

Tourism trends and their impact on Croatia

Executive summary of the study

Roland Berger Strategy Consultants

Zagreb, July 19, 2005

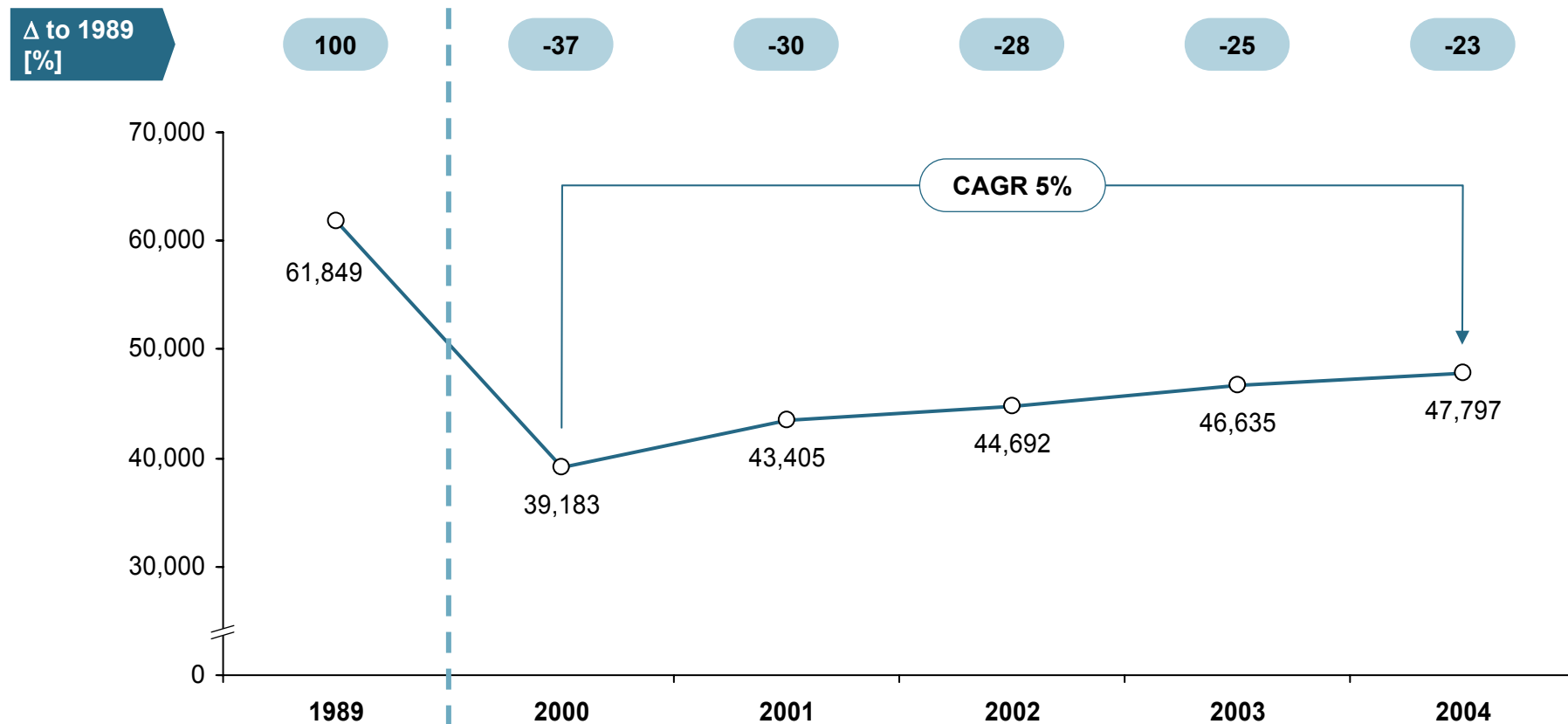
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A. Initial situation – Croatia has no clear market positioning

Croatian tourism today has reached only 77% of the pre-war record in terms of overnight stays

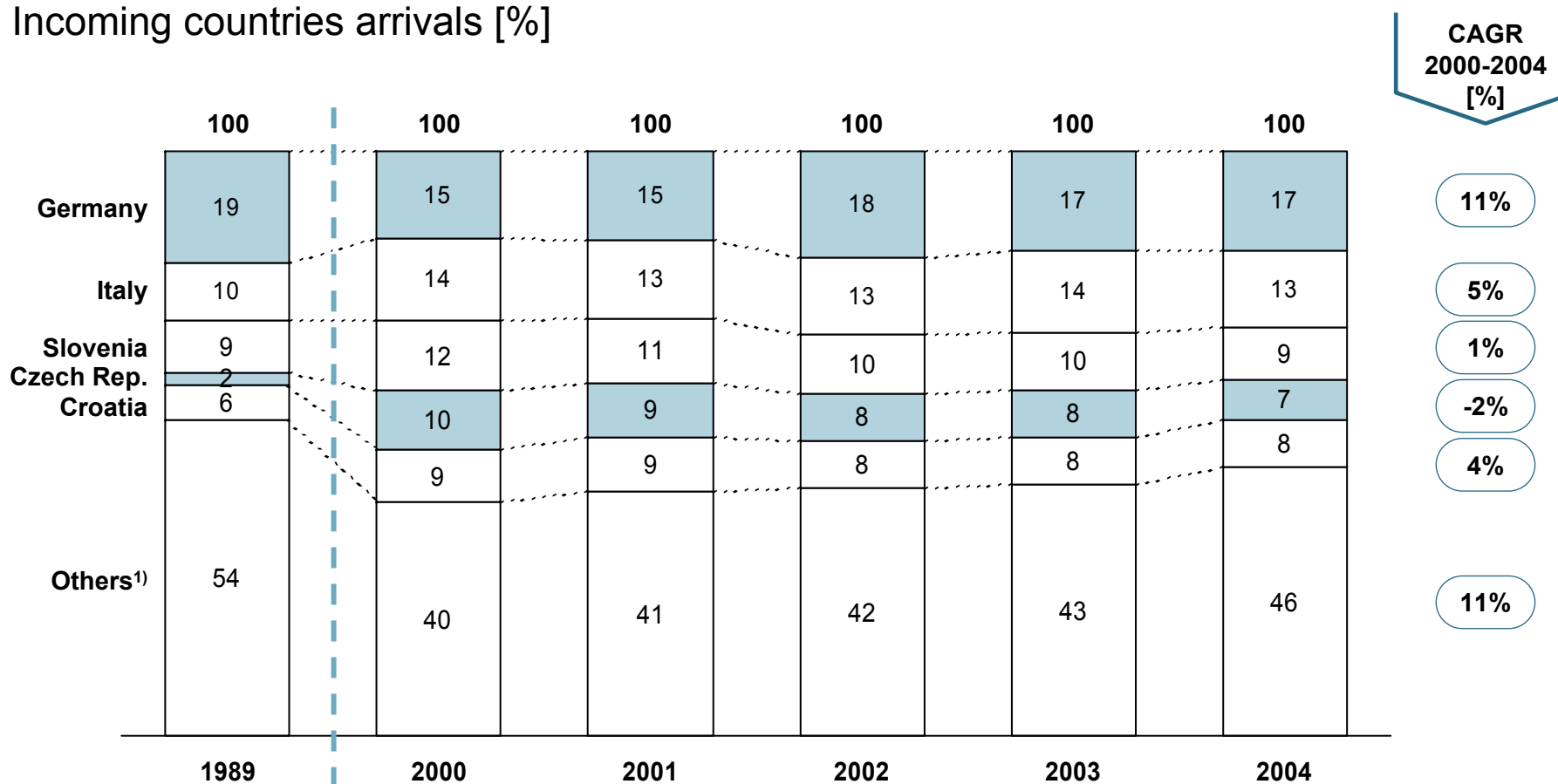
Tourist overnights¹⁾ ['000]



1) Domestic & Foreign

There are several reasons for slow tourism recovery, one of them is insufficient targeting of consumers in main source countries

Incoming countries arrivals [%]

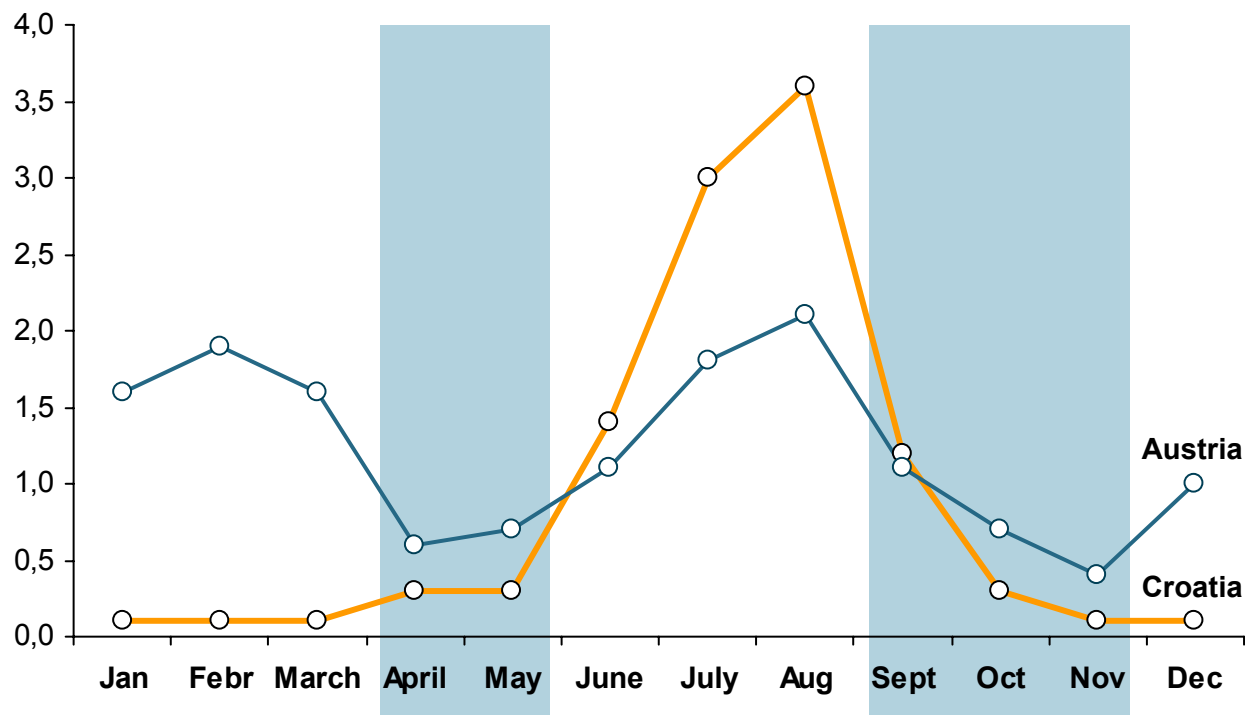


1) Including Hungary, Holland, Poland, France, Slovakia, UK, Austria, each share smaller than 5% in share

Another reason is the extreme seasonality, still increasing due to cheap travel and insufficient offering in side season

Comparison of seasonality: Croatia and Austria

Tourist overnight stays per capita in 2004 [#]

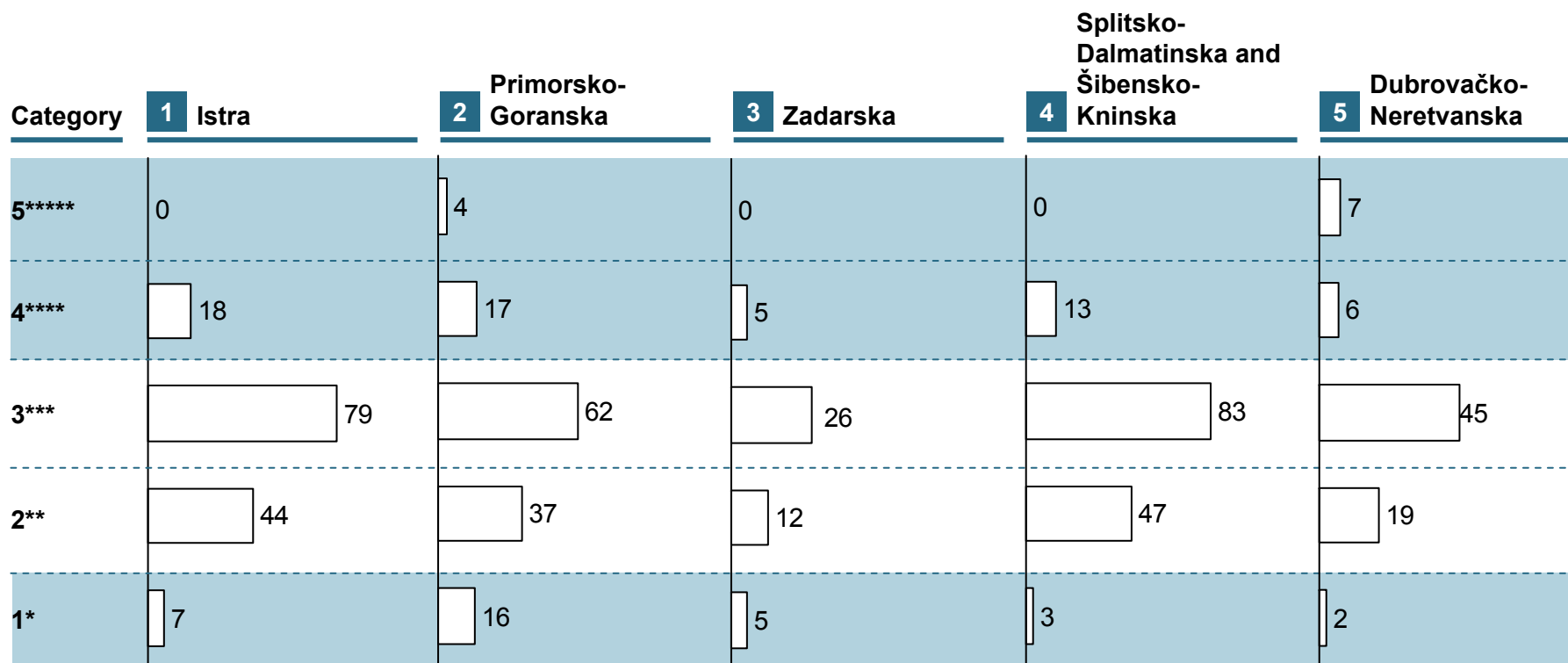


Conclusion for Croatia

- Travel agencies throughout Europe offer **cheap last minute travel** arrangements in the early and late season
- Croatia shows a **low capacity utilization** of fixed assets (hotels, apartments, etc.) in the side season – lack of demand oriented offering
- **Wellness offers, traditional & cultural events, mountain biking, etc.** could be activities to extend the seasonal reach

The third reason for slow tourism growth is the lack of hotel capacities, especially in the 4 star and 5 star segment

Number of hotels Q1/2005



So far, Croatia has managed to cover only parts of the tourism demand, trends such as active sport vacation are still to be met

General needs/objectives for holidays¹⁾

Relaxation/Recovering

- Relaxing, no stress 58%
- Away from daily routine 53%
- To be free, to have time 52%
- To recover 52%
- Sun, warm, nice water 47%

• Fulfillment by Croatia



Doing something for good look & body

- Resting, being lazy 33%
- Self spoiling 30%
- Beauty treatment, to get a healthy color 17%
- To do something for health 28%

• Fulfillment by Croatia



Environment/Nature

- Healthy climate 42%
- Experience the nature 37%
- Away from pollution 28%

• Fulfillment by Croatia



Sport

- Easy sport activities 9%
- Active sport 7%

• Fulfillment by Croatia



Experiencing something new

- Fun, happiness 38%
- New impressions, sth. new 29%
- A lot of experience, changes 26%
- New countries 24%
- To be on the road 24%
- To be entertained 17%
- Broadening of horizon 13%
- Discovering 8%

• Fulfillment by Croatia



Time for family/partner

- Time for each other (partner, family, friends) 41%
- Play with children 20%

• Fulfillment by Croatia



1) Considered as being imported

The overnight stays still lag behind the 1989 records due to unrealized potentials and no clear market positioning

Status of current initiatives

- **Croatian tourism** today has reached **only 77%** of the **1989 record** in terms of overnight stays
- There are **several reasons** for slow tourism recovery, one of them is **insufficient target group focused marketing**
- Reason number 2 lies in the **extreme seasonality** increased by the **cheap long-distance travels** in summer and **insufficient offering in side season**
- The third reason for slow tourism growth is the **lack of hotel capacities**, especially in the **4 star** and **5 star** segment
- So far **Croatia** has managed to **cover only small parts** of the tourism demands, trends such as active sport vacations, wellness, integrated cultural concepts, high class offerings and others **are still to be met**

B. Tourism trends – Three major trends

Croatia needs to react to international trends by implementing an integrated tourism concept

Three major trends

1

More spending for vacations – **"Conscious payment of added value"**

2

Vacations tend to get shorter – **"Trend to more frequent vacations"**

3

Shift in demand to elder and financially stronger clientele – **"Golden Oldies"**

Three major trends characterize the tourism industry

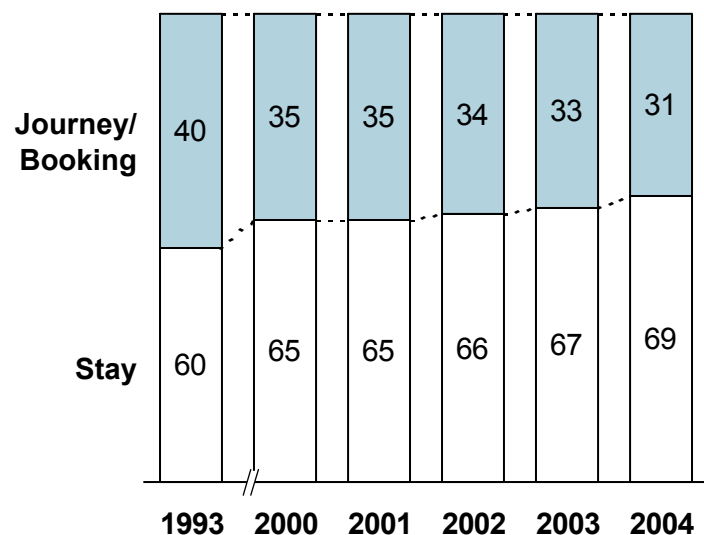
Summarizing description of tourism trends

Trend	Description
<p>1 More spending for vacations – "Conscious payment of added value"</p>	<ul style="list-style-type: none"> • Overall increasing payment for vacations • Spending decreases for travel: Portion of low cost carriers within transport means as well as internet booking/information gathering is increasing • However, tourists spend more during their stay: Increasing demand for "meaningful vacations": Art and culture-trips or sports-/activity vacations instead of sunbathing
<p>2 Vacations tend to get shorter – "Trend to more frequent vacations"</p>	<ul style="list-style-type: none"> • Journeys tend to get shorter – Focus of demand is on city- and roundtrips. In addition, demand exists for sports- and activity vacations • The shorter duration of the trips leads to an increase in the number of holidays per year
<p>3 Shift in demand to elder and financially stronger clientele – "Golden Oldies"</p>	<ul style="list-style-type: none"> • The generation of well situated elderly people goes increasingly on vacations – this generation is characterized by <ul style="list-style-type: none"> – high disposable income – high amount of free time – independence form seasonal variations in demand for vacations

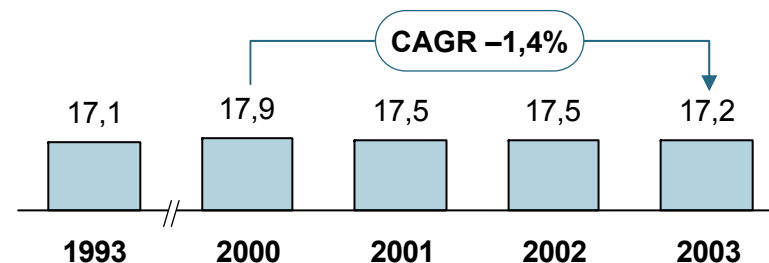
Spending for vacations decreases percentage wise as well as in real figures – Total spending increases

Development of spending for vacations (Europe) [EUR/Person and day]

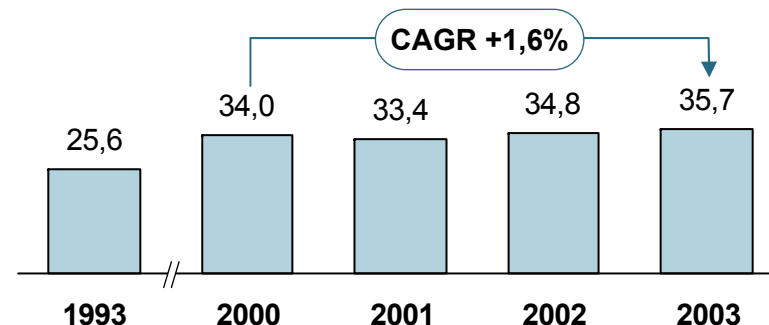
Part of the total spending [%]



Spending for trips and booking (real)



Spending at the place of stay (real)



Willingness to pay for vacation increases

- higher spending for vacations compared to previous year 49% of tourists
- same spending for vacation as in the year before 37% of tourists
- lower spending for vacation than in the previous year 14% of tourists

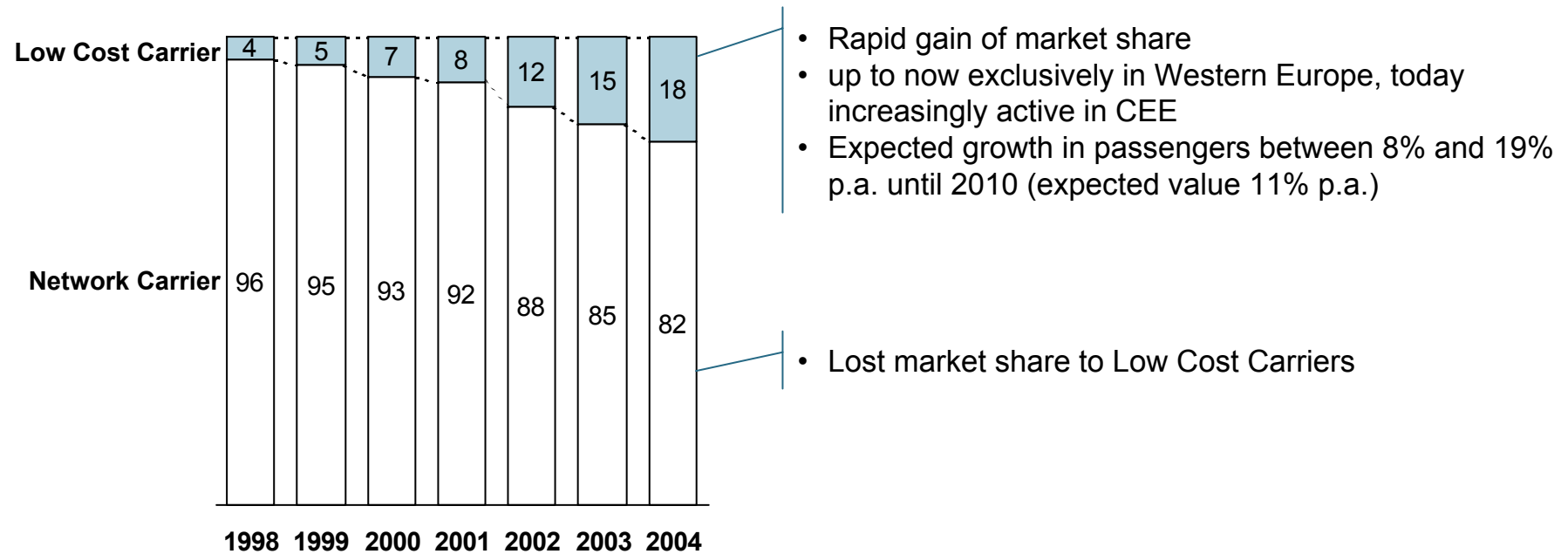
Change 2000-03 (per year)

- +8%
- 2%
- 14%

Low Cost Carriers meet the demand for lower spending for the journey – "Incentive dilemma" for Croatia

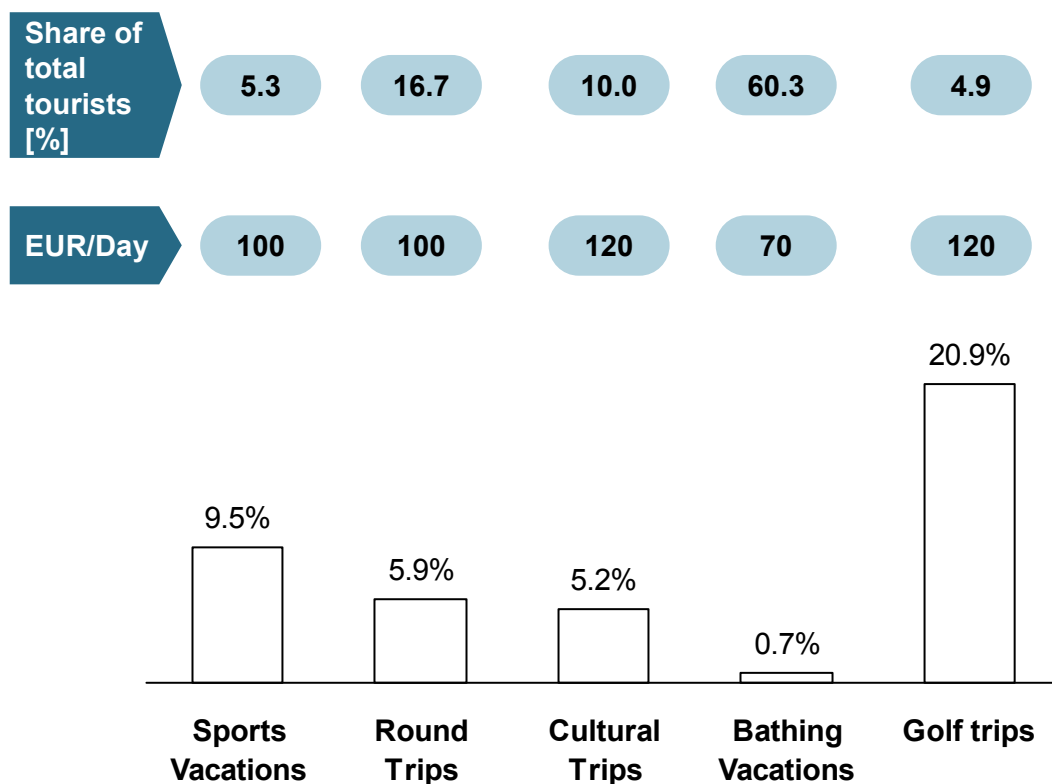
Development of Market-Shares in EU-15

Development of LCC vs. Network Carriers 1998 to 2003 in EU-15 [%]



Beach and sun don't cut it any more, market trends have shifted to sport vacations, integrated offerings, cultural trips and golf trips

Development of the primary motives for vacations since 1995, 2003 [CAGR in %]¹⁾

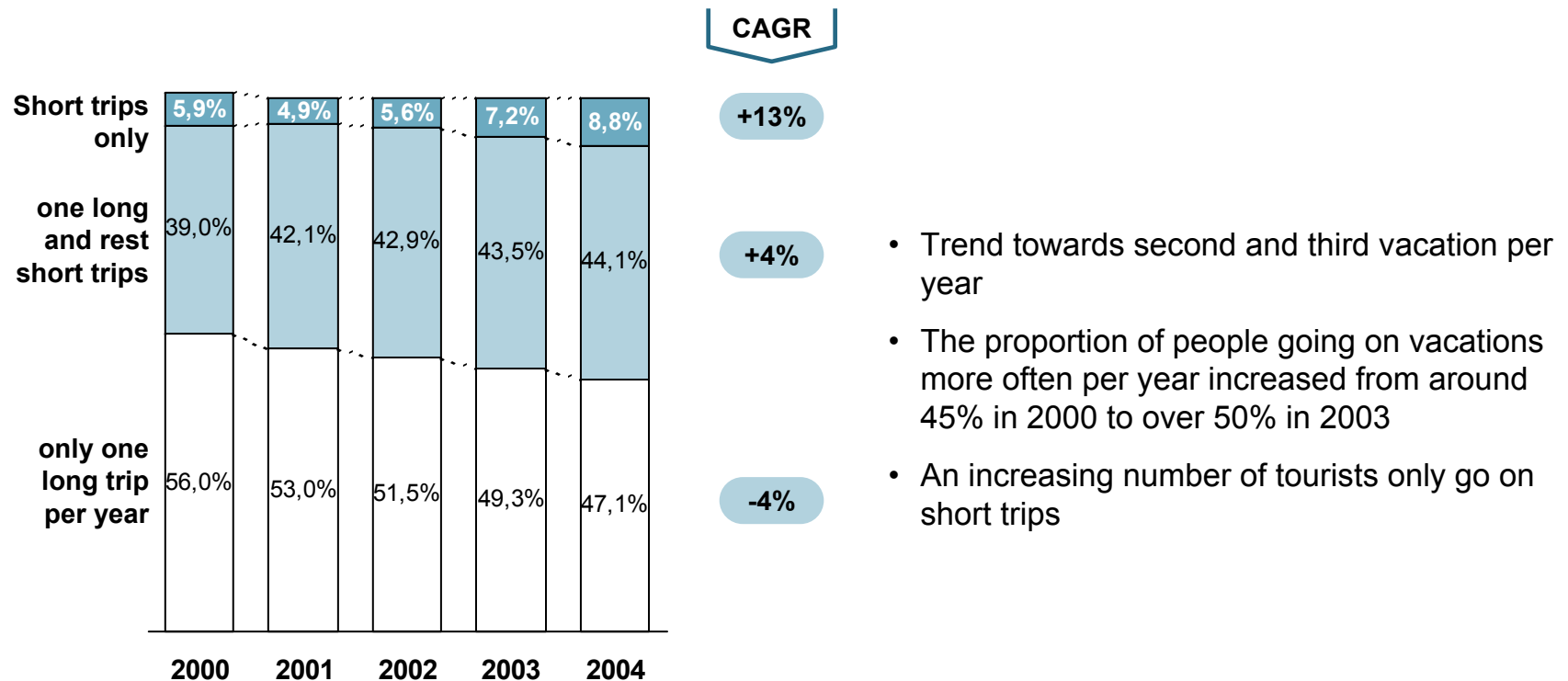


- **Spending intensive** type of vacation **increase**, Croatia should therefore **reposition** its focus **from bathing vacations to the new market trends**
- The tourism segments, in which **Croatia has a starting advantage** over other countries due to its resources grow strongest (**Sports vacations** with +9.5% CAGR since 1995), but are not nearly enough exploited
- Another trend which Croatia hasn't grasped so far are **cultural and round trips** which have grown between **5-6% p.a. since 1995**

1) Double-entries possible, trips longer than three days

Trend towards second and third vacation per year – An increasing number of tourists only go for short trips

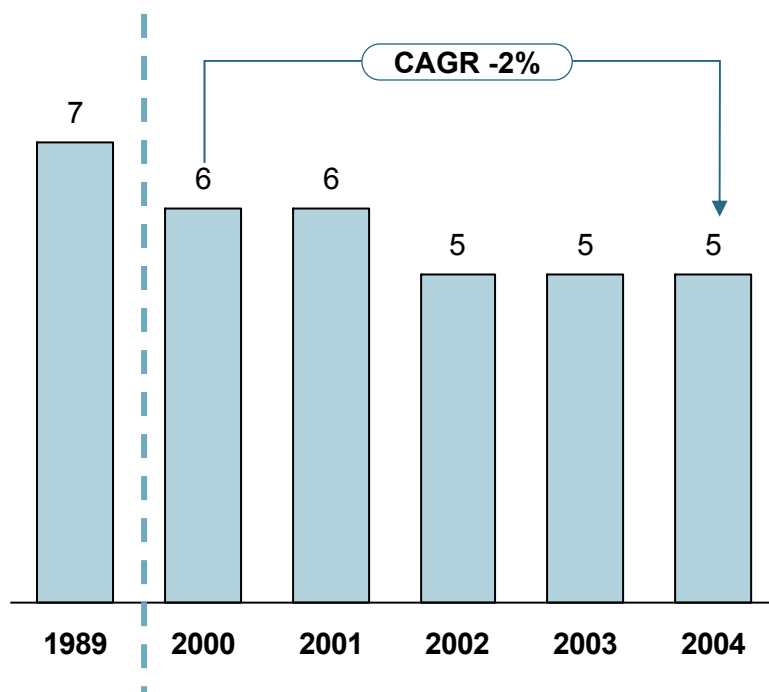
Development of number and length of trips 2000-2003 [%]



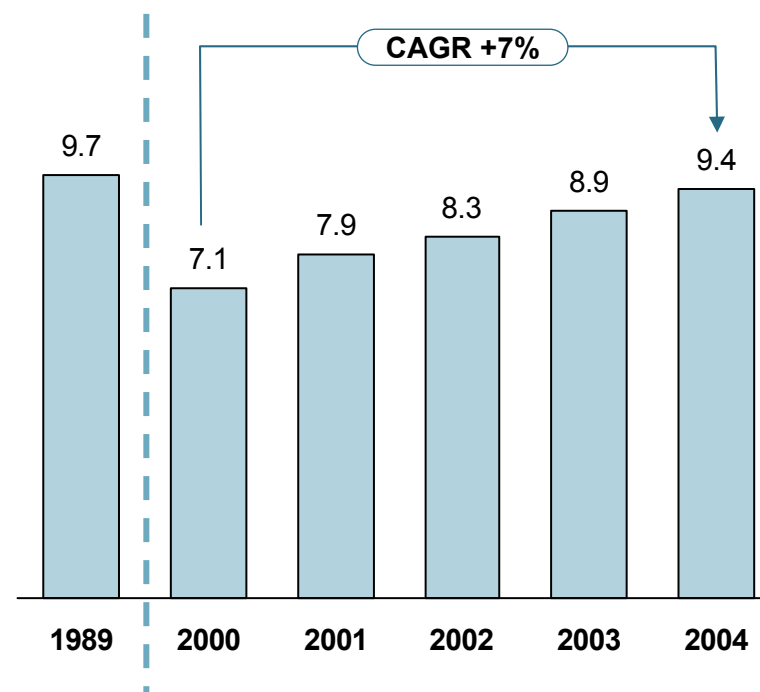
With a decrease of -2% p.a. in overnights/tourist and a concurrent increase of 7% p.a. in tourist arrivals, Croatia is clearly in this trend

Overview of tourist overnights and arrivals

Overnights per arrival [nights per tourist]

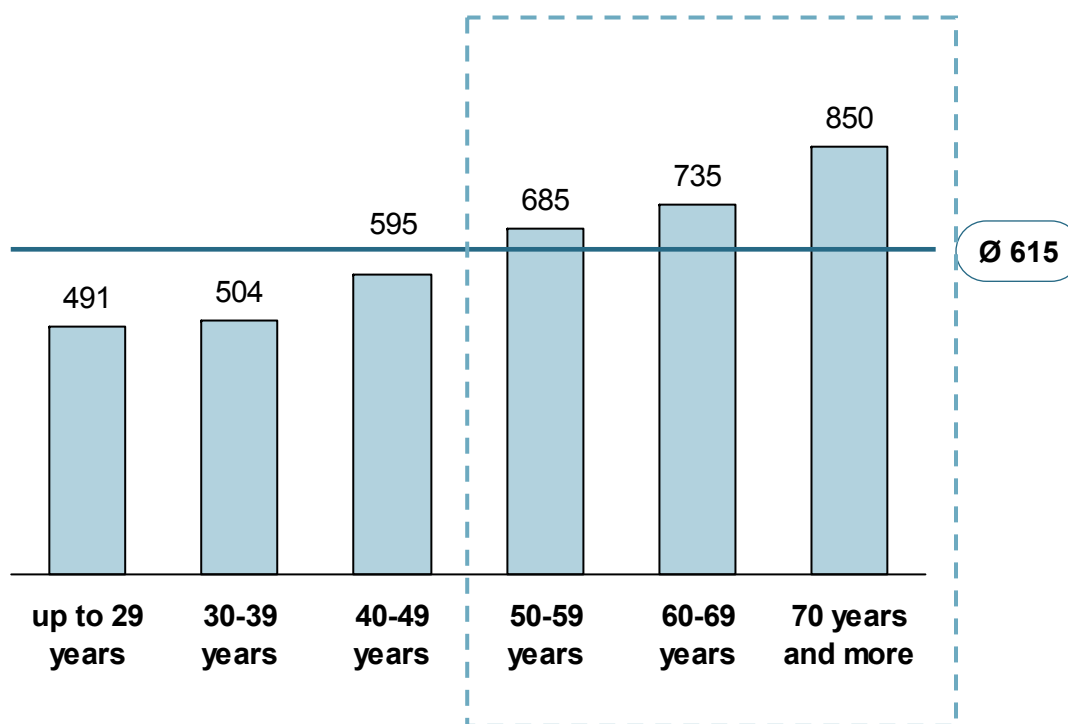


Tourist arrivals ['000]



Golden Oldies have above average per capita spending – 60 to over 70 years of age people as top spenders

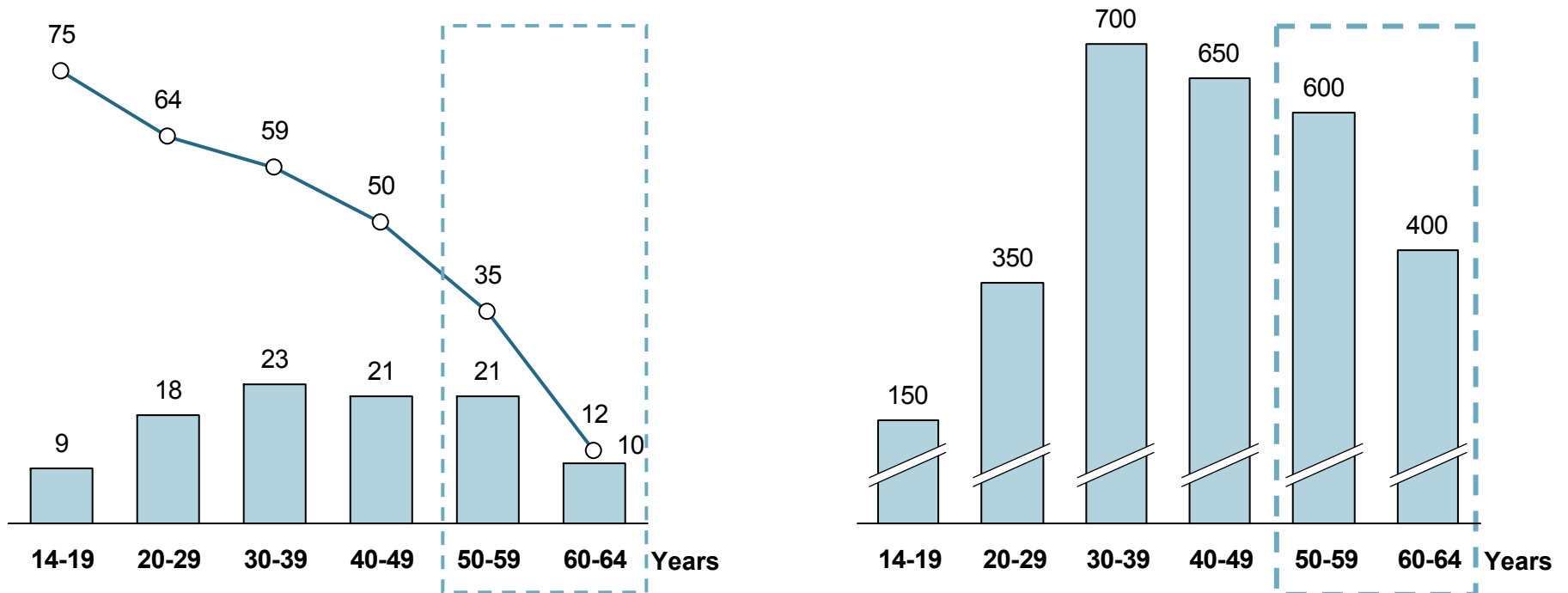
Average annual spending for vacations per capita [EUR] Average Europe



- The average tourist spends **pro 615 EUR per year for vacations**
- **With increasing age, spending per capita increases**
- Only the 50+ segment lies above average (**driven by "Golden Oldies"**)

Internet usage declines by age – However, Golden Oldies show a high internet spending when using the medium

Internet usage [%] and spending¹⁾ by age groups in Europe²⁾ [EUR/p.p. and year]



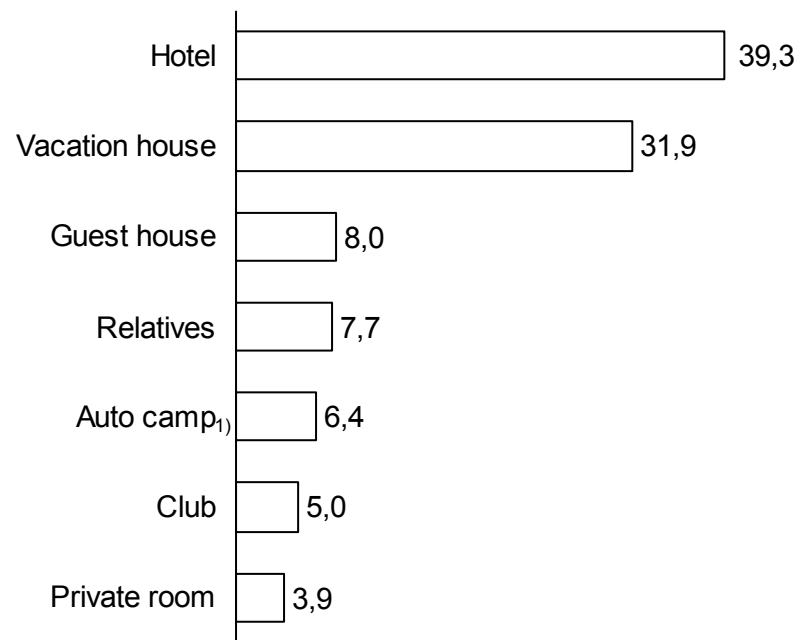
■ Portion of population (2003) — Internet-Usage

1) Basis: Basis: Active online shoppers
2) Total population 16 to 64 years of age

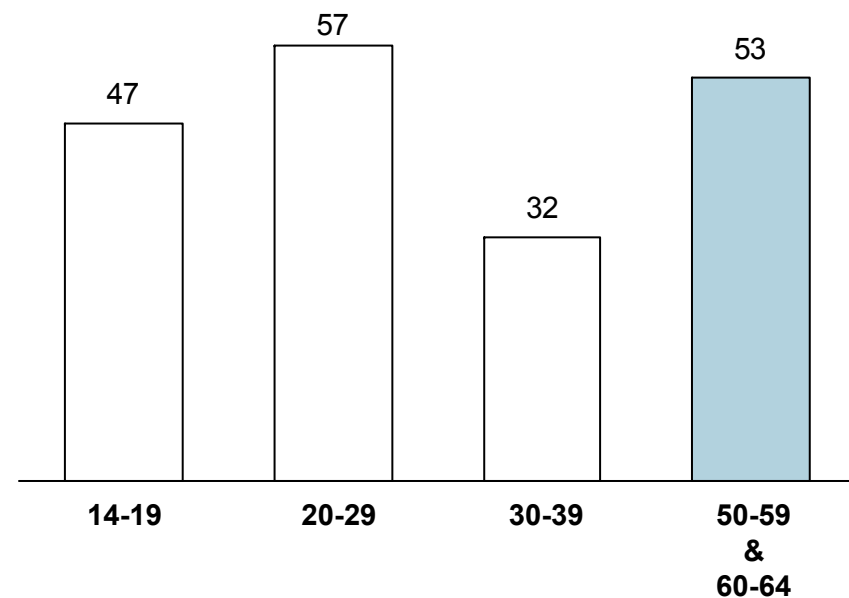
Hotel is the preferred type of accommodation – especially among golden oldies and elderly savers

Accommodation type and hotels usage in 2002

Type of accommodation in 2002 [%]



Usage of hotels [%]



1) Despite global trend towards auto camps – low importance German tourists

Croatia has all the prerequisites to meet the new market trends, what it needs is a clear action plan to fulfill them (1)

Overview of market trends

- Croatia needs to **react to international trends** by implementing an **integrated tourism concept**
- **Overall, spending for vacations decreases** percentage wise as well as in real figures, whereas the **total spending during a vacation increases**
- **Low Cost Carriers** meet the demand for **lower spending for the journey** – "Incentive dilemma" for Croatia
- Beach and sun don't cut it any more, **market trends** have **shifted to sport vacations and cultural trips**
- **Trend towards second and third vacation per year** – An increasing number of tourists only go for **short trips**

Croatia has all the prerequisites to meet the new market trends, what it needs is a clear action plan to fulfill them (2)

Overview of market trends

- With a decrease of **-2% p.a.** in **overnights per tourist** and at the same time increase of **+7% p.a. in tourist arrivals**, Croatia is clearly in trend
- **Golden Oldies** have **above average** per capita **spending** – 60 to over 70 years of age people as top spenders
- **Internet usage declines by age** – However, Golden Oldies show a high internet spending when using the medium

C. Implication for Croatia – Need to develop a consolidated master plan

Croatia has so far made no major effort to grasp the new trends on the market

Coastal tourist destinations

Istra

- Mass tourism, rural tourism
- Accommodation: 227,014 beds
- Arrival: by plane (A/P PUY), by train, by car

Primorsko-Goranska

- Mass and charter tourism
- Accommodation: 160,000 beds
- Arrival: by plane (A/P RJK), by train, by car

Zadarska

- Nautical tourism, mass tourism
- Accommodation: 92,368 beds
- Arrival: by plane (A/P ZAD), by car

Splitsko-Dalmatinska and Šibensko-Kninska

- Nautical tourism, mass tourism
- Accommodation: 136,514 beds
- Arrival: by plane (A/P BWC, SPU), by car

Dubrovačko-Neretvanska

- Elite tourism, golf, nautical tourism, congresses
- Accommodation: 55,270 beds
- Arrival: by plain (A/P DBV), by car

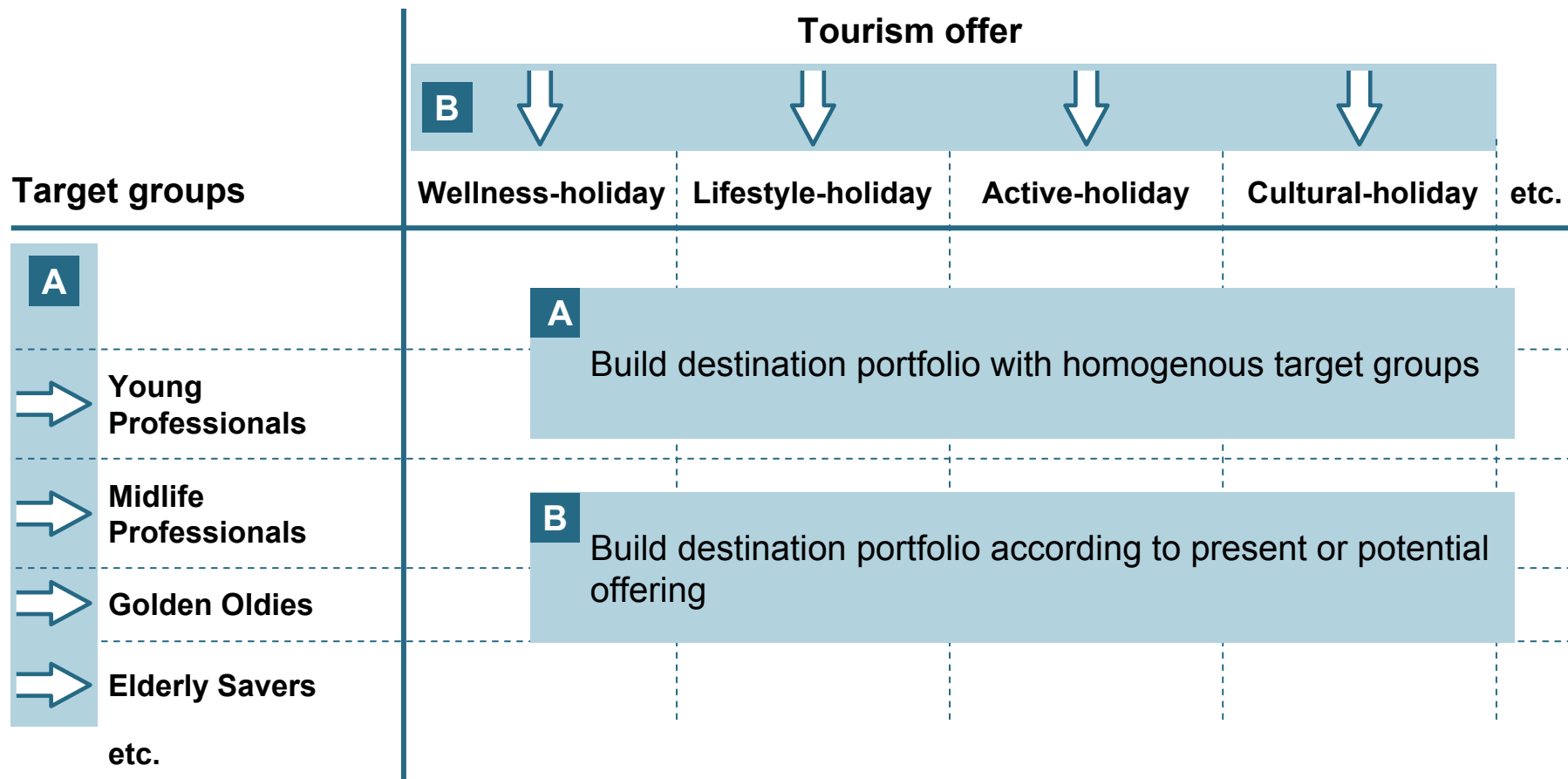


Fast and concerted actions needed

- 1** **Clear positioning** of regions by service level and guest segments and **regional development** according to master plans
- 2** Enhancement of service **offerings according to guest segments** and seasonal opportunities:
 - Attract **Golden Oldies** for the **side season**
 - **Share of wallet:** Increase earning per tourist generally but especially in summer by **increase of service offering** (quality upgrade)
- 3** Assurance of **sufficient capacities**
 - Attract **Low Cost Carrier**
 - Smoothing of **road travel** (tollgates)
 - Building of enough **bed capacities in high class categories**

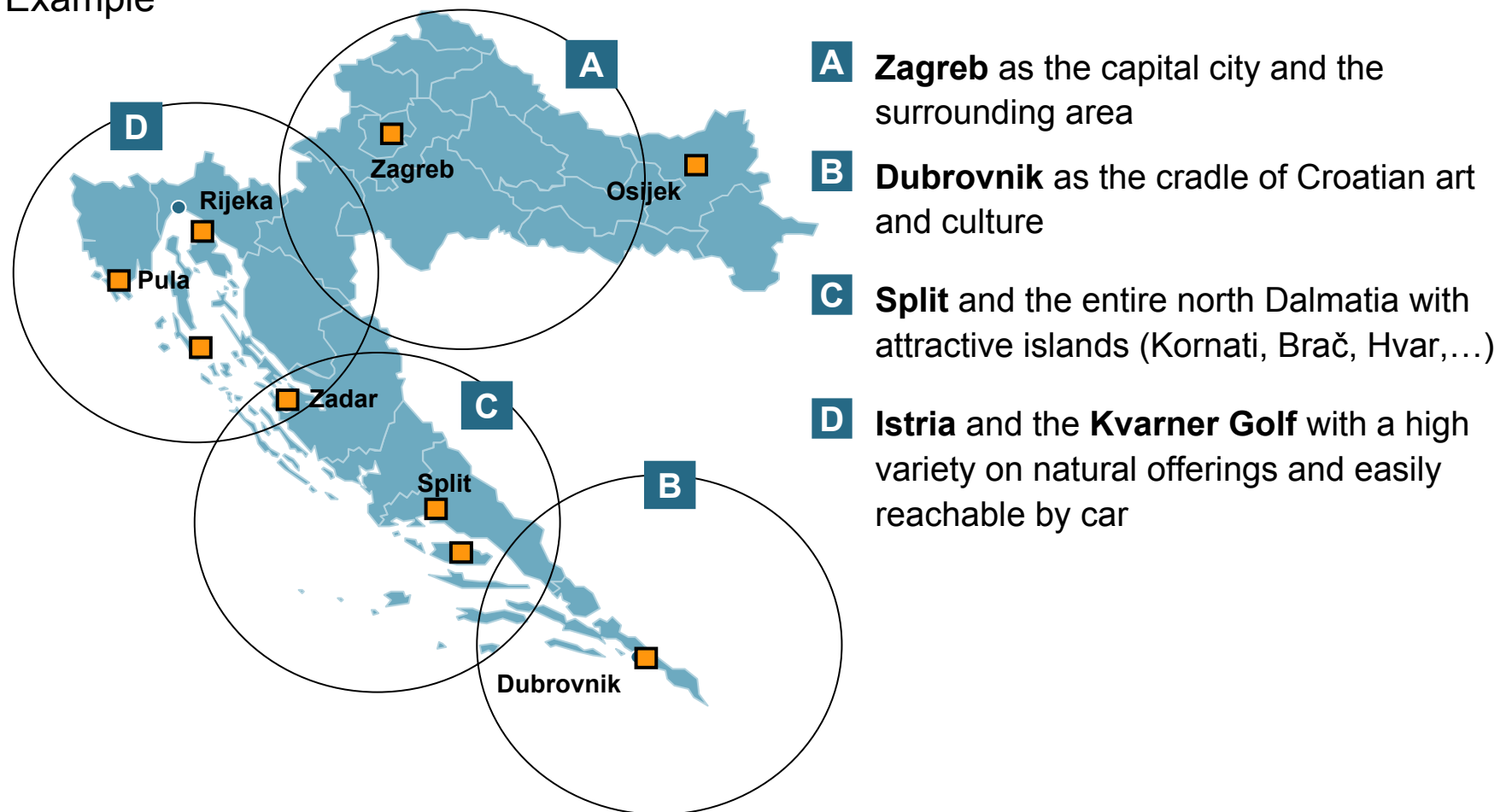
Focus either on customer segment or on variety of offers

Key actions for integrated tourism development



Croatia should focus its marketing efforts on three Coastal and one Continental destination (1)

Example



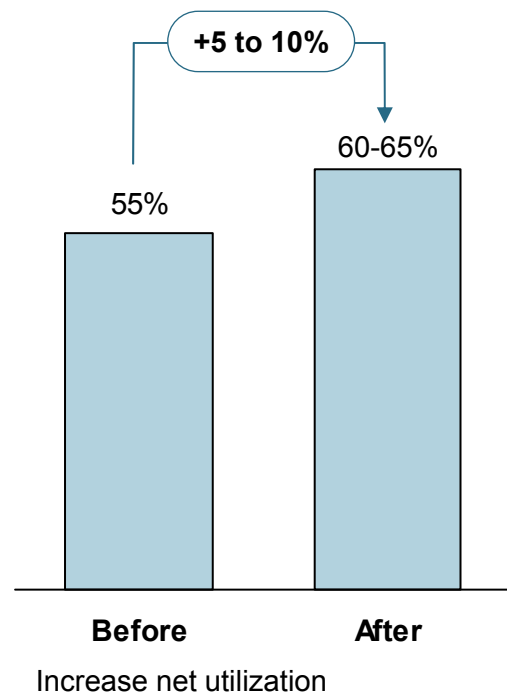
Croatia should focus its marketing efforts on three Coastal and one Continental destination (2)

	A Zagreb	B Dubrovnik	C Split and North Dalmatia	D Istra and Kvarner
Positioning	<ul style="list-style-type: none"> • Airline destination • Capital city • Cultural tourism • Congress • All-year round destination 	<ul style="list-style-type: none"> • Airline and charter destination • Cultural tourism • Congress • All-year round destination • Large sea-side resorts (Pelješac peninsula, Cavtat) • Organized: 49% • Share of foreign tourists: 85% 	<ul style="list-style-type: none"> • Mass tourism • Cultural monuments • Organized: 30-45% • Share of foreign tourists: 85% 	<ul style="list-style-type: none"> • Car and charter • New trend: agro-tourism • Organized: 39% • Share of foreign tourists: 93% (above average) • Currently strong focus on Russian tourists in charter
Offering	<ul style="list-style-type: none"> • Emphasis on art and cultural tourism • Modernization and valorization of existing tourist potentials • Highway connection with the entire coast • Rail connection • A/P ZAG 	<ul style="list-style-type: none"> • Emphasis on art and cultural tourism • Wellness • Golf, marinas, casinos • Health tourism • New recreation capacities on nearby islands • A/P DBV 	<ul style="list-style-type: none"> • Modernization and valorization of existing tourist potentials • Concept of tourist destination as such • Creation of distinct tourism product (health – nautical – congress tourism, etc) • Introduction of European quality standards • Highway connection with ZAG-ZAD-RJK • A/Ps ZAD, SPLI, BWK 	<ul style="list-style-type: none"> • Golf, wellness and congress tourism • Brijuni archipelago-cluster designed for elite tourism • Defining of 7 clusters (zones) with distinct identity and varying tourist attractions • Different products at different clusters • Motorway "Istarski 4" • A/P PUY, RJK
Pricing	• Medium	• High	• Low	• High-medium
Target group	<ul style="list-style-type: none"> • Students • Golden oldies 	<ul style="list-style-type: none"> • Young and mid professionals • Golden oldies 	<ul style="list-style-type: none"> • Teenagers • Students • Families 	<ul style="list-style-type: none"> • Young and mid professionals • Families • Golden oldies

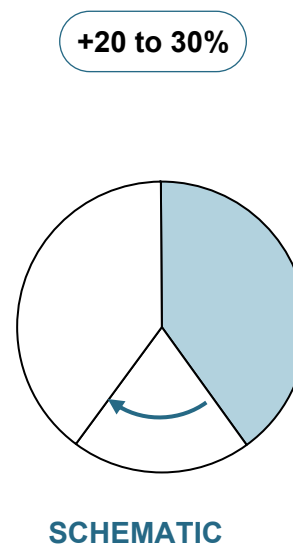
Implementation of the proposed measures in our experience guarantees positive impact on the results

Benefits for a integrated concept

1 Increase of the average yearly utilization

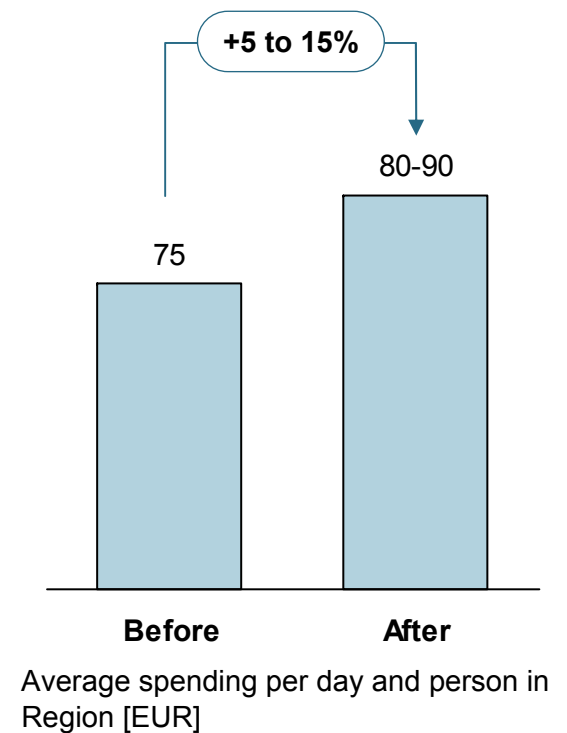


2 Increase of customer commitment/Loyalty to a region



- Regular guest
- First time in the region

3 Value maximization of tourism sector



Roland Berger serves top clients worldwide

Selected international reference customers in the tourism industry



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