THE TOURISM SECTOR IN ARMENIA

BDS NEEDS ASSESSMENT AND BASELINE INDUSTRY DATA

June 8, 2006

This publication was produced for review by the United States Agency for International Development. It was prepared by Competitive Armenian Private Sector (CAPS) project.

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I. Executive Summary and Conclusions

1. Tourism Assessment: Purpose and Process

At the outset of 2006, the CAPS program undertook comprehensive assessments of the tourism, IT and business service provider (BSP) industries as a first step toward creating specialized management training materials and seminars. Through a competitive tender process, ***The Economic Values and Research Center*** was selected to conduct face-to-face interviews with approximately 50 top managers in each of the three sectors. Interviews were conducted by economics students specially trained to administer sector specific survey questionnaires for the collection of baseline data. In addition to baseline industry information, the surveys also contained extensive questions about potential services which would assist each industry to grow and develop.

During the tourism industry survey process, we identified 3837 companies from among Yerevan and the marzes actively engaged in the provision of tourism services. These were further divided into sub-sectors encompassing hotels, B&Bs, tour operators, food and beverages, cultural attractions and transportation (including airlines and taxis). In the interest of gaining a higher number of respondents from among the core tourism sub-sectors, we excluded taxis and airlines from our sample frame. We also surveyed just a few restaurants for informational purposes. By narrowing our sample frame we effectively reduced the population to just over 500 firms. From these we extracted a sample of 59 companies across all of the remaining sub-sectors, bringing our sample to approximately10% of the identified population. The data resulting from this survey is highly indicative in terms of company operations and operating conditions, and stated needs for consulting services; however, due to non-response on individual questions the data are insufficient in several statistical areas, most notably finance and employment.

Other surveys on the tourism sector have recently been completed, such as the AECPLAC study and reports for Armenia2020, which offer very useful supplemental information on the industry as a whole The CAPS report herein, however, is more focused on providing information on company level technical assistance needs and providing baseline monitoring and evaluation data for CAPS.

Below you will find a snapshot of the Armenian tourism industry at the end of 2005. The companies surveyed will be requested to provide follow-on information over the life of CAPS in order to measure CAPS objectives of job creation, revenue stimulation and productivity enhancement.

2. Tourism Company Profiles and Statistics

Gender ownership: The industry is primarily male owned. An estimated 17 percent of tourism firms are majority female owned.

Domestic versus foreign ownership: Twenty-nine (71 percent) of 41 companies answering this question indicate being fully Armenian owned. Slightly less than one-quarter (22 percent) are majority foreign owned.

Employment: Total employment is difficult to ascertain due to the small number of responses in relation to the size of the industry. Just over half those answering this question employ less than ten people and only 13 percent employ more than 100 people, mainly Yerevan based hotels and museums. The average number of employees varied by sub-sector with hotels being the largest (76 employees) and B&Bs the smallest (2.6 employees).

Employment gender: Tourism is a very important industry for the employment of women. In 66 percent of firms women outnumber men, whereas an average of 64 percentage of all employees are female.

Wages: The median tourism employee monthly wage is 60,000AMD, approximately $80.

Revenues: Naturally, average annual revenues vary greatly depending on the sub-sector. Tour operators and gift shops both indicated average revenues of 14 million AMD ($31,000). Eleven percent of companies indicated revenues of higher than 300,000,000 AMD ($666,000).

Profitability: Only 26 managers answered this question (less than half of the survey respondents). The median percentage for those answering is between 11 and 20 percent profit.

Exports: Just over half the respondents (23 of 44) who answered a question about domestic versus foreign customers indicated that more than 50 percent of their revenues are generated from foreign travelers.

3. Tourism Company Operations and Capacity Building Needs

As with respondents to other CAPS sector surveys, tourism managers have difficulty defining their customers and markets. Survey questions in this area were deliberately open ended to gage the ability of tourism providers to tell us who their customers are. Respondents listed no fewer than 50 customer categories, typically with little regard to structure according to**:** tourist interests / activities, tourist nationalities, tourist demographic profiles, or any other clearly identifiable means. Rather, responses tended to be mixed, e.g., *our customers are mainly either families or people from Germany or birdwatchers.* This type of response indicates a strong need to assist the industry with market segmentation, target marketing and customer profiling. While rudimentary, these things are critical to the basic understanding of who the industry serves, how they serve them and why some customers are better than others. The lack of systematic marketing processes is also evident in the way managers collect market and competitive data. Fifty-nine responses indicated a preference for passive means to collect information (word of mouth or own managerial experience) versus only 39 responses indicating using market research or secondary published data.

The difficulty in segmenting markets coincides with the number one stated priority for assistance**:** marketing (specifically promotion, export development and strategy). This is a positive indication that the industry generally recognizes a shortcoming and is motivated to address it. Marketing consulting materials with a focus on segmenting markets and developing tourist products with an eye to increasing tourism arrivals will best meet these needs.

Financial planning is the second highest stated priority (by functional assistance category).The need for help in financial forecasting, cost cutting, and accessing finance is fairly evenly dispersed. Only one-third of the respondents produce any internal financial reports and what is produced is not necessarily detailed enough to be useful for financial planning. This situation is aggravated by the fact there are no standard software packages in use and much of the financial data are kept on simple Excel spreadsheets. There is an opportunity here to connect the CAPS tourism and IT clusters, and encourage the development of software specific to tourism provider needs.

It is mainly the larger firms that identify needing help with human resources and managing staff; however, the absence of even basic written employee procedures indicates a clear deficiency in this area across the industry as a whole. More than half of those surveyed stated a significant problem exists in finding qualified staff. It is clear CAPS must work at both ends of the workforce management and training problem.

Perhaps the greatest surprise revealed in this survey is the scarcity of internet and e-marketing in use by tourism providers. With a mere 34 percent of respondents relying on such methods (for more than 5 percent of their sales) a need for increased promotional sophistication is evident. This is critical in light of the desire to expand international exposure for Armenia as a destination in pursuit of increased tourist arrivals.

Internationally recognized certifications, or even concerted efforts to achieve international best practices, are virtually non-existent. However, some segments of the industry are beginning to demand certification programs, most notably the tour operators and tour guides. To avoid creating such standards in a vacuum, CAPS and the cluster working groups must demonstrate leadership and devote resources to ensuring harmonization with international norms and practices. Food safety, organic food, hotel rating systems, tour guide qualifications and others are all areas that may be addressed.

As with the IT industry survey, legal and regulatory issues raised as impediments were diverse; only taxation was cited more than five times. This points to an industry that has not clearly prioritized, or even systematically identified, the *real* regulatory impediments.

Use of business development services (BDS) is happening at moderate levels. Just under half the respondents belong to an association. Only two associations were cited by more than two people, the Union of Incoming Tour Operators and AmCham. There are presently few tourism specific associations to support the industry; however, several are in process of start-up or capacity building with CAPS assistance. These are needed as there is widespread belief the industry must begin to speak with one voice. It is also in the interest of all to cooperate toward increasing the professionalism of the workforce. By the same token, merely starting associations is not the answer. They must have a clear mandate that is responsive to the needs of their constituent members and offer valuable fee-based services thereto. Most who do not belong to associations don’t believe they are useful, many others are not even aware any exist. Surprisingly, nearly half of those surveyed indicated using a consultant at least once, usually for marketing or business planning; however, much of this appears to be in the form of training as opposed to consulting. CAPS will address both issues by training consultants and offering their services via associations to their members.

II. Survey Design and Process

The survey was conducted by the Economy and Values Research Center (EVRC), an Armenian research group who were selected by CAPS in a competitive bidding process. CAPS staff designed the questionnaire. EVRC, with input from CAPS and other stakeholders[1], identified the population of tourism-related companies, constructed a sample frame, derived the sample, translated the questionnaire into Armenian, tested the questionnaire on industry members and conducted the in-person interviews. The data were provided to CAPS for analysis and production of the final report.

1. Defining the Tourism Industry

For purposes of this report, and in the conventions used by the World Tourism Organization, the tourism sector is comprises those industries (sub-sectors) that provide services related to the activities of visitors who travel to and live in places different than their home town for less than a year for vacation and other purposes (mostly incoming and inbound tourism).
The list of tourism related activities is as follows.

1. Accommodation services (hotels, motels, B&Bs, hostels, etc);
2. Food-and beverage-serving services (cafes, restaurants);
3. Passenger transport services (taxi, and vehicle renting services, air-carriers);
4. Travel agency, tour operator and tourist guide services;
5. Cultural, recreation and other entertainment services (museums, galleries, etc);
6. Miscellaneous tourism services (in our case - mainly gift shops).[2]

2. Population Design

The Armenian tourism sector, broadly defined, has more individual businesses than probably any other in the country. Due to the breadth of the tourism sub-sectors, CAPS and EVRC found it unfeasible to identify companies involved in the food and beverage and transportation sub-sectors individually, via associations or from other industry-related projects, as was done for other CAPS baseline assessments for the information technology and business service provider sectors. Therefore, tax inspectorate figures on the number of companies involved in these tourism sub-sectors were used to establish the number of companies. In creating the sample population, we have identified more than 3800 entities closely connected with tourism.

[1] We especially wish to thank the Union of Incoming Tour Operators (UITO), and UITO Director, Mr. Arayik Vardanyan, for assistance.

[2] http://www.world-tourism.org/statistics/tsa_project/basic_references/index-en.htm

Tourism Industry, Number of Companies	**Population**			**Sample**		
Sub-sectors of the Industry	**Yerevan**	**Marzes**	**Total**	**Yerevan**	**Marzes**	**Total**
Accommodation	57	202	259	*8*	*9*	*17*
Hotels, Motels	*30*	*94*	*124*	*8*	*3*	*11*
B&B	*27*	*108*	*135*	*0*	*6*	*6*
Tour Operators *	137	9	146	17	2	19
Food & Beverages *	360	1980	2340	4	2	6
Transportation, excluding tour operators	372	634	1006	*3*	*0*	*3*
Renting	*9*		*9*			
Taxi	*323*	*634*	*957*			
Airlines	*40*		*40*			
Museums & Galleries	41	10	51	*5*	*3*	*8*
Gift Shops	25	10	35	*5*	*1*	*6*
TOTAL	**992**	**2845**	**3837**	**42**	**17**	**59**

* Data on number of firms in food and beverages and transportation provided by the Tax Inspectorate on of Armenia

3. Sampling Plan and Procedures

Because of the breadth of the tourism sector, and in order to better focus our efforts on core tourism service providers, we have excluded taxi services and airlines from our sample frame, and only spoken with six restaurants/cafes to gauge their views. A sample of the remaining sub-sectors, further stratified by ownership (majority foreign vs. domestic), company size (large vs. SME), and region (Yerevan vs. marzes) was selected. A sample frame of 142 companies was drawn from the population, in order to have the final sample of at least 50. ERVC contacted 68 companies in Yerevan and regions, and 59 companies completed the survey. Those who refused to complete the survey were mainly those companies whose CEO's were absent from town. Three transportation (renting services) companies were part of the survey, and six establishments providing food and beverages. Respondents drawn from the sub-sectors of accommodation, tour operators, museums and galleries, and gift shops represent approximately 10 percent of the population of approximately 500 firms in these groups. Therefore, the data for the needs assessment is indicative of the types of assistance necessary to develop the tourism cluster.

4. Data Collection

Interviews were conducted between January 9 and February 14, 2006. The interviews lasted approximately 40 minutes, and most were conducted in the Armenian language. A team of female economics students from Yerevan and neighboring marzes administered the questionnaires. The enumerators were provided with extensive two-day training by EVRC and CAPS designed around the administration of the questionnaire and handling respondent questions. Pilot interviews were conducted to test the questionnaire instrument, which was adjusted prior to final implementation.

III. Survey Results

1. Description of Tourism Sector Companies

1.1 Ownership. Ten respondents indicated their companies are majority female owned. Only 39 of 59 respondents answered this question; however, non-response in this instance would most likely not alter the results; that is there are likely only ten respondents (17 percent) of the 59 companies surveyed that are female owned. Fifteen firms (38 percent) of 39 indicated being entirely male owned, though we could reasonably postulate the percentage is higher to the question's non-response. While the percentage of female ownership is not very high among tourism firms, it exceeds the other industries surveyed (business service providers and the information technology sector).

Ownership Shares for Females or Foreigners	Female Ownership (# of firms)	Foreign Ownership (# of firms)
0%	15	29
1-50%	14	3
51-99%	5	1
100%	5	8
Total number of firms	39	41

Nine respondents of 39 who answered the question indicated majority foreign ownership. These were primarily larger hotels in Yerevan. In this question non-response could have gone either way and any attempt to guess at their responses would be flawed. Thus we can surmise 9/41 or 22 percent of our sample is majority foreign owned. Of the 41 respondents, 29 (71 percent of the sample) indicated entirely domestic ownership. This demonstrates very little shared foreign-local ownership in the tourist industry. Clearly the majority of tourist firms in Armenia are domestically owned, with the exception of the largest hotels.

1.2 Employment and wages. Collection of reliable industry employment data is fundamental to our performance monitoring and evaluation system. Response to this question was high, 56 of 59 answered; however, the sample frame is small in relation to the overall population and further research will likely be needed. Over half the respondents (54 percent) employ less than 10 people full time, which indicates an industry dominated (as expected) by very small firms. The few exceptions are the larger Yerevan-based hotels and museums, of which seven in the sample have more than 100 employees (13 percent of the sample).

Number of Full-time Employees	Number of Sample Firms	Percent of Sample Firms
1-10	30	54 %
11-50	17	30 %
51-100	2	4 %
More than 100	7	13 %
Total	56	

As expected, the average number of full-time employees varied according to industry sub-sector. For tour operators, the average is 8.4 employees. Gift shops employ an average of 4.2 people, hotels 76.0 and bed and breakfast establishments 2.6.

Total full-time employment reported among the firms in the 56 firms who provided employment data in the sample was over 1600, but again, because the sample was not representative, this does not give an adequate indication of the total size of the tourist sector. Unlike other sector assessments, we can not use stratified weights to develop a reliable industry employment figure because the sample represents such a small percentage of overall employment in each group and the sub-sector strata were convenience sample based.

For monitoring the growth of the tourism cluster, during the course of the CAPS program, we can simultaneously pursue three different options:

1) The same companies can be surveyed again to develop a longitudinal sample in order to gauge employment, revenue and export growth in the sampled firms over time.
2) A much larger sample can be taken, with care taken that it is statistically representative across different sub-sectors (by industry sub-sector, region and size). Reasonable growth figures can be obtained by asking companies to report retrospective data: that is, to provide information on growth of employment and other key indicators over the past year or quarter. Since subsequent industry surveys will not include as many questions about legal barriers and consulting needs, a shorter survey among a larger number of companies is possible.
3) We can rely on aggregated industry data from national authorities, as described below.

In order to establish the total number of employees in the tourism sector in Armenia, the National Statistical Service has provided CAPS with a disaggregation of total employment in tourism services in Armenia. For the calendar year 2005, the total number of employees in the sector was estimated to be 26,000, with details in sub-sectors as provided below. This national data is available annually and while it may have biases, we do not anticipate that the bias will change over time. Employment figures from National Statistics Service are considered by many to be a conservative estimate since firms have some incentive to underreport employment to national authorities. [3]

Data from National Statistical Service, Number of Employees, 2005

Tourism Services	**26,156**
Hotels	1,805
Restaurants	5,133
Travel agencies	239
Culture, Resort, Entertainment	8,938
Gambling Games	552
Taxi Services	2,968
Airlines	1,990
Trains	4,531

While the data provided in the CAPS / EVRC baseline survey can not be aggregated using stratified weights into a reliable estimate of total employment in the tourism sector, it does provide a wealth of very useful information. Sample averages on most indicators are very indicative of

[3] The figure for total employment in the tourism cluster of 26,156 is very close to the estimate of 28,000 provided by the CAPS consortium during the bid for the CAPS project.

firms in the sub-sectors and this data represents the first comprehensive look at firms in the tourist industry in Armenia.

Across the spectrum of firm size and sub-sectors, the percentage of women employees was high. In the industry, women outnumber men in 66 percent of firms. The average share of women employees in firms was 64 percent (and the median was also 64 percent). These data support our assumption that tourism is a key sector for the employment of women and CAPS-assisted growth to this sector is critical to impact gender objectives.

Less than half of firms (38 percent) report hiring additional workers to meet capacity for at least a month (and likely several months) each year. Thirty percent of respondents employ between 1 and 15 temporary workers for at least one month per year. Another 7 percent employ more than 16 temporary employees every year. Of those firms who do report hiring seasonal workers, the average percentage surge in employment is 80 percent. The percentage of female employees in temporary employment is again over 50 percent further reinforcing this sector's importance to the employment of women.

The average range for gross payroll per employee, across different company size categories, varied from just over 37,000 AMD monthly to over 90,000 AMD. The median was approximately 60,000 AMD or about $80 per month per employee.

1.3 Annual turnover and foreign versus domestic customers. With a preponderance of small players and a few large companies, mainly hotels, the industry shows a wide range in annual sales turnover. Most tourism companies survive on less than $100,000 annually. Among tour operators who answered this question, average annual revenue was 14 million AMD ($31,000). The average annual revenue for gift shops was also approximately 14 million AMD. Just over half of those respondents (23 of 44) who responded about the source of their revenues stated more than 50 percent was derived from foreign customers. We can conclude that foreign customers already represent a sizeable share of the industry. Expanding diaspora linkages and deal-making with foreign tour agencies will be vital for sustained growth.

Employment Range	Frequency	Turnover Range Average (AMD)
1-10	30	9,289,757
11-20	10	42,994,483
21-30	5	32,409,733
31-50	2	150,000,000
51-75	2	55,000,000
76-100	1	--
101-150	4	314,600,000
151-210	2	3,680,000,000

Share of revenue from foreign customers	Number of companies
0%	0
1-20%	7
21-50%	14
51-75%	16
100%	7
Total	**44**

1.4 Value added. Average value added (revenue per full-time employee) in the industry is an indication of productivity in the sector. Not unexpectedly, productivity in the tourism sector is much lower than in many other sectors of the Armenian economy. Among the firms who provided information on both revenue and employment, the average value added was 375 thousand AMD, and the median was approximately half that. This measure shows that productivity is higher among tour operators and gift shops (312 and 327 thousand AMD, respectively) than in cafes and restaurants (109 thousand AMD). Not surprisingly, productivity in the accommodation sector was more than double the average of the entire tourism sector, but productivity measure in accommodation differed widely depending upon the size and type of establishment.

1.5 Company-wide profit. The number of people willing to answer this question was low (26), less than half of those surveyed. As such, the initial results are only indicative. What they do suggest, however, is profitability across different company size strata varies widely and most are profitable. The median profit, as a percentage of gross revenues, falls in the range of 11 to 20 percent. This suggests a reasonable level of financial health among industry members, most likely due to a low labor cost base.

The range of company-wide profit, as a percentage of gross revenue	**Number of companies**
0%	2
1-10%	8
11-20%	4
21-30%	5
31-50%	4
51-60%	3
60-100%	0
Total	26

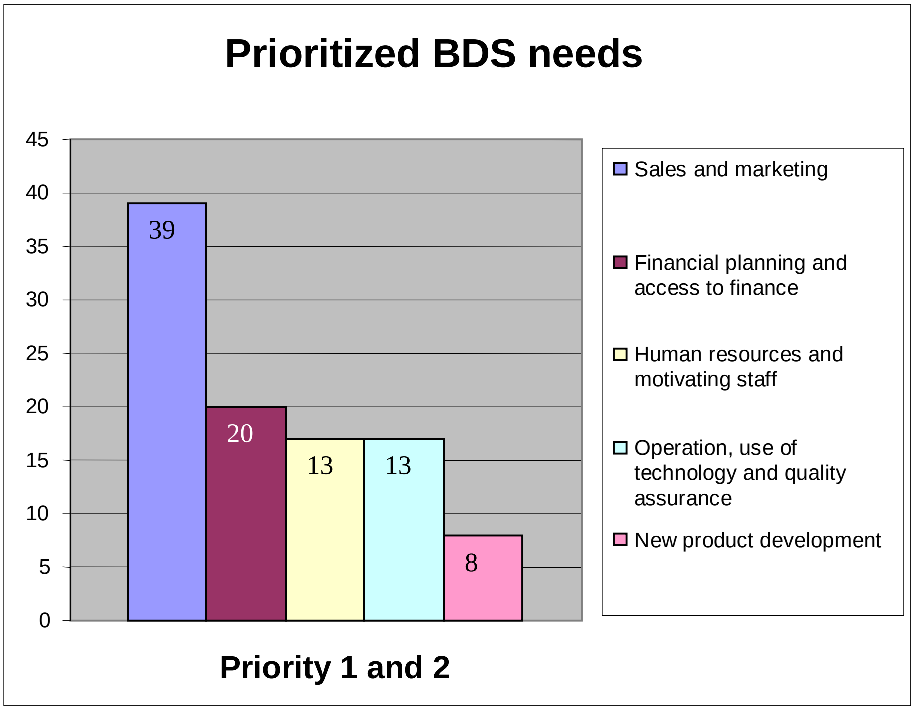
1.6 Use of bank financing. All but one respondent answered this question. Of those, only 9 percent (5 companies) received any bank financing during the past three years. This fact could be reasonably determined as a serious constraint to growth. This very small percentage lends credence to the number one request of respondents pertaining to the types of financial assistance they most needed – access to finance. As part of its cluster approach, CAPS should investigate means to increase access to finance by working with banks to develop sector-tailored financing products.

1.7 Tourism clientele profiles. We asked respondents to list their top three customers according to type, a deliberately open ended question. Answers varied widely. Over 50 different customer types were identified; everything from “families” to “ordinary tourists” to “profit bringing customers.” The industry demonstrates a lack of understanding, and a resulting lack of structure, in the way it segments the market, which points to a need for strategic marketing segmentation training. This needs to be coupled with hands-on tools to help companies understand the positioning of Armenia as a destination and the positioning of individual companies within this broader scheme.

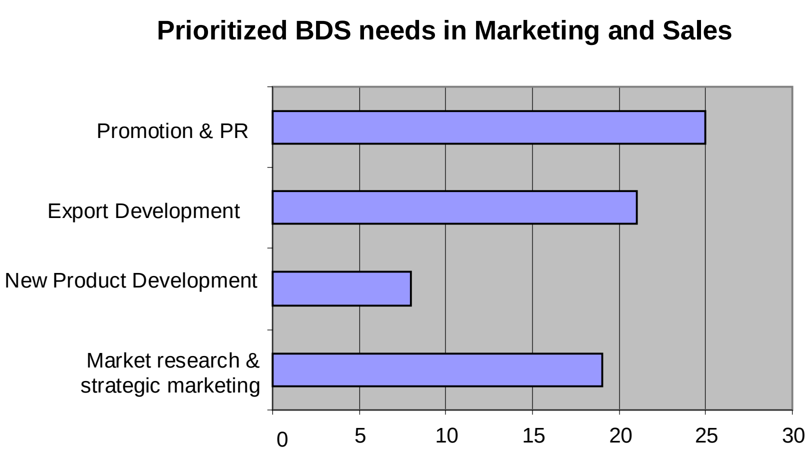
About half of respondents indicated that they have customers in Yerevan and at least four other marzes. This, plus the fact that very few firms listed resident Armenians as their primary customer, reinforces the need to reach out to the domestic travel market, which is naturally occurring but not necessarily the focus of aggressive marketing and sales efforts

2. Tourism Company Capacity Building Needs

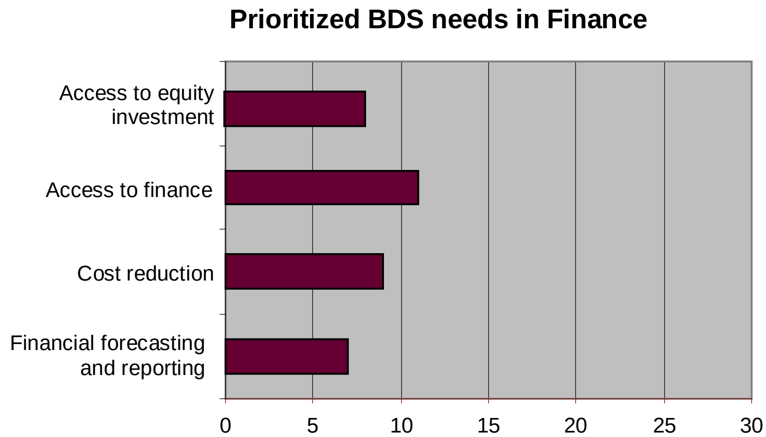
2.1 Assistance needed by functional area. Sales and marketing consulting assistance is most cited as needed by tourism providers and this coincides with assessments with IT companies and business service providers. Financial planning is listed as a distant second priority, in turn closely followed by human resources and operations. Thirty-nine respondents listed sales and marketing as their first or second priority, which jumps to 47 if new product development is added – more than twice as many as their next priority, financial planning, which was of considerably more interest to Yerevan based companies than those in the marzes. CAPS training and consulting materials should first and foremost address marketing issues, which of course is in line with the need for a better understanding of segmentation. Financial planning, with access to finance, could be a second priority for Yerevan based firms.



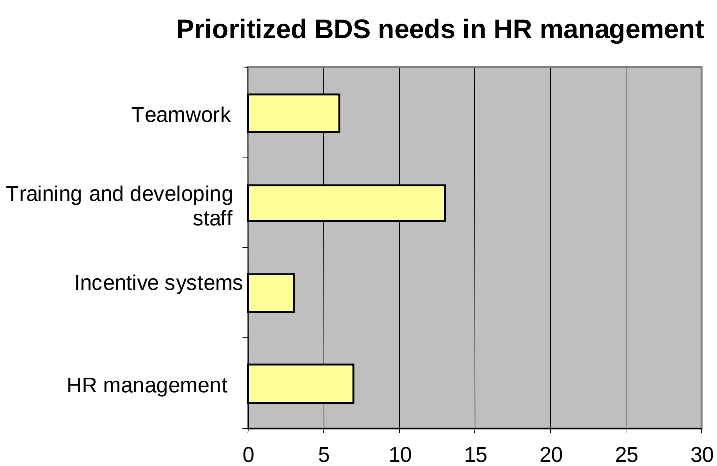
2.2 Specific marketing consulting assistance needs. Assistance with promotion and public relations services was most often cited as the first or second priority by industry members. However, under cross tabulation, Yerevan based companies identified export promotion as their most important need. This is not surprising as Yerevan based firms are much more prone to be dealing with foreign customers, though it does indicate a strong recognition of the need for better export marketing methods. Market research / strategic marketing also made a strong showing in terms of priorities for tourism firms. CAPS will develop training materials that address promotion, export development and market research within the strategic marketing framework. As export development is so critical to Yerevan based companies, a separate export promotion module or course may be required.



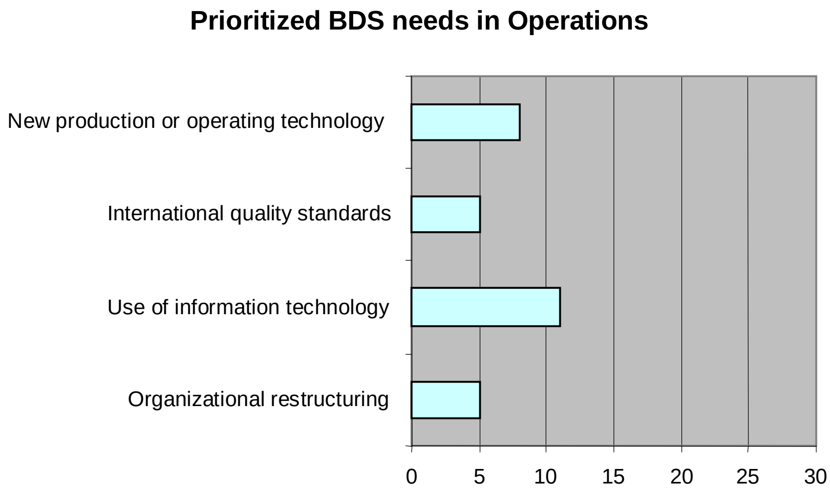
2.3 Specific financial consulting assistance needs. Consulting needs in the financial planning and access to finance area are much more evenly distributed without any clear favorites. The possible exception is access to finance itself which received the most first and second priority responses. As is clear from the respondents' answers about internal financial reporting (see section 2.8) – or rather the relative lack of internal reporting – better financial management techniques remain important to any firms with an interest to grow beyond the micro stage.



2.4 Specific human resources assistance needs. Respondents clearly identified training and developing staff as their primary HR concern with nearly twice as many first and second priorities listed as any other category. This was mostly due to the responses of Yerevan based companies who felt this need much more than in the marzes. The question arises whether Armenian companies really understand human resources as a management function, which suggests an overview seminar offered through associations might be advisable for awareness building.
CAPS business capacity and workforce development components need to work closely to source and/or design sector specific training programs for industry staff. The need for an introductory seminar to explain the benefits of human resources management, at least in mid-sized companies and above, should be reviewed.



2.5 Specific operations and technology assistance needs. Use of information technology and acquisition of new technology combine for nineteen first and second priority responses. This ties well into the CAPS sector selection as our ICT cluster may be integrated here for synergies. CAPS will facilitate interaction between the ICT and tourism clusters to support the transfer of technology to tourism service providers. Needed technology may include booking systems, interactive web pages, occupancy planning systems and the like. Already CAPS has piloted such a meeting by asking web design providers to make presentations to the tourism marketing working group. The meeting was well received and further such events can be scheduled.



2.6 Use of internet and e-marketing to generate sales. Of the 56 people answering this question, 66 percent either derived no sales from e-marketing/internet or less than 5% of their sales from these tools. Among the entire sample, the average percentage of sales derived from online sources was 14 percent. Only seven respondents (12.5 percent of the sample) claimed that at least half of their sales were derived from the internet or e-marketing: These included one hotel outside of Yerevan and six tour operators. The use of sophisticated online marketing techniques is woefully inadequate for a worldwide industry increasingly dependent on such methods. CAPS must work with associations and through the cluster working groups to promote the use of e-marketing, which will greatly facilitate access to end-user travelers seeking new and interesting destinations. .

2.7 Target countries for sales expansion. North America, major EU countries and Russia are the most commonly cited regions/countries in which tourism providers would most like to make inroads. The US, Canada, the 5 most populous EU countries and Russia are targets CAPS should initially address as geographic markets. However, over the mid to longer term, the lack of reliable market data is a clear impediment to identifying promising new markets and even better segmenting those listed above. Market research to identify visitors and potential visitors, their interests, profiles and needs, is essential to remedy this problem.

2.8 Financial planning and internal reporting. Only thirty-three percent of firms produce any form of internal financial report. This is not surprising for smaller concerns such as restaurants and historical sites, but it reinforces an expected lack of financial management sophistication overall. Interestingly, of the software noted as used for financial reporting, most were simple Excel based spreadsheets. The remainder included five specially designed software packages, each one different from the last. There is no software standard for use by the industry and a niche may exist for developers here. The inability to understand, on a monthly or quarterly basis, the contribution margin of individual product lines or individual customer types will surely hamper the growth and development of otherwise promising tourism firms. Such methods need to be adopted by industry and CAPS will develop tools to help bring this about.

2.9 Use of printed company policy manuals. The same percentage of firms produce some printed information concerning company employee policies as financial reports (33 percent); however, there is little correlation between these (doing one did not necessarily indicate doing the other). One would expect a higher number of internal financial reports being produced than internal written employee policies, especially as most of the sample included small firms. The fact 33 percent of companies have some kind of personnel policies available may be influenced by the regulatory environment. A new labor code requires written policies to be in place. Based on the few companies willing to provide a written policy manual example, it may be surmised these documents are mainly to minimum statutory requirements. HR remains an area of weakness, though it is less obvious until a firm begins to grow.

2.10 Internationally recognized certification. Internationally recognized certification is virtually non-existent in the tourism industry. Only one hotel indicated possessing any type of ISO, HACCP Food Safety or similar quality standard. Many certificates listed by tourism providers were in fact training completion certificates. There is an opportunity to identify internationally based certification programs that have potential to add to bottom line sales, e.g., food safety, and gage sector interest. Tourism firms, especially guides and tour operators, are increasingly interested to improve the professionalism among their ranks, as evidenced by demands for certification and licensing. The cluster working groups are debating these issues now as are their associations. CAPS will continue to foster this process.

2.11 Legal and regulatory concerns. Over 40 distinct regulatory issues were listed by respondents as impeding their ability to do business and most of these issues were only referenced once (cited by a single respondent). Taxation is the only issue that was noted more than five times (20 responses pertaining to taxation).This tells us two things: 1) There are numerous issues the industry needs to address in a coordinated manner with government and 2) Aside from taxation, there is very little agreement on what the priority issues are. The CAPS Advocacy component must coordinate closely with the working groups to identify and prioritize issues presenting the most actionable impediments to industry. These will in turn be integrated into the cluster competitiveness strategy and tactical action plan.

2.12 Employee workforce problems. Finding adequately trained staff, in terms of vocational training, is easily the most pressing workforce concern as indicated by 62 percent of respondents. Functionally speaking, management, marketing / sales, and customer service were most often cited. While customer service is certainly attributable to line [vocational] staff, it appears marketing/sales and management both indicate the need for managerial level training as well. The assessment reinforces the need for CAPS to facilitate linkages with job seekers and open up avenues to increase access to specific training.

Serious employee workforce problems	**First priority**	**Second Priority**	**Totals**
Finding staff with adequate vocational training	33	4	37
Finding staff with managerial education or training	4	17	21
Retaining staff once they are trained	6	14	20
Other	1		1

3. Experience with Business Development Services

3.1 Association membership and services. Just under half of the respondents (27) indicated belonging to an association. Seventeen different associations were cited, most of these only once (by a single respondent). Only two associations were listed by more than two respondents – the Union of Incoming Tour Operators and AMCHAM. There appears to be an interest in belonging to associations, more so than in many other CIS countries. However, few strong associations exist to support the industry. There is more of a *culture* of association membership than expected but few strong industry specific associations exist. Strengthening the capacity of existing associations and facilitating the industry-driven creation of new associations are important goals for CAPS. The most commonly mentioned association services being used are: marketing / promotion / networking (11), training / seminars (5), legislation / advocacy (4). The usefulness of such services was a surprisingly high 1.9 on a scale of 1 to 5 (with 1 highest). Conversely, marketing related services, including research and customer contacts, were also the most commonly cited service needed but “not now offered” by associations (9). Marketing services are most in demand from associations. Associations are providing a decent level of service for members in this area but not meeting demand for new and innovative ways to research markets and make customer contacts.

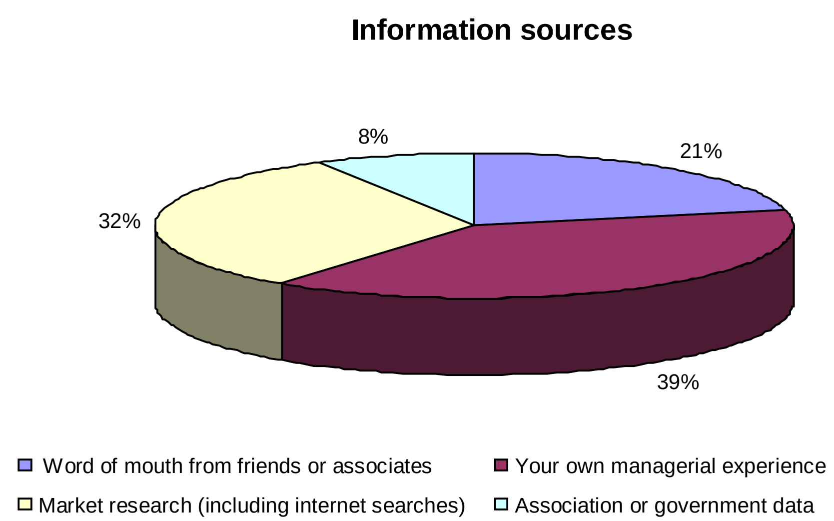
3.2 Association dues. Of 17 distinct associations for which membership was indicated, ten were listed as receiving dues from members. Annual dues amounts varied widely as can be seen below. A typical range for association dues falls between 150,000 and 250,000 AMD per year. In essence, associations are operating on approximately $450 per year per member, plus any other revenue they can muster, which appears to be minimal. UITO, the primary tourism specific association cited in this survey, has 15 members at present and member dues are their only source of revenue, which is fairly typical for associations now, which leaves little room for covering the salaries of permanent staff. Associations are typically charging dues but amounts are inadequate and members scarce. A basis of the CAPS approach must involve adding capacity to associations in their provision of fee based, value-adding services to generate revenues and attract new dues-paying members.

Association	Fee in AMD unless indicated
AMCHAM	92,000-250,000
Association of Cultural Relations with foreign countries	1,000
Gegharkunik Chamber of Commerce and Industry	240,000
IATA (International Air Transport Association)	1,200 CF (one-time payment)
DRV	216,000
American Society of Travel Agents	153,000
Union of Incoming Tour Operators (UITO)	270,000
Union of Stone Processors	1,000 AMD
IATA-TIDS	60CF
JATA	$100

3.3 Reasons for not belonging to associations. Those who are not association members naturally don’t view association usefulness as highly as others who are dues paying members. About 20% of respondents said they were aware of an association serving their industry but didn’t think they were useful enough to join. In many cases associations specialized in the respondents’ sector or subsector simply don’t exist or they are not aware of them. An interesting observation is only two respondents cited “too expensive” as the reason for not belonging to associations. In our experience, cost is a much more prevalent reason for not belonging to associations in other countries. Very few respondents indicated a closed mind toward association membership. Improvement in association services and broadening their coverage of the industry should yield greater membership participation.

No association serves the industry they are aware of	11
An association serves the industry but it/they are not useful	11
There is no need for an association	5

3.4 Sources of industry and competitive information. Responses to this question were strongly indicative concerning the mindset of managers with regard to the lack of systematic processes for the collection of market and competitive data. Fifty-nine responses indicated “word of mouth” or “own managerial experience” as first or second priority sources, whereas only 39 indicated “market research” or “association or government data” as the first or second priority data sources. Use of systematic marketing and data collection methods remains weak. Managers need to learn such skills to make informed decisions about new market opportunities and new product development. This ties into the other marketing needs as markets cannot be properly segmented or customer profiles developed without primary or secondary market research.



3.5 Use of consultants. Nearly half of respondents (27) indicated using the services of a consultant at some time. The services used were many and varied but the most commonly cited were marketing / promotion (11) and management / business planning (10). The mean rating of the usefulness of services, based on a scale of 1 to 5 (with 1 highest), was 1.7, which is relatively high. Consulting services are being employed, though much of their use appears to be more in the vein of training than true consulting. Based on this and the responses to our BSP survey, we believe the tourism industry has significant needs for consulting services in marketing, financial planning and human resources management, which are not now being met. CAPS will help develop methodologies in these area and develop the linkages necessary (mainly through associations) to connect BSPs with tourism providers. The reasons for not using consultants (representing over 50 percent of respondents) included a range of answers with few surprises, the top responses: there aren’t any specialized or qualified enough to help (9), they don’t need them (8), they are too expensive (5), don’t know where to find them (4). Clearly BSPs need to better market their services to this industry and offer specialized products that contribute to bottom line profitability.