THE INTERNATIONAL COMPETITIVENESS OF ECONOMIES IN TRANSITION
THE UNTAPPED POTENTIAL: A CHALLENGE FOR BUSINESS AND GOVERNMENT

MONTENEGRO

A STRATEGIC RESPONSE TO SERVICES EXPORTING

Sofía, Bulgaria – November 2003
MONTENEGRO: SITUATION AT THE OUTSET

Tourism is accorded the highest development priority of all industries in Montenegro. The sustainable use of natural resources, the involvement of the public and private sector, the attractiveness of the overall product and international competitiveness are the factors which will decide on employment and prosperity for large sections of the population, for the coming generation as well.

In view of the economic, environmental, social and cultural changes attendant on expanding the tourism sector and of the complexity of all the issues involved, close cooperation at interministerial, regional and municipal level is as indispensable, as is social dialogue, conceptual thinking and action and strategic planning and its implementation. Montenegro can draw on the experience gained by other Mediterranean destinations and learn from market developments to move in a new, even innovative, direction.

Developing the tourism sector will be more difficult than predicted by the WTO with its overoptimistic growth forecasts, because markets change and all destinations face tougher competition and will have to struggle for their market stakes. They are improving the quality of hotels, service and infrastructure. They are diversifying, staging events and scenery and building artificial worlds. They are reviving their cultural and historical heritage and are concerned with sustainability. This alone is a reason to take action. Moreover, as a result of globalisation and concentration a few vertically organized tour operators have been able to acquire dominant market positions and build on these. A partner that takes up a weak initial position in cooperation can end up being completely dependent.

Montenegro’s position is weak: The country lacks financial resources, a commercial product and adequately qualified specialist personnel. The number of overnight stays has declined from just about 11 million in the 80s to 5 million today. All the foreign markets have broken away; remaining demand is confined to Serbia and Montenegro for six weeks in midsummer and the cheapest accommodation facilities. The hotel sector is a low earner, under utilized and standards are far too low for the demanding guest. Just 1-3,000 of 26,000 available hotel beds are suitable for the international market.

Of just about 95,000 beds available, hotels account for 26,000 (27.5%) and of these 82% belong to the official B category (equivalent to 2**), camping sites for 18,500 (19.5%), ’other types of accommodation’ (company, young people’s hostels of an elementary standard) for 30,000 (31.5%) and registered private lodgings for about 20,000 (20%). The tourism ministry estimates the number of unregistered but available private beds at almost 60,000 and the number of available but statistically unrecorded beds in vacation dwellings at 90,000. If we assume this, the hotel segment shrinks to 10.5% and the higher categories to 0.4-1.2% (1-3,000 beds).

In view of
• the aims
  o to raise the number and quality of jobs
  o and the standard of living of the population;
• the limited financial resources in the country;
• a monostructural product in the low-budget segment,
  o which is also obsolete and dilapidated with
  o a concentration on the short summer season;
• the expectations of a changing West and North European market;
• the demands and income level of the Southern and East European markets;

• the need
  o to keep demand in the lower price segment,
  o increase income per overnight stay at the same time,
  o build up new market segments,
that generate more income and
also travel outside the high season,
and develop a new image distinct from the competition;

• the danger of dependence on tour operators, where their assistance is needed to
  build up nationwide distribution and charter connections,
  regain market stakes and prolong the season;
• the envisaged privatization, which
  will initiate individual business interests and
  personal product ideas;
• shortcomings in infrastructure;
• inadequate human resources and the precept of sustainable development to conserve resources,
simple strategies – an excellent publicity campaign for example – are quite inadequate.

There is a need for:
- agreement and close cooperation at all political, administrative and social levels and cross-
  border cooperation in border regions to bundle forces and resources;
- a legal frame with implementation rules for the administration as well as international standards
  for the tourism sector and infrastructure;
- detailed development plans defining goals and guidelines, identifying opportunities and making
  proposals, safeguarding latent resources and setting priorities
- and new bedding capacities in modern holiday facilities.

STRATEGIC AIM

The aim: In the summer half-year Montenegro will become a ‘high-quality Majorca’ and in winter a
qualified niche provider with special products. This will secure the country an exclusive market
position at the Mediterranean.

The figures: Hotel bedding capacity will be enlarged by 2010 to 50,000, to 100,000 by 2020. Parallel to this, the whole accommodation sector will be reorganized stepwise in line with demand and generally geared to quality by setting standards and category volumes.

Expanding hotel capacities will lay the foundation for a nationwide charter network. Hotel quality
combined with an attractive infrastructure and a range of leisure and special options will result in a
longer summer season of 150-165 fully-booked days.

Altogether, the number of all overnight stays will rise to about 15.68 million in 2010 and
approximately 25.85 million in 2020. These also include overnight stays in private vacation
dwellings not yet statistically recorded. The overnight stay quota of hotels in the total figure will go
up from 25% in 1997 to 40% in 2010 and 60% in 2020.
Due to improved quality, the expansion of hotel capacity and the longer season, daily per capita turnover in accommodation will increase from the presently estimated € 18 over the years to € 45 (10% below the Majorca average of € 50). As a result of reorganization and price rises total turnover in 2010 will amount to € 550 million and € 1.2 billion in 2020, when the measures have been completed. Tourist expenditure outside of accommodation has not been included (excursions, car rentals, shopping).

QUALITY AND MARKET ALIGNMENT

The focus in hotel capacity expansion is on the international 3-5****star category to arrive at a qualitative product mix in the upper segment. The existing hotels are measured against these standards.

The differences in the product mix of hotels are not just the result of standards. Diversification will continue in scale and management (private or hotel companies) and through specialization. This is bound up with the basic qualities of the regions (e.g. Boka Kotorska = high quality, Tara river = nature), the towns (Herceg Novi = chic, Budva = middle class, Tivat and Sutomore = basic) and locations (Ulcinj = family, all standards).

All basic lines of development are based on the same principles:

- **Sustainable development**: The environmental standards of a destination are taken for granted by the market. They afford no competitive advantage. What people take for granted must be provided; it is not a selling point. Customers are solicited with special attractive features or added benefits.
- Demarcation from competitor destinations through quality, typical local characteristics (regional architectural style, building material, colour schemes, visual assimilation into the landscape scenery, gastronomy, music, traditions, legends, personalities, historical events, folklore, handicraft, etc.) and a distinctive overall product geared to the market.

- Regional distinctions through different basic orientations that pick up on varying general natural conditions.

- Distinctive products: Every holiday centre needs its own design with a core product geared to the target group and given individual traits by planners or operators.

- Standardization of basic components provided by larger companies (room, equipment, furnishing and fixtures) for easier distribution and management. Individualization is via accessories (car industry).

- Landscape design as the simplest, most economical and in the long term most effective way of making holiday resorts more attractive.

- Individualized products: The uniformity of existing hotels cannot be eliminated, but it can be mitigated by facade decoration (plants, colours), interior partitions, furnishings, wall decor, lighting, PA systems, colour schemes, including staff dress, buffet presentation and the atmosphere for guests.

- Promoting private initiative: Regardless of the indispensable professionalism of the main provider, private enterprises have a unique advantage. Instead of sophisticated professionalism, financial resources and market efficiency, they have the personal note, the most dedication, adaptability and variety and they have direct contact to what their guests think and feel. So for all the concentration, the tourism industry still needs small and medium-sized enterprises. A prerequisite for private initiative, though, is that it can make a living from tourism. This calls for a set of rules (administrative regulations), mainly tax incentives for startups, soft loans to finance the investments and a long enough season.

**SOURCE REGIONS AND MAIN DIRECTIONS**

Due to its geographical location, Montenegro is largely interesting for West, North and Eastern Europeans as a charter destination. Holiday trips, from Germany to the Mediterranean for example, are largely made by plane (72%). Southeast Europeans, however, will largely travel by car. Considering the different income levels and outbound travel intensities, Montenegro must concentrate on two source regions in the short and medium term:

- the local market, i.e. the countries of the former SFRY
- Western and Northern Europe

Proceeding from this scenario Montenegro must take up two product lines:

- A reasonably priced product for the local market and Eastern Europe. This approach builds on existing capacity, which will not be extended but gradually improved and fetch higher prices. After a transition period this capacity will be downsized in line with demand, except for facilities capable of expansion.

- A high-quality product first for Western and Northern Europe that progressively replaces the cheap offers and is ultimately equated with Montenegro’s tourism industry. To last, this product must be geared to the demanding motives of Western and Northern European tourists and take up general market trends, wherever Montenegro’s natural resources allow.