

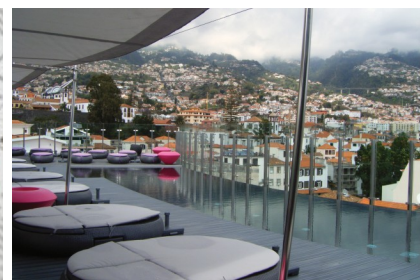


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# REPOSITIONING A DESTINATION

## A CASE STUDY OF MONTENEGRO

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## Introduction

*What is needed to reposition an entire destination? All around the world destinations reach a mature life cycle and are forced to re-invent themselves due to increased global competition. The case study of Montenegro, a small country on the Adriatic coast, can provide interesting insights.*

### Montenegro

Montenegro is in southeast Europe, on the central part of the Balkan Peninsula and washed by the Adriatic Sea to the south. It has a population of approximately 620,000 and covers an area of 13,812 km<sup>2</sup>. The population (1991 census) is made up of Montenegrins (62%), Muslims (15%), Serbs (9%), Albanians (7%), Croats (1%) and others (6%). The capital of Montenegro is Podgorica, which has a population of approximately 180,000.

The Montenegrin coastline is commonly thought of as being made up of the following five regions.

1. The **Herceg Novi Riviera**, on the country's most western tip, is 25 km long and includes peninsulas, small islands and beaches of different profiles. It has a backdrop of extensive mountains, picturesque villages and settlements situated among olive groves and other Mediterranean vegetation.
2. The **Tivat Riviera** has 17 official beaches covering an area of 31,200 m<sup>2</sup>. Tivat is the youngest town in the Boka region.
3. The **Kotor Riviera** lies in the deepest part of the Bay of Kotor. The Old Town of Kotor was built between the 12<sup>th</sup> and 14<sup>th</sup> centuries. Owing to its medieval architecture and numerous monuments of cultural heritage, Kotor is a UNESCO World Heritage Site.
4. The **Budva Riviera** is spread along 38 km of jagged coastline, which has many inlets, shelters, sandy beaches, capes and islets. Apart from the natural beauty of the coves, islands and beaches, Budva is rich in historic monuments.
5. The **Ulcinj Riviera** benefits from a 32 km coastline, running from the county's main passenger and cargo port, Bar, to the mouth of the River Bojana, which drains into the Adriatic.

Montenegro is a new country, declaring its independence from Serbia in 2006. Going back in history, Montenegro was annexed to the Kingdom of Yugoslavia on 13 November 1918 and internationally

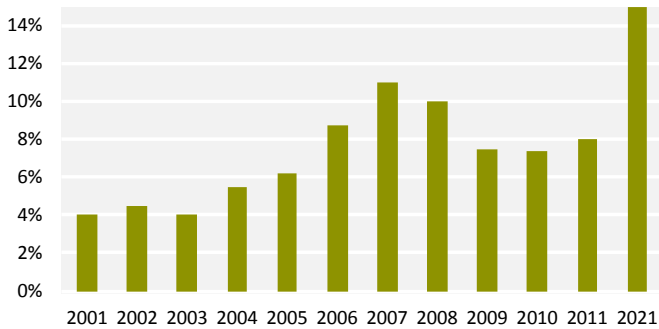


recognised in 1922. The Kingdom of Yugoslavia was invaded by the Axis powers in 1941 and, because of the events that followed, was officially abolished in 1945.

Montenegro formed part of the Federal People's Republic of Yugoslavia in 1946, when a communist government was established. In 1963, it was renamed again to the Socialist Federal Republic of Yugoslavia (SFRY). The constituent six Socialist Republics and two Socialist Autonomous Provinces that made up the country were: SR Bosnia and Herzegovina, SR Croatia, SR Macedonia, SR Montenegro, SR Slovenia and SR Serbia. Starting in 1991, Yugoslavia disintegrated in the Yugoslav Wars.

Modern Montenegro has acknowledged the importance of tourism to the overall economic development and employment of the country and acted upon it by setting the framework for further quality hotel development. According to WTTC, the direct contribution of travel and tourism to Montenegro's economy was expected to be €278.3 million in 2011, which equates to 8% of total GDP generating 7% of direct employment.

**Direct Contribution to GDP**



Source: WTTC

This has considerably increased from 2001, as the graph illustrates. However, being a nostalgic destination with beautiful natural assets, it is worth highlighting the development of tourism in that area.

### History of the Destination – Development of Tourism: Yugoslavia and Beyond

Tourism has always played a very important role in Montenegro, particularly the coastal regions. The destination experienced a change in positioning over the last few decades like no other.

**1960-80s – The St-Tropez of the Adriatic under Yugoslavian Influence** – Montenegro was once famous for its Sveti Stefan, a small peninsula which was made into an exclusive hotel from a fishing village in the 1960s. The fishermen’s houses were converted into luxurious villas and quickly Sveti Stefan became one of the most popular bathing resorts in Europe. It became the St-Tropez of Montenegro. Lots of royal families spent their holiday in Sveti Stefan: the English princess Margaret, princess Christine of Nassau and the Italian king Umberto II, as well as celebrities such as Sophia Loren, Doris Day, Geraldine Chaplin, Kirk Douglas and Claudia Schiffer. During that time, the former Yugoslavia was a popular destination for visitors from Europe and the USA prior to its dissolution in 1991. Others travelled to the Balkans and Montenegro for therapeutic medical treatments and physical exercise at facilities specialising in health, wellness and medical tourism.

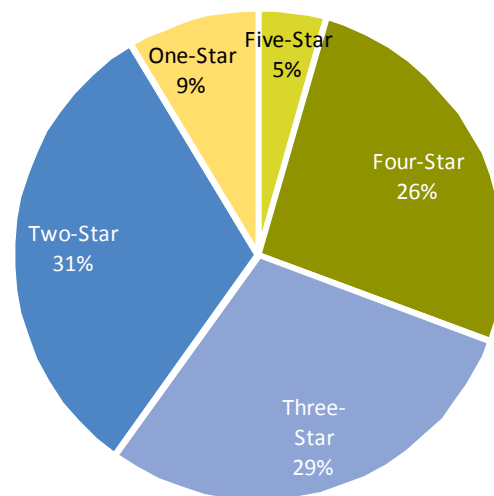
**Post-1991** – Needless to say that foreign visitors and their economic contributions declined dramatically during the civil war in the early 1990s, when much of Yugoslavia’s recreational landscape and infrastructure were destroyed and tourists avoided the area. Consequently, the country lacked substantial tourism

infrastructure and hotel products. During the 1990s, Montenegro was promoted as a cheap destination for mass tourism, with an adequate tourism infrastructure to cater to such demand. Prior to 2001, all hotels in Montenegro were state-owned and catered to the lower end of price-sensitive mass tourism.

**Today** – The government is focused on returning the destination to its former glory, and with a new tourism master plan has focused the interests of all stakeholders to achieve this goal by attracting foreign direct investment.

Montenegro’s hotel structure has changed dramatically, and about 95% of all hotels are privately owned. Private investment has progressively helped to modernise the country’s hotel stock. However, as the following chart illustrates, the majority of hotels still remains in the two-/three-star category which seems to be contrary to the product and service requirements of today’s travellers.

**Total Beds Coastal Area**



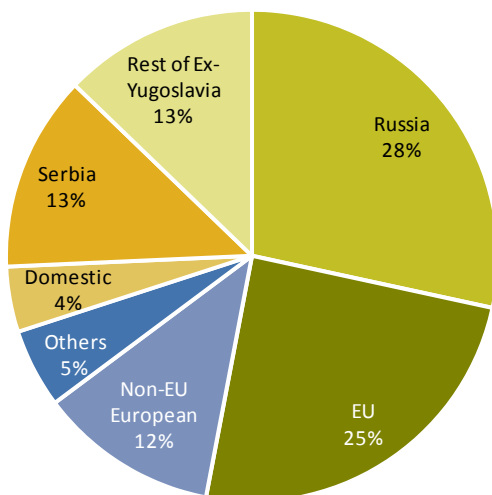
Source: Montstat 2011

Montenegro’s tourism industry is strongly focused on the coastal areas with 96% of tourist overnights being generated at coastal resorts. Currently, Montenegro’s coastline hotel supply – the area earmarked for repositioning – is characterised as shown in the following table.

The majority of hotel supply – about 70% – is characterised by hotels in the lower categories (one-, two- and three-star). This is a legacy of the communist era and the destruction caused during the war. Most of the hotels in this category are filled by tour operator allotments.

The origin of guests is highly influenced by the communist era as well as the accessibility from traditional source markets (roads for neighbouring countries and airlift for Western Europe and Russia mainly). The neighbouring former Yugoslavian countries take up about a third of all visitation in today’s market and Russia accounts for another third. The repositioning of the destination, however, is expected to widen the geographic source markets and make the destination less dependent on a limited number of countries.

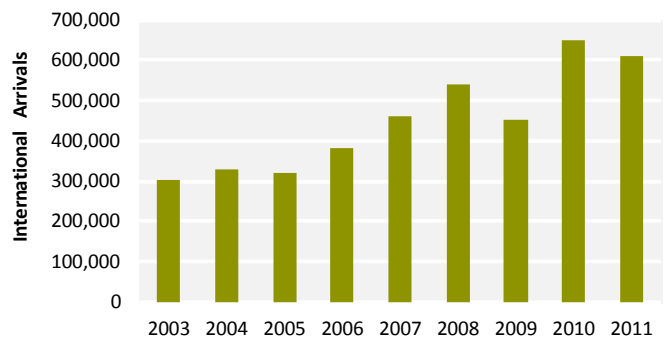
**Source Markets**



Source: Montstat 2011

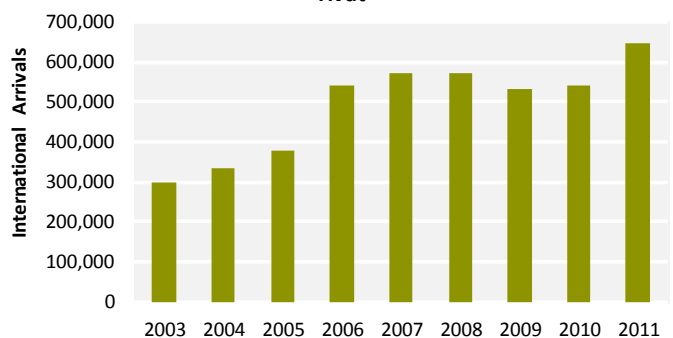
There are charter flights during the season to Tivat in order to facilitate the season’s tourism, but scheduled airlift is necessary to broaden the seasonality and attract higher-paying clientele as well as new hotel investors. Podgorica as the capital receives most of the scheduled flights throughout the year.

**Podgorica**



Source: ICCA

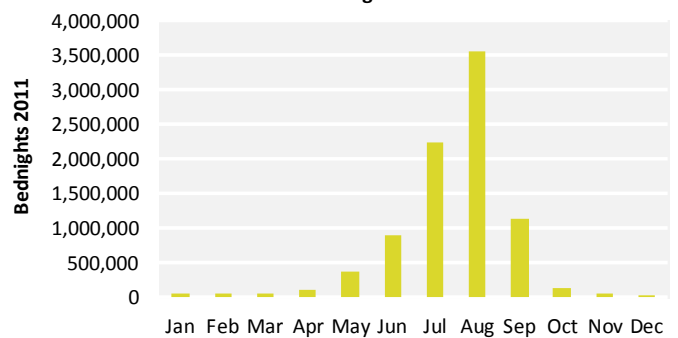
**Tivat**



Source: ICCA

In line with the airlift schedule, the seasonality of Montenegro’s coastal area is very strongly pronounced, with the peak visitation occurring during the summer months of July and August, coinciding with the summer holiday season in Europe. Future hotel operators are aware that the seasonality cannot be changed materially; however, by creating experiences around the different seasons including wellness and spa, high-end medical tourism and mega yachting, the season can be extended. Mostly weather patterns allow easily for the extension of the season if accessibility can be increased so that guest can travel conveniently to the location.

**Montenegro**



Source: Montstat 2011

## The Future – A Focus on Sustainable and Luxury Tourism

Montenegro's tourism master plan clearly communicates the focus on sustainable hotel development in the five-star and luxury category along the coast, which will provide the material lift in perception and positioning of Montenegro as a tourism destination. The Investment and Development Company (DEG), a German company specialising in long-term projects and corporate financing, prepared a tourism master plan in collaboration with the Ministry of Tourism. The *Tourism Master Plan for Montenegro* outlines specific steps to be undertaken in support of the key role assigned to nature-based tourism in the country by the government through to the year 2020.

Developed via a top-down approach but including all direct stakeholders for discussion, the tourism master plan aims at identifying and targeting specific niche market segments via specialised itineraries and promotional events, accommodation, transportation networks, and entertainment alternatives. As part of the process, the Montenegro Ministry of Tourism updated its destination brand to 'Wild Beauty'.

In order to support the growing numbers of tourists every year, the Montenegrin government has committed to a large-scale upgrade of the public infrastructure. This upgrade is absolutely necessary since the current infrastructure of roads, utilities, sewage and so forth is insufficient. Congested coastal areas currently suffer from water shortages and power cuts several times during the high season, which creates a negative image and is a nuisance to tourists and locals alike. Pipes, wires and so forth are slowly being replaced; the northern section of the regional water supply system has been completed and reportedly cost €81.7 million alone, and a second phase of construction was started in spring 2011 for the southern regions. The road network is being improved by important projects such as the six-kilometre Sozina Tunnel (between Bar and Podgorica) and the Kotor Tunnel. Additionally, more and more coastal roads are being extended to two lanes. There have been delays in carrying out the essential upgrades to the infrastructure, particularly with the economic downturn, but the government stays committed to carrying out those projects or awarding them to international investors/contractors.

## New Luxury Hotel Projects

In order to kick-start the repositioning of the destination from low-quality hotel stock to an upscale/luxury destination, the coastline needs some serious marquee projects.

Despite the credit crunch and economic downturn inhibiting the efforts made to get a number of announced high-profile projects off the ground, Montenegro will see a continuous influx of foreign direct investment from the Middle East, Asia and Russia in order to set the tourism master plan and strategy in motion.

**Sveti Stefan – Amanresort.** This was the first luxury resort that opened with part of the room inventory on Sveti Stefan in 2011. After an extensive period of planning applications and construction, the Amanresort today houses 35 units on the island (and a further eight units at Villa Milocer on the mainland). An additional 15 units will be opening in spring 2013 on Sveti Stefan. The resort is working towards a nine-to ten-month operation. The resort concept maintains a 'village feel' in the distribution of the food and beverage outlets around a central piazza with a church.

*Sveti Stefan, © Amanresort*



**Tivat/Bay of Kotor – Porto Montenegro.** This 'anchor' project is at the most advanced stage of all the developments in the region and is a key driver for attracting other high-net-worth individuals and private equity funds to invest in the region. Previously announced as a Four Seasons hotel, the project will now be home to a Regent Hotel and Residences by Formosa International Hotels Corporation based in Taipei. Porto Montenegro is targeting the high-end yachting

market as a home port and offers various components including residential real estate (townhouses, apartments), a pool bar and restaurant, an international retail experience and various restaurants and bars/cafés. It is creating a nice, vibrant atmosphere for travellers and real estate/berth owners alike.

Porto Montenegro



**Luštica Peninsula – Orascom Development.** Similar to the scale of other Orascom development projects such as Andermatt in Switzerland, this development once fully developed and completed is expected to include eight hotels (with a total of 2,200 keys), 1,600 apartments, 750 villas and townhouses, a downtown area with all the necessary facilities (such as shopping, school, and medical services), two marinas, water sports, a conference centre, a thalasso centre and an 18-hole golf course. US-based SB Architects was selected by Swiss developer Orascom Development for the first phase of its €1.1 billion Luštica Bay luxury resort community on an island in Montenegro, the first recent sign that the project is going ahead. The project, Lustica Bay Marina Village, is the first phase of the resort, located near the coastal town of Tivat at the mouth of Kotor Bay. It is designed to have 190 residences, a 60-room boutique hotel with shops and restaurants, a yacht club and marina, a marine biology institute, and a restaurant in a waterfront cave. Site preparation has started. The project's guiding principle is to create a more prosperous Montenegro through intelligent development, following the tenets of sustainability and environmental integrity. Tivat-based Lustica Development is 90% owned by Orascom Development Holding – controlled by Egyptian-born Samih Sawiris. The remaining 10% is held by the Government of Montenegro.

**Sveti Marko/Tivat – Banyan Tree.** Sveti Marko Island is the largest island in the Boka-Kotor Bay in the southern part of the Tivat Gulf of the Adriatic Sea, on the southeast coast of Montenegro. Metropol, a Russian real estate developer, is planning to construct a luxury mixed-use resort on the 34-hectare territory including a Banyan Tree hotel, stand-alone bungalow units, retail and entertainment facilities as well as whole ownership real estate. Building works have not started yet (and an official date has not been communicated), but design and consultant teams have been working in the background to move the project forward.

**Qatari Diar** is overseeing a leisure development called “Beyond Horizon” which will feature a five-star hotel as well as mixed-use units on a project spanning 34,000 m in total. The property will be managed by Qatari Diar Hotels and Property Investment, Montenegro as per information from their website. Unfortunately no further details about the progress are available at this stage.

**Budva – Adriatic Project.** The only announced and confirmed upscale project outside of the Boka region is the Adriatic Project. Owned by Boka Property Holding Services Ltd, this five-star hotel will have 180 rooms, 161 luxury residences, a private beach club and conference facilities. Building is due to commence in 2013 and the development is due to open in 2016.

## Destination Life Cycles

In order to compare a destination and its potential with other destinations, the destination life cycle model is widely used. Going back to his 1980 article, Butler proposed a widely accepted model of the life cycle of a tourist destination. The basic idea of Butler's 1980 *Tourism Area Life Cycle (TALC) model* is that it distinguishes between four main stages in the life of a destination.

### 1. Discovery Stage

An area is ‘explored’ or ‘discovered’ by a small number of people who pass on their travel experience by word of mouth. In time, other people visit and local people seize upon the new economic opportunities provided by these visitors and provide services to meet the needs of these visitors/tourists.

## 2. Growth and Development Stage

More tourists arrive having heard about the place by word of mouth, articles in travel supplements in newspapers, brochures or tourist guidebooks. The continuous increase in tourists attracted by the publicity and adventurist/exploring tourist attracted by new destinations will lead to the building of new hotels, restaurants, shops and services to cater for the influx of people.

## 3. Success Stage

As more people visit the resort, the facilities are now fully utilised. At this stage mass tourism is the main contributor to the economy of the location. This may cause some resentment with locals who have not benefited from the new industry or from the loss of a distinct identity. It may appear that the local culture is being diminished by a more international, common culture compared to what may have existed before.

## 4. Stagnation Stage

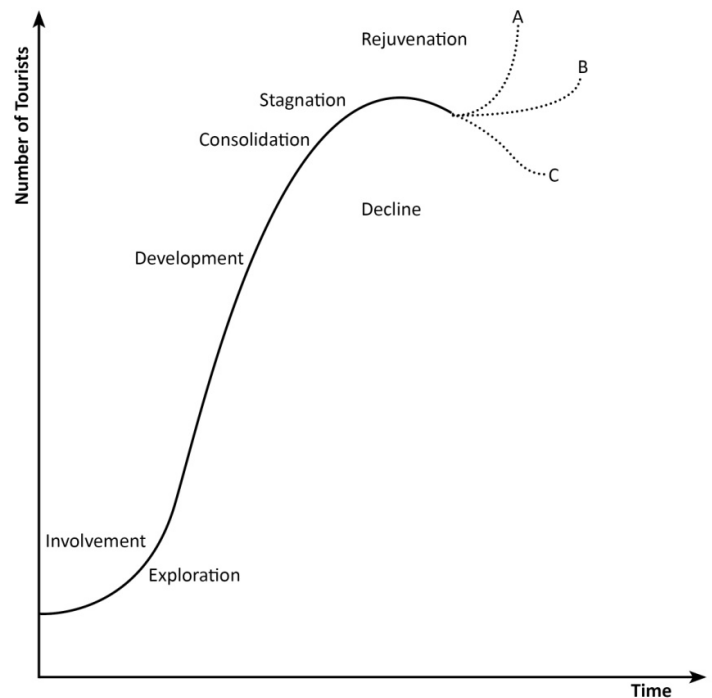
Mass tourism leads to an overutilisation of resources, noise and crowding. The effect of falling tourism if a destination goes out of fashion leads to economic decline and the underutilisation of the tourism infrastructure. The eventual closure of some of the businesses will lead to a rise in unemployment. In some cases this phase is very brief and tourism stakeholders realise early that they have to move to a repositioning/rejuvenation stage.

## 5. Decline or Rejuvenation

The destination has two options: go into decline or rejuvenate and develop more sustainable strategies for future tourism.

## Montenegro and its Competitors in the Destination Life Cycle

Montenegro has built up an image of a destination that offers sea, sun and sand for summer holidays, providing rather good value for money for the not too discerning traveller. It has moved from a development stage to a success stage and mainly competes with destinations in parts of Croatia, Bulgaria and Turkey – located along the southeastern Mediterranean – that focus on the affordable mass tourism product. It also competes to some extent with very mature mass market destinations along the Spanish Mediterranean



coastline and Italy (such as Rimini). Particularly the Western Mediterranean competitor destinations seem to have reached the later parts of a stagnation phase, leading to a fork in the road: decline or rejuvenation. Montenegro has realised that as a destination it is not likely to be successful by copying the model of its competitors.

## Jumping the Stagnation Phase?

Tourism officials and stakeholders in Montenegro had the benefit of historic overdevelopment being concentrated on particular stretches along the coast (such as Budva) and have realised that the remaining untouched natural parts (particularly Boka Bay) should be dedicated to sustainable and upscale/high-end selected resort development. This broadening of hotel product and experience at a whole different level should enable Montenegro to broaden its tourism offer and attract new segments/travellers. This could mean that Montenegro, in the best case scenario, transitions from a development/consolidation phase directly to a repositioning without entering the stagnation phase. In this sense, it seems that Montenegro has changed the course of its tourism policy early. If all goes according to plan, Montenegro should be successful in repositioning its coastline (particularly around Boka and Tivat Bay) to a luxury destination that has a less dense, more sustainable long-term tourism offering in the coastal region.

**Derived from the destination model and our experience, essential success factors for a successful regeneration/repositioning of a destination include the following.**

- Political stability/security and continuity with the backing of a tourism master plan over the medium to long term;
- Government support and unified strategy – all stakeholders on the same page;
- High-profile projects that kick-start repositioning and help to reach a critical mass of investment to materially change the hotel supply structure;
- Unified destination marketing and promotion;
- Basic infrastructure upgrade for water, sewage systems and electricity providers;
- Clear land ownership/titles and cadastral planning (security of investment);
- Improved infrastructure and airlift/accessibility;
- Qualified and educated workforce – human resource development and vocational training; ideally trained in high-quality hospitality programmes/colleges provided in the country.

Only with continuous long-term support and commitment from all stakeholders will Montenegro be

able to reposition itself to a luxury tourism destination. The existence of one marquee project is invaluable, but not enough to fulfil this purpose. The more projects of this nature that complement rather than copy each other the easier it will get to attract a critical mass of high-level travellers and clientele and the more cohesive the destination marketing, which leads to a clear perception of a luxury destination.

However, new hotels entering the market will need time to stabilise their operation over at least four to five years and will show a different profit and loss statement than a hotel opening in an already established luxury destination such as the South of France, Monaco, Costa Esmeralda or Marbella. Therefore, it is essential to get the full and continuous support of the government to protect investment in luxury resorts by adhering to the self-imposed tourism master plan and assuring swift processes for planning and the securitisation of land titles, and progress on essential infrastructure improvements that will literally pave the way to more foreign direct investment in the sector.

HVS London has worked on numerous of the projects mentioned within this article and is also very knowledgeable about hotel markets in other luxury destinations in the EMEA region.





## About HVS

**HVS** is the world's leading consulting and services organization focused on the hotel, restaurant, shared ownership, gaming and leisure industries. Established in 1980, the company performs more than 2,000 assignments a year for virtually every major industry participant. HVS principals are regarded as the leading professionals in their respective regions of the globe. Through a worldwide network of 30 offices staffed by 300 seasoned industry professionals, HVS provides an unparalleled range of complementary services for the hospitality industry. For further information regarding our expertise and specifics about our services, please visit [www.hvs.com](http://www.hvs.com).

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## About the Author



**Arlett Oehmichen** is an Associate Director with HVS's London and Caribbean offices, specialising in hotel valuation and consultancy. Arlett joined HVS in 2006 after experience in the hotel investment industry as well as operational hotel experience. Arlett holds a Master in Real Estate Investment and Finance from Reading University, UK. She has extensive experience of feasibility studies and valuations of mixed-use integrated resort schemes throughout EMEA and the Caribbean. Arlett has worked on numerous assignments along the Adriatic coast including countries such as Albania, Montenegro and Croatia over the last five years and has closely monitored their destination development. She has advised numerous stakeholders including investors, owners and developers on hospitality issues surrounding emerging tourism destination.

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