as main tourism competitors of Croatia today while the intensity of country competition is evaluated as rising over the next five years, with Greece remaining the main competitor. Bulgaria and North Africa are seen as main upcoming competitors

Management Summary (4)

Image (2)

- Istria and Dalmatia are seen as most significant regions for Croatian tourism with low cost tourism still having a share of 36% and high class tourism having a share of 9% in total Croatian tourism
- Looking at tourism products, only two are perceived as available important products so far: "Beach and fun" and "Nautical tourism"
- Diversity of products/services will become important in the next years with nautical tourism staying on top and ecotourism, cultural tourism and mountain tourism rising significantly in importance
- Adventure tourism, special interest tourism and cruises will play an important role as well, whilst "Beach and fun" will lower its importance and will drop down from number one to number seven of importance
- In the eye of the tourist, Croatia stands dominantly for "Beach tourism". Friendliness of staff/service employees is also, even though less dominant, an important USP

Management Summary (5)

Image (3)

- This picture is expected to change substantially in the future: Friendliness of staff/service employees will remain on top however its importance will increase 32%. Infrastructure and wellness will gain most as specific Croatian recognition factor, followed by "additional services". "Beach tourism" will drop as recognition factor from place one to place ten (which is the last possible rank in our survey)
- Looking at foreign investors, the focus will slightly change from buying hotels/real estate to service provision

Management Summary (6)

Key issues

- As main operative business problems, lack of adequate language skills, existing quality level of infrastructure and the seasonality are seen
- Surprisingly, the use of new media is seen as least problem today
- Employee education is done occasionally only. However, "high profile employees" will be compulsory in tourism in five years:
 - Key employee skills will be friendliness, education and language skills
 - Also international education is ranked high
 - Concerning language skills, German and English are ranked equally high and Italian almost as high
 - Russian will be the fourth most important language
- The price/service ratio is assessed as low – It is evaluated with 2.2 on a scale from 0 to 5 (with 5 being very good). Poor service level and high prices are named as reason for this low grading

Management Summary (7)

Trends

- Tourism players don't see one dominant lever to prolong the season. It's rather a bunch of levers with cultural tourism on top, followed by creative tour packages, spa and wellness, wine roads and traditional food
- The main challenges hereby will be the enhancement of service offering and focus on sustainable development and environmental protection. Urbanistic planning and destination management is not seen as challenge
- Overnight stays are expected to increase (while they are decreasing internationally)
- Better administration procedure and a transparent legal system are seen as main measures for attracting foreign investors

A. Development of Croatian Tourism

Within Europe, Croatian tourism has a good standing

Croatian tourism within Europe



**Within Europe, out of 38 countries,
Croatia is on place ...**

... **20** by population (4.4 m)

... **15** concerning number of arrivals (10 m)

... **13** by tourism revenues (6 m)

... **8** by revenues per arrival (EUR 600/arr.)



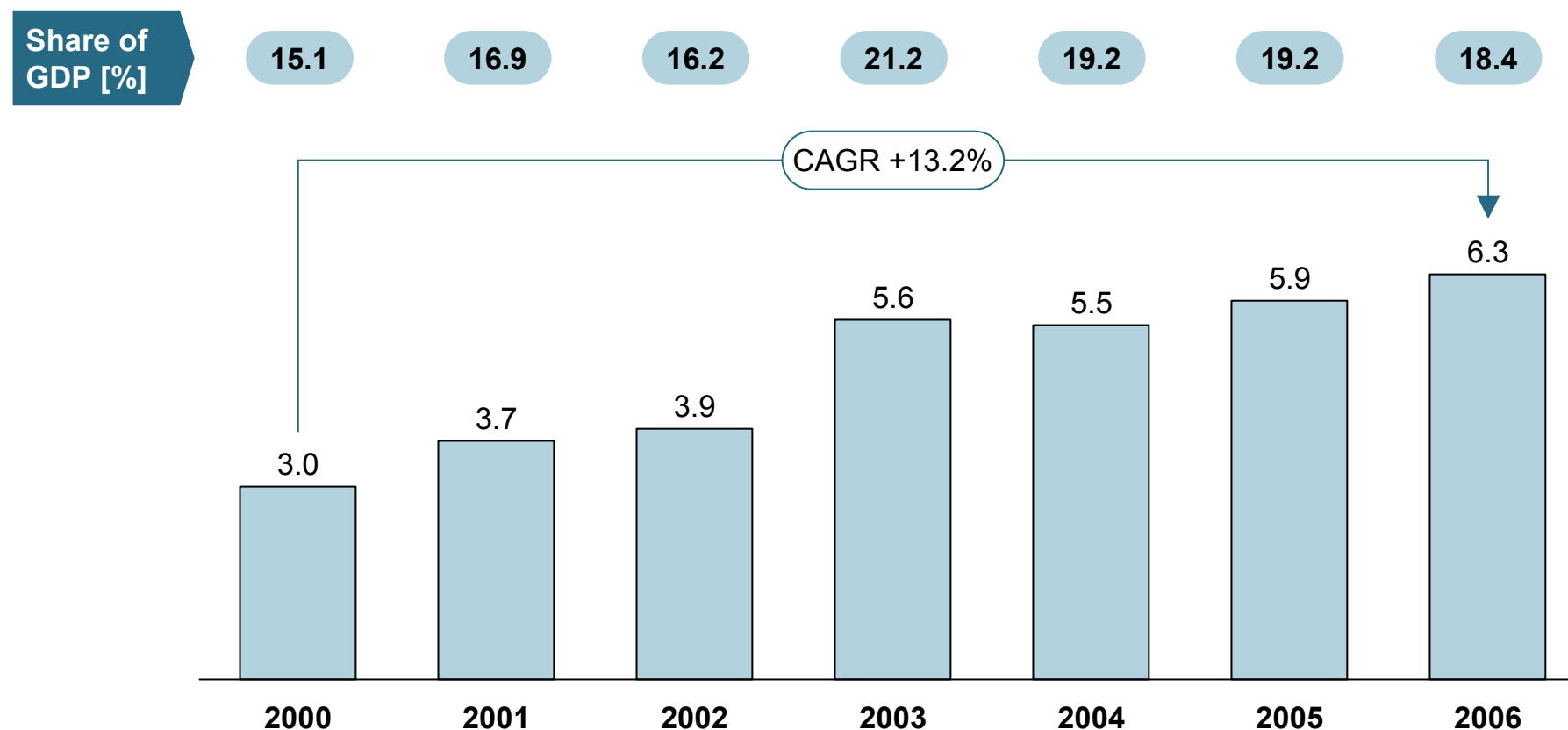
Good starting position

Info: Data for arrivals, revenues and revenues per arrival for 2005

Source: UNWTO Tourism Market Trends 2006 Edition

Tourism is beyond any doubt one of the key drivers of the Croatian economy with almost 20% share in the country's GDP

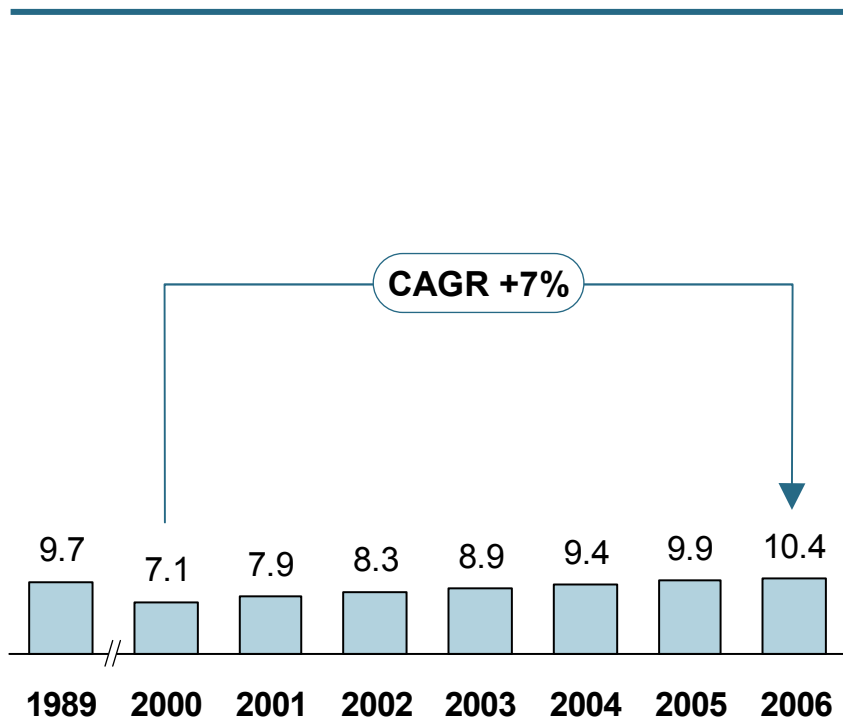
Tourism revenues [EUR bn]



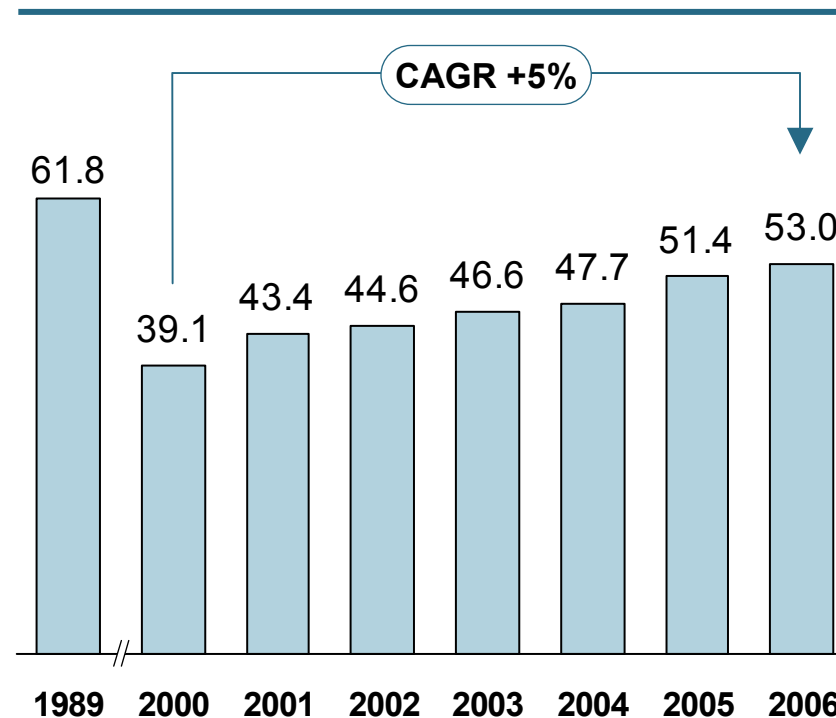
Tourist arrivals are increasing with a 7% CAGR since 2000 whereby the length of staying is decreasing in relation to the arrivals

Overview of tourist overnights and arrivals in Croatia

Tourist arrivals [m]



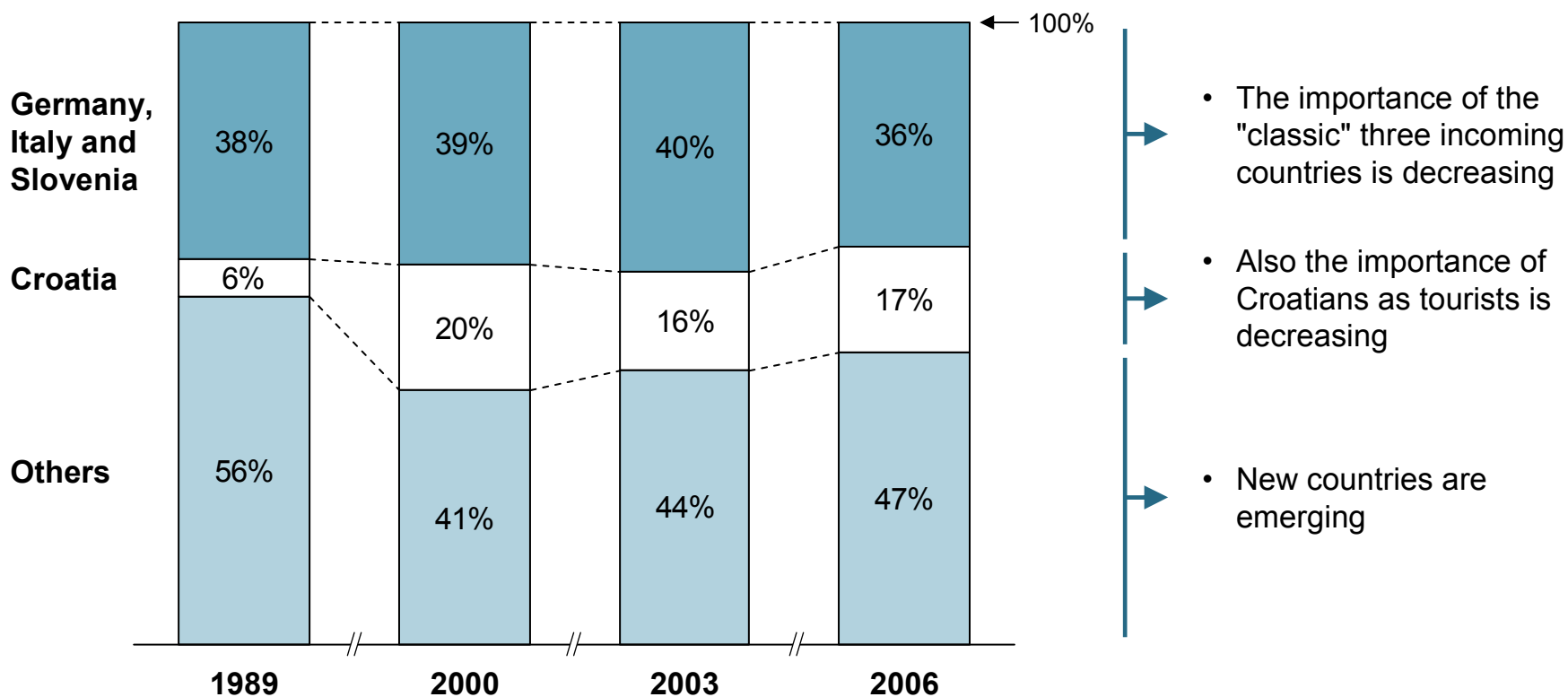
Tourist overnights¹⁾ [m]



1) Domestic & Foreign

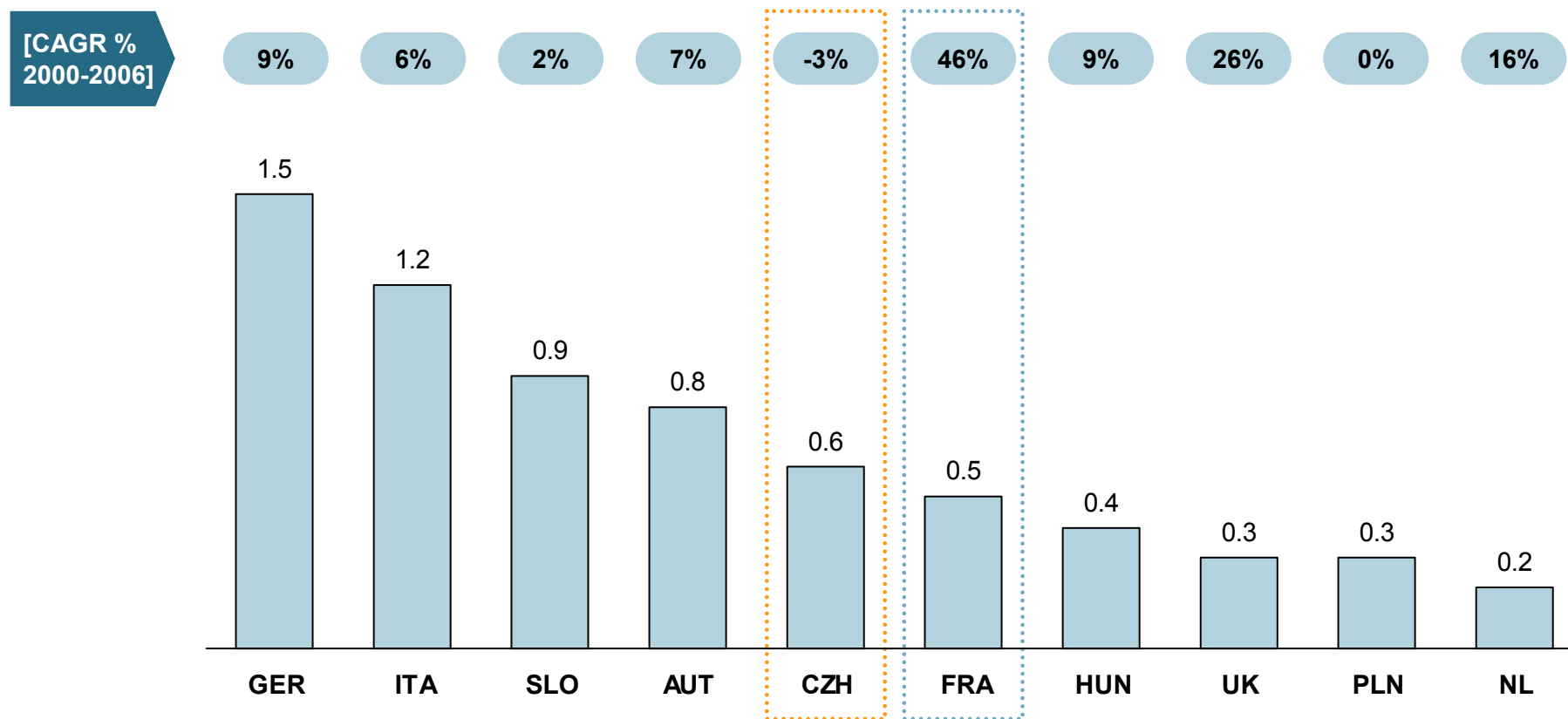
The structure of guests is changing substantially – No dominant dependence on one country, new incoming countries are emerging

Incoming structure by country (arrivals) [%]



The fastest growing incoming countries are France, UK and the Netherlands – Structural changes in Croatia’s tourism upcoming

Top 10 incoming countries Croatia – Number of arrivals, 2006 [m]

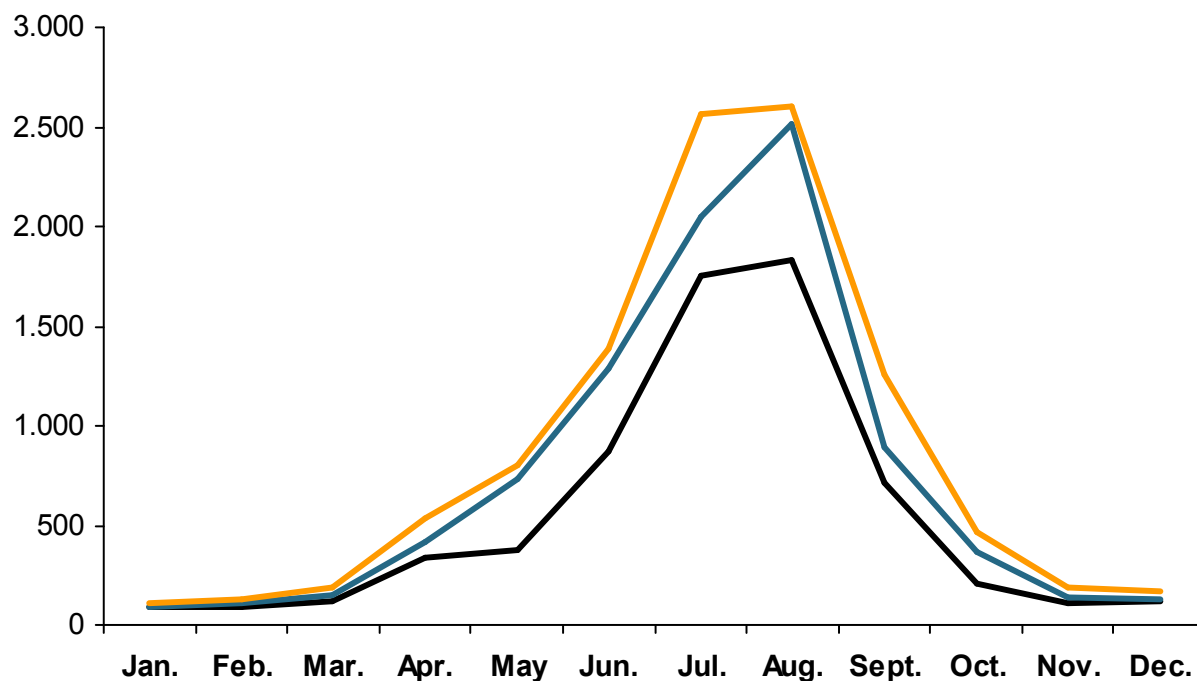


 Highest increase
 Highest decrease

Croatia still has not managed to overcome its image as seasonal destination

Comparison of seasonality in 2000, 2003, 2006

Tourist overnight stays [#]



— 2006 — 2003 — 2000

Conclusion for Croatia

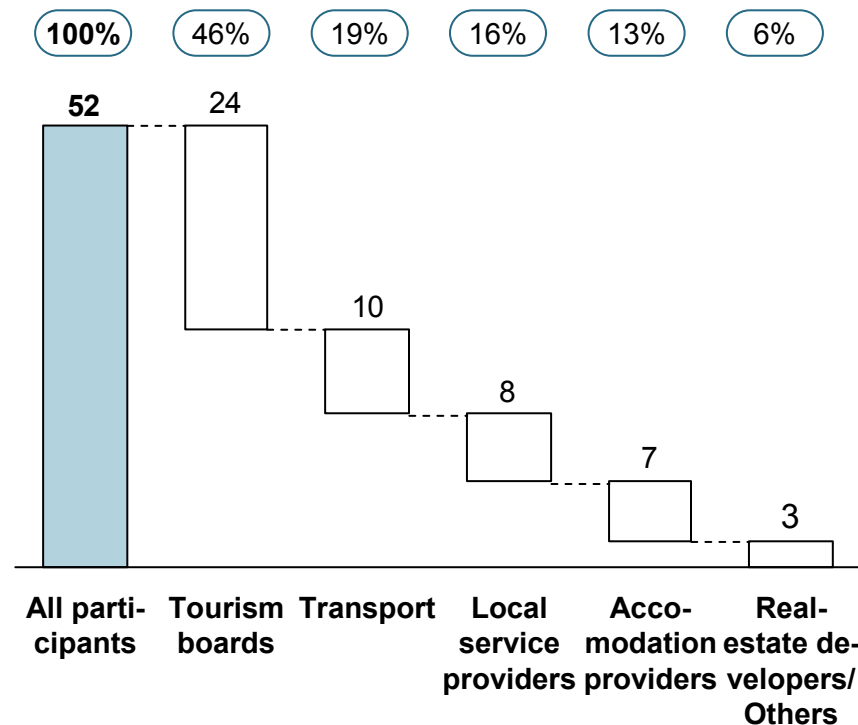
- Season starts in May and ends by end September
- The situation has not structurally changed over the course of the last six years
- Side seasons are not utilized enough, no winter season

B. Croatian tourism out of the perspective of the players

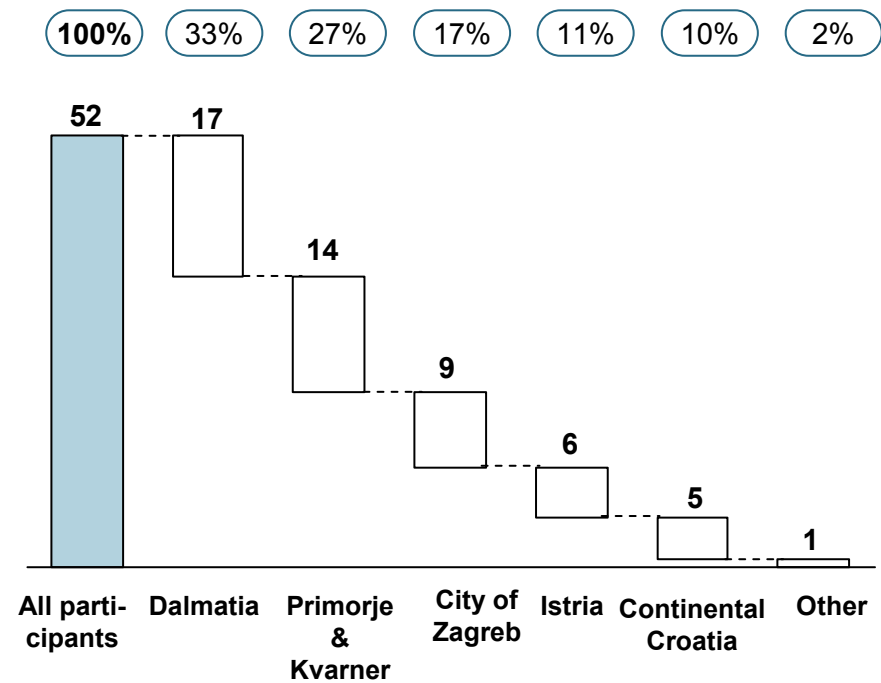
A well balanced portfolio of tourism players participated in this study

Interviewee structure

By tourism value chain



By region



The questionnaire allows to analyse Croatian tourism along four dimensions

A Strategy

B Image

C Key issues

D Trends



Overview of most important issues for the Croatian tourism – Reality and perspectives, out of the view of Croatia's tourism players

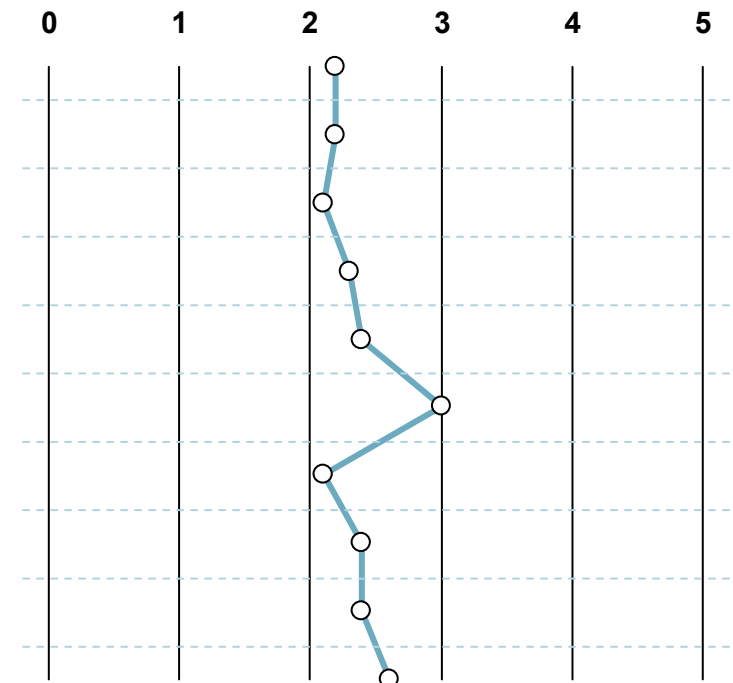
A Strategy

The strategic goals for Croatian tourism by 2010 are half-way reached

Strategic goals for Croatian tourism by 2010

- Organization of ownership conditions and completion of hotel privatization
- Increase Croatia's competitiveness on the international market of investment capital
- Establishing a developmental spatial plan for Croatian tourism for the purpose of preserving attractive natural resources
- Continuous protection, implementation and respect of high ecological standards, and long term sustainable
- Education of management and other staff in tourism
- Construction of transport infrastructure and the optimal organization of transportation to service tourism
- Development of integral and integrated offer in a tourist destination
- Increasing the level of quality of all accommodation facilities and adopting categorization criteria to
- A more efficient distribution and use of modern trends in communication and marketing
- Entrance of reorganized international hotel brands on the Croatian market

Implementation status 2006 [average¹⁾ grade]

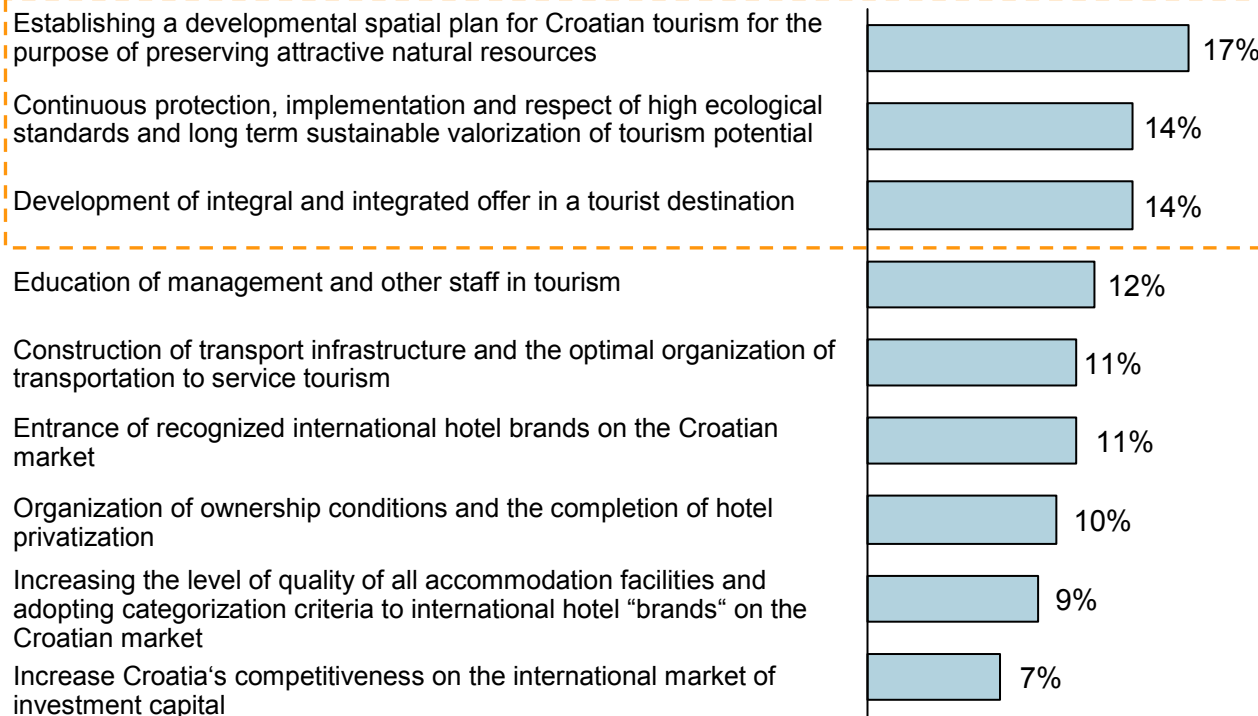


1) 0 = not implemented 5 = fully implemented

To what extent have the strategic goals been implemented?

Top three strategic goals seem to be the development of a spatial plan, tourism offer and sustainable development

Top 3 strategic goals according to key industry players



• New priorities are emerging

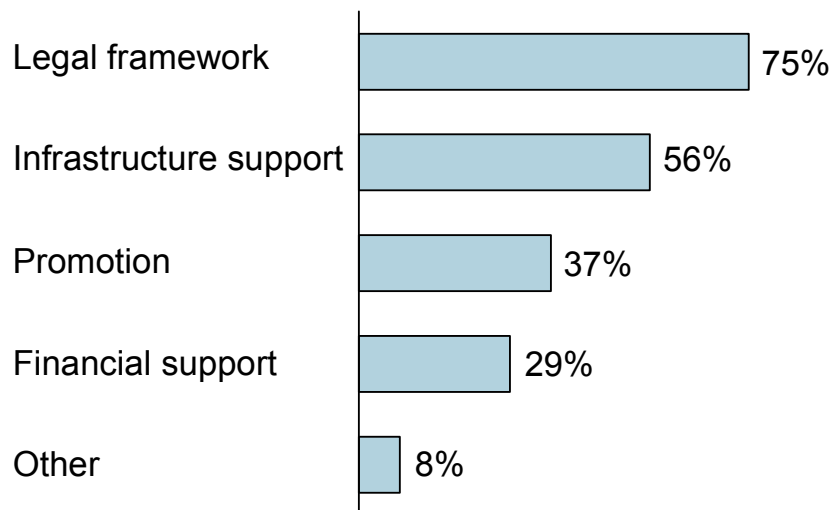
1) 0 = not implemented

5 = fully implemented

Please rank the top 3 goals according to your view?

Infrastructural support and legal framework have been identified as the most important governmental measures to improve tourism

Expected governmental measures for tourism



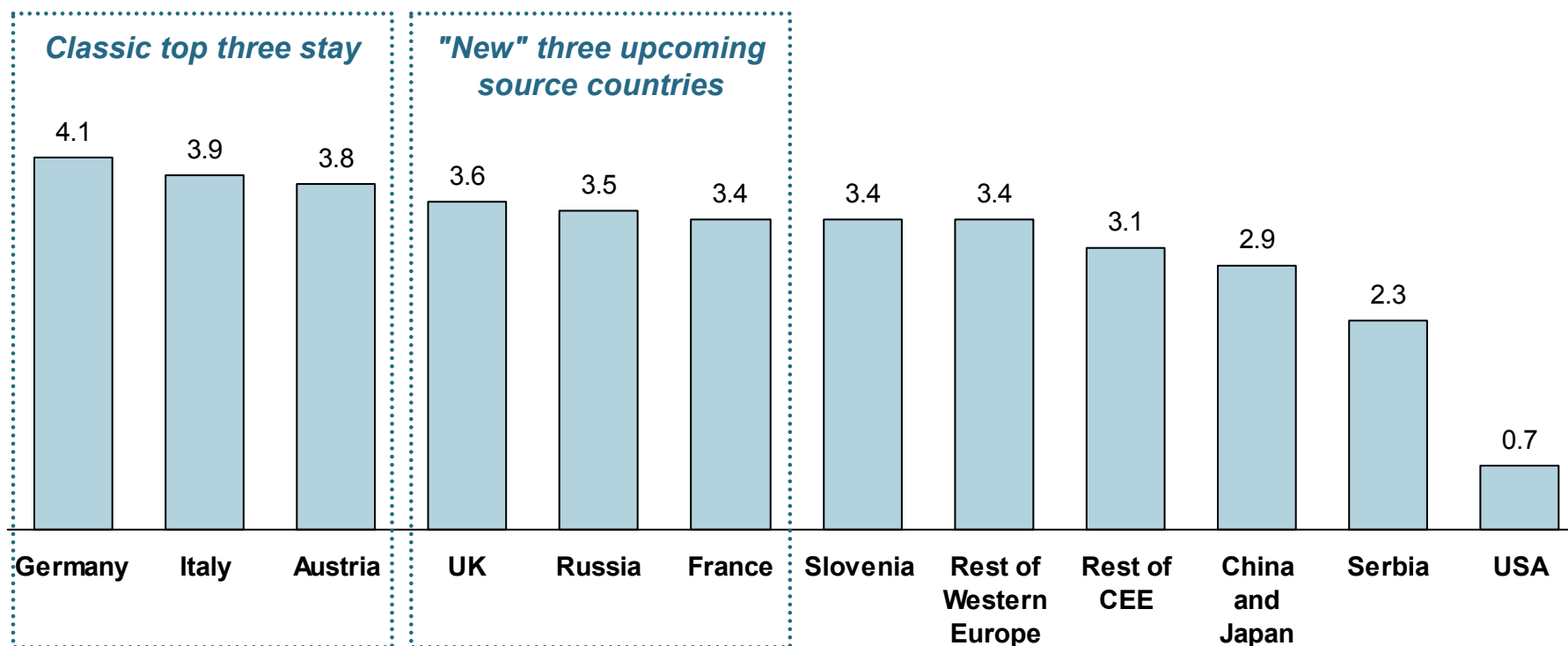
Industry comments

- The government should develop a tourism strategy with key measures for realization on national and regional level
- Decrease of VAT for tourism in order to encourage investments
- Further market liberalization in air traffic
- Create clusters within tourism industry
- Align favorable legal framework with needs of the tourism industry

What measures do you expect from the government or authorities to support your business?

According to players, Germany, Italy and Austria will stay the most important source countries for Croatia in the next 5 years

Source countries in five years (2011) [average¹⁾ grade]



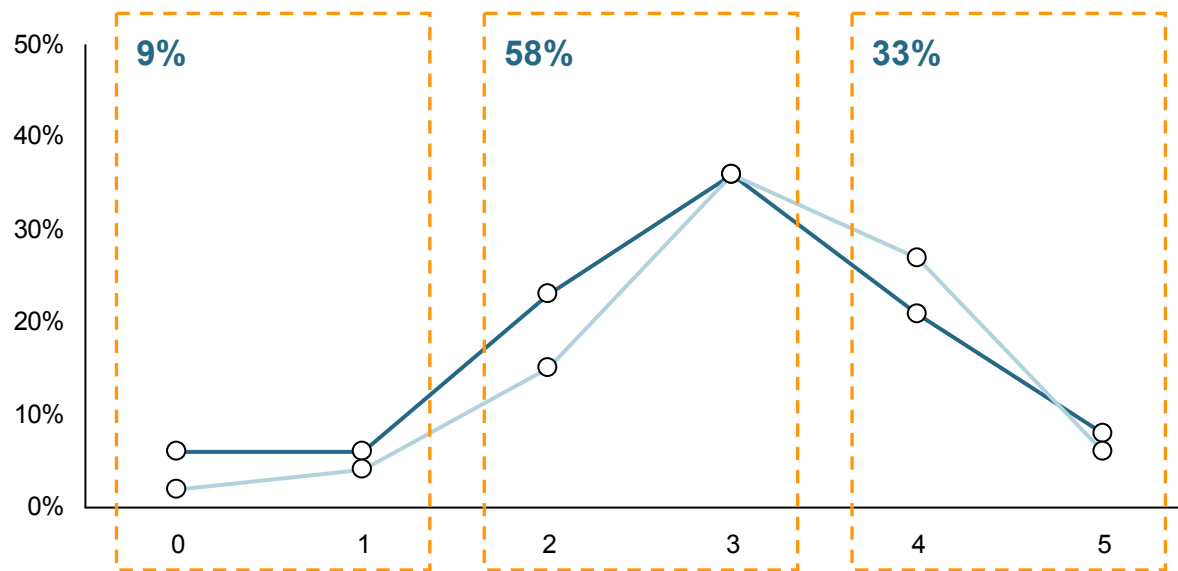
1) 0 = not important; 5 = key incoming countries

What will be the main focus incoming countries in Croatian tourism in 5 years?

B Image

Tourism players perceive that Croatia is relatively well presented internationally

Image of Croatia internationally



Comments

- Perception of presentation of the country is better than presentation of the regions
- Overall, only an average grade is achieved

0 = Insufficiently presented 5 = Very well presented

— How well is your region presented internationally by local tourism boards

— How well is Croatia presented internationally by local tourism boards

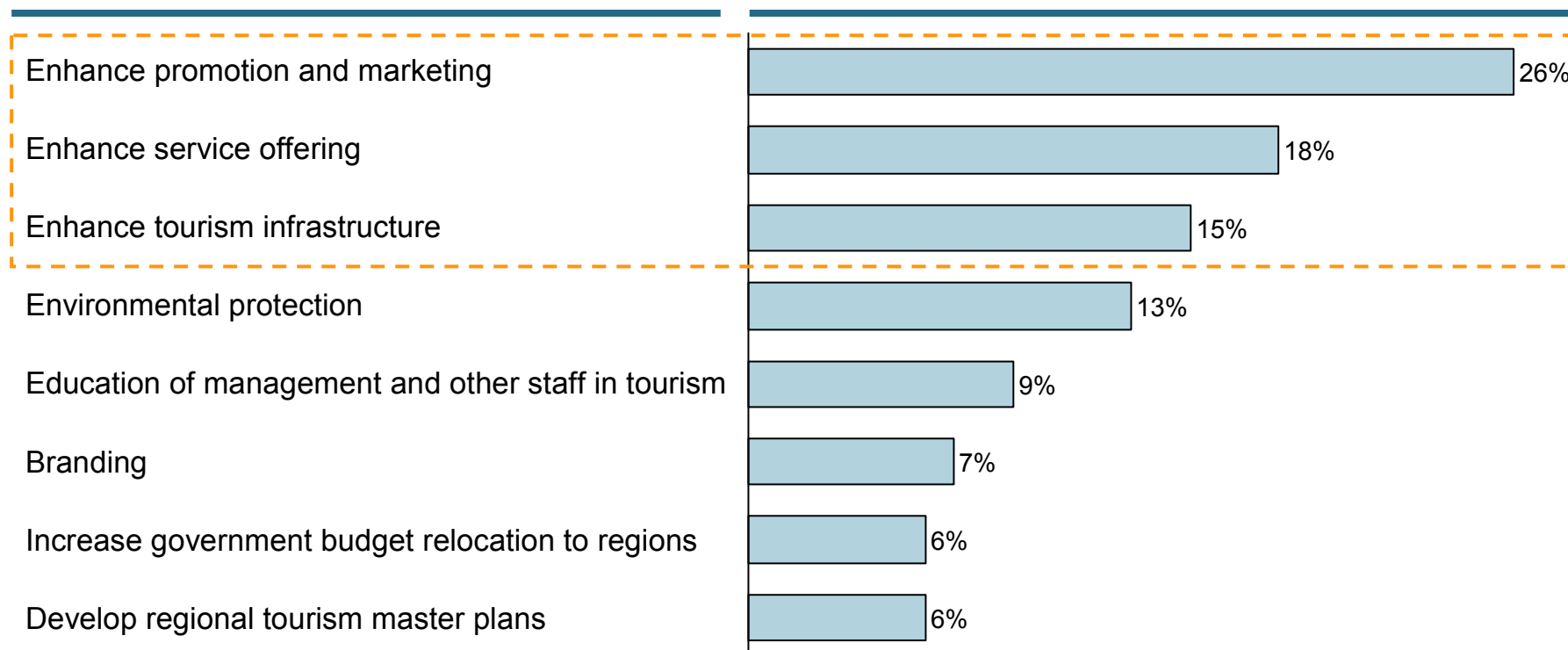
How well do you perceive is your region presented internationally by local tourism boards?

How well do you perceive in Croatia presented internationally by local tourism boards?

In order to improve the image, players suggest to increase marketing activities, service offering and to improve tourism infrastructure

Regional image improvement

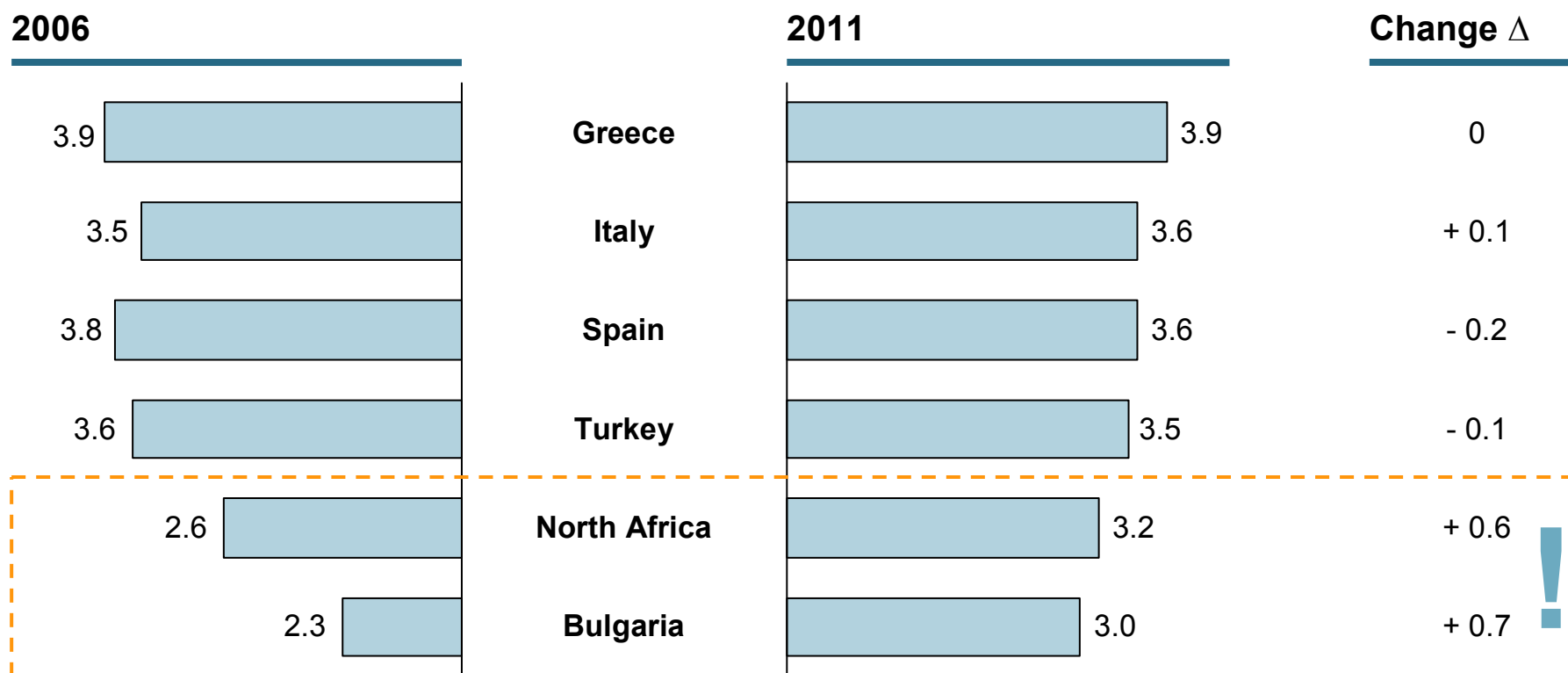
Ranking according to key industry players



What can be done to improve the image of your region?

International competition will increase – North Africa and Bulgaria emerge as new competitors

Main competitors to Croatian tourism [average¹⁾ grade]

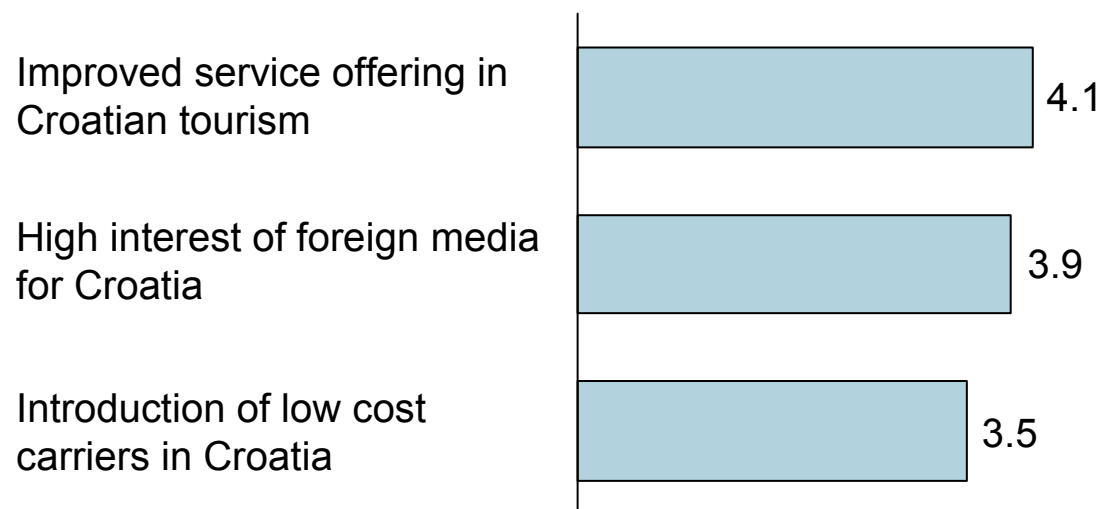


1) 0 = low competition; 5 = high competition

Who are the main competitors to Croatian tourism?

Improved service offering would have the strongest impact on tourism business according to tourism players

Impact of different factors in tourism business [average¹⁾ grade]



Comments

- Service offering, as well as marketing by and in foreign media is perceived as very important

1) 0 = low impact; 5 = high impact

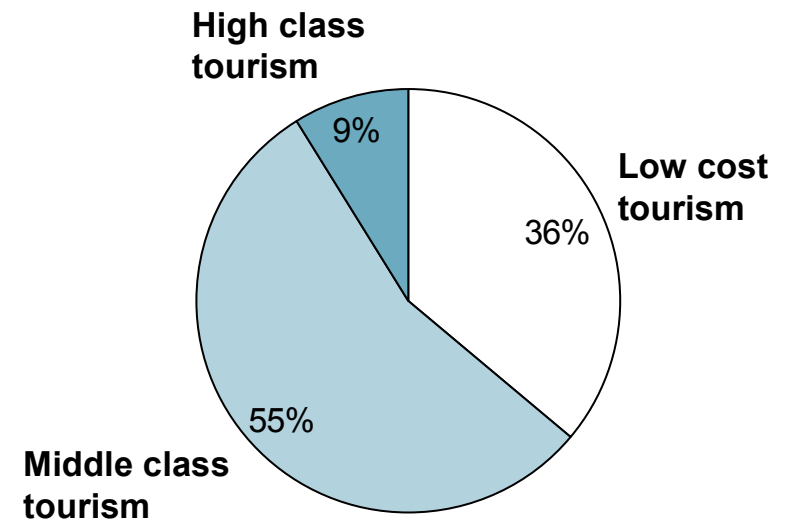
How strong is the impact of the following on your business?

Istria is the most significant tourism region, Croatia perceived as predominantly middle class destination

Rank of regions according to their significance for Croatian tourism [average¹⁾ grade]

1. Istria
2. Dalmatia
3. Primorje & Kvarner
4. City of Zagreb
5. Continental Croatia

Which tourism segment is predominant in Croatia?

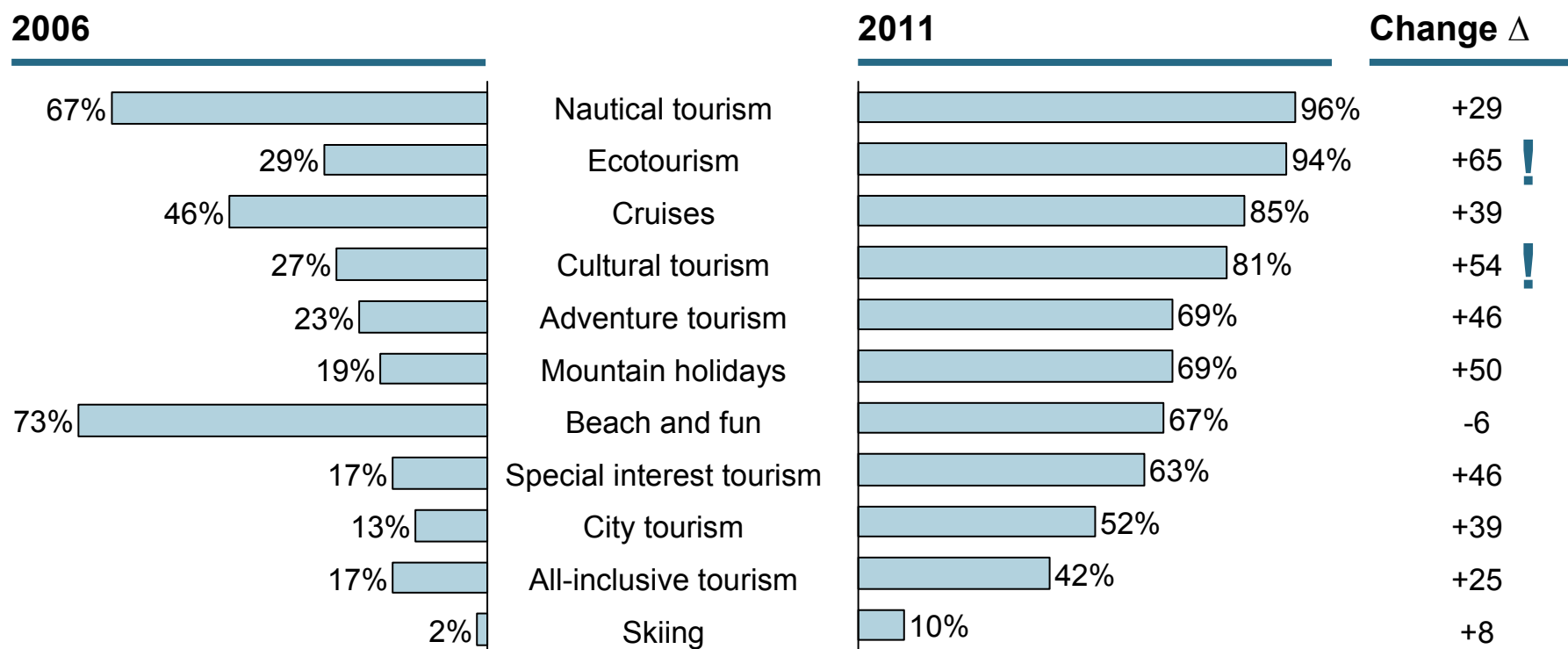


Please rank the region according to their significance for Croatia in tourism, out of your opinion!

In your opinion, which tourism segment is predominant in Croatia?

Currently Croatia exploits only its coastal natural resources, future is clearly to pursue specific tourism trends

What is the importance of following for Croatian tourism¹⁾?

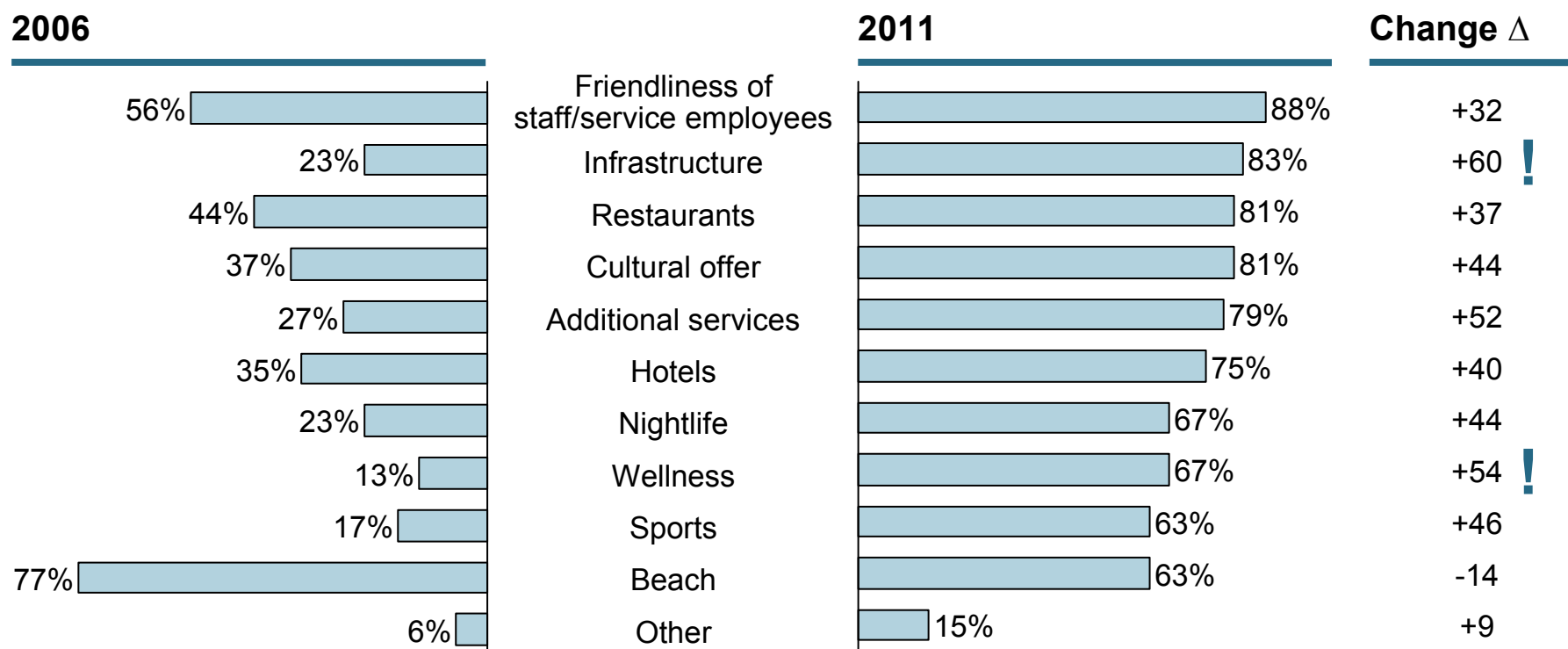


1) The question was rated in a scale from 0=not important to 5=very important; the percentages given relate to answers 4 and 5 (very important)

What is the importance of following tourism products in Croatia?

Currently Croatia is perceived as a beach destination in the eye of the tourist, this is expected to change significantly

What does Croatian tourism stand for in the eye of tourists?

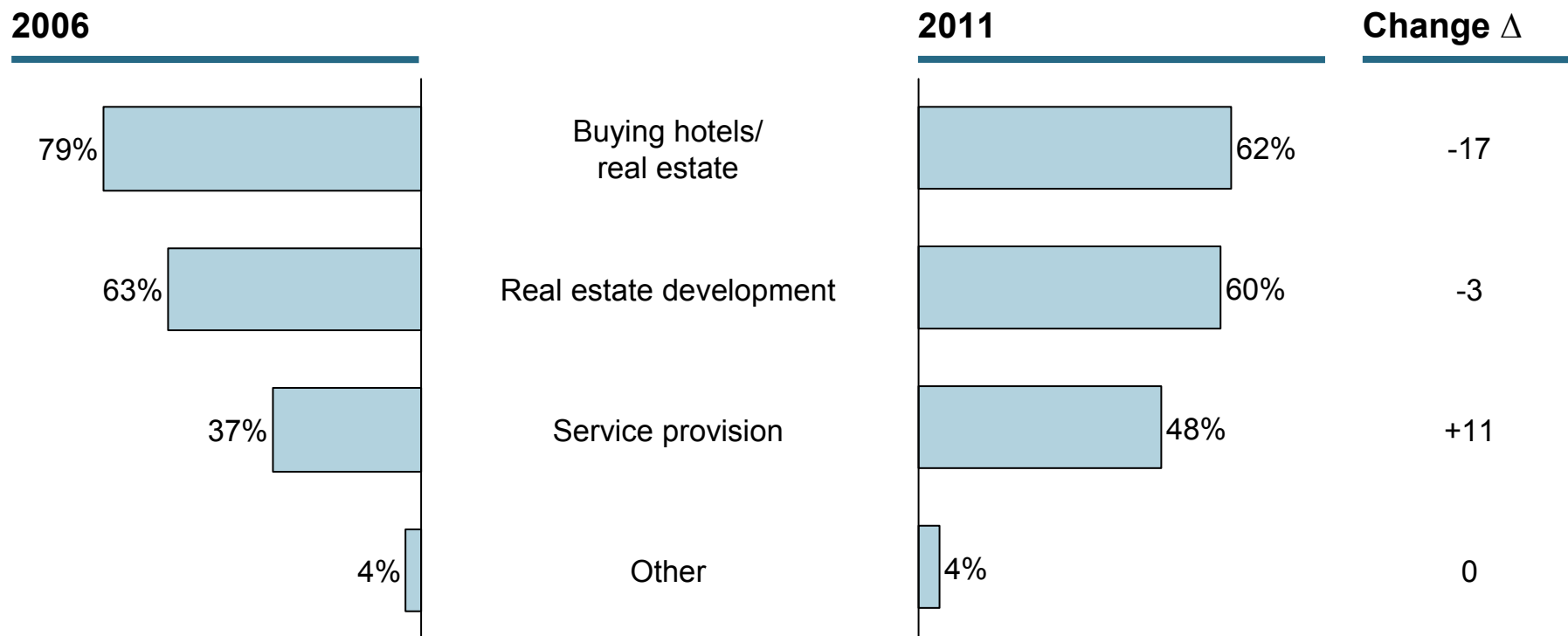


1) The question was rated in a scale from 0=does not stand for; to 5= strongly stands for; the percentages given relate to answers 4 and 5 (very important)

In your opinion what does Croatian tourism stand for in the eyes of tourists?

Service provision will rise in importance for foreign investors at the cost of buying hotels/real estate

In which fields is Croatian tourism attractive for foreign investors?



1) The question was rated in a scale from 0=not attractive to 5=very attractive; the percentages given relate to answers 4 and 5 (very important)

In which fields is the Croatian tourism attractive to foreign investors?

C Key issues

Main business problems today seem to be the level of language skills and the infrastructure

Main business problem today [average¹⁾ grade]

Language skills

Seasonality

Existing quality level of infrastructure

Ability to succumb to new tourism trends

Lack of know-how

Existing service quality levels

Lack of skilled staff

Administrative/legal restrictions

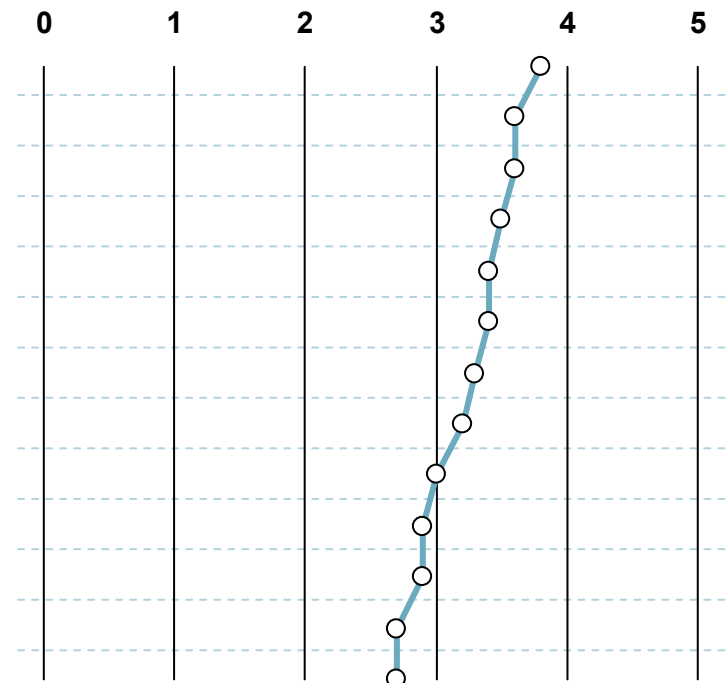
Lack of strategic partnerships

Lack of government support

Lack of financial investment power

Undercritical size

Use of new media

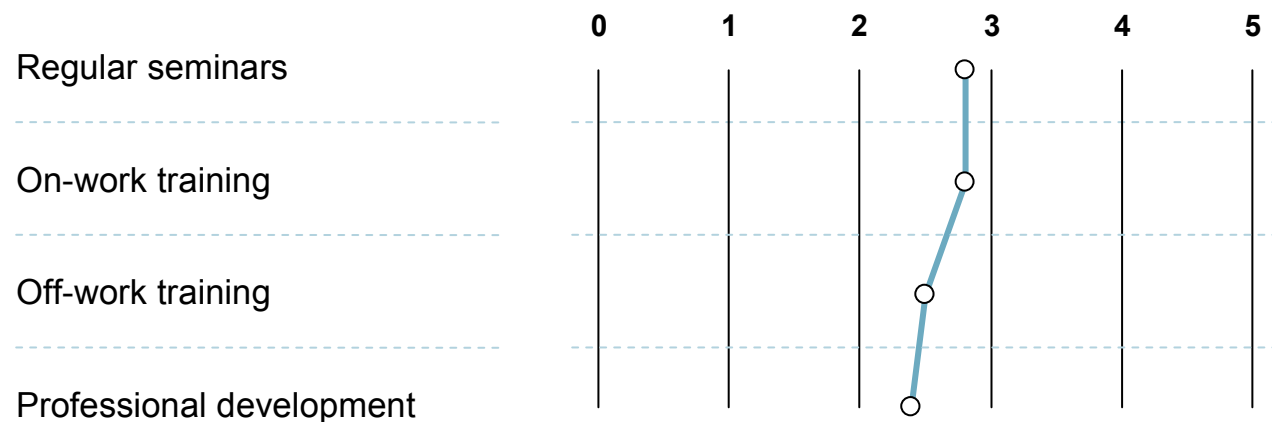


1) 0 = not important 5 = very important

What is your main business problem today?

Employee education is not often conducted, and if so mostly through on-work training and seminars

Employee education [average¹⁾ grade]



Comments

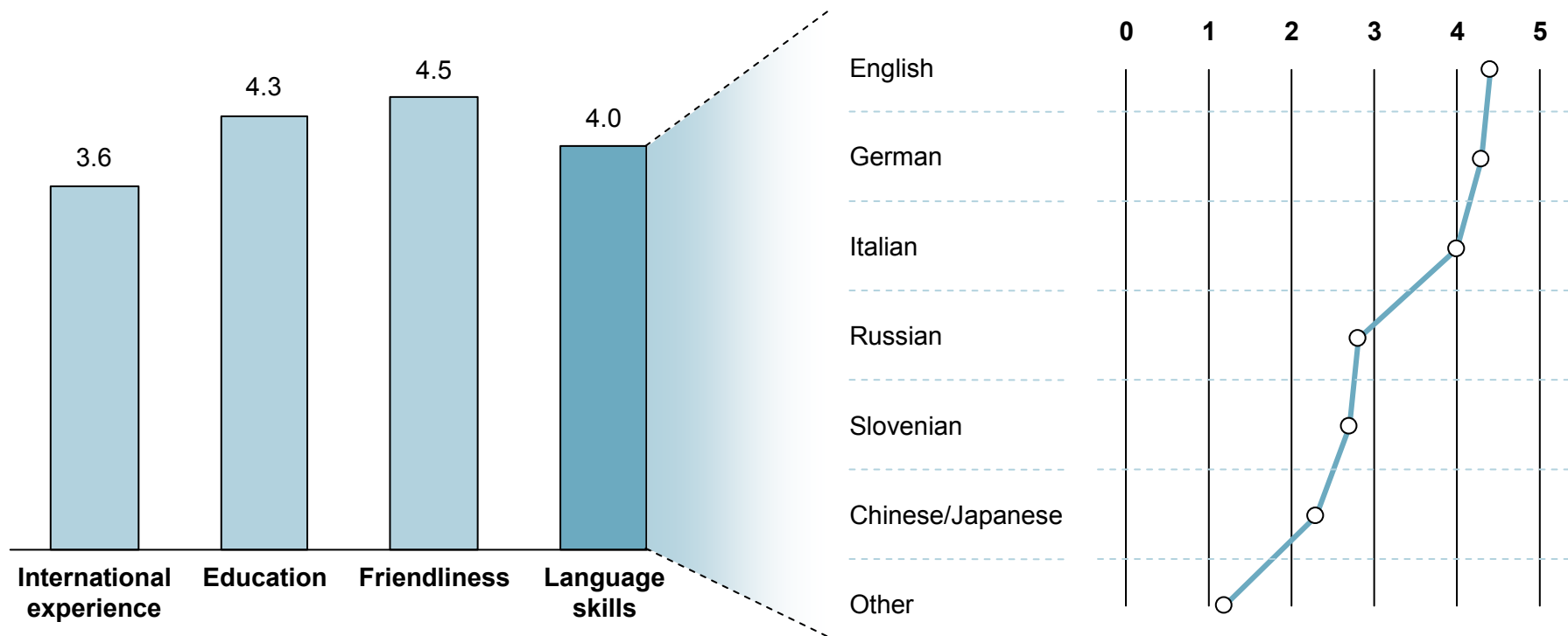
- Training of service employees is an underestimated task so far

1) 0 = never 5 = always

Do you conduct employee education?

According to the players, high profile employees will become compulsory in tourism

Skills needed in 5 years [average¹⁾ grade]



1) 0 = not needed 5 = compulsory

Which employee skills will be needed in 5 years?

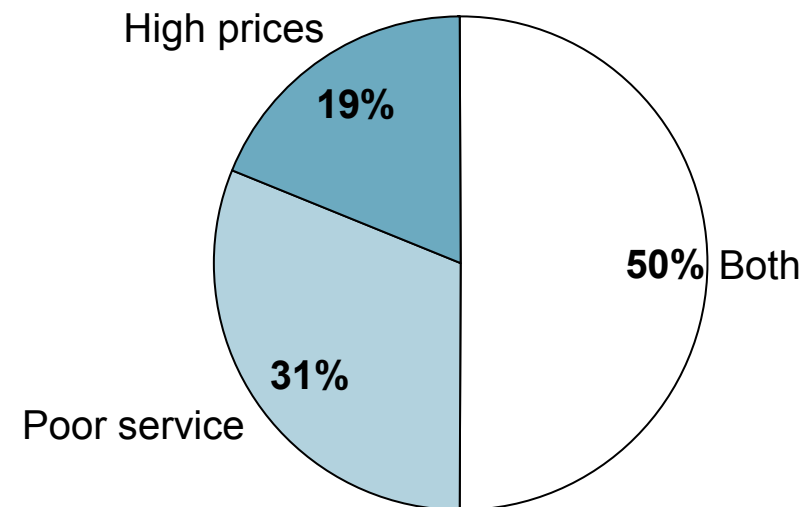
Price/service ratio in Croatia is not satisfactory according to the players, as it provides low value for money

Price/service ratio in Croatia

- Price/service level in Croatia compared to other Mediterranean countries was graded with 2.2 average¹⁾ grade
- Poor service level and high prices seem to be the reason for such low grading

1) 0 = very bad 5 = very good

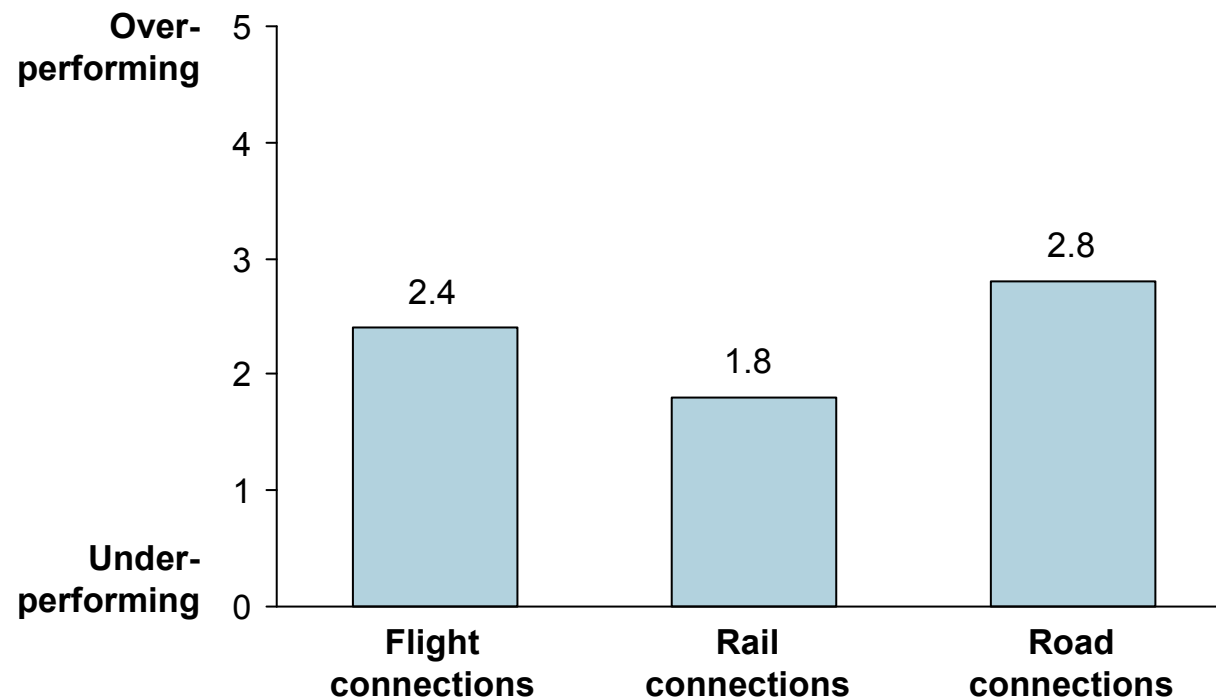
Reason for unsatisfactory price/service relation



**How do you perceive the price/service ratio in Croatia to comparable Mediterranean countries?
Is the price/service ratio unsatisfactory due to poor service, high prices or both?**

According to the analysis, entire traffic infrastructure in Croatia is underperforming, with rail rated as worst

Traffic infrastructure in Croatia [average grade]



Comments

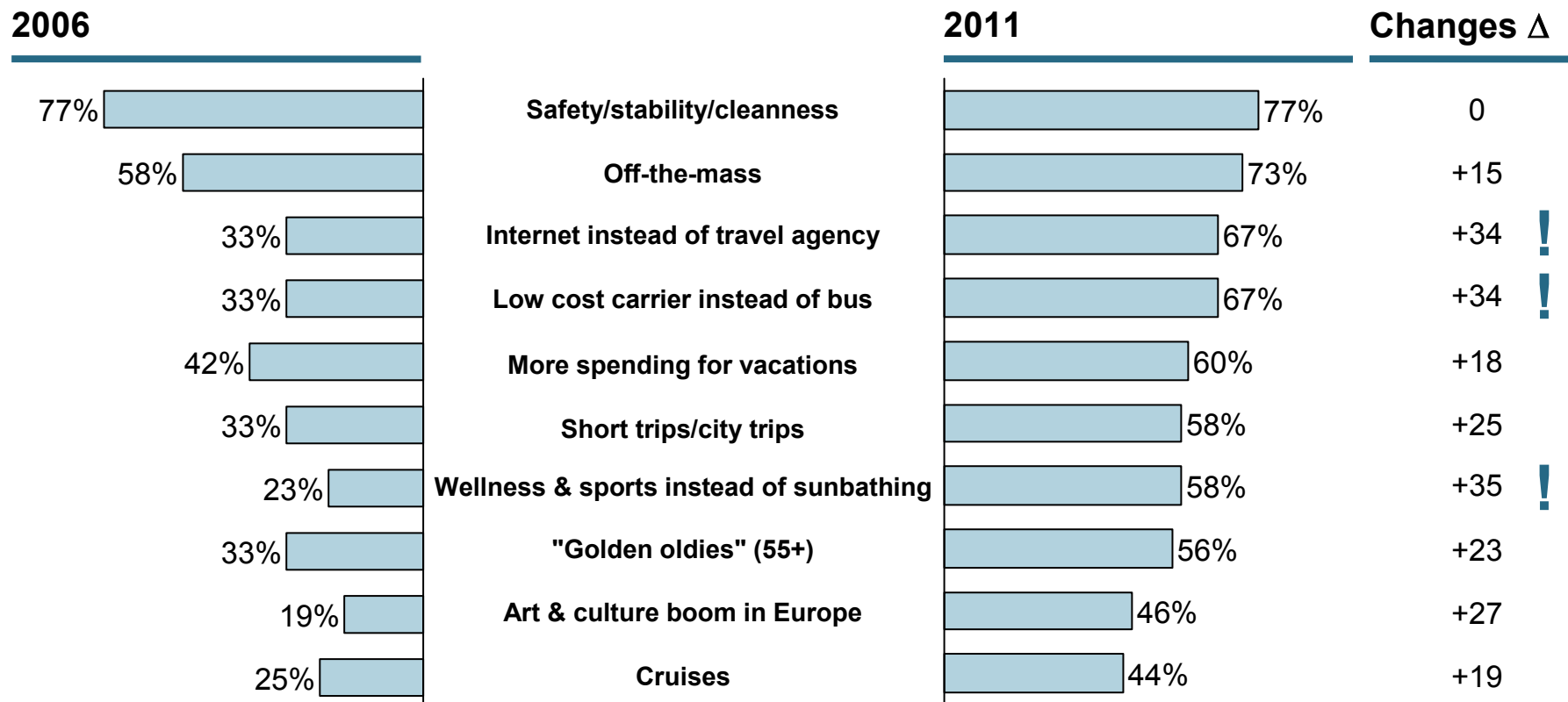
- Overall result is very low
- This accounts for all means of transport, also for road connections, where significant investments have been made in the last years
- Especially Rail connections are rated as underdeveloped

Looking at traffic infrastructure, which of the following would you consider as underperformer?

D Trends

Internet, low cost carriers and wellness will have the most increasing impact on tourism

Impact of tourism trends

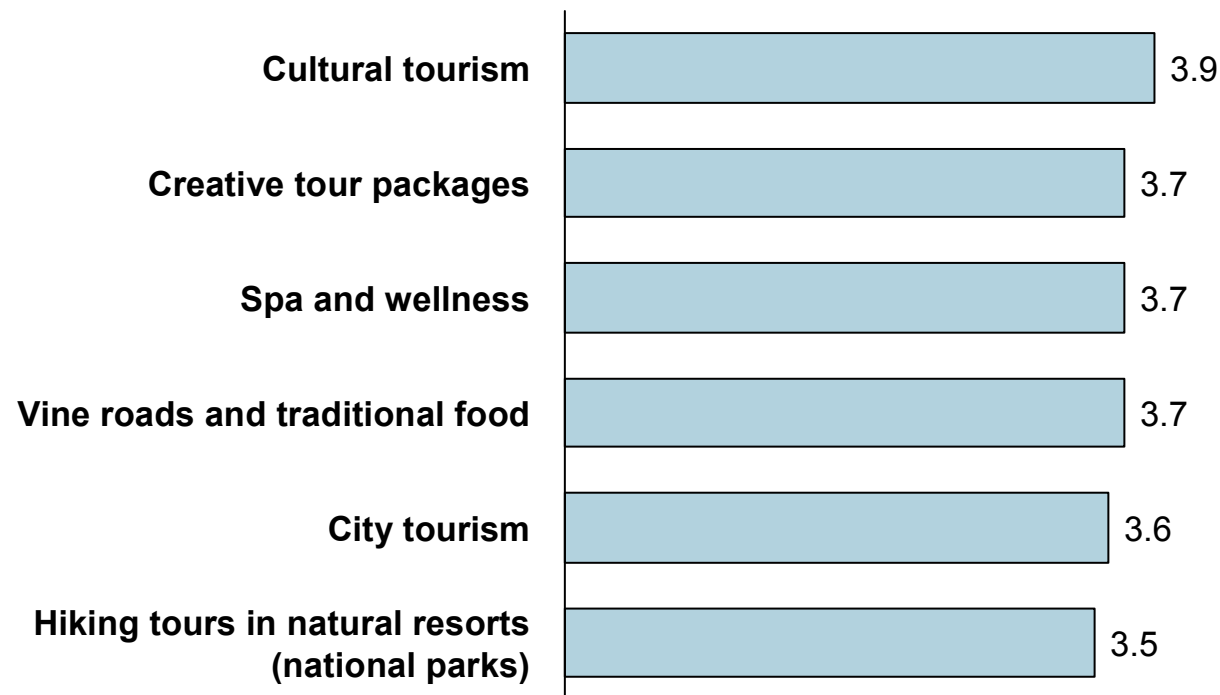


1) The question was rated in a scale from 0=low impact to 5=high impact; the percentages given relate to answers 4 and 5 (very important)

What do you think how strong is the impact of the following trends in tourism on your business?

Seasonality – No clear concept to decrease it

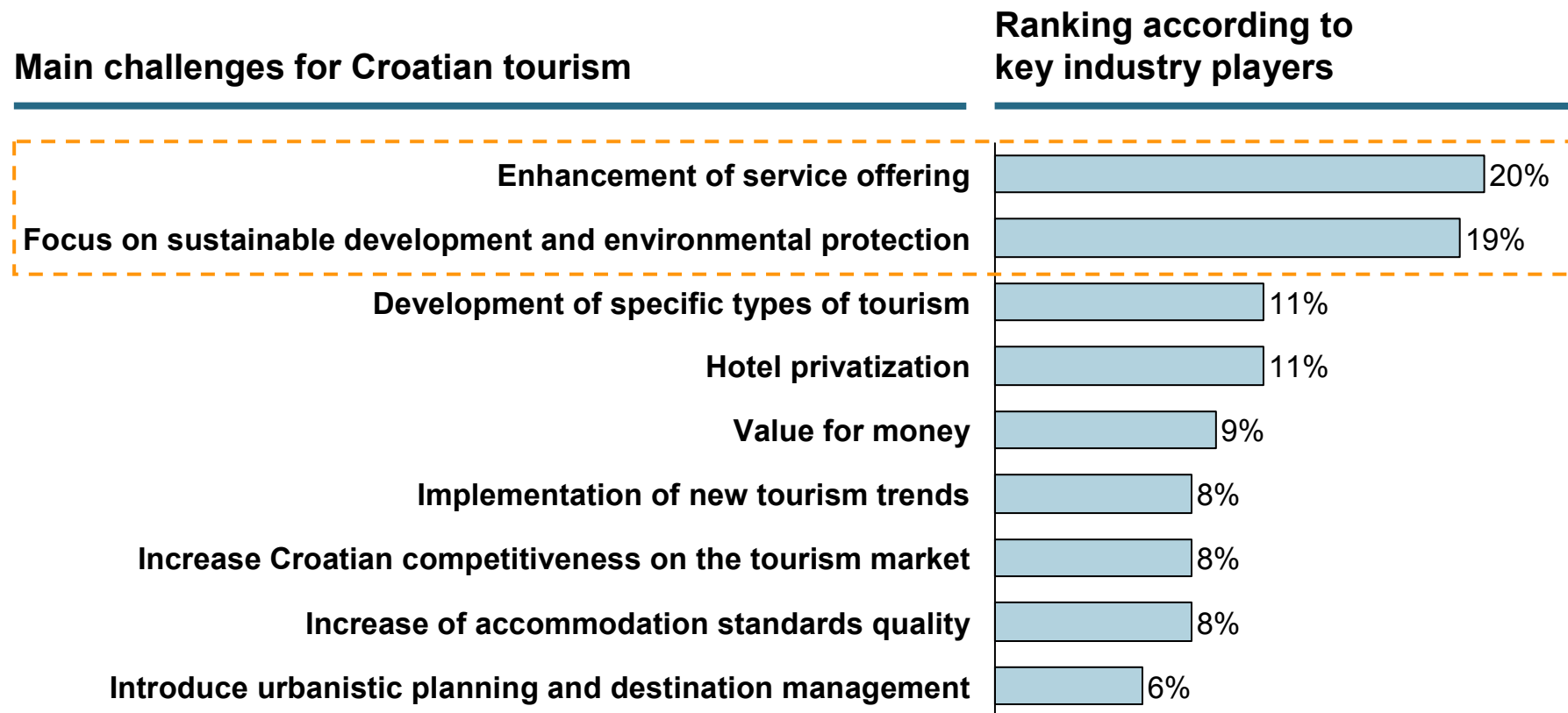
Key drivers for prolongation of the season [average¹⁾ grade]



1) 0 = High contribution level 5 = Low contribution level

Which key drivers could contribute to prolongation of the season?

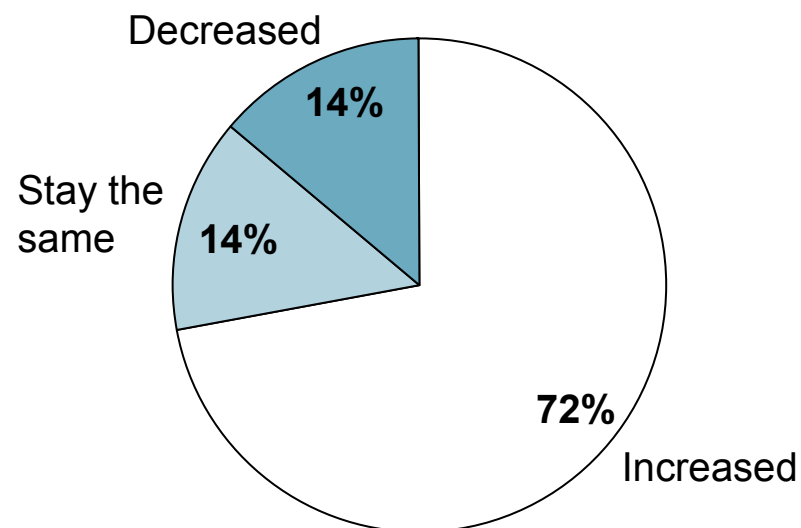
All industry players stress the importance of service offering and sustainable development



What do you think, what are the main 3 upcoming challenges for Croatian tourism?

The majority of industry players expect overnight stays to increase within the next 5 years

Overnight stays 2011

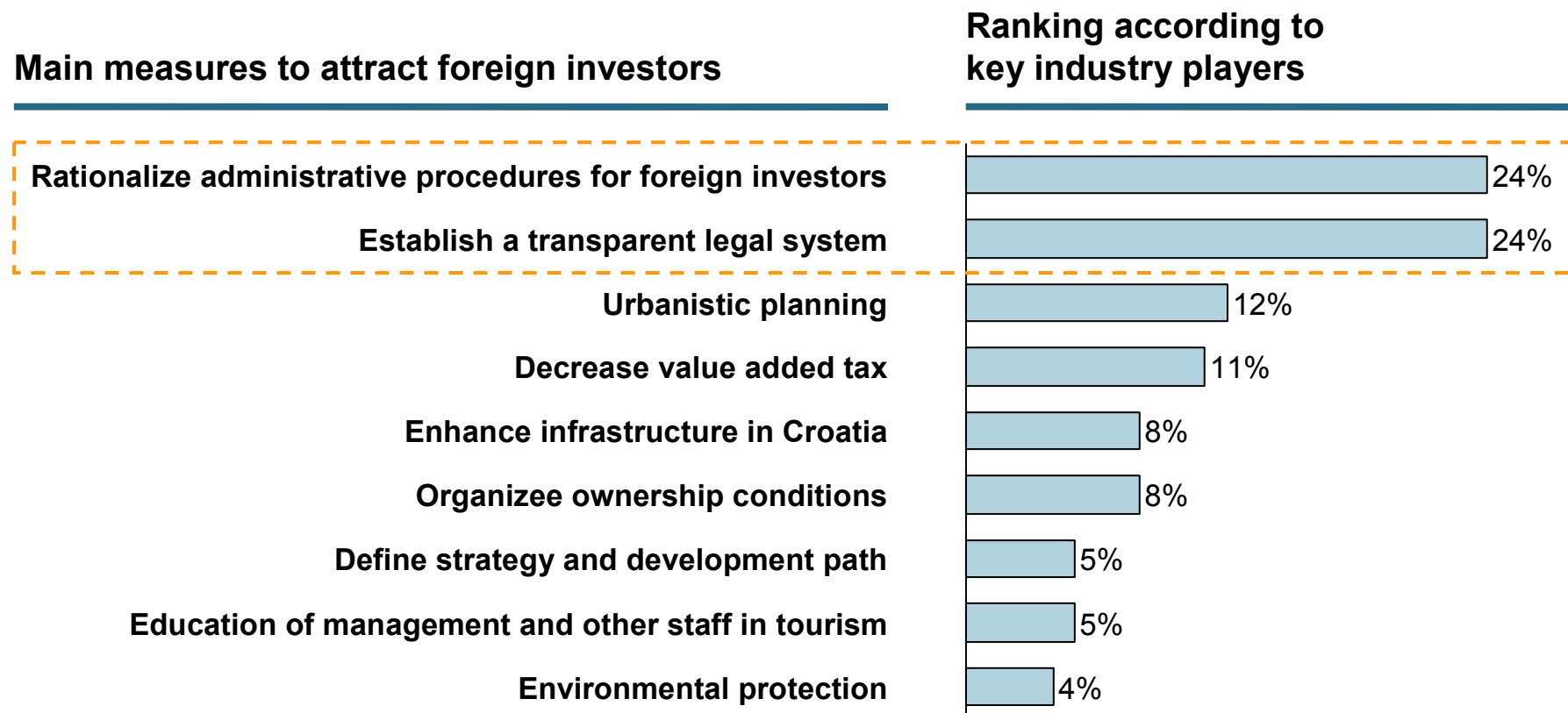


Comments

- Interesting perception: while overnight stays are decreasing internationally, Croatian tourism players expect them to rise in Croatia

What do you think the average overnight stays will be in 5 years?

A transparent legal system and an efficient public administration are seen as main measures to attract foreign investors



What 5 main measures could be implemented to attract foreign investors to Croatian tourism?

C. Recommendations for further successful development

Summing up, there is something to be done on the basis of the success of up to now

Overall assessment of Croatian tourism



STRENGTHS

- Tourism has a good standing currently
 - Strong growth
 - High price levels
 - Main driver of the economy
- Prices are at a high level

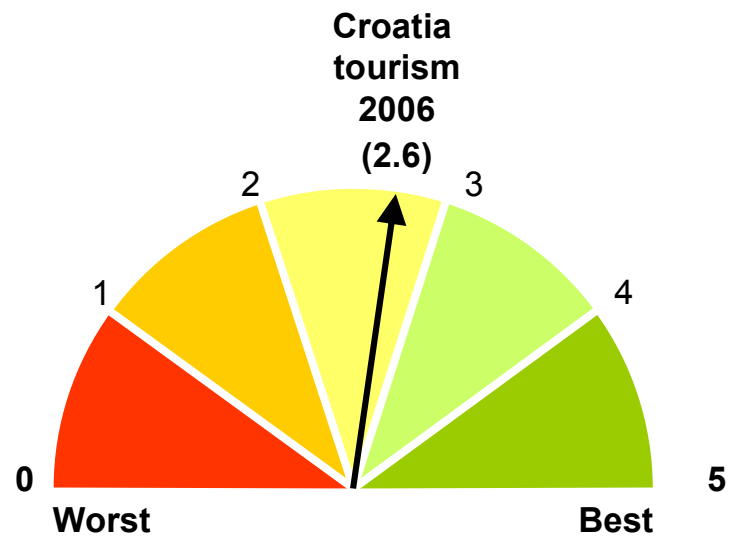
WEAKNESSES



- Infrastructure in further need for improvement
- Lack of profiled promotion and marketing
- Too unbalanced tourism development
 - Istria vs. Slavonia
 - Summer vs. Winter
 - Little diversified service portfolio
- Price/service relations low
- Too little top-down thinking

The Croatian tourism barometer reseals that we are only halfway developed currently

Barometer of Croatian tourism



Composition of sub-areas

- Implementation of strategy at 2.2
- Image at 3.0
- Key issues are identified

Recommendations: Pursue a balanced and sustainable development (1)

Justify high prices in order to retain clients

- Price levels are too high compared to service and offering
- Enhance service quality
- Enhance service offerings

Diversity product/service portfolio

- Introduce thematic services
- Push ecotourism and cultural tourism
- Establish world-class events

Estimate disproportion

- There is enough space for winter tourism
- Initiate continental tourism
- Establish city tourism

Recommendations: Pursue a balanced and sustainable development (2)

Enhance infrastructure further

- Eliminate waiting time at toll stations/borders
- Prohibit inner city/village car traffic along coastal hotspots
- Optimize air and rail traffic

Educate employees (and yourself)

- Work on friendliness
- Learn more (and better) languages
- Educate staff more for their job

Change the mindset

- Season could be full year
- Guest structure is changing structurally
- Service as passion (not as job)

Develop according to master plans

- Define your preferred (international) positioning
- Plan the infrastructure and marketing you need
- Focus!
- Control implementation

Creating **impact**

Roland Berger
Strategy Consultants