



Weekly Briefing

Slovenia Economy briefing:
Restructuring of state-owned tourism companies
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Restructuring of state-owned tourism companies

Short summary

Only a month before the upcoming parliamentary elections, the Minister of Economic Development and Technology, Zdravko Počivalšek, announced the programme for consolidation of the state-owned tourism sector, proposing an establishment of tourism holding. This programme is an application of the »Strategy for the sustainable growth of Slovenian tourism for 2017-2021«, which was adopted in October 2017. For Počivalšek, himself with background in tourism (he led Terme Olimia for 15 years), this is most probably the last big project before elections, although due to the pressing time limit, it might not be successful.

Background: Trends in Slovenian Tourism Industry

Slovenian tourism industry is growing at a very high rate. More than 4,7 million visitors in the past year meant 13% more than in the previous year, making it the year with the fastest tourism growth in the past decade. Percentage of non-Slovenian visitors has also been growing steadily in the past years, and was 10% higher in 2017 than in 2008 with 67,4%. Most foreign overnight stays in December 2017 were made by Italian visitors (more than 135,000 or 34%), followed by Austrian (12%), Croatian (9%), German (5%), Serbian (5%) and Hungarian visitors (3%).

Overnight stays still mostly take place in key tourist regions: the capital and its surroundings, the coast, mountainous region and spa locations. Fastest growth of overnight stays (almost one fifth) was recorded in the mountainous region of Slovenian North-West. The growth of overnight stays at the coast was around one tenth, and similar growth was recorded in the capital Ljubljana. Comparably lower was the growth at the spa locations, most probably due to the already overbooked capacities. There is also a visible trend of visits to the

municipalities which are not classified as primary tourism destinations, where the increase in number of overnight stays was around 1/4. Most of the overnight stays (more than 67%) was made in hotels, followed by camping sites (around 16%) and only a comparably small percentage in hotel apartments/tourist villages and private apartment accommodation (both around 6%).

Challenges in the development of Slovenian tourism

Despite the favourable statistics, there are also some pressing issues that Slovenian tourism, especially the prevailing hotel industry, would have to address in order to prevent them from hindering the overall growth. Several aspects could be identified, according to the analysis presented by the Slovenian tourism chamber. Visitors stay for a shorter time, compared to similar countries, on average 2,6 days, less than in Croatia or Austria. The hotels occupation rate is low, on average around 51%, less than Hungary, Austria and Italy (while Croatia has less with around 42%). Finally, Slovenia has comparatively low room rates with an average of 69€ in Slovenia, less than Croatia and Montenegro which have around 80€ and much less than Austria (around 100€) and Italy (around 140€) per room. Both the average occupancy rate and the average room rate were slightly decreasing in the past few years. Another very pressing issue is the situation of employment in Slovenian tourism sector. Employees are often employed under very precarious employment conditions and their salaries are decreasing. Compared to other sectors, tourism employees are also seriously under trained and underpaid, with the average gross salary at only around 1100€, compared to the overall national average of around 1600€.

A worrying trend is also the lack of investment in tourist capacities, which would be indispensable for raising the added value in Slovenian tourism sector. The investment trends in Europe did not reflect in major changes in Slovenian tourism. An important part of bigger hotels and chains were affected by financial speculations before the economic crisis.

Strategy for the sustainable growth of Slovenian tourism for 2017-2021

This discrepancy between the rapid growth of overnight stays and the lack of investment in higher quality sustainable tourism also calls for an overall strategy of development of the tourism sector. The growing number of visits on its own does not just provide growth, but also brings along many serious challenges, overcrowding (especially critical in the mountainous destinations such as Bled and Soča river valley), security etc. The sustainability shift will be most necessary especially in order to prepare the industry for the potential downfall then sustainable policies with higher added value can guarantee additional stability.

The strategy was prepared by the Ministry of Economic Development and Technology in 2017 in cooperation with the Zagreb branch of the Swiss multinational company Horwath HTL. The strategy, adopted in October 2017, set the following growth targets to be achieved by 2022:

- an increase international tourism receipts to 3.7 – 4 billion euros (key target)
- 5-5.5 million tourist visits
- 16-18 million overnight stays
- increase in average length of stay to 3.1-3.4 days
- addition of 18,000 to 22,000 new tourist rooms, of which 8,500 will be renovated and 6,500 will be new rooms in the hotel sector
- increase in full-time employment in the tourism sector to 12,000 employees.

The strategy is composed of six key policies: (1) to create market-driven clusters of tourism products and experiences or macro destinations, (2) strengthening of the role of National Tourist Organisation, (3) restructuring and renovation of Slovenian tourism infrastructure to increase occupancy and level of daily spending, (4) improving education and staffing policies for improve the human resource in tourism sector, (5) development of policies of sustainability,

(6) improvement of the business environment for small and medium size companies.

New Tourism holding

At present, the state of Slovenia has an indirect or direct ownership over almost 32% of hotel and casino companies. In the tourism sector it owns 38 % in key companies, some of which are currently facing problems due to inefficient management and insufficient investment. In this context the Ministry of Economic Development and Technology has on April 24th presented a new management strategy of state-owned companies. The strategy consists of the restructuring of eight companies under the management of Slovenian Sovereign Holding, which would enable a consolidation of ownership and better management.

The list of companies is still being discussed, but as for now it includes eight companies:

- Sava Turizem; the biggest tourism provider in Slovenia with 15 hotels (3***, 4**** and 5****), 6 apartment complexes, 5 camping sites, 6 thermal complexes, 4 wellness centres and one golf court
- Hoteli Bernardin; the main tourism provider on the Slovenian coast with 5 hotels (3***, 4**** and 5****), 85 apartment, 24 restaurants, congress centre, 4 wellness centres, a camping site and a marina for 60 vessels
- Istrabenz hoteli: with 6 hotels, several wellness centres and a congress centre
- Hit Group: with 11 hotels, 6 casino-entertainment centres, a camping site and two casinos
- Adria Turistično podjetje: with several hotels, apartment complex and a camping site
- Terme Olimia: with hotels, an apartment hotel, an apartment village, a camping site and a glamping site

- Thermana: with hotels, a retirement home, a thermal park and a health centre
- Unitur: with several hotels, bungalow complexes, thermal centre and a ski centre

It is still unclear why some other state-owned companies are not being included, but it is obvious that some of the developments are already taking place. The most important strategy for the new holding, according to the Ministry of Economic Development and Technology, is to ensure a successful restructuring and upgrading of the included companies in order to facilitate a more successful privatisation in the second step of the process.

Conclusion

With the rapid growth of tourism in Slovenia, some adaptations are definitely necessary to provide sustainable strategies for the future and to secure some stability also in times of possibly less favourable economic trends. One of the most important critical factors, the lack of investment (the low added value, low occupancy rate and low room rates achieved) of the hotel sector was addressed with the new tourism holding, proposed by the Ministry of Economic Development and Technology. It remains to be seen, however, how successfully this restructuring can be implemented due to the pre-election time and unpredictable shifts in the tourism policies under the new government.