TOURISM SECTOR IN BOSNIA AND HERZEGOVINA

DRAFT REPORT (REVISED)

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1. EXECUTIVE SUMMARY

In February 2006 Prism research conducted a survey among tourism related businesses in Bosnia and Herzegovina. The purpose of the survey was to obtain an overview of the industry, to determine the business outlook of owners and managers, and to assess the level of interest in improving business and operations strategies.

The sample was constructed using a database of all active transaction bank accounts developed by the Central Bank of Bosnia and Herzegovina. Prism Research actually conducted two surveys: a nationwide (BiH) sample of 200 businesses, and a 100 firm survey in each of three regions (Sarajevo, Herzegovina and Krajina) in which the USAID Cluster Competitiveness Activity (CCA) is working on cluster development. The 200 firm survey and the 300 firm regional surveys cannot be combined to reach any conclusions; they are each representative in their own right.

State of the industry

The tourism sector consists principally of small firms engaged in the accommodation and restaurant business. Between 40 and 50% of the surveyed firms have fewer than five employees. More than two-thirds employ fewer than ten workers; this is particularly true for firms in Herzegovina and Krajina where more than 70% of firms employ fewer than 10 workers. Two thirds of the companies are privately owned and the remainder is state owned – public institutions, such as libraries, museums, archives, sports and cultural organizations.

More than half of the firms surveyed received less than 100,000 KM in revenue in both 2004 and 2005. Between 70 and 80% of tourism companies are principally self-financed; few have loans or public or private financial support. And, tourism is not their primary business – almost 43% of tourism companies in the nationwide survey reported that less than 5% of their total sales were in tourism. Only 13% of companies can attribute between 75 and 100 percent of their total sales to tourism, while a fifth of companies achieves between 6% and 25% of their total revenues in tourism.

Asked to state the percentage of their total sales achieved from receptive services to visitors, most B&H companies (41%) said it was less than 25%. However, most of the companies that report achieving 100% of their sales from receptive services to visitors are located in Herzegovina (22%) while this was the case for only 5% of companies from Sarajevo and 7% of companies from Krajina. On the other hand, a smaller percentage of companies from the sample for B&H (16.5%) reported achieving 100% of their sales from receptive services to visitors.

In summary, the industry is dominated by small, self financed and likely family owned businesses. (This is similar to the profile of the tourism industry worldwide). However, tourism is not the primary business for most of these firms.

Marketing

Regarding internet use, companies from Sarajevo use the internet the most, those in Krajina the least, while the companies from Herzegovina fall in between (51%). Internet connections are used mostly for e-mail communication. One third of B&H companies report having a Web side, with significant differences between regions. Over half of the companies in Sarajevo say they have their own Web side, a third in Herzegovina, and a fifth in Krajina. Forty percent of B&H tourism companies accept credit cards (fewer companies in Krajina); but a third of the B&H companies surveyed believe that less than 5% of their customers actually use credit cards.

In the opinion of the majority of surveyed companies, the top five reasons for tourists to visit B&H are: history, conferences, spas, religion and sport. In fact, it seems that Sarajevo (according to tourist companies there) provides more variety in the type of offers than Herzegovina or Krajina. Tourism companies say that most tourists visit the Sarajevo region to tour historic monuments and attractions; the region of Herzegovina for religious reasons; and Krajina for seasonal events and festivals.

Firms in B&H say that most of their clients (77%) are domestic tourists and only 22% are foreign tourists. The Sarajevo and Herzegovina regions appear to host a higher percentage of foreign tourists (34% and 30% respectively) than does the Krajina region (20%). In the opinion of tourism companies nationwide and in the specific regions, both domestic and foreign tourists visit B&H first for leisure, then for business and finally for family visits. Tourists usually stay between one and three days.

Tourism companies are more oriented to domestic promotion. Almost half of the companies do not promote their product internationally. The most commonly used domestic promotion activity is TV or radio advertising or appearances (one half of companies use it); and the most commonly used international promotion is internet advertising (one third of companies).

According the tourism companies in B&H and the regions, they most often use direct marketing as a sales channel. However, a higher percentage of Sarajevo and Herzegovina companies (around 70%) than Krajina companies (42%) claim to use direct marketing in order to sell their services. Sarajevo companies use a greater variety of sales channels.

Judging by the survey results, B&H tourism companies do not have a clear vision about which marketing strategies could help them increase sales and their competitiveness, or which strategies could improve availability and management of human resources. Results indicate that businesses surveyed stated that all proposed types of training or strategies that were listed as options in the survey would be useful for them.

Industry outlook

Companies from B&H, including all three regions, hold very optimistic expectations for their business. More than two thirds of tourism companies expect growth in total sales, increase in the number of employees, and growth in visitors over the next three years.

B&H companies expect the greatest growth in sales of services to domestic visitors (64%). Sarajevo companies expect a higher increase in sales of services to foreign (42%), and Herzegovina companies expect almost an equal increase in sales of services to domestic (42%), while the greater increase in sales of services to domestic (45%) visitors is expected in Krajina.

Most companies from throughout B&H and in all three regions, expect the upgrading of existing services and products for existing customers to contribute the most to the increase of sales.

Despite saying that they were not likely to seek new financing (more than half), B&H tourist companies stated they will need to invest in new equipment and new facilities/real estate (especially companies from Krajina).

Conclusion

Survey results suggest that tourism companies do not think of tourism as an industry. They are usually small, self-financed, private companies. More than 60% of them achieve less than 25% of their revenue in tourism. Domestic visitors are their primary clients and firms are more oriented to domestic promotion. It seems that companies have somewhat unrealistic expectations for their industry:

- 70% expect an increase in number of employees
- 70% expect growth in total revenue
- A significant number, especially in Krajina expect to need business investments
- 30% expect the number of international visitors to grow
- 60% expect the number of domestic visitors to grow

The firms’ high expectations for business growth are seemingly contradicted by the tourist firms’ answers to their individual business situations and strategies:

Sales revenue was flat between 2004 and 2005

- Almost 50% engage in no international promotional activities
- Only Sarajevo uses a diversity of sales channels
- Some amount of reported Internet usage and acknowledgement of a Web site likely reflects more a desire than reality;
- Most expect the upgrade of existing products for existing customers will contribute most to increased sales;
- They have no distinct vision in determining marketing priorities to increase sales, or in determining operations priorities to increase sales, except in the need for improved customer service;
- They have no distinct vision in determining human resource priorities to increase sales or in determining skill training and operations priorities to increase sales.

This is a young, underdeveloped industry that requires significant assistance in development of operational, financial and marketing strategies to achieve new sales and markets.

2. INTRODUCTION

In February 2006, Prism Research conducted a special survey of companies in the tourism sector in Bosnia and Herzegovina on behalf of the Cluster Competitiveness Activity (CCA) financed by the United States Agency for International Development (USAID). Prism Research interviewed a sample of 200 companies from throughout Bosnia and Herzegovina and 300 companies in the regions of Sarajevo, Herzegovina and Krajina.

The goal of the CCA is to increase the rate of economic growth in Bosnia and Herzegovina by working in the tourism sector to raise productivity, profitability and employment. Information obtained from this research is to be used to formulate the principal assistance strategy for the sector in general, as well as for individual companies.

The main goals of this research are:

- To provide a review of the sector
- To obtain information about the primary activities within each sector
- To obtain information about the size of companies by number of employees, revenue and export sales
- To obtain information about future plans of company managers and owners
- To assess the level of interest for improving the marketing strategies, business activity, financial management and cooperation within the sector

3. RESEARCH FINDINGS

3.1 Position of the company in the tourism sector and in the region

For the purposes of this study, two separate samples were designed in order to obtain a review of the tourism sector in B&H, as well of the three specific regions defined by USAID CCA. The B&H sample included all cantons from the Federation B&H and all regions of Republika Srpska. The USAID CCA regional sample covers the three regions of Sarajevo, Herzegovina, and Krajina. Each samples are representative.

In this report, we will compare the results on the B&H level and the three regions individually. All differences found between regions will be reported.

Regarding the primary business activity, the sample for B&H and at the level of the USAID regions was designed in accordance with percentage representation of different tourism activities in the corresponding municipalities or regions. However the representation of restaurants in both samples was more than 70% of all businesses in the tourism sector, so the decision was made to significantly reduce the representation of this activity in the overall sample. In addition to the restaurant sector being the most common sector within tourism, in our sample for B&H, and according to predetermined quotas the sample included companies providing accommodation (30%), libraries, archives and museums (18%) and restaurants and entertainment (each 12.5%).

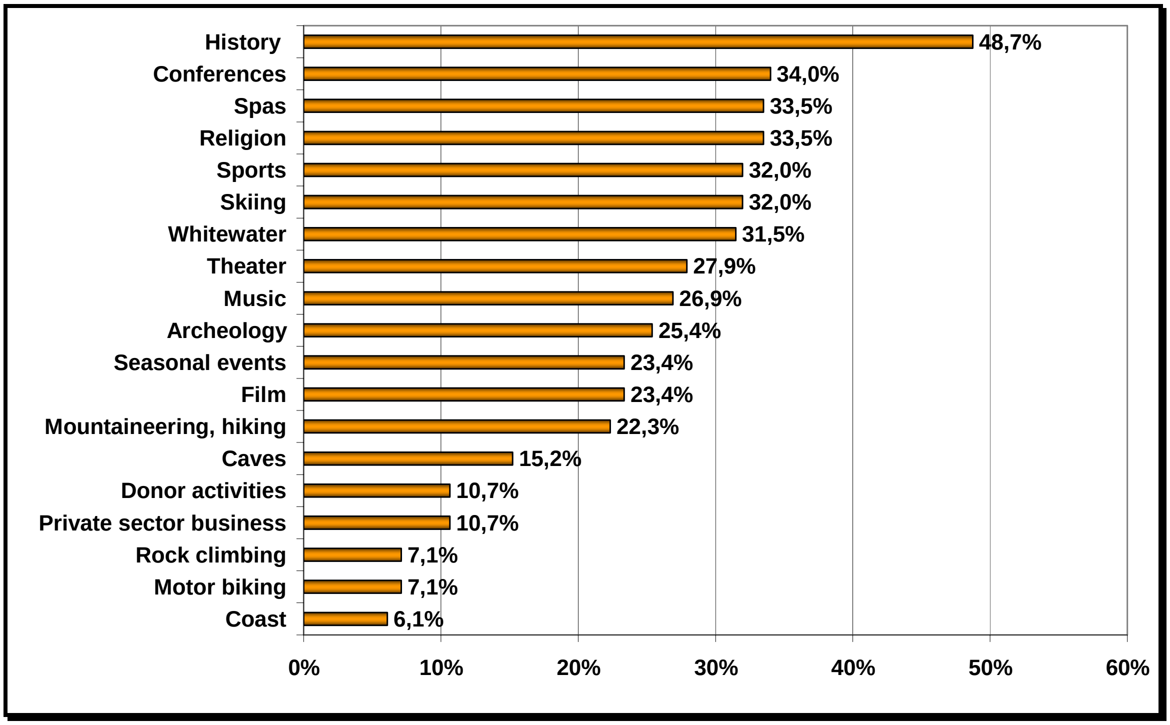
In the sample of regions, after restaurants, the most common tourism sector activity is those firms providing accommodation. When companies are compared with regard to the regions the greatest numbers of companies providing accommodation are found in the Herzegovina (42%) and Sarajevo regions (38%), and the lowest in the Region of Krajina (16%).

The majority of surveyed companies are involved in more than one business activity. The most common secondary activity for companies at B&H level are restaurant services (33%), travel arrangements (24%) and entertainment (23%).

Regarding the area in which they operate, we asked surveyed tourism companies to state the names that their tourists give to the region in which their company operates. Tourists who are clients of the surveyed companies and who travel to the areas in which these companies operate use different names for the regions they visit. Region Sarajevo is almost always called Sarajevo region (97% of tourists who visit and use the services of companies from the Sarajevo call that region Sarajevo); tourists who visit the Herzegovina region call that region mostly Herzegovina (67%), Central Bosnia (6%) and Mostar (19%); while most tourists who visit Krajina call that region Krajina (84%) or the Banja Luka Region.

Some of the surveyed companies have more than one business operation location. In the sample for B&H, one in five companies (19%) is not only active in its primary location but also in other parts of Bosnia and Herzegovina. Most companies that have more than one location are active in the areas of Central Bosnia (44.7%) and Herzegovina (34.2%). Due the small samples it is not possible to provide comparison between regions.

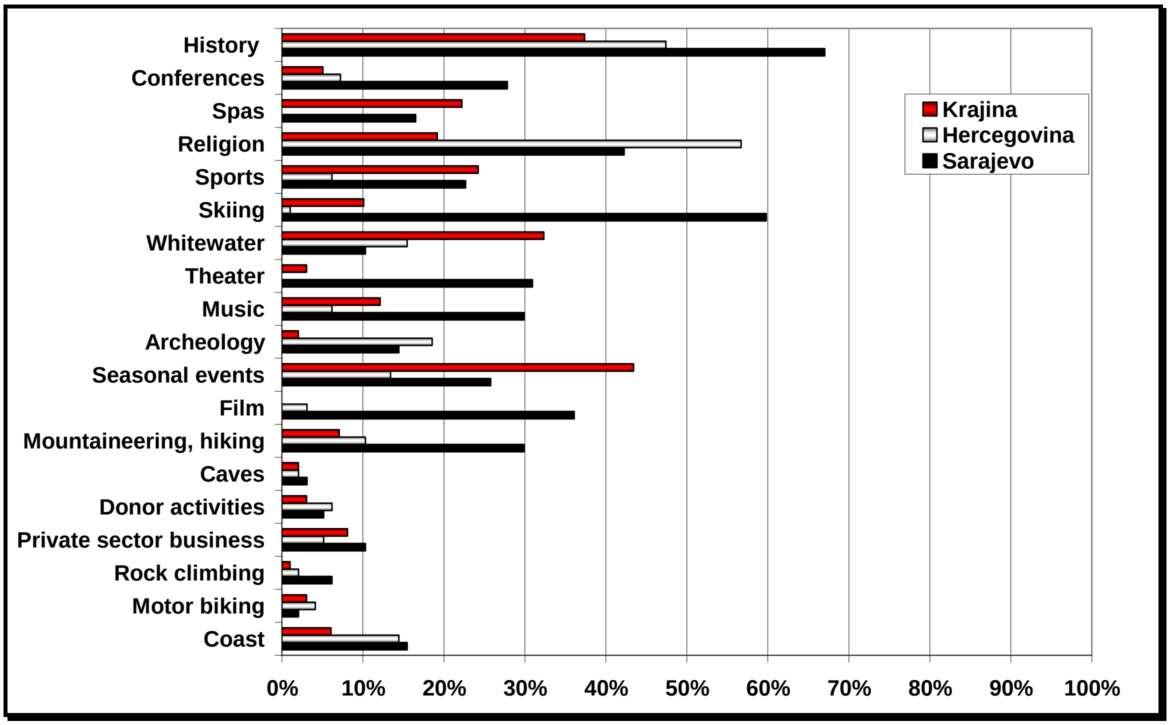
Graph 1. Main tourist attractions – B&H



The tourist companies were asked about the main tourist attractions in the areas where they work. Responses indicate that the companies from throughout B&H agree that there are numerous reasons for tourists to visit Bosnia and Herzegovina, and that the most important one is history. In the opinion of half of the surveyed companies from around Bosnia and Herzegovina (48.7%), historic attractions draw the most attention to the country. However, a third of surveyed companies believe that tourists also attend conferences, visit spas or travel to B&H for religious reasons, sporting events or skiing etc. On the other hand, the least number of tourists, in the opinion of tourism businesses, visit the B&H coast (6.1%), come to the country for motor biking or rock climbing (7% each) or for business activities in the private sector or donor activities (10.7%).

When the companies surveyed in the whole of B&H are observed with consideration of the entity of their origin, it becomes obvious that the companies from the two entities do not have a common opinion about what attracts tourists to their entity. In the opinion of two thirds of surveyed companies from the Federation B&H (60.1%), tourists most commonly visit the Federation B&H to tour historic attractions or for skiing (31.7%). On the other hand, companies from RS think that most tourists come to the Republika Srpska to spend time in spas (53.5%) or for religious reasons (46.6%).

Graph 2. Main tourist attractions – results by regions



We obtained more information about the reasons for tourist visits by comparing companies that are active in different regions. It appears that most tourists visit the region of Sarajevo in order to tour historic monuments and attractions (67%), to ski (59.8%), or for religious reasons (42.3%). A third of surveyed companies believed that tourists also visit Sarajevo because of the Sarajevo Film Festival (36.1%), and for mountaineering or hiking (29.9%). Tourists interested in attending theater events (30.9%) and different conferences travel more to Sarajevo than to Krajina and Herzegovina.

In the opinion of companies working in Herzegovina, most tourists visit this region for religious (56.7%) and historic (47.4%) attractions. Seasonal events and festivals are the primary reason for which tourists visit Krajina (43.4%). A third of surveyed companies from Krajina believe that tourists visit their region because of historic attractions (37.4%) or for whitewater resources (32.3%).

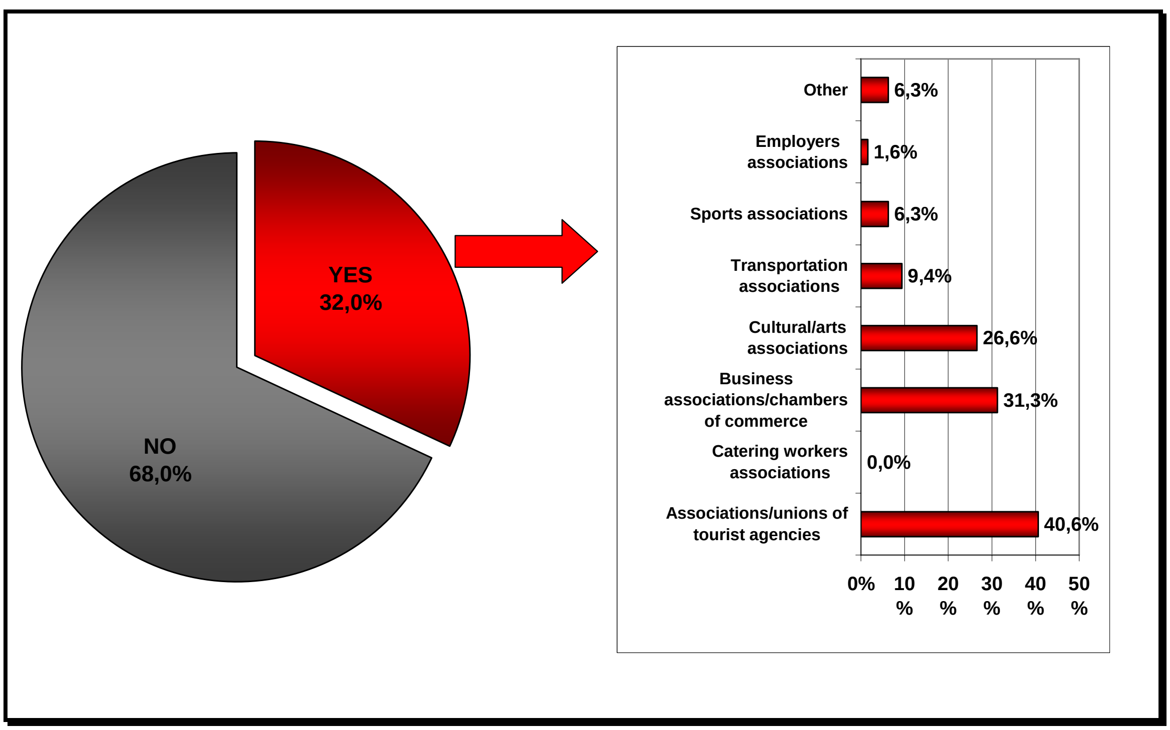
Most B&H tourist companies (68%) are not members of any business association. A third of companies are members of some business association, most commonly of the Association of Tourist Agencies (40.6%) or Business Association or Chambers of Commerce (31.3%).

More companies from the RS (36.4%) than from the F B&H (28.6%) said they were members of some of the mentioned business associations. Also, more companies from the regions of Krajina (29%) and Sarajevo (25%) than from the Herzegovina Region (16%) were members of some business associations.

Most companies that are members of business associations (78%) pay some membership fee. A somewhat higher percentage of companies from the Federation (84.8%) than from the Republika Srpska (70.9%) are required to pay for membership fees.

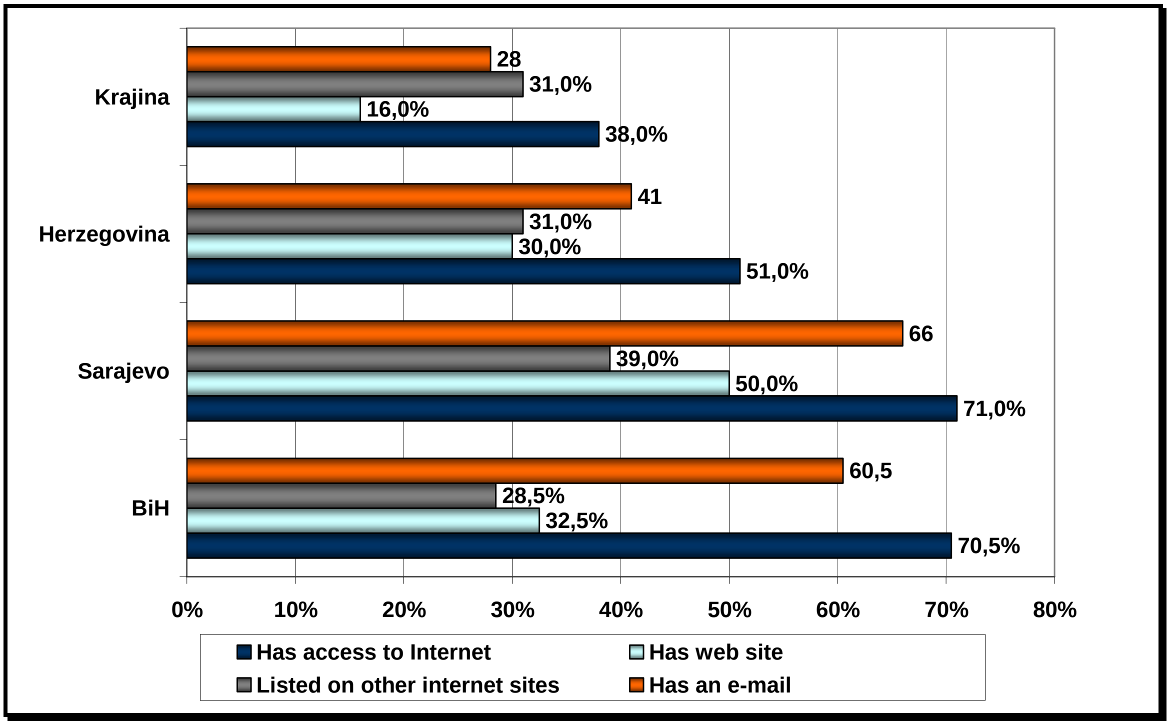
In addition to not being members of business associations, a large majority of surveyed companies (90.5%) did not attend the regional cluster group meeting organized by USAID. There were no differences between companies from different regions as the majority of all companies did not attend the meeting organized by USAID (90% of companies in all regions did not attend). The small number of companies that attended the meetings did so for two times on average (2.6 mean) or mostly just once (mode).

Graph 3. Membership in different associations – B&H



3.2 Internet usage

Graph 4. Internet usage and on-line presence – B&H and the regions



Surveyed companies provided us with information about their Internet usage habits and on-line presence. Results indicate that most surveyed companies have access to the Internet and are using e-mail. Most companies in the sample for B&H, or 70.5%, have access to Internet. Two-thirds (60.5%) have an e-mail address, be it private or professional.

However, the surveyed companies appear to be less inclined to sponsor their own Web page or to present themselves on the Web pages of other companies, Internet portals etc. According to the research results, one third of companies from the sample for B&H (32.5%) have their own web page and 28.5% are listed on some other Internet sites. Companies that are listed on other Internet sites usually opt for different city portals (48.8%) or the Web pages of other tourism/catering companies (25.6%).

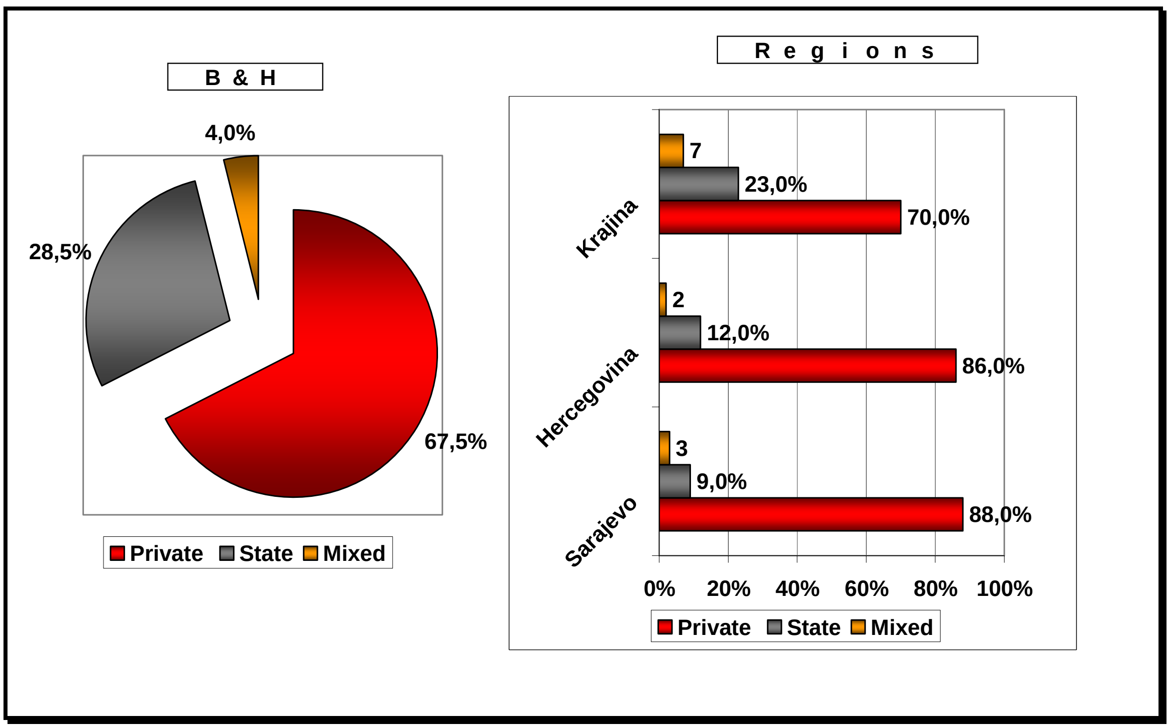
As for access to the Internet, Web presentations, e-mail addresses or presentation on other sites, there was no difference between companies from Republika Srpska and those from the Federation.

However, differences are seen between the companies from different regions. The companies from Sarajevo are the most, and those from Krajina the least represented on the Internet, while the companies from Herzegovina are in between. As many as 71% of the Sarajevo companies have access to the Internet compared to 51% of companies from Herzegovina and only 38% of companies from Krajina. The situation is similar with regard to the companies' own Web pages, with half of the Sarajevo companies (50%), a third of the Herzegovina companies (30%) and less than a fifth of the Krajina companies (16%) having their own Web pages. This trend continues in the companies' use of e-mail addresses, with 66% of companies from Sarajevo, 41% from Herzegovina and 28% from Krajina having an e-mail address.

However, the companies from different regions are equally interested in being listed on other companies' Web pages, different Internet portals etc.

3.3 Company structure

Graph 5. Company ownership structure – B&H and the regions

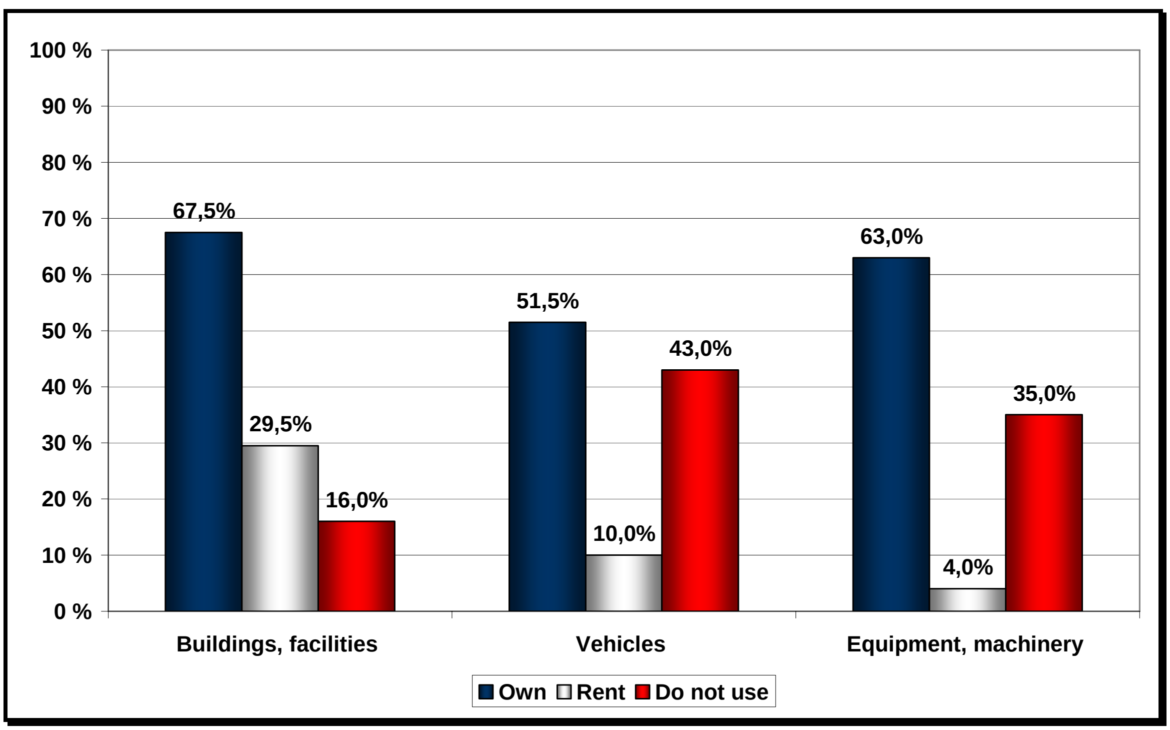


As for the ownership structure of the tourism companies in B&H, two thirds are (67.5%) privately owned, one in four is state-owned (28.5%) and an insignificant number (4%) are of a mixed ownership structure. When the regions are observed separately, it becomes obvious that the share of private ownership in the total number of tourist companies is higher in the Sarajevo (88%) and Herzegovina (86%) regions and lower in the Region of Krajina (70%).

In terms of their organizational structure, half of companies in the sample for B&H (53.5%) are limited liability companies, and a significant number are registered as public institutions (22%). The state owned tourism companies are mainly registered as public institutions. A smaller percentage of tourism companies are registered as independent catering companies or independent craft companies (7.5%) or citizens' associations (5.5%). The situation with companies' organizational structure is similar in specific regions. A half of regional businesses are registered as limited liability companies, while a somewhat higher percentage are registered as independent catering companies or independent craft companies (ranging from 14 to 29 percent). However, the number of companies that are registered as LLCs is somewhat higher in Sarajevo than in other regions.

Only 14.5% of B&H tourism sector companies are joint stock companies. The percentage of such companies is somewhat higher in the Sarajevo region (17%) and lower in the Herzegovina (13%) and Krajina (8%) regions. The percentage of companies with foreign capital in the sample for B&H is even lower (3.4%). Again, there are more such companies in Sarajevo (9%) and Herzegovina (8%) than in Krajina.

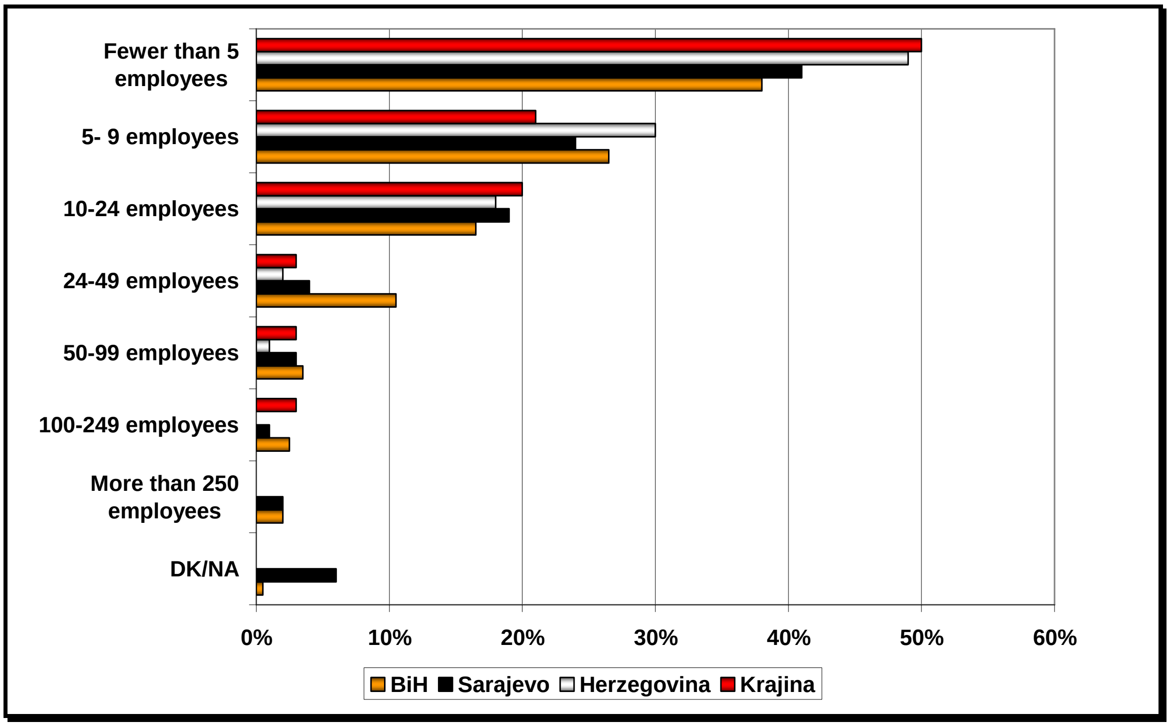
Graph 6. Company assets – B&H



Despite the lack of foreign capital investments, most tourism companies in B&H own buildings or facilities (68%), while only a third (30%) rent. Two thirds of companies (63%) own, and only a small percentage rent (4%) the equipment and machinery they use in their work. Vehicles are the least used asset from the list, with 43% of companies from the B&H sample saying that they do not use vehicles (52% own and use vehicles). Cross-regional comparisons show that a more or less equal percentage of companies own some of the assets, although the companies from Krajina more frequently report possessing equipment or buildings or facilities.

3.4 Employees

Graph 7. Total number of employees – B&H and the regions

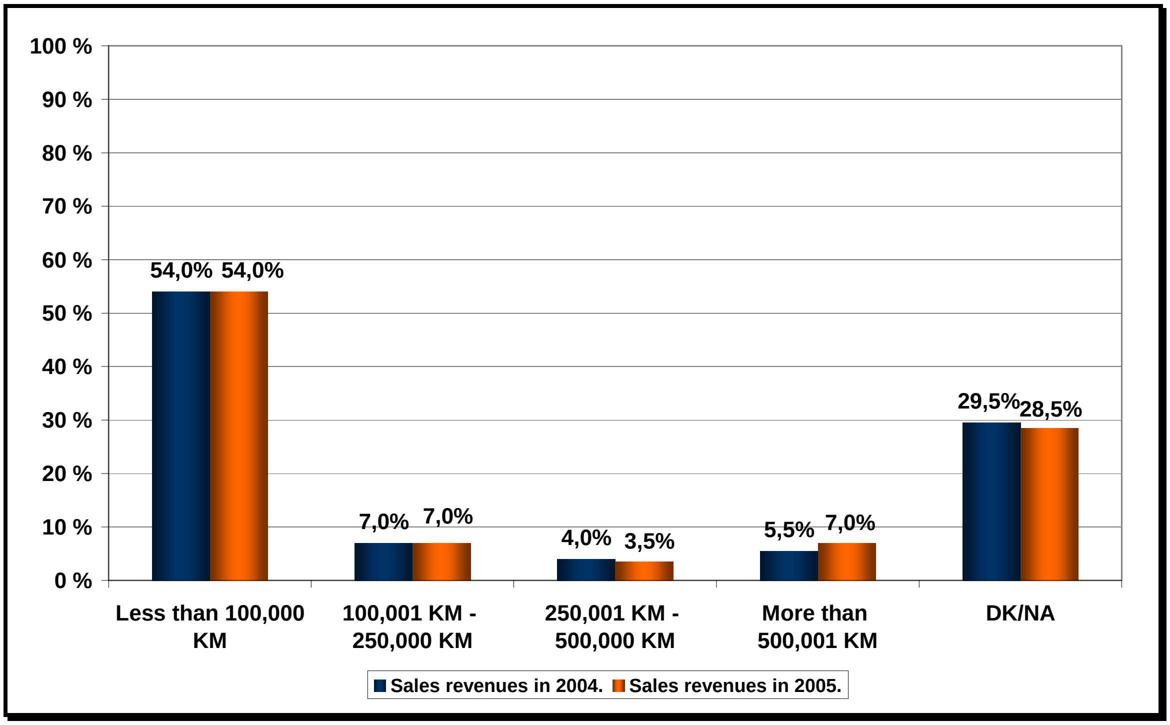


In the sample for both B&H and for specific regions, most companies are small companies with fewer than five employees. In B&H, over a third of companies (38.3%) employ less than five people and that percentage significantly increases in individual regions. The highest percentage of small companies was found in the regions of Krajina and Herzegovina, where they made up 50 percent of the sample. In Sarajevo, 41% of surveyed companies employ less than five people. However, the Sarajevo companies were more reluctant to respond to this question (6% refused to answer). Tourism companies rarely employ more than 50 people, since only a small percentage of companies in the sample for B&H and for individual regions reported doing so.

Concerning the employment structure, most workers are full-time employees. Over 80% of surveyed companies both at the national level in B&H and in individual regions said they did not have a single half-time employee or seasonal worker. Most companies that reported employing half-time or seasonal workers, usually have such an arrangement with less than five people.

3.5 Revenues and sales

Graph 8. Revenues achieved by companies – B&H



Judging by the responses provided by B&H tourism companies, their sales revenues have not changed over the past two years. Regardless of the amount of sales revenues they achieved in 2004, all the companies say they operated with equal financial success in 2005. According to the research findings, about a half of surveyed companies (54%) achieved less than 100,000 KM, while one in five companies achieved more than 100,000 KM in sales revenues. It is necessary to mention at this point that almost a third of surveyed companies declined to talk about their revenues so these conclusions must be taken with caution.

Sales revenues of the regional companies were also reported to be unchanged. In the case of the regions about half of the Sarajevo (55%) and Herzegovina (51%) companies, and a somewhat higher percentage of the Krajina companies (65%), achieved less than 100,000 KM in sales revenues in both 2004 and 2005.

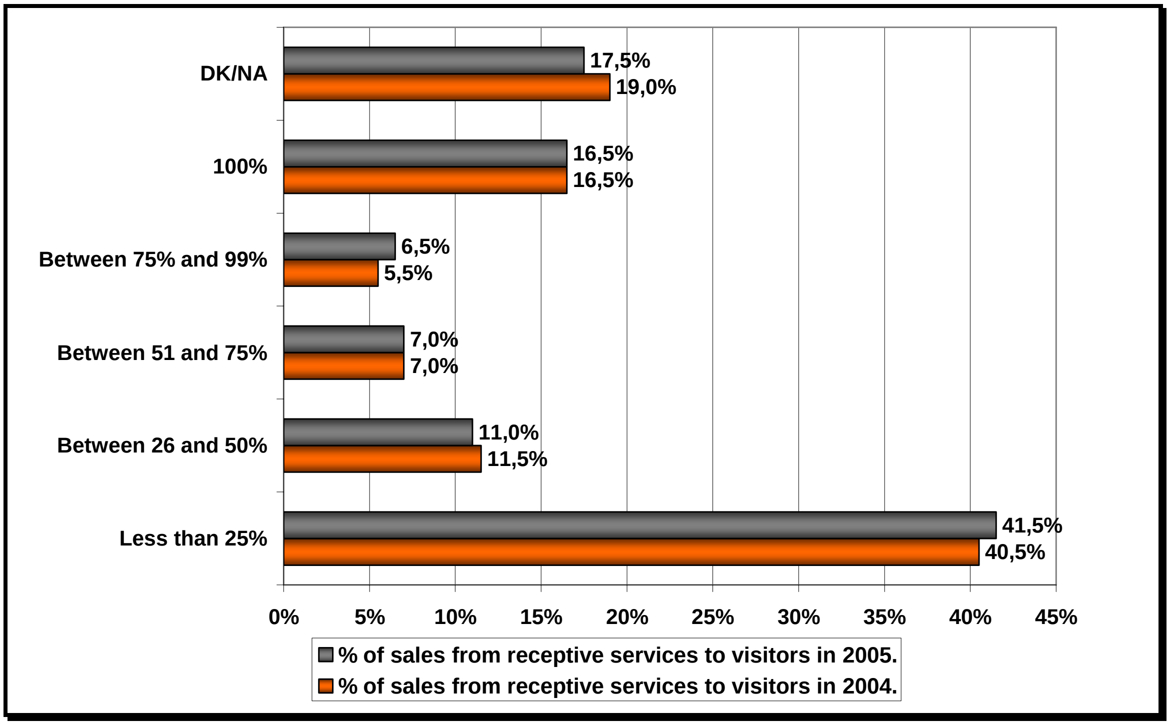
Despite not increasing their sales over the past years, surveyed companies appear to have additional income sources considering that as many as 42.5% of companies from the sample for B&H have reported achieving less than 5% of their total sales in tourism. Only 13% of companies can attribute between 75 and 100 percent of their total sales to tourism, while a fifth of companies achieves between 6% and 25% of their total revenues in tourism.

In order to establish who achieves more sales in tourism we compared companies by regions. A higher percentage of companies from the Krajina (38%) and Herzegovina (34%) regions than in the region of Sarajevo (26%) have attributed less than 5% of their total revenues to tourism. A higher percentage of companies from Sarajevo (24%) and Herzegovina (19%) than from Krajina (9%) achieve most of their revenues working in the tourism sector.

However, regardless of the fact that most companies achieve a small share of their revenues in tourism, half of them report that its levels are dependent on the season. As many as 59% of companies from the sample for B&H reported experiencing strong seasonality in their tourism sales while this percentage was even higher in the case of companies from different regions. The tourism sales of around 70% of companies from Sarajevo and Herzegovina and some 60% of companies from Krajina depend on the season. However, B&H companies experiencing strong seasonality in their tourism sales list two peak times of their seasons. First starts at the end of June and finishes at the end of September, while the second begins in early December and finishes at the end of January.

Companies from different regions report different peak times of their seasons. Companies from Sarajevo consider their high season to begin somewhat earlier, that is, already in May and it ends in September. As for the high winter season in Sarajevo, it starts in early December and finishes at the end of January. The start of the summer season in Herzegovina is the beginning of June, concluding at the end of September, while their winter season starts in December and ends in January. Companies from Krajina agree that their high season starts in early June and finishes at the end of August.

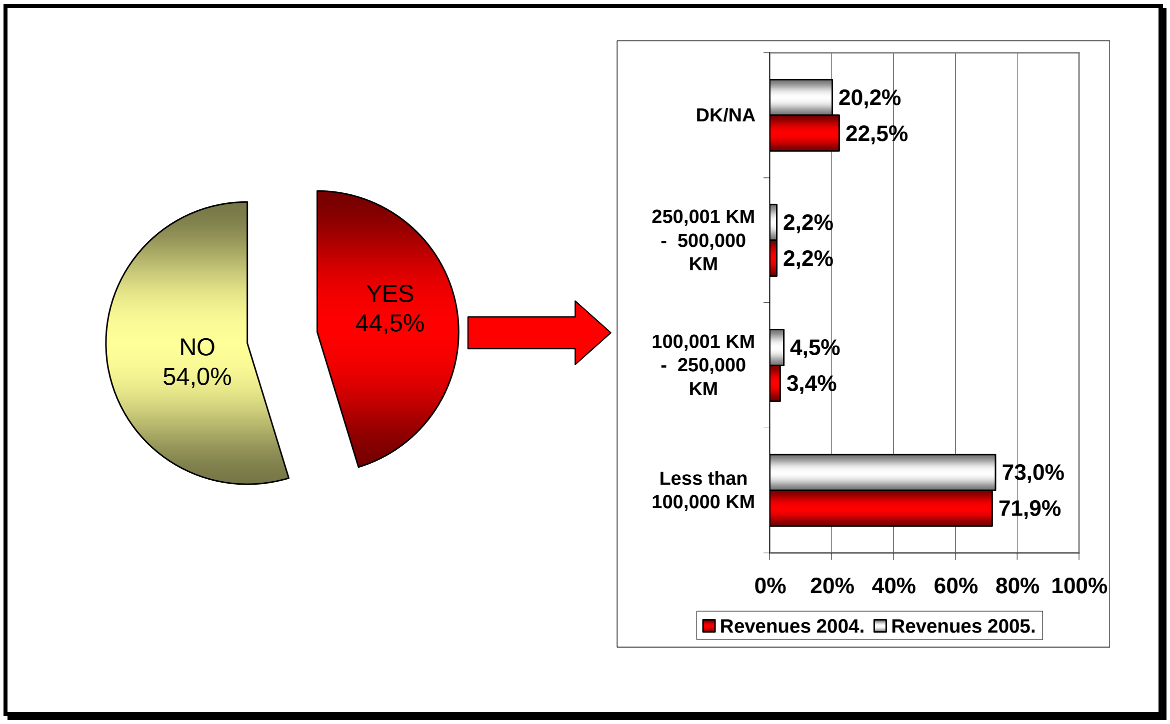
Graph 9. Percentage of revenues achieved from receptive services to visitors – B&H



Asked to state the percentage of their total sales achieved from receptive services to visitors, most B&H companies (41%) said it was less than 25%. That percentage remained unchanged over the past two years (2004 and 2005). However, most of the companies that report achieving 100% of their sales from receptive services to visitors are located in Herzegovina (22%) while this was the case for only 5% of companies from Sarajevo and 7% of companies from Krajina. The level of sales of these companies was also unchanged in 2004 and 2005. On the other hand, a smaller percentage of companies from the sample for B&H (16.5%) reported achieving 100% of their sales from receptive services to visitors.

Most of the clients of B&H companies were domestic (77.7%) and only 21.8% foreign tourists. However, the Sarajevo and Herzegovina regions appear to host a higher percentage of foreign tourists (34.4% and 30% respectively) than does the region of Krajina (20.2%).

Graph 10. Revenues from organizing meetings/conferences/events – B&H

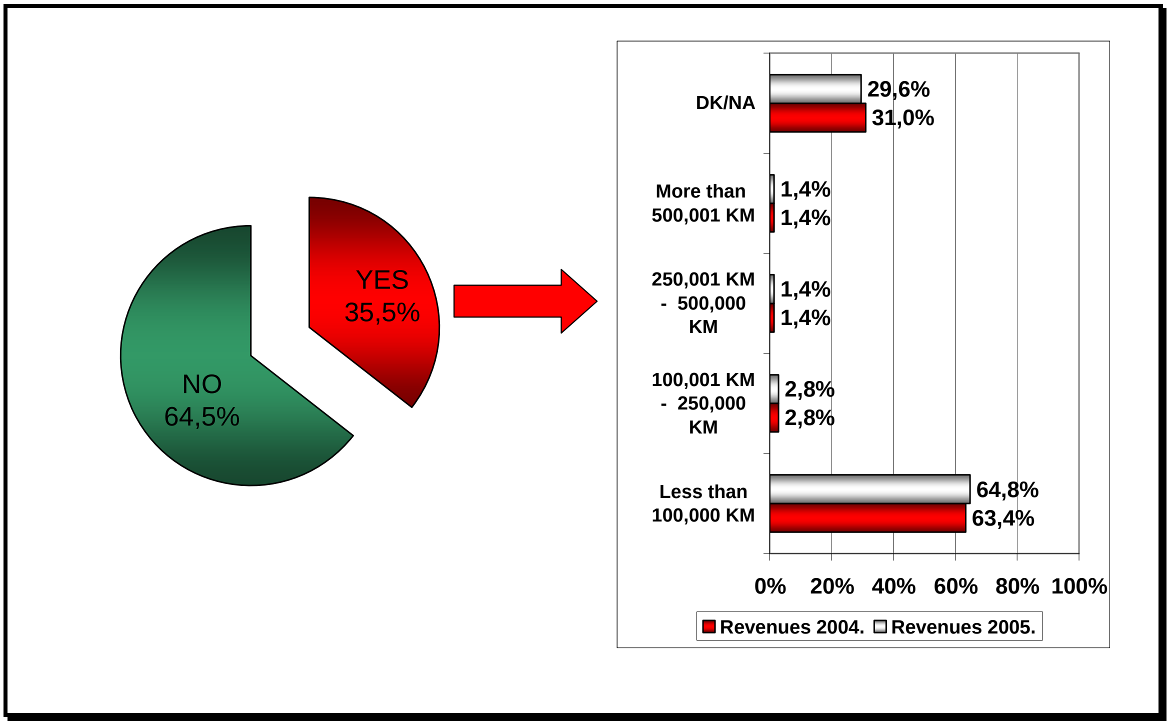


Another possible source of income for little under a half of surveyed companies from the sample for B&H (44.5%) is organization of meetings, conferences and other social events. Again, this appears to be a more important income source for companies from Sarajevo (44%) and Herzegovina (37%) than for the companies from Krajina (28%).

Most companies that have organized meetings or conferences in 2004 and 2005 (71.9% and 73%) achieved less than 100,000 KM in revenues from that activity. Again, in this case, the revenues from organization of meetings and conferences remained unchanged in different years and in different regions.

Asked about the revenues they achieved from the above activities, a fifth of B&H companies refused to answer. This was particularly the case with companies from Sarajevo and Herzegovina. As a result, these conclusions must be taken with caution.

Graph 11. Joint packages and related revenues – B&H

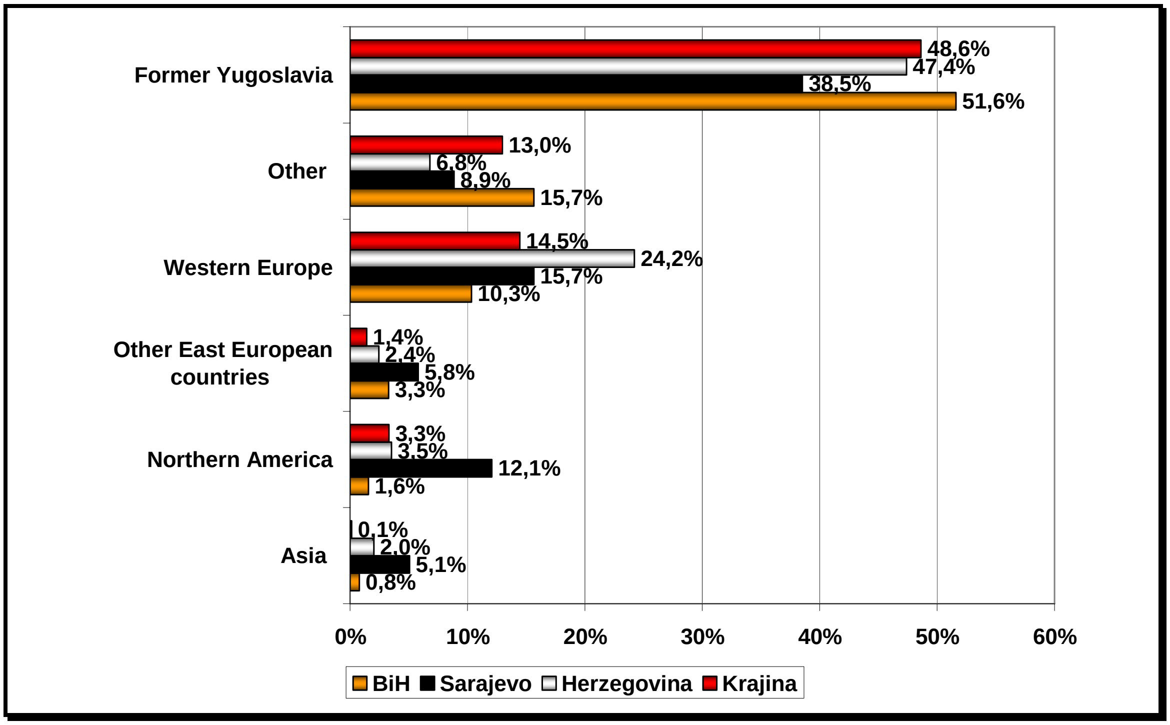


A third of surveyed B&H companies (35.5%) offer joint packages with neighboring countries. The percentage of companies that offer joint packages ranges from 29% in Sarajevo to 18% in Herzegovina. About 64% of companies offering such joint packages achieved less than 100,000 KM of annual revenue from them in both 2004 and 2005.

The joint packages mainly include Croatia (42%), Serbia (28.9%) and Montenegro (20.5%). Looking at the entities, 42.6% of companies from the Republika Srpska offer joint packages with Serbia compared to only 14.7% of companies from the Federation. On the other hand, 61.2% of companies from the Federation and only 23.5% of companies from the Republika Srpska offer joint packages with Croatia.

3.6 Visitors or tourists

Graph 12. Percentage of tourists who visit B&H by their country of origin – B&H

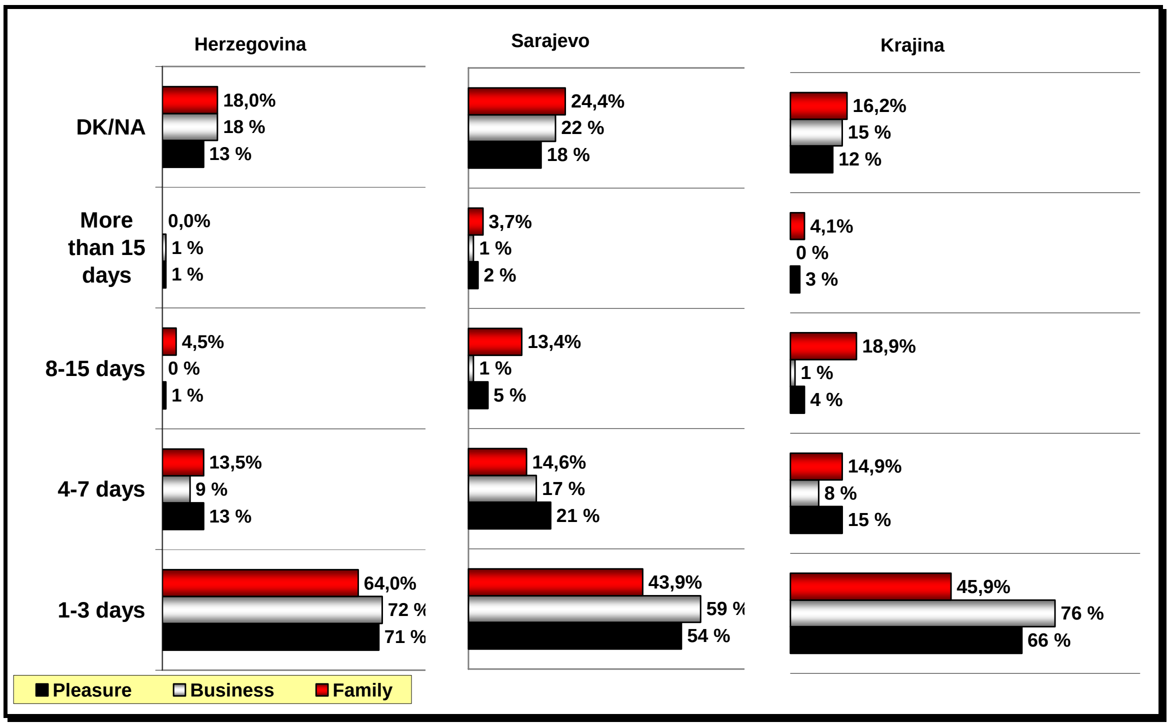


Companies that provide accommodation, travel arrangements, tours of attractions, leisure and restaurant services were asked to estimate the percentage of tourists from specific countries in the total number of tourists to B&H. Half of the tourists in Bosnia and Herzegovina (51.6%) are from the territory of the former Yugoslavia, while 10.3% are from Western Europe. Tourists visiting Sarajevo are mainly from the former Yugoslavia (38.5%), followed by tourists from Western Europe (15.7%) and North America (12.1%). On the other hand, it appears that tourists from Western Europe visit Herzegovina in greater numbers since the companies from that region say that one quarter of their tourists (24.2%) come from some of the countries of Western Europe.

We also asked the companies about the reasons why tourists come to B&H – is it for leisure, business or to visit family. The most important reason for visiting was given the rating number 1 and the least important rating number 3. In the opinion of surveyed companies, most foreign tourists – regardless of their country of origin - visit B&H for leisure (average rating number 1.6), then for business (1.8) or to visit family (2.5). The situation was the same in the regions, such that tourists visit Sarajevo, Herzegovina and Krajina in the same order (first for leisure, then business and finally family visits)

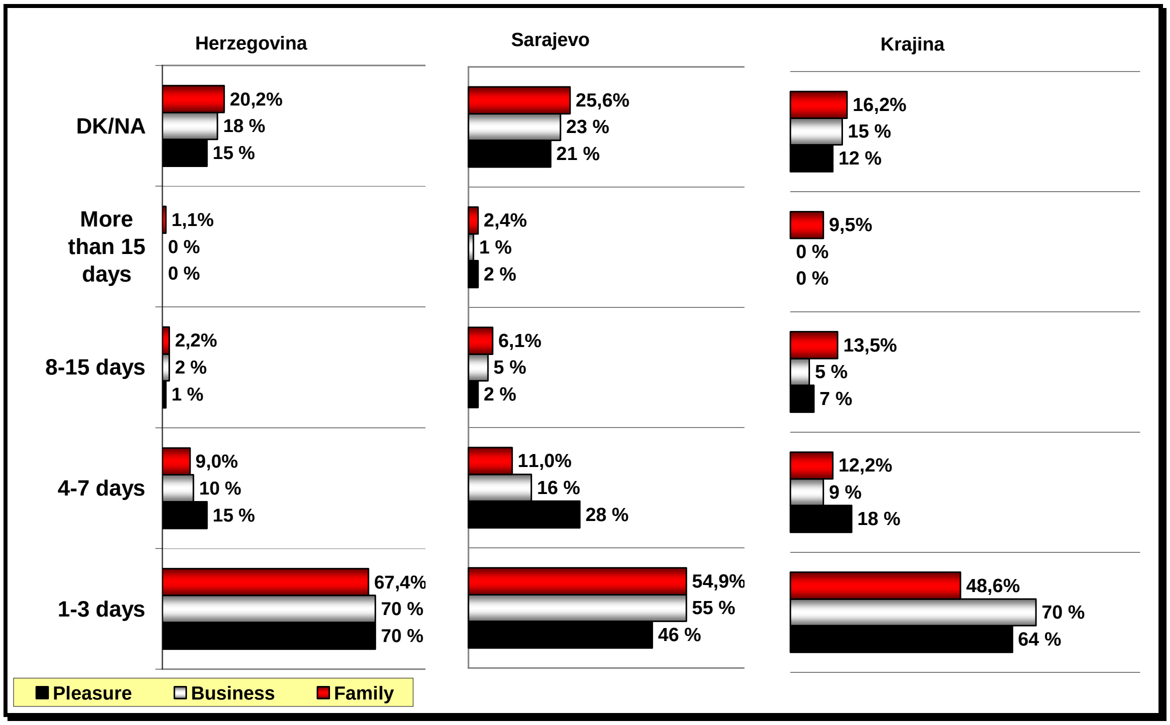
On the other hand, domestic visitors go to different parts of B&H equally for leisure and business (mode rating number 1). In the opinion of most surveyed companies, visits to family members are the least important reason for which domestic tourists visit different parts of B&H.

Graph 13. Duration of stay of domestic visitors – regions



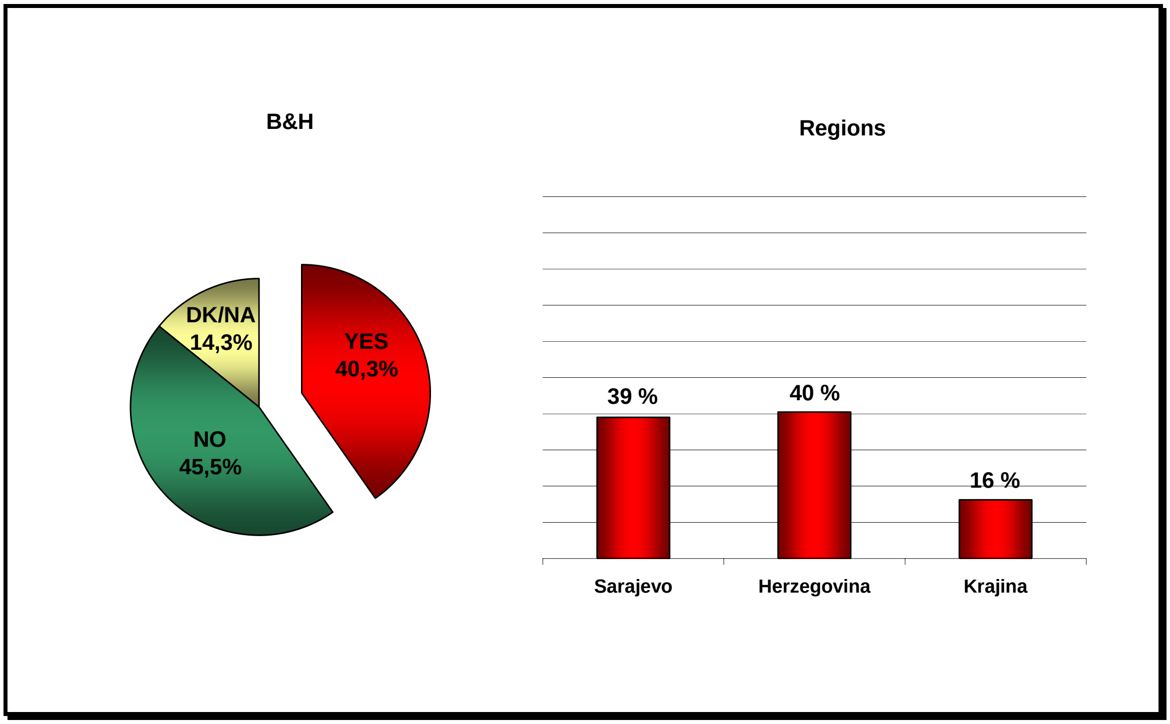
Concerning the reasons for visits by domestic tourists, it is interesting that most tourists – regardless of the reasons for their visit – stay in B&H between one and three days. Comparing the regions, we noticed that most tourists stay in Herzegovina, Krajina and Sarajevo between one and three days. However, the percentage of tourists who stay for three days is somewhat higher among those who come for business (72% in Herzegovina, 59% in Sarajevo and 76% in Krajina) than those who come for family reasons (64% in Herzegovina, 43% in Sarajevo and 45% in Krajina). Domestic tourists who come to B&H or some of the regions to visit family stay longer than when they come to the country for some other reason (around 14% of them stay between 4 and seven days). Herzegovina has somewhat higher percentage of domestic tourists who come for leisure or business and stay between one and three days, than do Sarajevo and Krajina. On the other hand, Sarajevo has more tourists who stay between 4 and seven days (especially among those who come for leisure).

Graph 14. Duration of stay of foreign visitors – regions



Similar to the situation with domestic tourists, most foreign visitors who come to B&H – regardless of the reason for their visit – stay in the country between one and three days. Herzegovina records a somewhat higher percentage of foreign tourists who stay between one and three days regardless of the reasons for their visit (between 64% and 70%). On the other hand, most foreign tourists in Sarajevo stay there for less than 3 days while 28% of tourists who come for leisure and 16% of those who come for business stay in Sarajevo between four and seven days.

Graph 15. Acceptance of credit cards – B&H and regions



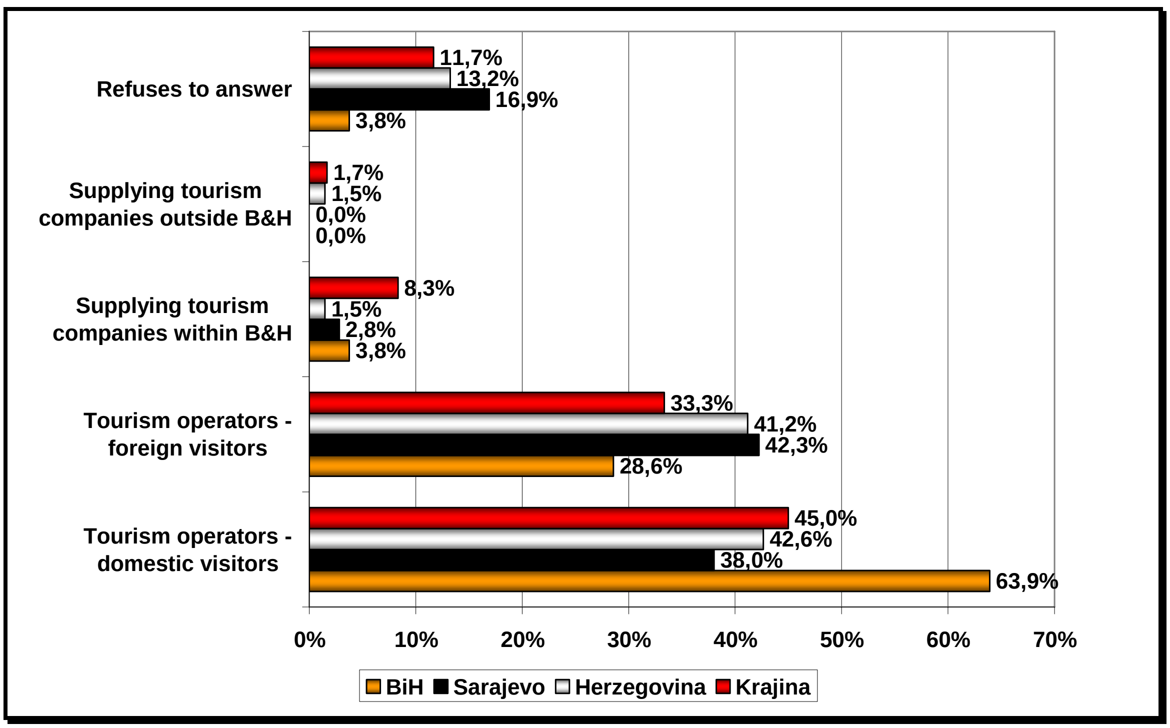
Forty percent of surveyed companies from the sample for B&H accept credit cards. This percentage is similar in the regions of Sarajevo (39%) and Herzegovina (49%) unlike Krajina where only 16% of companies accept credit cards.

A third of surveyed B&H companies that accept credit cards believe that less than 5% of their clients use this option. However, 27% of companies from this group said that a higher percentage of their clients – or between 6 and 25 percent - used credit cards for larger payments. Only 10% of companies said that over half of their clients were using credit cards.

3.7 Future plans and perspectives

Most surveyed companies (70%) expect changes in their total sales over the next three years in comparison with 2004 and 2005. In the opinion of as many as 66.5% of B&H companies, their sales should increase over the next three years. Companies from different regions have a similar view on this issue and are equally expecting the increase of sales over the following three years. In the opinion of 72% of companies from Sarajevo, 68% of companies from Herzegovina and 60% of companies from Krajina, their sales revenues should grow over the next three years.

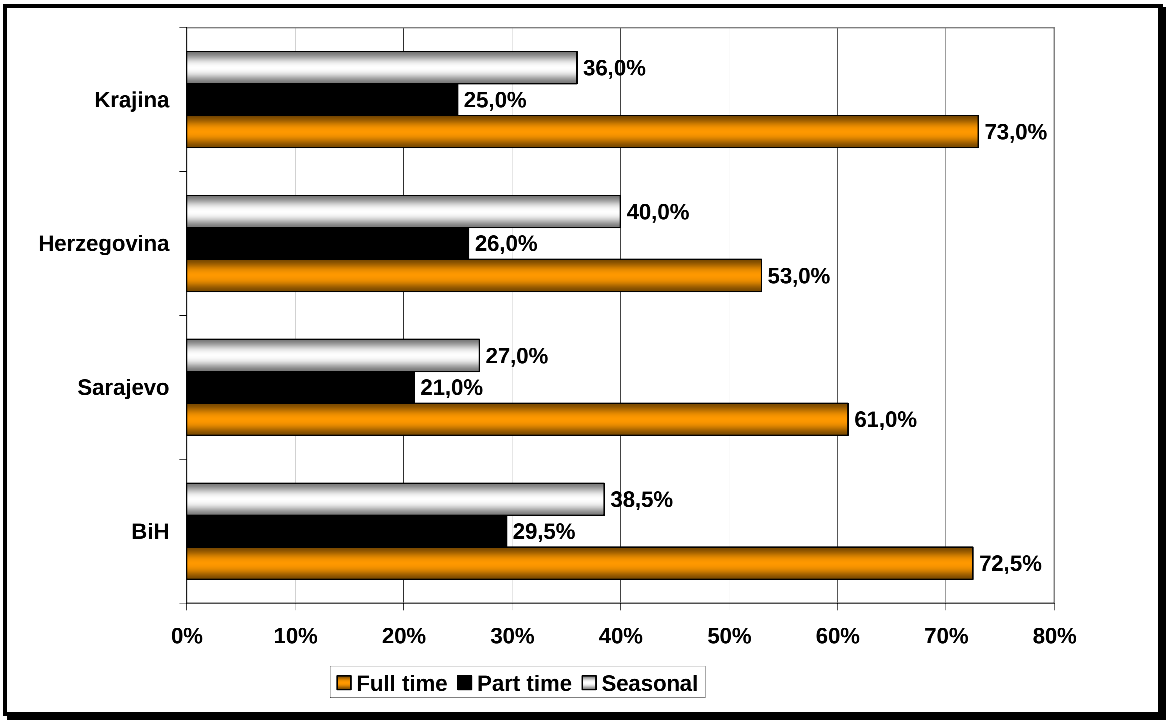
Graph 16. Fields of work in which to expect the growth in sales– B&H and the regions



At the level of B&H, tourism companies expect the greatest growth in sales of services to domestic visitors (63.9%) and lesser in sales of services to foreign visitors (28.6%). However, the situation is somewhat different in the three surveyed regions. Companies from Sarajevo expect a higher increase in sales of services to foreign (42.3%) than to domestic (38%) visitors. Companies from Herzegovina expect almost an equal increase in sales of services to domestic (42.6%) and foreign (41.2%) visitors. While the greater increase in sales of services to domestic (45%) than to foreign (33.3%) visitors is expected in Krajina.

Additionally, companies from throughout B&H and from all the regions, expect the upgrading of existing products for existing customers to contribute the most to the increase of sales (most common rating number 1), followed by development of new services for existing clients (rating number 2), upgrading of existing products for new clients (rating number 3) and the development of new services for new clients (rating number 4).

Graph 17. Expected increase in the number of employees – B&H and the regions

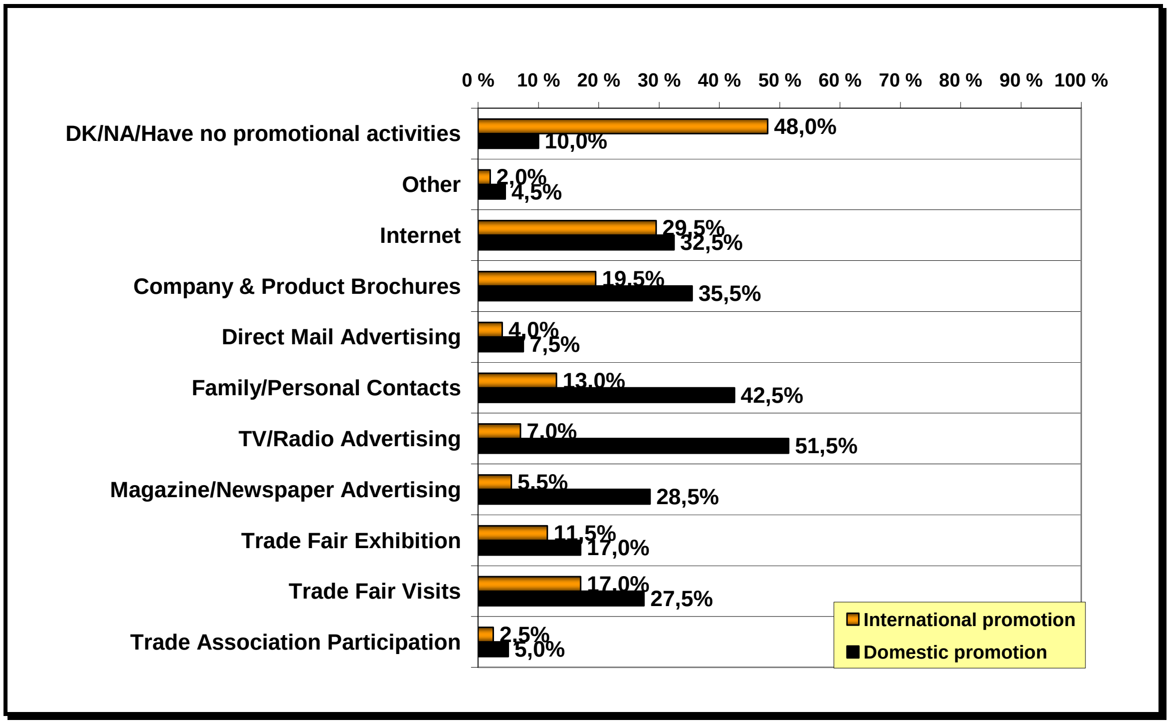


In addition to expecting an increase in sales, the surveyed companies look with optimism to adding to the number of employees. The greatest increase is expected in the number of full-time employees, both at the level of B&H and in the regions (between 53% and 72.5% of companies expect an increase in the number of their full-time employees). An increase in the number of seasonal workers is also expected. At the level of B&H, 38.5% of companies expect to increase the number of their seasonal workers over the next three years. More companies from Herzegovina (40%) and Krajina (36%) than from Sarajevo expect an increase in the number of seasonal workers.

It looks like the companies are also expecting an increase in the number of visitors over the next three years. Most of the companies in the sample for B&H (73%) believe that the number of visitors to the country would grow in the coming years. In the opinion of most of the companies from different regions, Sarajevo (71%), Herzegovina (66%) and Krajina (70%) should all expect an increase in the number of visitors in the forthcoming period.

3.8 Marketing strategies

Graph 18. Domestic and international sales promotion activities – B&H



Regarding domestic and international promotion it is clearly visible that tourism companies are more oriented to domestic promotion. Almost half of the (48%) companies do not promote their product internationally. However, the most commonly used domestic promotion activities are TV or radio advertising (51.5%), while the Internet is the most commonly used international activity (29.5%).

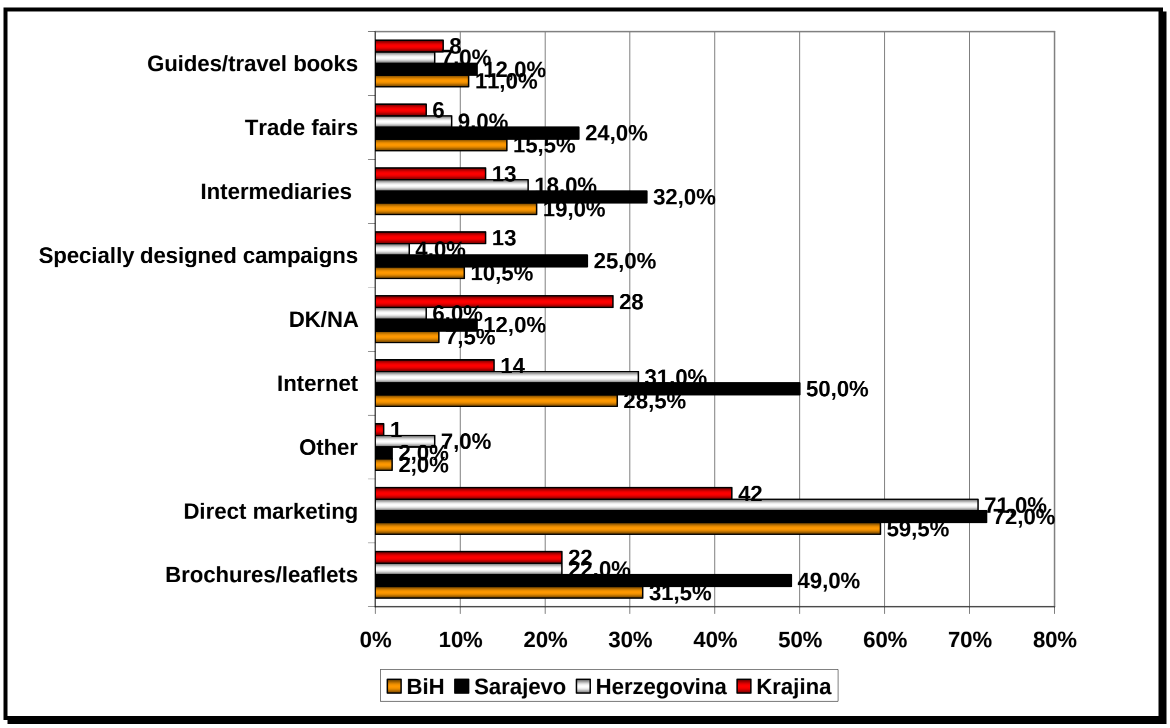
In addition to television and radio advertising, companies at the level of B&H also use personal and family contacts (42.3%). Trade association participation (5%) and direct mail advertising (7.5%) are the least commonly used promotional activities. Comparisons between companies from the different regions show that the companies from Sarajevo use a greater variety of ways to promote their domestic sales. In fact, 61% of the Sarajevo companies use personal and family contacts, a half (54%) are using Internet and 46% use company or product brochures. A somewhat higher percentage of companies from Herzegovina (53%) than from Sarajevo (47%) and Krajina (43) claim to promote their product through television and radio commercials.

Almost half of the companies surveyed do not promote their products internationally. The percentage of companies that do not advertise internationally is the lowest in Sarajevo with 50% of the Sarajevo companies promoting their products internationally using the Internet. Other activities on international product promotion used by the Sarajevo companies include printing of brochures

(25%), visiting trade fairs and using personal or family contacts (22% each). The companies from Herzegovina are also promoting their product internationally, but to a lesser extent, usually on the Internet (29%) or through family contacts (20%).

Primary clients of the surveyed companies come from their region (regional clients) regardless of whether they target other companies (business to business) or end consumers. Among the B&H companies who reported other companies as being their primary clients, 56.2% said that those clients were from their region and only 9.3% that they had international clients. However, a higher percentage of companies from Herzegovina (36.3%), than from Sarajevo (21.2%) and Krajina (12.5%) have international companies among their primary clients. Similarly, end users for 70.1% of companies at the level of B&H are regional clients and only 16% are countrywide and international (13.8%) clients. In terms of the end users, a somewhat higher percentage of companies from Sarajevo (70.3%) and Krajina (82.7%) than from Herzegovina (63.5%) have regional clients among their end users.

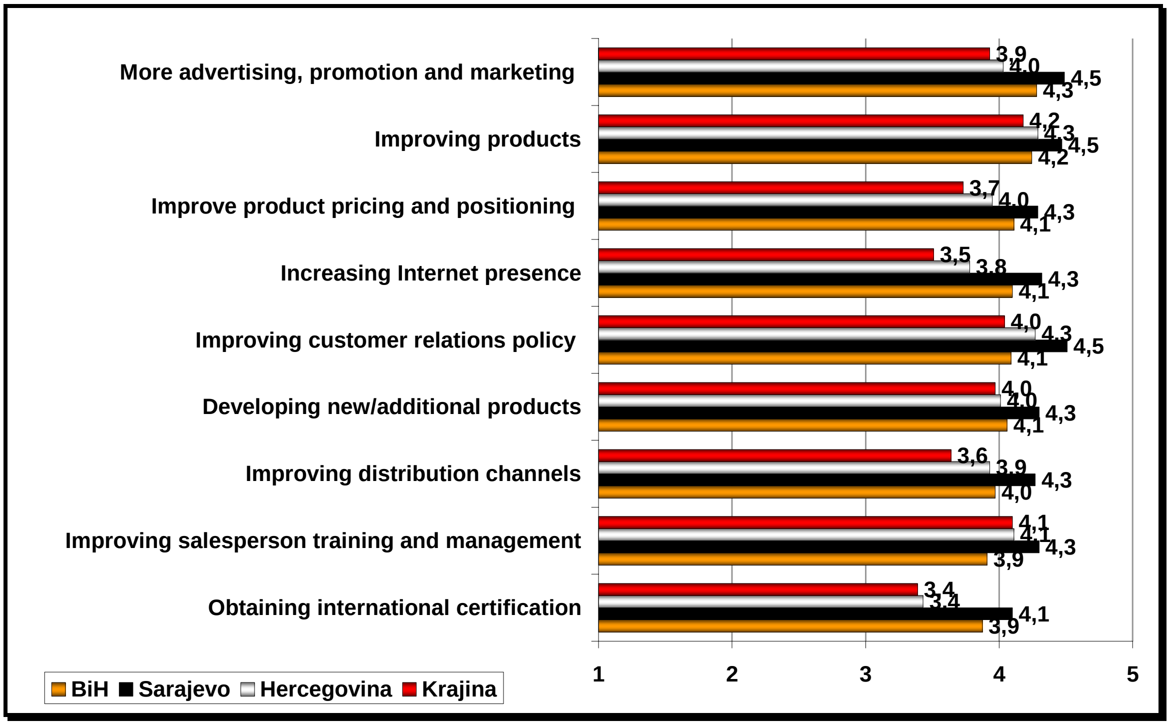
Graph 19. Sales channels – B&H and the regions



In order to sell or distribute their products most B&H tourism companies use direct marketing (59.5%), brochures and leaflets (31.5%) or the Internet (28.5%). However, similar to the case of domestic sales promotion, a larger number of Sarajevo companies use a variety of different sales channels, particularly direct marketing (72%), the Internet (50%), brochures (49%) and intermediaries (32%). The companies from Herzegovina (71%) also use direct marketing the most, but less frequently use the Internet (31%). A smaller percentage of companies from

Krajina (42%) use direct marketing, but also all other channels, in selling or distributing their services.

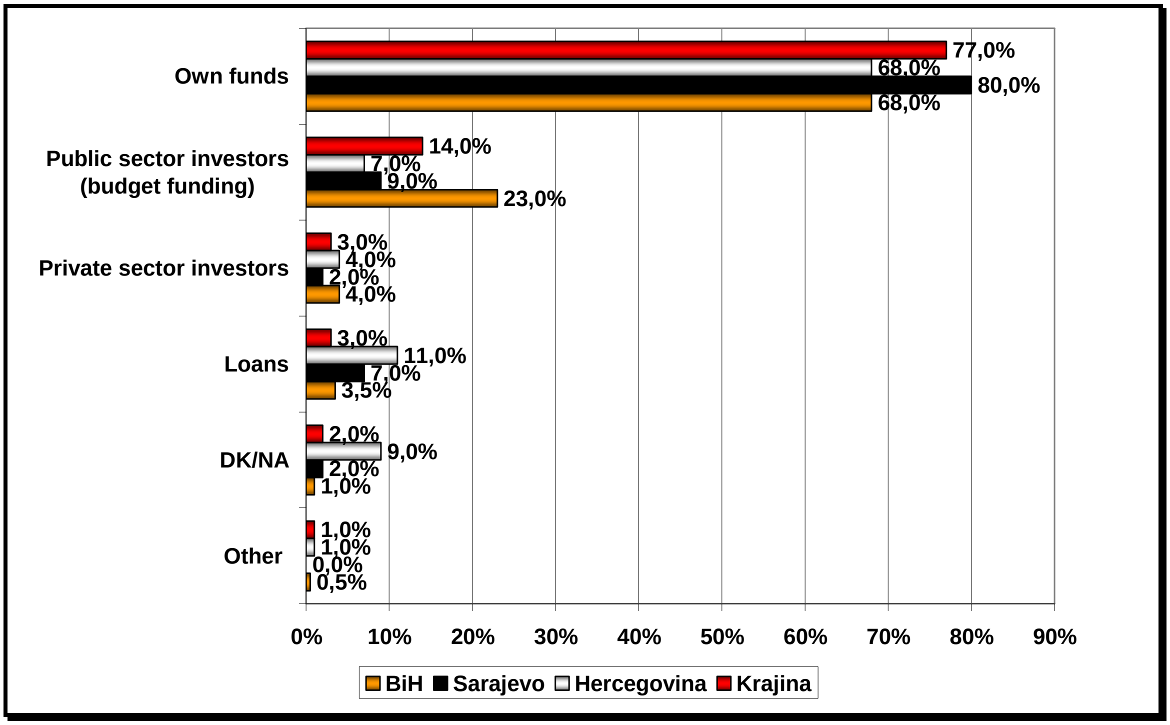
Graph 20. Marketing strategies to increase sales – B&H & regions



We asked tourist companies to rate on a scale from one (lowest) to five (highest) the importance of selected marketing strategies to increase their sales in tourism. Judging by the results, B&H tourist companies do not have a clear vision about which marketing strategies could help them increase sales in tourism. In fact, they considered all the marketing strategies to be equally important and have awarded them all an average rating number between 4 and 5. However, B&H companies considered advertising, promotion and marketing events to be more important for increasing their sales (average rating number 4.2). Obtaining international certification was considered a less important marketing strategy (3.8). Companies from different regions see all the proposed marketing strategies as being equally significant, in that the companies from Krajina give somewhat more importance to obtaining international certification, increased Internet presence, advertising and promotion. The results show that the companies from Sarajevo compared to the companies from other regions on average rate as more important all the proposed marketing strategies.

3.9 Financing and financial management strategies

Graph 21. Main sources of financing – B&H and the regions



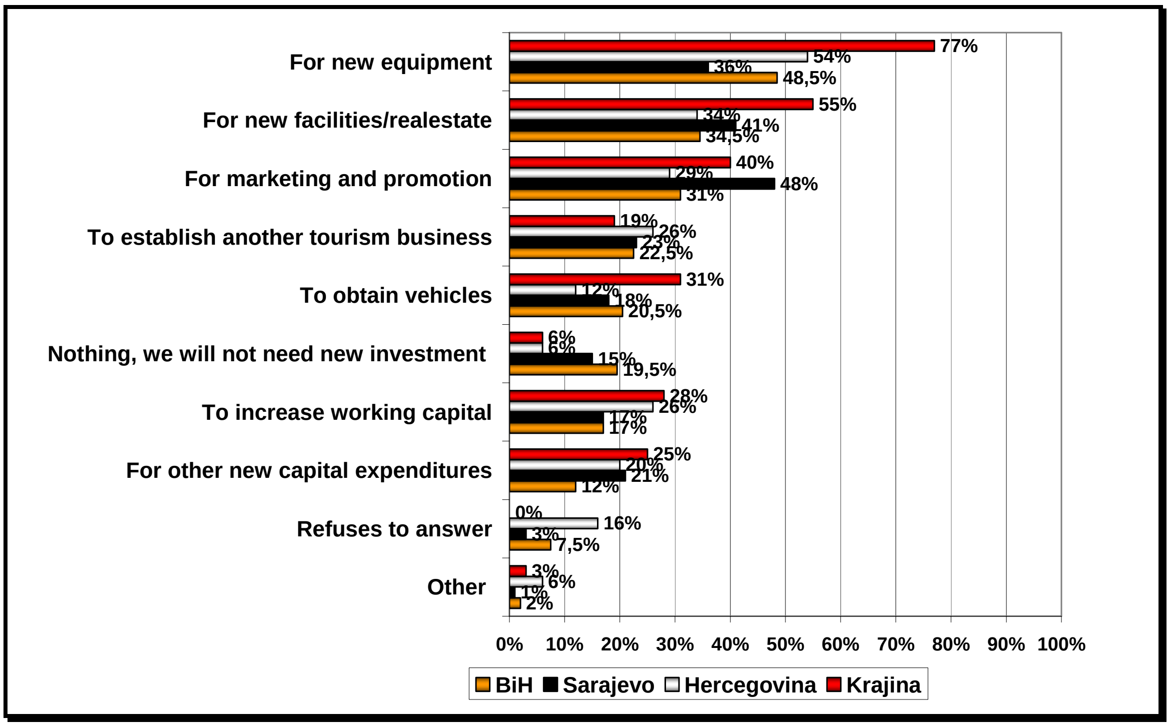
Most surveyed companies – regardless of whether they operate somewhere in B&H or specifically in one of the regions – use their own sources of financing. In fact, 68% of companies at the level of B&H use their own sources of financing with this percentage being even higher among the companies from Sarajevo (80%) and Krajina (77%). State funding is provided to 23% of B&H companies, but includes a lower percentage of companies from Sarajevo (9%) and Herzegovina (7%).

Only 7.5% of B&H companies received financing from international sources. Such companies are evenly distributed through the regions. Among the internationally financed companies, most received funding from other European countries, Germany, Croatia or the countries of the former Yugoslavia.

In 2004, 56.5% of B&H companies invested less than 100,000 KM in upgrading their products or facilities. In 2005, this percentage rose to 59.5%. Companies from the Sarajevo region (on average 70% of companies invested less than 100,000 KM) have had more investments than did the companies from Herzegovina and Krajina.

A little over half of surveyed companies from the sample for B&H (57%) said they were not likely to seek new financing in the future. However, 15% of companies that expected to seek new financing said they would do so from a combination of new loans and new equity capital, 12.5% from new loans and 8.5% from new equity capital. In addition, these companies expected their current banks to be the most likely source of new loans (63.8%).

Graph 22. Necessary investments over the next three years – B&H and the regions



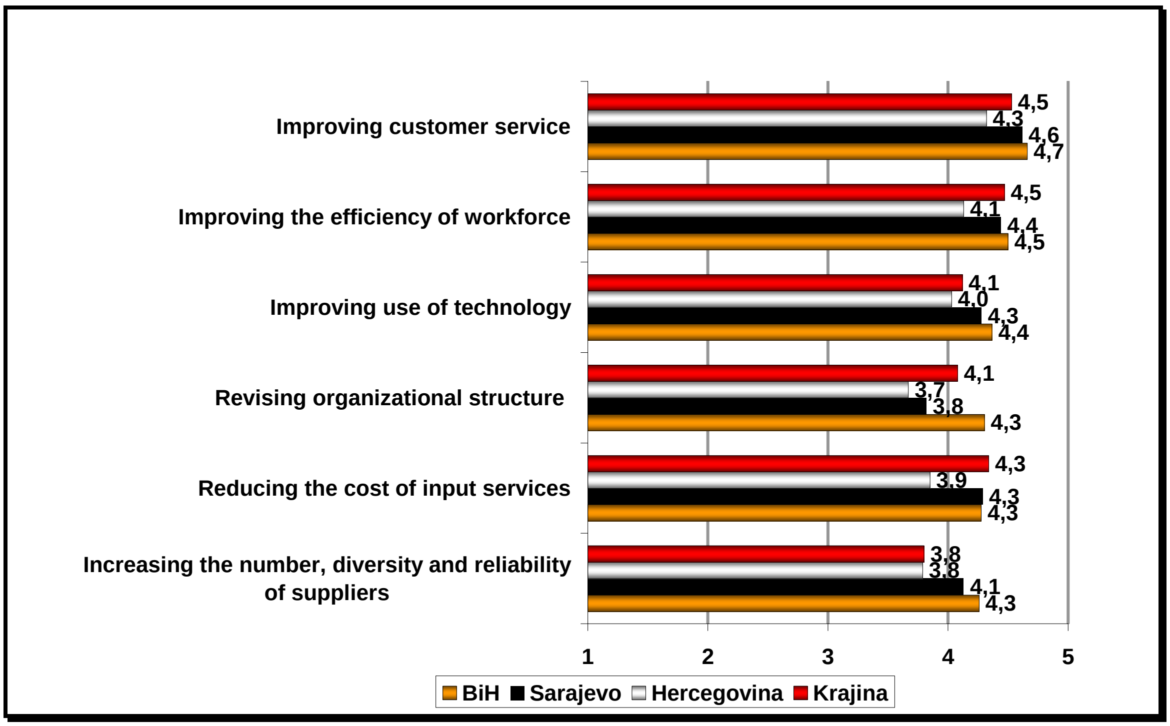
Despite saying that they were not likely to seek new financing, B&H tourism companies will apparently need to invest in new equipment (48.5%) and new facilities/real estate (34.5%). Companies from Sarajevo intend to invest more into marketing and promotion (48%) and new facilities/real estate (41%) and less into working capital (17%). The companies from Krajina say they will have to invest more than will companies in the other regions. As many as 77% of the Krajina companies said they would need new equipment, 55% would need new facilities, 40% will have to invest into marketing and promotion and 31% into new vehicles. The percentages for the Krajina companies are significantly higher than for the companies from Sarajevo and Herzegovina.

However, the companies do not appear to be overly optimistic about attracting investment. Asked to rate the quality of possible new financial sources on a scale from one to five, companies most frequently opted for the rating number 2 (average rating number 2.3).

3.10 Operations and human resources

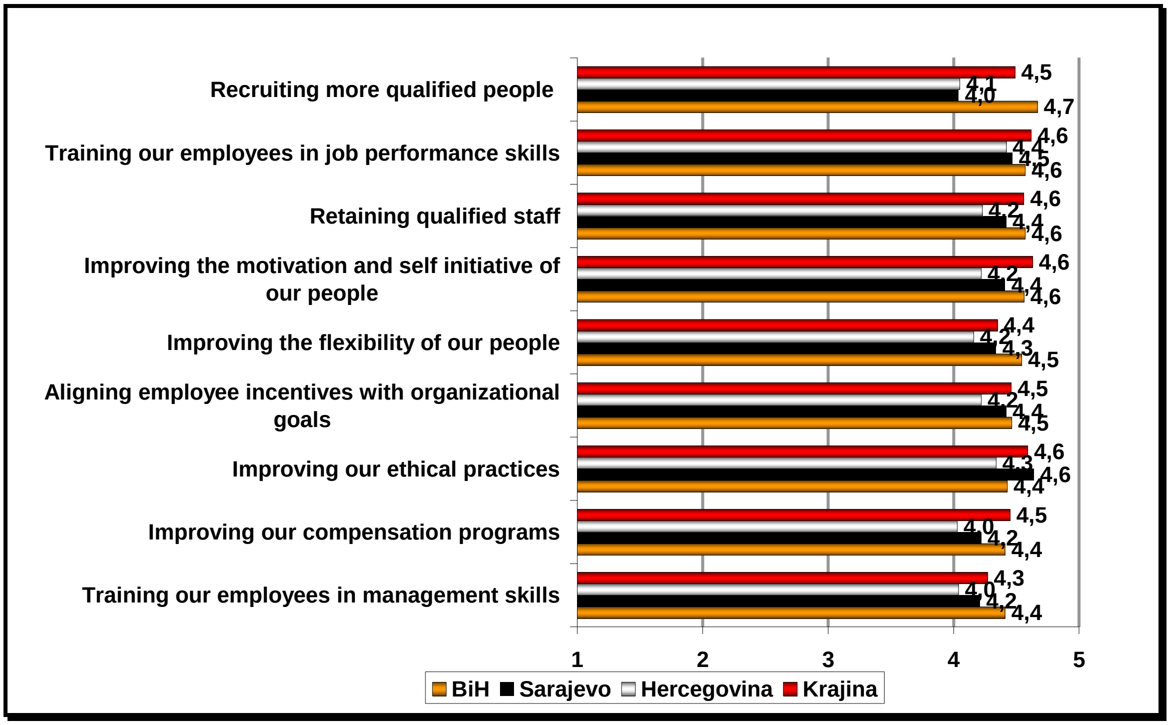
Finally, we asked the companies from the regions of Sarajevo, Krajina and Herzegovina to tell us more about the strategies to improve their operations, human resources management and skill enhancement programs. The companies ranked the importance of the above-mentioned strategies on a scale from one (lowest) to five (highest). Once again, the surveyed companies appear not to have a clear view on the significance of possible strategies to increasing their competitiveness in the tourism sector.

Graph 23. Strategies to improve operations – B&H and the regions



The companies were first asked to assess the importance of specific strategies for improving a company's operations. The companies believed that all proposed strategies can increase their competitiveness (all strategies were given the rating number higher than 3). However, small differences were obvious in the opinions about proposed strategies. The companies from Sarajevo and Herzegovina agreed that revising a company's organizational structure was the least important strategy (3.8 for Sarajevo and 3.7 for Herzegovina), while the companies from Krajina gave the least importance to improving the number, diversity and reliability of suppliers (3.8). The companies from Sarajevo, Krajina and Herzegovina agreed that improving their customer service (4.6 Sarajevo, 4.8 Herzegovina and 4.5 Krajina) and improving the efficiency of their workforce (4.4 Sarajevo, 4.1 Herzegovina and 4.5 Krajina) were the most important strategies.

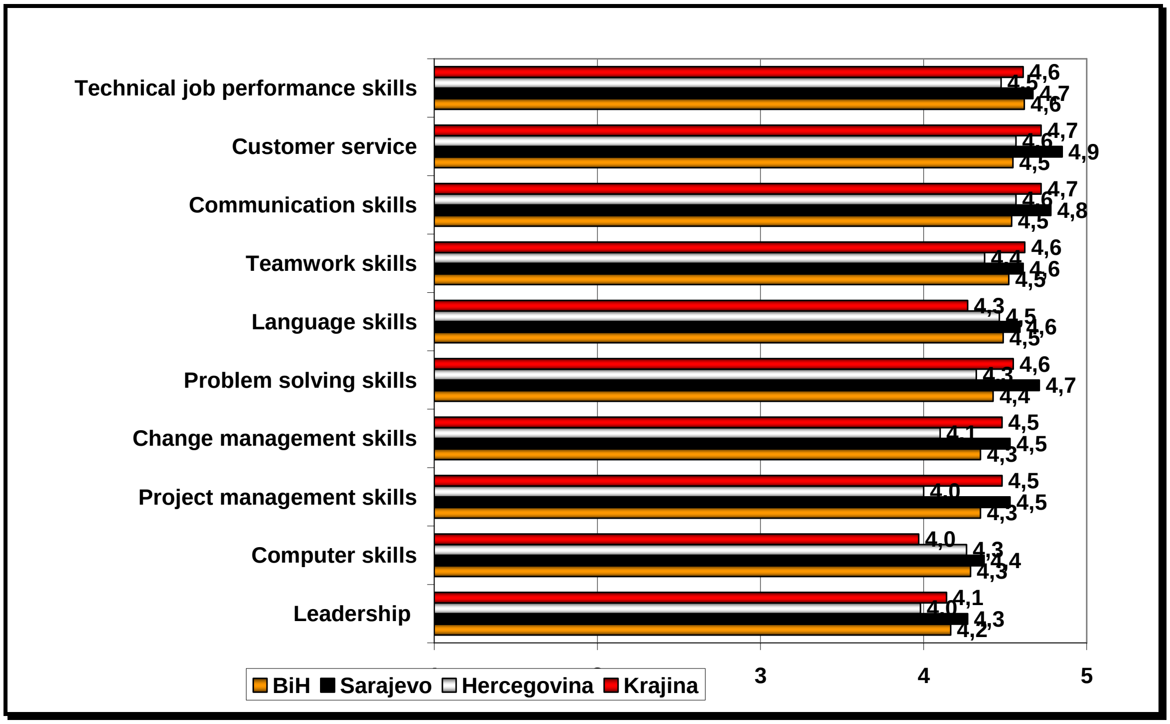
Graph 24. Strategies to improve availability and management of human resources – B&H and the regions



With regard to possible strategies to improve the availability and management of human resources, the Sarajevo companies consider recruiting more qualified people to be the least (4.0) and improving their ethical practices to be the most (4.6) important. The Herzegovina companies consider improving their compensation programs to be the least (4.0) and training their employees in management skills to be the most (4.4) important strategies. On the contrary, the Krajina companies consider training their employees in management skills to be the least (4.1) and improving the motivation and self-initiative of their employees to be the most (4.6) important strategies.

However, it is necessary to note that all the strategies were considered important and that the differences between them were seen as minimal.

Graph 25. Importance of skill training and development – regions



Finally, we asked the companies from different regions to assess the importance of different skill enhancement training to increasing their competitiveness in the tourism sector. Results indicate that all proposed types of training would be useful for surveyed companies.

The companies from Sarajevo and Herzegovina agreed that improving their employees' leadership skills was the least (4.3 Sarajevo and 3.9 Herzegovina) and customer service skills the most (4.8 Sarajevo and 4.6 Herzegovina) important. For the employees of the Krajina companies, enhancing the computer skills was the least (3.9) and the customer service skills the most (4.7) important.

4. METHODOLOGY

4.1 Method

Table 1. Organization of research

Research period	February 2006.
Location	B&H
Data gathering instrument	Structured personal interviews with directors of companies from the tourism sector
Research conducted by	Prism Research
Questionnaire	Developed by USAID CCA and Prism Research
Surveyed population	Directors of companies from the tourism sector
Sample size	N=500 N= 200 (B&H); N=300 (Regions)

This was a quantitative field survey based on face-to-face or personal interviews with directors of companies from the tourism industry.

The survey instrument was a questionnaire developed by the USAID CCA with input from Prism Research. Prism Research formatted the questionnaire and translated it into the local language after which was approved by USAID.

4.2 Sample

4.2.1 Base

A database of all active transaction bank accounts developed by the Central Bank of Bosnia and Herzegovina was used in constructing the sample. This is currently the only existing database with information about companies from both entities. It includes information about more than 200,000 registered legal entities from throughout Bosnia and Herzegovina. In this research we used the information from the database relevant only for the tourism companies.

Information received from USAID was used to classify the activities from the tourism sector (in a standard classification). The companies were grouped according to different tourism sectors and a proportional representation in the sample of companies from each sector was ensured. However, since the number of restaurants and bars is much higher than that of companies from other tourism sectors, their share in the overall sample was reduced with the approval of USAID.

As a result of the adopted methodology, the sample of 500 companies was actually made of two separate samples. The first sample of 200 companies was representative of Bosnia and Herzegovina. The second sample of 300 companies covered three separate regions defined by USAID. The share of each sector in both samples was determined by taking into consideration the proportional representation of each sector based on the information from the database.

Table 2. Total planned sample

Activity sectors	Sample B&H	USAID Regions
Hotels and motels	40	60
Camps, private accommodation, hostels (short stay)	20	30
Restaurants, canteens, catering	20	32
Land transport	18	25
Air transport	2	3
Travel agencies and other supporting and assistance in transport	40	60
Recreational, sporting and cultural activities	30	45
Libraries, archives, museums and other cultural activities	30	45
Total	**200**	**300**

A combination of stratified random and quota sample was used in constructing both samples. Following is an explanation about the way in which each of the above samples had been constructed.

4.2.2 Sample at the level of B&H

The entire Central Bank database from which all tourism companies had previously been selected was used in constructing this sample. Entities – the Federation B&H and the Republika Srpska – were the first stratum for the overall B&H sample. Cantons and regions were the second, and randomly selected municipalities belonging to relevant regions and cantons the third stratum.

After selecting the municipalities in which to conduct a tourism sector survey, the next step was to determine quotas for specific activity sectors.

A total number of registered tourism companies were determined for every selected municipality. After that, quotas for each sector within each municipality were determined to ensure proportional representation of different tourism sectors within relevant municipalities.

4.2.3 Sample for USAID regions

All municipalities outside the three USAID regions had been eliminated from the Central Bank database in constructing the sample for USAID regions. After that, municipalities belonging to USAID regions were grouped by corresponding regions. In this case, the three regions – Herzegovina, Krajina and Sarajevo – were the first stratum. The second stratum was the municipalities in the corresponding regions.

After that, municipalities were randomly selected in each region to be included in the sample. Proportional representation of each tourism sector from within each municipality was determined for each selected municipality to set quotas.

Table 3. Planned sample by USAID regions

Activity sectors	Sarajevo	Herzegovina	Krajina
Hotels and motels	20	24	23
Camps, private accommodation, hostels (short stay)	13	13	9
Restaurants, canteens and catering	7	9	10
Land transport	8	5	9
Air transport	1	1	1
Travel agencies and other supporting and assistance in transport	21	20	18
Recreational, sporting and cultural activities	16	14	20
Libraries, archives, museums and other cultural activities	14	14	10
Total	**100**	**100**	**100**

4.2.4 Achieved sample

As can be seen from the table below, there is not much difference between the achieved and the planned sample, both for the whole B&H and for the regions. Some divergence from the predetermined quotas is due to the inability to conduct interviews with some companies from different sectors. The number of tourist companies in some regions and municipalities was smaller than expected.

Table 4. Achieved sample

Activity sectors	Sample B&H	USAID Regions
Hotels and motels	40	57
Camps, private accommodation, hostels (short stay)	16	32
Restaurants, canteens and catering	22	73
Land transport	19	21
Air transport	1	0
Travel agencies and other supporting and assistance in transport	39	43
Recreational, sporting and cultural activities	26	43
Libraries, archives, museums and other cultural activities	37	31
Total	**200**	**300**

Table 5. Achieved sample by USAID regions

Activity sectors	Sarajevo	Herzegovina	Krajina
Hotels and motels	21	20	16
Camps, private accommodation, hostels (short stay)	8	18	6
Restaurants, canteens and catering	17	23	33
Land transport	7	6	8
Air transport	0	0	0
Travel agencies and other supporting and assistance in transport	20	13	10
Recreational, sporting and cultural activities	17	9	17
Libraries, archives, museums and other cultural activities	10	11	10
Total	**100**	**100**	**100**

4.3 Training

Prior to conducting the field research, methodological training was organized for participating interviewers and coordinators. The training included the following:

- Learning about the overall B2B (business-to-business) research methodology
- Learning about the main goals of this research
- Learning about the specific methodology of this research
- Reviewing the questionnaire
- Practical role-play exercise to learn how to use the questionnaire
- Pilot survey

4.4 Fieldwork and response rate

Before the start of the fieldwork, Prism Research contacted directors or managers of companies from the tourism sector to inform them about research goals and to schedule interviews. Well trained Prism Research interviewers and coordinators conducted the interviews at selected companies, that is, at the respondents' place of work.

The interviews were conducted at the beginning of February 2006 over a two week period. Interviewers worked continuously conducting several interviews each day. Each day, interviewers submitted completed questionnaires to coordinators or directly to the central Prism Research office. All completed questionnaires were first reviewed and controlled by regional coordinators. All mistakes were reported to the project manager and the data gathering manager. Additional training was organized for interviewers who made mistakes.

The average duration of each interview was 34 minutes.

Respondents had no problems understanding questions from the questionnaire. However, a certain number of respondents refused to provide information about the number of employees and profits achieved in 2004 and 2005.

Detailed information about achieved contacts and responses is provided in the table below. The response rate was 86.6% meaning that 576 companies were contacted to complete 500 planned interviews.

Table 6. Response

Contact outcome	N	%
Interview completed	500	86,8
Rejected at the level of the company/by company director	46	8,0
No contact achieved/contact avoided	7	1,2
Director/owner absent	18	3,1
Insufficient, Incomplete	5	0,9
Total number of contacted companies	**576**	**100%**

As can be seen, problems encountered during the field work was the refusal by some companies to take part in the research (8%), or failure to achieve contact due to absence of managers or directors (3.1%). Some contacted company managers or directors did not believe that the research would be of any direct benefit to them and thus refused to take part. However, judging by previous experience, the response in this research was quite satisfactory.

4.5 Data control and entry

After completing the field work, all questionnaires were submitted to the Prism Research central office in Sarajevo. As already mentioned, regional coordinators carried out the initial review and control of the questionnaires. All irregularities in the completed questionnaires identified during the initial control were reported to the central office. Visual and logical controls of all the questionnaires were performed in the central office. Also, telephone controls were conducted for 10% of completed questionnaires. Further data control and entry included the following:

- The software program used for data entry was Survey System 7.0 in which a special graphic user interface has been designed to facilitate data entry and reduce operators' flaws to a minimum.
- Quality control of entered data was performed by randomly choosing original questionnaires and checking them against the entered data.
- Logical controls were also used to filter data. All answers that were outside the given set of answers were checked by using the original completed questionnaire. If logical control determined a mistake in data entry, it was corrected. If the identified mistake was determined to have been made during the initial filling out of a relevant questionnaire, the data in question was declared missing.
- Additionally, in cases of missing data and inaccuracies, companies were contacted by phone to check and correct the answers.
- Another method of control was also applied to questions that should have been logically related, as filter questions.

4.6 Data analyses

Data analyses in SPPS were completed for the whole sample of 500 surveyed companies. Previously, the database was updated and adapted for statistical analyses. Open answers had been coded and questions with a choice of multiple answers were transformed into *multiple datasets*.

For use in this research tables were designed in which a review of results was provided for the level of Bosnia and Herzegovina (divided into entities) and at the level of USAID regions.

The statistical analyses included three steps:

1. Showing total results for all questions, including the results for N and the percentage for all questions.

2. Calculating average values for questions where respondents had been required to state financial amounts, numbers of employees or to rate different categories. For all questions of this type the following results were given:

    - *mean* – average value
    - *median* – central value
    - *mode* – the value that has the largest number of observations
    - *minimum value* – the lowest value
    - *maximum value* – the highest value

3. Cross tabular presentation of results

Cross-tabular presentation of results for all questions from the questionnaire was prepared for the following variables:

- Total for B&H
- Entity (the RS and the Federation B&H) –results for the whole B&H
- Regions (Herzegovina, Sarajevo and Krajina) – results for the USAID regions

Wherever it was necessary, additional cross tabulations were provided including other relevant variables.

Tables are available in the following formats: Excel, Adobe and SPSS output.
In the annex to this report, the tables are given in order of the questions from the questionnaire. The same concept had been used in writing of this report.

5. APPENDIX 1 and APPENDIX 2