Tourism Development Plans

for Ten Destinations across FYR Macedonia

Volume 1 – Methodology, Background and Market Analysis

November 2016

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CIIP Competitive Industries and Innovation Program

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Abbreviations

ALOS - Average Length of Stay

APST - Agency for Promotion and Support of Tourism

ATTA - Adventure Travel & Trade Association

CDPMEA - Cabinet of the Deputy Prime Minister for Economic Affairs

DMAI - Destination Marketing Association International

ETC - European Travel Commission

ETOA - European Tour Operator Association

EU - European Union

FAM - Familiarization Trip

GDP - Gross Domestic Product

IPA - Instrument for Pre-accession Assistance

LRCP - Local and Regional Competitiveness Project

MICE - Meetings, Incentive, Conferences and Events

NGOs – Non Governmental Organizations

SME - Small and Medium size Enterprises

UK - United Kingdom

UNESCO - United Nations Educational, Scientific and Cultural Organization

UNWTO - United Nations World Tourism Organization

USA - United States of America

VCA- Value Chain Analysis

VFR - Visiting Friends and Relatives

WBG – World Bank Group

WTM - World Travel Market

WYSE - World Youth Student and Educational

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Executive Summary

The Government of fYR Macedonia has prioritized the improvement of socio-economic development through job creation and growth. The government has specifically highlighted the tourism sector as one that can help the country achieve its development objectives, notably through its contribution to local economic development and in reducing wealth disparity across the regions. Success through tourism development would typically deliver job creation, private investment and higher visitor spend in selected destinations. In this context, several international organizations and NGOs are working in fYR Macedonia, including the World Bank Group (WBG) and the European Union (EU).

In support of the government's agenda, tourism development plans have been drafted to guide responsible market-led tourism growth across a number of high potential market segments in fYR Macedonia over the next 5 years. The objective is to increase the economic impact from tourism. This document can be read in its entirety (volume I and volume II) by policy makers, private sector groups, international organizations, NGOs, and other entities operating at the national level to assist in planning, policies, and sector management. Additionally, it can be broken down into destination-specific chapters to be implemented by those operating at the destination level such as destination managers, municipalities, private sector enterprises, associations, local NGOs, parks and other tourism asset managers.

1. Volume I provides background, context, the methodology applied, market research and the detailed evidence base for Volume II.
2. Volume II provides targeted development plans for each of ten destinations, with vision, targets, phased actions and expected impacts. It also provides a chapter outlining common issues and recommendations that span across multiple destinations.

Previous strategies for the tourism sector in the country predominantly focused on the supply side of the market. The current approach builds upon the existing knowledge and strategies, and complements them by adding the demand lens so that opportunities in the sector can be understood from both supply and demand perspectives. The plan focuses on six market segments that have been identified as having the highest potential to deliver the development dividend for the country, with some more suited to the West part of fYR Macedonia, which has a more developed tourism sector, and some to the East. Selection of the market segments was based on the segment's growth prospects (volume of demand), their ability to generate jobs and spend, to grow in lagging regions outside of the more established tourism centers, as well as their compatibility with the supporting asset base (supply side).

In order to ensure that these high potential market segments would be able to grow to their full potential, a value chain analysis (VCA) was applied for each of them. The VCA, taken from the perspective of the 'tourist consumer' or 'buyer' identifies gaps and weaknesses in the visitor experience from the moment the trip is considered, to the moment the visitor returns home. The plans then take these gaps to formulate a list of possible interventions and actions to fill them.

Filling the gaps will increase the competiveness and enhance the entire experience of the consumer. With better and more competitive experiences in each of the market segments, the development plan works on the assumption that subsequent growth and expansion of the market segment will generate the results expected in terms of jobs, investment, spend and length of stay.

The various gaps and actions cover a range of needs from policy, regulation, to systems, coordination, training, management, infrastructure investment, planning and product development. Some of the gaps need to be met at the national level, and some of them need to be met at the destination level. The most pressing gaps have been identified for implementation in a first phase, with others coming in a second or third.

The development plans and their underlying analytics aim to encourage and support individual actors or groups at all levels to take responsibility for helping to increase the competitiveness of the tourism destinations. Specific projects or detailed actions have not been elaborated, leaving space for creativity and innovation on the part of direct implementers. There are various forms of funding available that can be used to support such activities, notably a grant scheme under the Local and Regional Competitiveness Project (financed by the EU), and the Regional Development Fund. Other initiatives and programs may further support implementation of projects or actions to contribute to achieving the goals articulated in the development plans.

1. Introduction

1.1 Objectives

Tourism has been identified as a sector to increase productive and inclusive employment opportunities. The Government of the fYR Macedonia has prioritized the improvement of socio-economic development through job creation and growth. The government has specifically highlighted the tourism sector as one that can help the country achieve its objectives, notably through its contribution to local economic development and in reducing wealth disparity in the regions. Success would typically mean job creation, private investment and higher visitor spend in selected destinations.

To help achieve these broad objectives, the World Bank Group is supporting the implementation of a four-year program, the Local and Regional Competitiveness Project (LCRP). LCRP, which focuses on tourism, is a four year investment operation funded from the EU's Instrument for Pre-accession Assistance (IPA) II Program and managed by the World Bank. It aims to enhance the contribution of tourism to local economic development and improve the capacity of the government and public entities to foster tourism growth and facilitate destination management. As part of this work, the project is working at the national sector level, but also in 10 destinations across the country. To guide tourism growth and competitiveness at these destinations, it was agreed to develop destination development plans. Beyond informing the activities under LRCP, the development plans may also be used to focus resources from other initiatives – including through the national tourism strategy, other donor and public investment programs, and others – aimed to improve the competitiveness of the country's tourism sector.

This plan has therefore been created to inform a series of interventions in support of targeted growth in select market segments over the next five years. Volume I presents the methodology which was used to prepare the development plans as well as a summary of the market demand assessment and other analysis. Volume II contains the action-oriented development plans for the ten selected destinations as well as an overview of issues and opportunities that occur across destinations and may be addressed on a national or cross-destination level.

Both volumes of this plan can be read by policy makers and public entities, private sector groups, international organizations, NGOs and other entities operating at the national level to assist in sector policy and development. Additionally, the destination-specific plans can be used by those operating at the destination level such as municipalities, private sector enterprises, destination managers, local associations, local NGOs, parks and other tourism asset managers.

Data for this report has been sourced from primary and secondary sources of information. Primary data has been collected through surveys, site visits, and interviews conducted with 14 international tour operators and over 60 national stakeholders from the tourism industry, associations and government institutions (all interviewees and sources can be found in Annex 1). At each stage of the development process, findings have been presented to various stakeholder groups, including the private sector. A wide variety of documents and existing reports on Macedonia, the region and the tourism industry were also reviewed as part of the work on this report (see Annex 2 for a full list).

1.2 Tourism Context in Macedonia

Named in 2013 as one of Lonely Planet's top ten destinations, fYR Macedonia has good tourism potential, but is starting from a relatively low base. Capital city Skopje and UNESCO-protected Ohrid remain the key tourist attractions in the country, complemented by traditional Balkan villages and diverse communities, and ski resorts such as Mavrovo and Popova Sapka. Yet, the total contribution of travel and tourism to the country's GDP, employment, and total capital investment in 2014 was relatively small (5.2 percent, 4.7 percent, and 2.2 percent, respectively) in comparison with other countries in the region (WTTC 2015). By contrast, in 2014, tourism's total contribution to GDP in Bulgaria was 13.1 percent, and in Albania it was 21 percent. Growth in fYR Macedonia is, however, steadily increasing with direct GDP contributions from tourism having increased by 30 percent since 2010.

The key public sector entities with a mandate to facilitate tourism development include: The Cabinet of the Deputy Prime Minister for Economic Affairs (CDPMEA), based in the General Secretariat of the Government, serves as the main coordination and delivery body responsible for strategy and program implementation in key economic sectors, including tourism. The Ministry of Economy, through its Department of Tourism, is the principle institution responsible for tourism policy and strategic planning. The Agency for Promotion and Support of Tourism (APST) is in charge of promoting the country as a tourist destination.

The sector faces a series of challenges in order to fully realize its potential. The key challenges include: (i) the enabling environment: business environment, tourism policy and enabling conditions (standards, licensing, ease of access to finance and knowledge, etc.), air access; (ii) the offer: positioning, visitor information, product development, site management, standards; and (iii) development/ shared value: data collection, linkages, and private sector engagement. These challenges have been well articulated in a number of diagnostics over the years, and various international organizations (including World Bank Group, USAID, UNIDO, Swisscontact, and GIZ) are also very active in the sector.

1.3. Strategic Framework of the Sector

The importance of the tourism sector is emphasized in national and regional strategies, yet there is a need for better dialogue and public sector coordination in implementation. The sector's policy framework comprises the National Tourism Strategy 2009-2015 (and its thematic sub strategies); the Law and Strategy for Regional Development 2009-2019; the Programs for Regional Development 2010-2015 for each of the eight planning regions; and the Program of the Government of fYR Macedonia for the period 2014-2018. The Government, through the Ministry of Economy, has drafted a new National Tourism Strategy for 2016 onward.

Whilst often very detailed and well documented from the supply side (assets, products, facilities), the existing strategic material that guides the sector is lacking substantial demand analysis (an understanding of why and how tourists visit the country). This means that any entity engaged in designing or planning an intervention (at any scale) to address sector challenges has only half an understanding of the market. Like many other industries, tourism is a highly competitive industry that is run by the private sector, and a deep understanding of both the supply and the demand side are critical.

From a destination planning perspective it is also very important. The planning process for destinations works towards identifying actions to be financed and implemented in the short to medium term, so a sound market justification for the selection of these actions is needed. In early work on these destination development plans, it was clear that much up-stream data-collection and analysis on the missing demand perspective would therefore have to be done before the identification of actions could proceed. A full methodology was therefore designed and is presented in the following section.

The development plans (Volume II) have been designed to be concise and action-oriented, with the detailed analysis preserved here in Volume I. The analysis and evidence base for these actions has been derived from the existing (largely supply focused) strategic material and the supplementary demand-focused analysis that was collected by the team that prepared the development plans. The development plans are not designed to compete with or replace the national strategy, rather support the implementation and roll-out of its priorities at the destination-level. Any supplementary market data or demand analysis presented here in Volume I may be used to inform the finalization of the national strategy.

2. Methodology

The aim of this chapter is to present the methodology which was used to develop the destination development plans, together with some of the theory behind why this methodology was applied. It is broken down into various different exercises that were largely carried out in chronological order.

Figure 1: Sequence of Activities under the Methodology

2.1. Literature Review

The first step in the methodology was a literature review. It was carried out in order to understand the full scope and context of the strategic direction for the tourism sector and how the proposed focus on destinations could best work within existing frameworks. All relevant material was gathered (existing national, sub-national, destination or product/theme strategies and plans) and analyzed. Key issues that are repeated in multiple documents were noted, and a as a long-list of destinations in Macedonia that are considered a strategic priority, together with the reasons why, were noted. The output of this first step was a long-list of existing tourism destinations or clusters of destinations across the country.

Definition: Destination
"A tourism destination is a physical space in which a visitor spends ***at least one overnight***. It includes ***tourism products*** such as support services and attractions, and tourism resources within ***one day´s return travel time***. It has boundaries defining its management, and images and perceptions defining its market competitiveness.”

- UNWTO (2007)

2.2. Selection of Priority Destinations

From the longlist developed above, the destinations to become a focus for tourism development in Macedonia were prioritized according to five criteria. The long list included destinations, circuits, clusters, and other representations of destinations. These are referred to as “frameworks” in the list below. All of these were considered in order to reach the short-list of destinations. The prioritization criteria were:

1. Existing and potential market demand
    a. Evidence of success of comparable theme or product in other, relevant contexts/ countries
    b. Evidence that target markets are or will purchase it
2. Readiness for growth
    a. Framework has support from other donors
    b. Circuit/theme has stakeholders sensitized, positive, and on-board
    c. It is accessible, with adequate routes to reach it
    d. Circuit/theme has master plan or action plans
3. Ability to generate development impact
    a. Development of the framework can tap into and help grow viable supply chains
    b. Development of the framework will directly impact poorer regions
4. Strategic significance (documented as priorities in existing strategies)
    a. Framework recognized in national strategies
    b. Institutional support for framework
    c. Framework is a good fit with brand/identity of country
5. Role in regional integration
    a. Location of destination/circuit/theme is compatible with existing multi-region tours
    b. Circuit/ theme is compatible with neighboring offerings

All destinations/clusters that are mentioned in the long list from the literature review were scored by the Working Group that the Government established for the preparation of the Local and Regional Competitiveness Project, and which included representatives from the Cabinet of the Deputy Prime Minister for Economic Affairs, regional centres, and Ministry of Economy’s Department of Tourism. Any destination that scored over

60% was considered to be a priority. These destinations were then validated by the private sector from a market perspective. A survey was circulated amongst a sample of 10 private sector operators. Responses were analyzed and confirmed the strategic importance of the destinations to the tourism market.

2.3. Demand Analysis

In order to better understand how for the competitiveness and attractiveness of each of these ten destinations could be improved, it was critical to undertake market demand analysis that has been missing from the sector's wider strategic framework. This activity focused on mapping and analyzing demand patterns at the global level, at the regional level, and at the country level. Data was collected on the volumes of visitors, the changing patterns of their visits, length of stay, typical average spend, country of origin, reason for visiting and means of booking. This snapshot was complemented by an analysis of relevant market trends that are (or will) significantly affecting travel, and provided some interpretation for the Macedonian context.

2.4. Market Segmentation

With a greater understanding of broad demand trends and consumer appetite for fYR Macedonia, the next step in the methodology focuses on disaggregating the picture of overall demand and defining key market segments, or consumer profiles within it. This is considered to be good international practice and is a tool utilized by many in the travel industry – and also in other sectors – to better understand the customer and tailor products to their needs. It recognizes that not all consumers want the same thing, and that breaking demand down into behavioral profiles provides a great insight into the ways consumers will purchase, use, and recommend a product.

Definition: Market segment
A market segment is a group of customers who share common characteristics such as demographic and/ or psychographic characteristics, consumption preferences and behavioral patterns. Segmentation is an important step in planning for a destination because it tells us who is coming to the destination, why they are coming, and what they want to do there. Authorities, private sector and other actors are then empowered (with data) to better plan and accommodate specific tastes, preferences and patterns, rather than trying to please everybody. It is used as a way to focus resources and get the best 'return' or value for the destination.

- Kotler, Bowen and Makens (2014)

In order to identify all of the relevant market segments for fYR Macedonia, more primary demand data was collected. The previous step provided a good understanding of overall trends and macro-level data, but this is not broken down by 'type' or 'profile' of consumer. In the absence of this kind of quantitative data, a qualitative approach was used. The methodology used a series of interviews with international, regional and local private sector operators who come into contact with these consumers every day and can provide valuable insights into their behavior and preferences. This was supplemented by research and on online consumer-facing feedback resources (TripAdvisor, Booking.com etc.). The result of this exercise was a long-list of all the different tourist market segments that are relevant to fYR Macedonia, with summaries of their behavior, profiles and preferences.

Example: TripAdvisor
'TripAdvisor delves into traveler types and booking trends'
Oct 25.2016

TripAdvisor is the latest to put travelers into groups according to behavior.
As part of the company's ongoing TripBarometer, it commissioned Ipsos to identify different traveler profiles. The research firm came up with six such profiles:

- 'Value seekers' are predominantly aged 25 to 34, are often travelling with children and like beach holidays. This segment wants to make the most of holidays and carries out research via smartphone.
- 'Luxury travelers', as the name suggests spend big, are mostly aged 25 to 49 and like beach holidays and city breaks.
- 'Social travelers' fall into the 25 to 49 years old age group and often go away with others. The income for this segment is medium to high and they are said to be influenced by word of mouth and recommendations. They, too, like beach holidays.
- 'Independent travelers' like to travel alone and are looking for adventure. The segment is aged between 25 and 49, relies heavily on online research and is seeking culture.
- 'Researchers', again fall into the 25 to 49 age group, and devote a lot of time to researching where to go, where to stay and what to do in a destination. They are often high earners and prepared to part with a bit more money for something special.
- 'Habitual travelers' can be aged anywhere between 35 and 64. They return to the same place again and again and want things easy. This segment is said to be mostly male, low earners who go away by themselves.

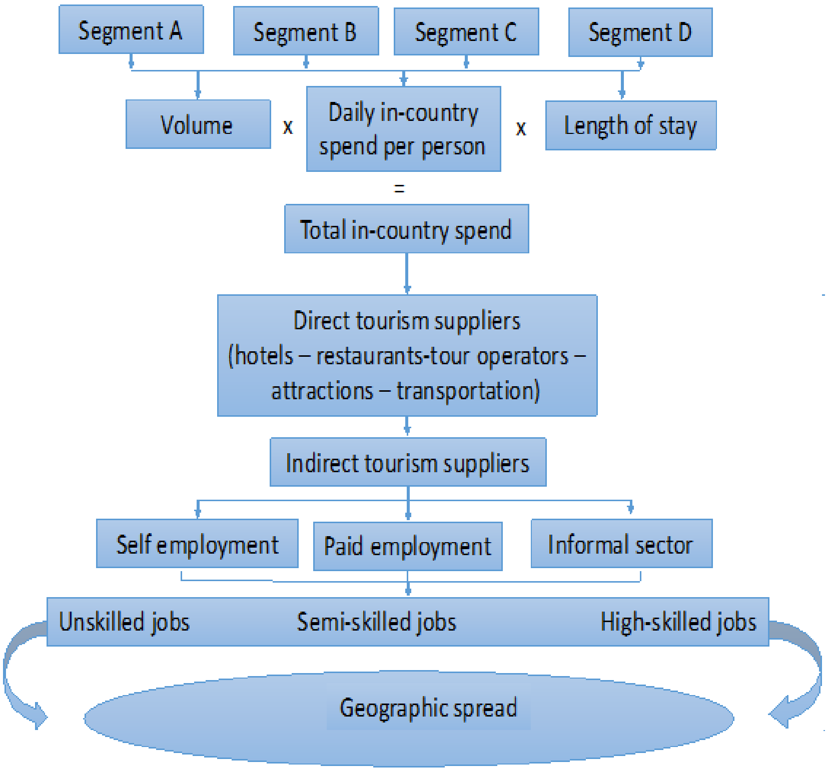
\- TNOOZ.com (2016)

2.5. Priority Segment Selection

From a long list of all the market segments relevant to fYR Macedonia, the methodology then moved to analyze which of these are the most important or could bring the highest impact. Some market segments yield a lot in terms of desirable impacts (high tourism spend, longer visits, creation of higher-skilled jobs, repeat visits) and some very little. Depending on the objectives and compatible supply-base of a country or destination it is useful to identify which market segments to invest in for the greatest possible return. Destinations target certain market segments through product development, standards, targeted marketing. or access, for example.

It is therefore important to prioritize market segments that are likely to deliver the most impact from tourism. This approach is described in the model below which explains the relationship between segment prioritization, economic impact and employment.

Figure 2: The Tourism Market Segmentation Employment Impact Model



Source: Adapted from Mitchell and Ashley (2010)

Firstly, the model shows that different market segments have an impact on the total in-country spend. While certain markets might be smaller in volume, their total economic impact can be higher due to higher daily spend or longer length of stay. Secondly, the in-country spend produces direct and indirect employment as well as induced opportunities in the private as well as public sector along the supply chain. The employment generated through the tourism sector can be divided into self-employment, paid employment and the informal sector[1]. Employment opportunities can also be grouped into low-, semi- and high-skilled. Different types of markets require different skill sets and stimulate different types of employment. For example, hard adventure travelers require specialists that are often self-employed while charter tourists stimulate semi-skilled, paid employment job opportunities. Market segment prioritization also affects the geographic spread across the country. Certain segments are concentrated in gateway cities or resort areas while other segments travel beyond and thereby provide employment opportunities outside of these tourism 'hotspots'.

[1] Self-employment jobs are those jobs that are created for the initiators of new enterprises or the owners of existing enterprises where the payment is directly dependent upon the profits (or the potential for profits) derived from the goods and services produced. Paid employment jobs are jobs where employees have an employment contract which secures a paid salary. The informal sector refers to those performing legitimate but non-observed economic activities, which are not subject to national labor legislation, income taxation, social protection or entitlement to employment benefits (ILO, 2004)

2.5.1. Priority segment criteria

This methodology proposes used a set of six criteria with which to score each market segment. The criteria are based upon the *Tourism Market Segmentation Employment Impact Model* as described in Figure 2 above. The criteria include:

- **Size of the segment** (volume), which takes into account the current size of the segment as well as its potential for growth in the future. Segment size is associated with the magnitude of the impact that can be triggered by future growth.
- Ability of the segment to generate positive economic impacts, particularly regarding **spend per trip**. The total in-country spending is impacted by: the volume of the market (the number of arrivals); daily in-country spend per person and the length of stay (number of nights). To account for potential economic leakages, which are not uncommon in tourism, accounted total in-country spend includes only the spending which remains in fYR Macedonia and thus excludes international airfare and international tour operator fees and margins. For example, for travelers who arrive on a pre-paid package purchased through a tour-operator, spending is calculated on the basis of estimated payments that the international tour operator makes to the suppliers within Macedonia as well as the additional expenditures that the travelers may make on outside of the package (on food, additional activities, souvenirs, etc.).
- In effort to maximize return on future investments, priority is placed also on opportunities to encourage offerings that may appeal to **more than one segment.** Therefore, priority is placed on segments, for which investments are likely to produce offerings applicable to other segments as well.
- Another important criteria is the potential of the segment to **reduce geographic inequality** through dispersion of tourism flows outside the traditional tourism hubs. Tourism could provide opportunities for communities, which are experiencing a decline in population due to emigration of the younger generation.
- **Competitiveness of supply** is also considered as important factor as the advantage that Macedonia has compared to other destinations that fall in the choice set of the respective segment will determine its ability to attract it.
- The ability of the segments to **generate new jobs and specifically higher-yield jobs** associated with specialized skills is also prioritized. This is associated with developments that lead to expansion of current businesses or the creation of new enterprises that open new jobs. This was based upon previous international studies estimating the employment generation multipliers of particular market segments.

Tourism Employment Multipliers

A study by the University of Central Florida in Osceola, Florida showed the different job multipliers for the following segments: Hotel (1.39), Timeshare (1.37) and vacation homes (1.29). This indicates that overnight guests staying in hotels create more jobs than those in vacation homes.

- Source: Croes, Robertico R. and Rivera, Manuel A., "Economic Impact of Visitor Segments in Osceola County 2012" (2013). Dick Pope Sr. Institute Publications. Paper 4.

Another study by the University Central Florida but this time comparing convention visitors with leisure tourists in Orlando showed an employment multiplier of 1.46 for convention visitors and 1.50 for leisure tourists.

- Source: Braun, B and Rungeling, B. (1992) The relative economic impact of convention and tourist visitors on a regional economy: a case study. Int. Journal of Hospitality management, Vol 11, No1.

Each market segment was scored against the criteria. All of the scores will be totaled up, and those that reach 19 or above (out of 21) have been considered a priority for the country.

The following table was used for scoring, taking into account the current situation and the likely growth potential.

Table 1: Scoring Table for Determining Market Segments

	Current			**Potential**		
Criteria	**1**	**2**	**3**	**1**	**2**	**3**
Size of the market						
Spend per person per trip						
Competitiveness of supply						
Cross market segmentation ability						
Geographic dispersion ability						
Job creation ability						
Skilled workforce creation ability						

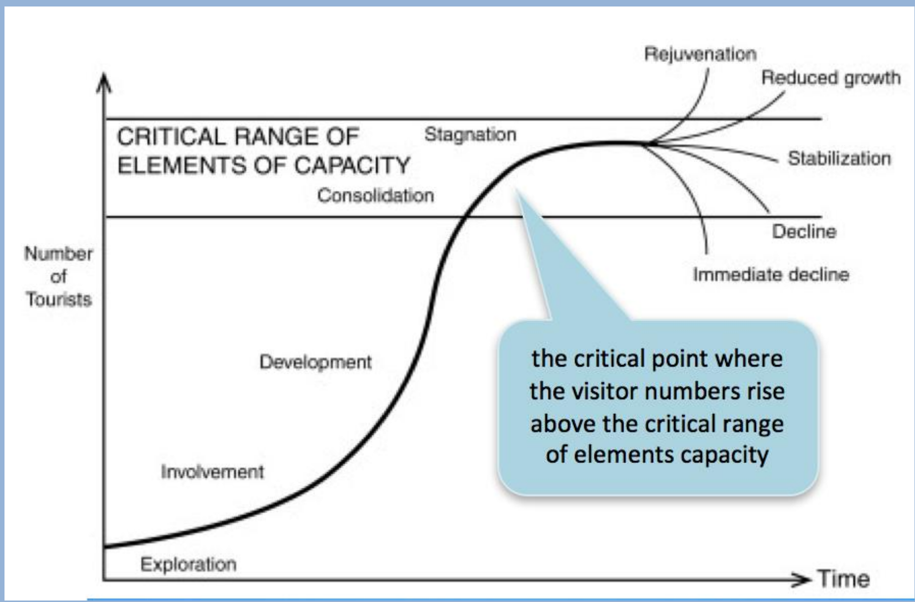
2.5.2. Maturity of the destination (supply factors)

The methodology recognizes that tourism in fYR Macedonia has not developed uniformly across the country. When applying the criteria set out above, the outcomes will be slightly different in the more mature parts of the country where tourism has been more established, than in the less mature parts where it may be more challenging for the various markets to grow or deliver the expected impacts. In the West for example, there are more visitors, more infrastructure, and greater levels of exposure, skills and understanding of the tourism sector.

This difference in maturity can be plotted on a graph known as Butler's model or the life-cycle curve. All destinations follow this pattern as they emerge, grow, and stabilize. With careful planning, a sound understanding of the market and sustainability, destinations can intervene before they reach stagnation, and continue to grow.

Technical Background: Destination Life-cycle

Figure 3: Butler's Tourism Area Life Cycle Model



- Butler (1980)

The development stage of a country, destination or area has an impact on how well a particular market segment can establish or grow. Parts of the country which are still in the exploration stage, for example, are likely to be more attractive for backpackers, budget-conscious, or searchers of authenticity where basic amenities, infrastructure and skills are less important to the visitor's overall experience. The development stage also influences the way destinations grow. Less developed destinations often look for growth in volume in order to reach a required scale in order for businesses to be viable. More mature destinations usually try to focus on value over volume in order to avoid reaching the critical range where more visitors negatively impact the overall visitor experience or stretch the destination's sustainability threshold.

In recognition therefore that the West and East of fYR Macedonia are at different stages along the development curve, the methodology in this section was applied to each once in the context of the more mature West part of fYR Macedonia, and again in the context of the emerging East. The result of this exercise (2.5) was therefore a set of priority market segments in the West, and a set of priority market segments in the East.

2.5.3. Market segment persona profiles

Definition: Market segment persona profiles
Buyer (traveler) personas are research-based archetypal (modeled) representations of who buyers are, what they are trying to accomplish, what goals drive their behavior, how they think, how they buy, and why they make buying decisions

- Zambito (2012)

In order to gain more insight into the specific markets and their needs, a traveler persona profiling approach was used for each of the priority market segments. Developing these persona profiles provides answers on:

- Who they are
- What their spending behavior is
- How they decide on their next destinations and how they prepare
- What their ideal trip looks like
- What their expectations about basic services in the destination are
- What type of activities they like to engage in
- What they do after they return

The result of this exercise was detailed persona profiles for each of the priority market segments.

2.6. Destination Supply Analysis

This part of the methodology focuses on building a more detailed picture of the supply offer at each of the destinations. The results of this exercise were used as follows:

1. To assist in determining which of these most desirable market segments each of the destinations should specifically target. Not every destination is well suited from a supply-side to target all of them. The supply and demand will eventually need to be matched up in order to select the market segments that are the best match for each destination. This matching exercise will take place as the next step of the methodology.
2. To help verify that supply-side gaps to be identified in the tourist experience value chain (see 2.8) are correct and justified.
3. To provide an accurate descriptive snapshot as part of the individual destination development plans (see Volume II).

In order to complete the supply-side analysis, the team employed primary and secondary research techniques. Research was undertaken through extensive review of existing documentation, interviews with international and domestic public and private sector stakeholders and site visits to all ten destinations. The main assets (those that are the most visited or well-known) were identified in the extensive strategic material available in the literature review (See 2.1), through itineraries offered by tour operators, interviews with local stakeholders, and through guide books, travel websites or booking sites. Site visits included a rapid assessment of the facilities and infrastructure as well as an estimation of visitation numbers, usage and rates if available.

2.7. Match Demand and Supply at Destinations

Having drawn a more detailed picture of the supply-side functions of each destination (taking into account the level of destination maturity, but also the type of assets, products, levels of service and skills, access and size in the previous section) **the methodology then moved to matching the destinations with the priority market segments.**

For example, a hard adventure market segment would naturally fit well with a destination that has natural assets to support hard adventure (mountains, canyons, rapids etc.). Easy accessibility or high quality accommodation services would not matter to the same extent. The process was therefore led by the destinations' potential to accommodate the needs of the market segment, according to their supply functions. The cross-segmentation ability of the priority segments within the destination is an important factor as it will increase the return on investment. For example, improvements geared towards increasing the destinations' competitiveness for domestic short break tourists are in some areas also affect the ability to attract regional short break tourists. The result of this exercise was a map of each destination clearly illustrating which of the market segments they should target.

2.8. Value Chain Analysis

The next step in the methodology was to conduct a value chain analysis (VCA). A VCA is used in order to map out the entire visitor experience of a trip to fYR Macedonia for each market segment, and understand where there are weaknesses or gaps in the experience. If there are weaknesses in a given value chain then the chain cannot be functioning as effectively as it should, and value is being lost.

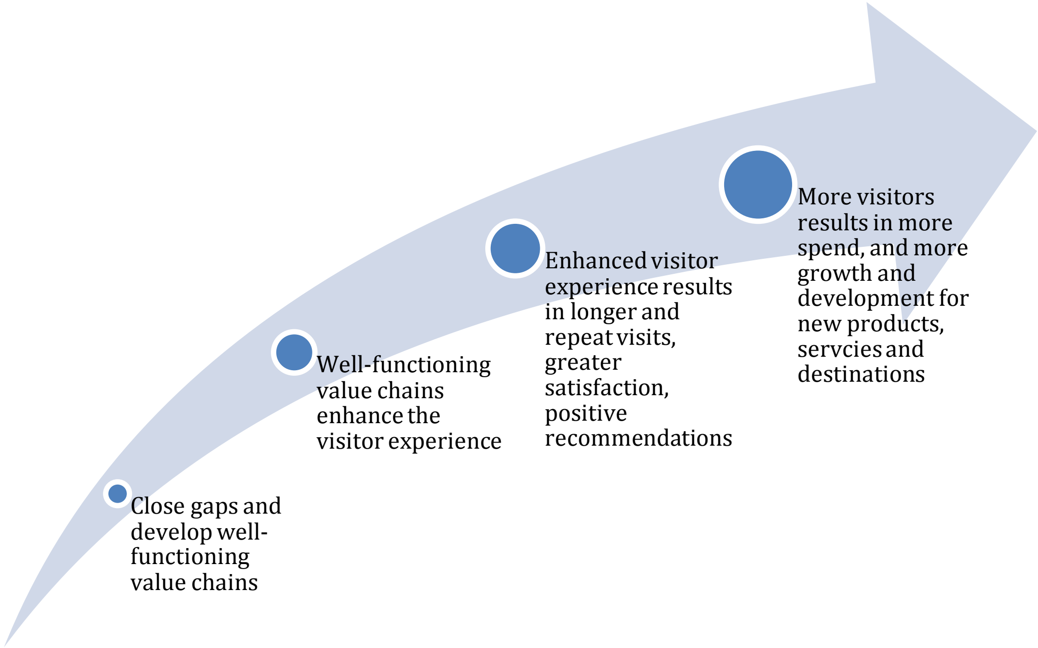
Definition: Value Chain Analysis

A value chain is a set of activities that an organization carries out to create value for its customers. To conduct a value chain analysis (VCA), the organisation begins by identifying each part of its production process and identifying where steps can be eliminated or improvements can be made. While Porter initially designed the VCA for companies, destinations can also apply this to identify gaps and improve their competiveness or improve linkages.

- Adapted from Porter (1985)

This analysis works on the assumption that a well-functioning value chain is desirable because it means a better experience for the tourist. A better experience (in whichever market segment is being analysed) will result in higher spend, longer length of stay, repeat visits and recommendations to other potential visitors. This will ultimately increase the overall numbers coming to visit in a particular market segments, and expand demand into more destinations, products and services. This relationship has been illustrated below.

Figure 4: How the Quality of the Value Chain Impacts the Tourism Sector



To conduct a VCA, the methodology used the following approach:

1. **A value chain based on the visitor or 'buyer' experience**. Based on the connections between visitor experience and value that have been laid out above, the methodology employed a VCA based on experience at the market segment level. This is approach is recommended as a tool to provide insights in the value chain from the buyer's perspective and has been applied at various destinations such as by the Tourism Confederation of Tanzania in 2009 and in Jordan in 2010 by USAID. Analysis works step-by-step from researching and booking the trip, the experience in Macedonia, the return back home and recollection of the trip after return. The value chain will follow this model:

   Figure 5: The Tourist Experience Value Chain Analysis

   Source: Clawson, M., & Knetsch J. (1966). Economics of outdoor recreation. resources for the future. Baltimore: John Hopkins.

   Each of the five stages of 'visitor experience' are important in the value chain. As with most types of production, a gap in the tourism value chain means that the entire chain is weakened. For example, if there are problems with the second box 'travel to place', then fewer people will take the trip and all of the activities in the remaining boxes have only a limited ability to create value.

2. **The VCA was run for each of the six market segments**. As outlined above, each market segment makes decisions, books, pays and travels differently. For

this reason it is critical to understand where the weaknesses are for each of these market segments individually, and not to assume that the same experience exists for all travelers to fYR Macedonia. Table 4 shows a breakdown of the five pillars of the VCA: Anticipation, Travel to place, Destination experience, Travel back and Recollection, and the specific research that was done for each of them.

Table 2: Five Pillars of the 'Tourist Experience' Value Chain Analysis

Anticipation	***Travel to place***	***Destination Experience***	***Travel back***	***Recollection***
How do they think of fYR Macedonia? How do they find information for fYR Macedonia? How do they book? How do they research before leaving? How do they buy trips (package or not)?	Means of travel to fYR Macedonia? Entry point to fYR Macedonia (land/ air and location)? Do they need visa?	How long do they stay? Where do they stay (locations)? What type of accommodations do they use? How do they move around? What activities do they engage in? What attractions do they visit? Where and what do they eat? Are they guided/ independent/ group? How much do they spend?	Means of travel back? Exit point from Macedonia?	What feedback do they share? Where do they share feedback? Likelihood to return?

Source: Adapted from UNWTO (2007) & Clawson & Knetch, 1966)

3. **Identifying the gaps for each market segment**. The process for identifying the weaknesses in the experience for each market (categorized within the five sections) is fourfold:
    a. Firstly, research was carried out to map out the current experience of these market segments as per the table above. This was obtained through interviews with international tour operators, local tour operators, service providers at the destination level (accommodation, attractions), tourists from the market segments, and consumer-feedback platforms such as TripAdvisor or Booking. A complete list of data sources can be found in Annex 1. With more time, it would also be helpful to do a targeted consumer survey. While mapping out the current experience, any consistent negative comments, experiences or issues raised will be noted as 'weaknesses' or 'gaps' in the current value chain.

       As part of this current experience mapping, site visits to each of the destinations were carried out. The middle section of the VCA deals with the experience 'onsite' at the destination. This step assessed how the given market segment experiences the specific destination(s) and where the gaps or weaknesses currently are on the ground.

b. Secondly, an ‘ideal future’ scenario was mapped out for each market segment. These will be created based on international knowledge and best practice of how these market segments operate globally, and the trends that are likely to affect them in the future.

c. These ideal future traveler experiences (based upon the traveler persona profiles) were used as basis for benchmarking against the experience that destinations in the country currently offer. This process leads to the identification of specific gaps and opportunities for improvement that, if addressed, can align the Macedonian travel experience with the future ideal for each priority segment.

Finally, the two sets of gaps (based on current experience and vs. the ideal future experience) for each of the 6 value chains were added together. The output of this step is a long list of gaps or weaknesses across the entire value chain (some at destination level, some at national level). The long-list is made up of the current gaps (showing actual current experience versus expectation) and the likely future gaps (showing weaknesses that will need to be addressed in the near term if the experience is to be competitive).

2.9. Development Plans and Destination Management

The last part of the methodology is to collate the analysis, data and key findings from the analysis detailed above, define gaps and opportunities to increase the competitiveness of the destination’s offering in the market segments relevant to it, and document this in a medium-term plan. This involves an informed and evidence based decision-making process at the destination level. Thus, the development plans are demand-driven and evidence-based (informed by the analysis done (as above) including detailed market demand assessments) and consistent with national strategic direction and development priorities (having been directly informed by the literature reviews, existing strategies and request from the Government of fYR Macedonia).

In line with good international practice, each of the ten plans set out the following:

- The vision for the destination
- Development goals and targets
- Overview of supply
- Arrival and demand trends
- Priority market segments
- Gaps and opportunities to improve competitiveness of the offer (for the target segments)
- Proposed and prioritized interventions/actions
- Overview of resources available

Theory of Destination Management

Destination management is a process that involves the coordinated management of all the elements that make up a destination (attractions, amenities, access, marketing and pricing) together with the building blocks that influence or affect these elements.

This process involves a coalition of many organizations and interests working towards a common goal. The goal is usually defined in the early stages of a destination management process and would typically be based around the ideas of improving the visitor experience and managing tourism growth more sustainably in order to better benefit the destination.

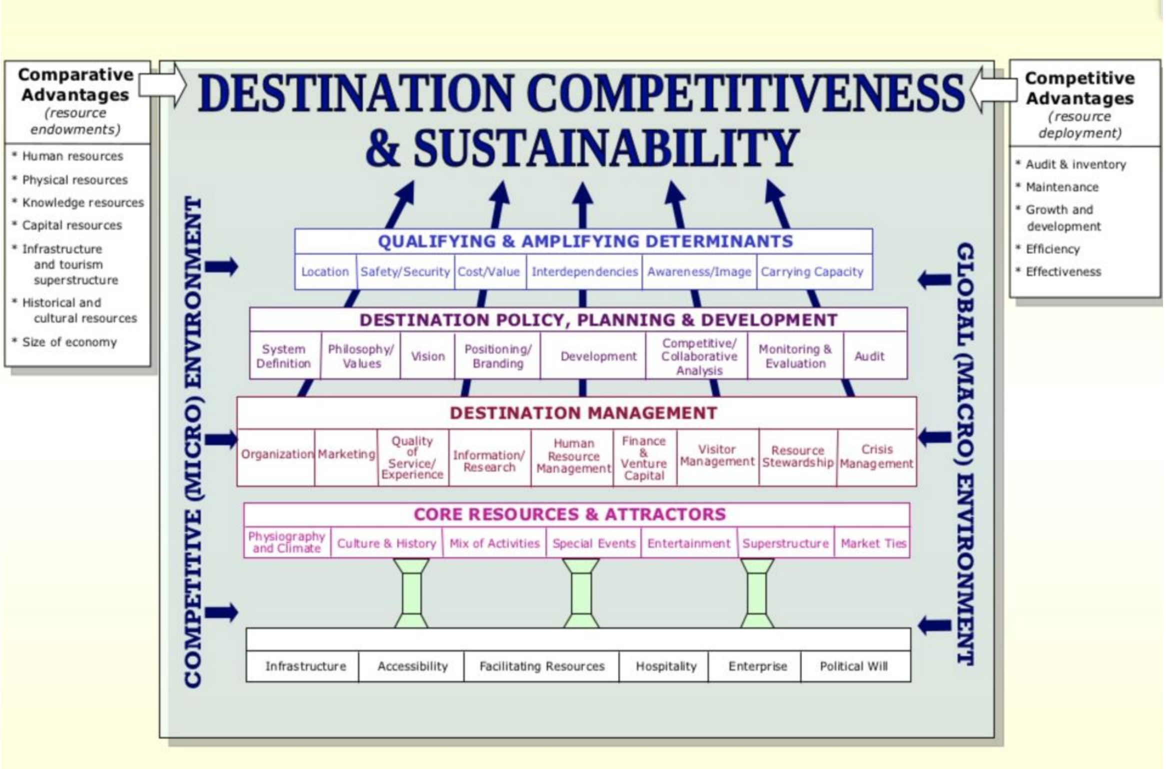
The purpose of the process is to lead and coordinate activities under a coherent strategy or plan, serving the interests of the entire value chain.

- Adapted from UNWTO (2007)

This development plan is based upon the approach that greater economic impact will occur if the destination increases the competitiveness of its offer (or experience) for the priority market segments. Tourism is a very competitive and dynamic industry and while it has the potential to produce significant social and environmental benefits, these are only sustainable if the destinations keeps delivering a competitive product that the visitor is looking for. An improved visitor experience will maximize economic and other returns at the destination level. Increased visitor value will lead to higher tourist satisfaction rates and therefore greater economic impact (through longer stays, repeat visitation, more spending and more widely travel).

Riche and Crouch (2003) define destination competitiveness as “the ability to increase tourism expenditure, to increasingly attract visitors while providing them with satisfying, memorable experiences, and to do so in a profitable way, while enhancing the well-being of destination residents and preserving the natural capital of the destinations for future generations”. Their model shows that a destination’s competitiveness is not only dependent on core resources and attractions such as culture, hotels and entertainment but also on proper destination management and supporting factors such as infrastructure and accessibility.

Figure 6: Destination Competitiveness Model of Ritche-Crouch



Source: Ritche and Crouch (2003)

In order to improve the destination's competitiveness, it is critical to understand first what the destination can offer and how the destination can deliver products that visitors really value. The development plan will therefore provide an understanding of the current and potential supply of the destinations, the profiles of the different types of visitors or 'market segments', what these visitors are missing, and what the destinations can do to improve the experience.

3. Results

3.1. Literature Review

The literature review encompassed the analysis of over 19 core strategic documents of relevance to the tourism sector. The review showed that while a number of destinations had been identified as 'strategic' for the sector, a demand analysis for almost all destinations was missing (See Annex 2 for a list of reports included in the review). There had not been much consideration for the demand side patterns of travel such as specific market segment purchase behavior. The latter is important in order to understand the needs from the market and increase the competitiveness of the tourism product for the particular markets.

The majority of the documents provided either an excellent level of detail on the supply side, describing the assets of some destinations or else described the potential tourism products such as cultural tourism, wine tourism, or sports tourism. The majority of strategies which followed a tourism product approach did not pinpoint precise locations across the country where specific themes could be developed and linked in a coherent manner. In general, there was a lack of middle-level strategic frameworks to guide the development of the sector on a destination level.

3.2. Selection of destinations

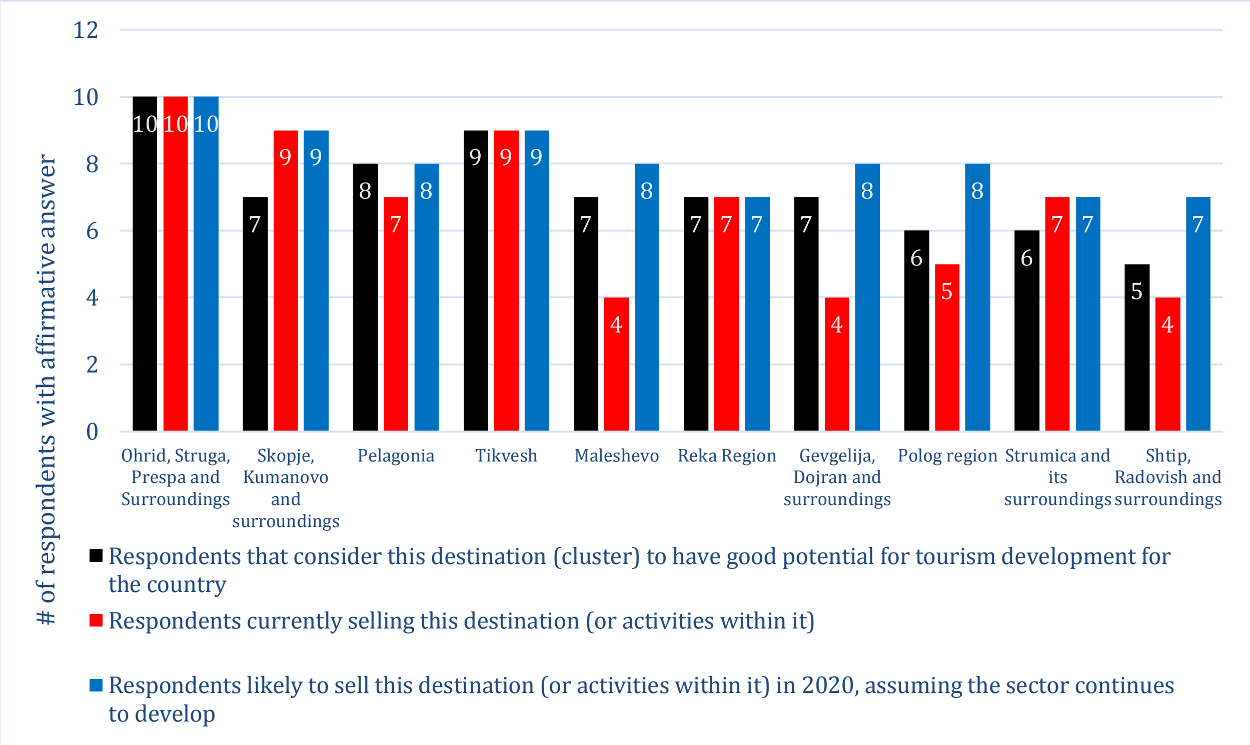
In order to focus efforts and resources, it was agreed to narrow down the number of destinations to work on in fYR Macedonia. Using the methodology presented in section 2.2, ten destinations were prioritized and are laid out below.

Priority destinations:

1. Destination 1 encompasses Ohrid, Struga, Prespa and their surroundings
2. Destination 2 encompasses Skopje, Kumanovo and their surroundings
3. Destination 3 encompasses Pelagonija
4. Destination 4 encompasses the Reka region
5. Destination 5 encompasses the Polog region
6. Destination 6 encompasses the Tikves region
7. Destination 7 encompasses Malesevo
8. Destination 8 encompasses Gevgelija and Dojran
9. Destination 9 encompasses Strumica and its surroundings.
10. Destination 10 encompasses Stip, Radovis and their surroundings.

The private sector then verified that these destinations were viable from a market perspective, and that it made sense to focus on them. Respondents to the survey (as mentioned in the methodology) are included in the list of stakeholders consulted, presented in Annex 1.

Figure 7: Summary of Viability of Destinations, Positive Responses from Total of 10 National Tour Operators



It is important to note that whilst these 10 destinations are spread across the country, they are not uniform in terms of tourism development or destination maturity. Destinations in the West are largely more developed and visited than those in the East. Nearly all of the destinations in the West are sold by tour operators to the same market segment (or tourist profile) and thus, in many ways form a circuit that loops between Ohrid and Skopje. However, these same destinations also cater to other market segments who not travel in the same loop or circuit such as charter tourists or domestic tourists. Whilst it may be helpful to think of circuits and corridors in the context of some market segments, it does not apply to all in the same way. Therefore, the framework of the current plan shifts to the individual destinations.

3.3. Demand Analysis

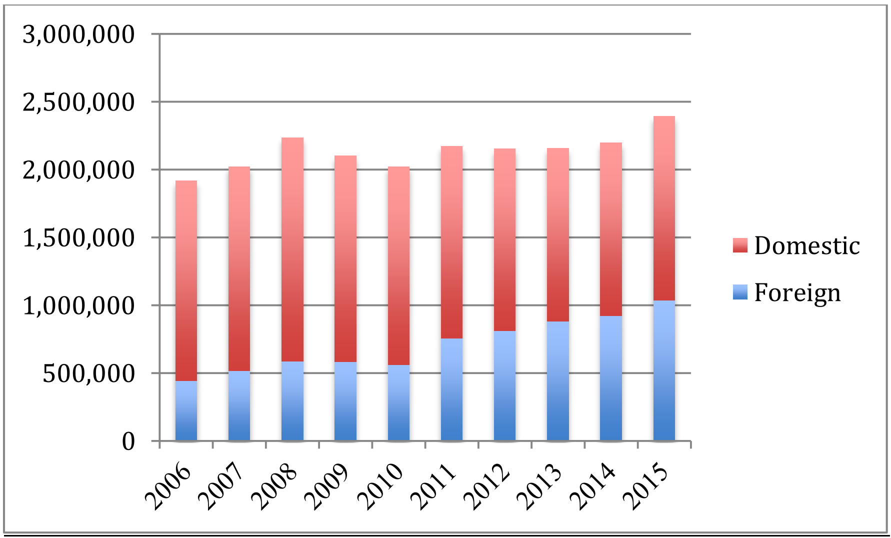
A complete market demand analysis can be found in Annex 4 that shows the global, regional, European and Macedonian visitor arrivals and demand data. Several highlights have been shared here:

3.3.1. FYR Macedonia

In 2015, foreign and domestic arrivals generated almost 2.4 million overnight stays in Macedonia. While the number of domestic overnight stays decreased by almost 8% over the last ten years, the number of foreign tourists in Macedonia increased by 134%. Domestic overnight stays remains the main source market though their market share dropped from 77% in 2006 to 67% in 2015. This could be driven by an increased interest of Macedonians to travel abroad. After three years of decline, the number of domestic overnights increased by 6.7% between 2014 and 2015.

Foreign arrivals increased by 12% between 2014 and 2015 mostly driven by increased number of arrivals from Turkey and the Netherlands. While Turkey is the main source market by number of arrivals, the Netherlands generates the highest overnight stays. The number of overnight stays by the Dutch achieved almost 11% year-on-year growth between 2011 and 2015. The number of overnight stays from Greece travelers has dropped since 2013 while the number of overnight stays by visitors from Poland has doubled over the last three years.

Table 3: Number of Overnight Stays, Domestic and Foreign, 2006-15



Source: State Statistical Office

Average length of stay from Turkey, Serbia, Greece and Bulgaria are under two nights indicating a large share of business or transit passengers.

Table 4: Main Tourism Indicators Macedonia, 2011-15

	Number of tourist arrivals	Number of overnights ('000)					CAGR	ALOS
	2015	2011	2012	2013	2014	2015	2011-15	2015
Domestic	330,537	1,418	1,340	1,276	1,273	1,358	-1.1	4.1
Foreign	485,530	755	812	881	923	1,036	8.2	2.1
Netherlands	32,217	112	145	127	128	169	10.8	5.3
Turkey	90,857	65	81	105	97	135	20.0	1.5
Serbia	43,613	73	71	74	77	85	3.9	1.9
Greece	38,829	78	73	81	74	64	-4.8	1.7
Bulgaria	29,314	35	39	41	49	53	10.9	1.8
Albania	18,493	36	35	41	42	39	2.0	2.1
Germany	17,939	22	26	30	33	36	13.1	2.1
Poland	17,054	14	18	30	38	36	26.6	2.1
Croatia	15,135	29	29	26	32	31	1.7	2

Other	182,079	291	295	326	353	387	7.4	2.1
TOTAL	816,067	2,173	2,152	2,157	2,196	2,394	2.5	2.9

Source: State Statistical Office

Note: 'Tourist arrivals' represents the number of tourists that register at a tourism accommodation. If a tourist stays at multiple accommodations during its stay, it will be included each time. ALOS is calculated by dividing the number of overnight stays by the number of tourist arrivals. This number shows the number of nights a tourist stays at a single tourism accommodation within the country and if the tourist stays at multiple hotels, this figure does not represent the average length of stay within fYR Macedonia.

3.3.2. Travel trends shaping the future of travel and tourism

The trends presented below have been extracted from a comprehensive review of global tourism consumer and market trends identified by leading analyst and industry research groups. This subset includes trends which are directly relevant to Macedonia based on its destination characteristics, specific supply assets, and competitive context. The highlighted trends are identified as essential to consider when designing strategic plans for the development of Macedonia's tourism offer as they will catalyze changes in demand and competition dynamics.

3.3.2.1. Travel 3.0: the rise of smart travel and technology-mediated experiences

Tourism is one of the industries where the advancement of communication technology thrives. So far technology has impacted traveler planning, the decision-making, and the purchasing process. In the era of travel 3.0, however, with the high penetration of mobile and wearable devices, technology is becoming part of the traveler experience.

There are two important directions in which the technology is impacting demand:

- The advancement of mobile and wearables is tempting the traveler to book less before the trip and leave more decisions for the "during" phase of the trip, which is changing the moment of purchase[2] and leads to different decision making dynamics

- Data and mobile technology create potential for high-level of customization, which is happening and demanded by travelers

Trend relevance to fYR Macedonia: The mobile-mediated shifts in traveler purchase behavior and traveler experience means that the marketing tactics of tourism experiences in Macedonia should consider mobile-friendly distribution channel partners. This involves: 1) promoting, selling and maintaining live inventory via mobile channels such as popular travel curating platforms and apps (for example Viatour); 2) designing offerings with flexibility that allows for customization and personalization through digital and mobile channels; and 3) allowing for feedback channel distribution (for example Yelp, TripAdvisor).

3.3.2.2. The quest for small, local, authentic

One of the prominent trends in travel is the rising demand for truly local and authentic experiences. A 2014 study by American Express reveals that 34% of travelers are looking for cultural immersion during their summer holiday (American Express Traveller 2015). The SKIFT 2015 report on megatrends in travel identifies the growing demand for 'local discovery' as one of the forces driving changes in the hospitality sector and inspiring new attractiveness in the image of small and boutique destinations, which until now were under the shadow of large celebrity places (SKIFT 2016).

Trend relevance to fYR Macedonia: The growing appeal of the *authentically local* travel experience represents a promising opportunity for strengthening the linkages between tourism and the local economy in fYR Macedonia because it leads to increase in the value added of local food and local accommodation offerings. There are two directions in which this trend can be favorable: 1) improving the visibility and appeal of already existing local accommodation and food operators such as B&B's, farms, local restaurants, etc. and respectively encouraging the opening of more operations that are owned and managed by locals, including alternative accommodations that fit with the existing landscape and become attractions themselves (e.g. Tiny House Rentals: http://tinyhouselistings.com/); and 2) designing experiences with local flavors or enriching existing offerings (such as tours, boat trips, hotel stays) with local feel, including food, crafts, culture, etc.

3.3.2.3. Experiential consumption all around

Travel is by default a highly experiential industry but only in recent years has the experiential design of tourism products and offerings become a visible trend. Experiential consumption means placing focus on the symbolic, pleasure-related (also referred to as hedonic) and aesthetic aspects of consumption that evoke fantasies, emotions and fun (Holbrook & Hirschman 1982). In travel this is associated with increasing demand for trips and attractions that engage travelers through their senses, emotions and active involvement. The contemporary traveler is increasingly looking to feel, taste, touch, do and learn rather than be in a passive "just looking" role (Bremner 2013). This is leading to new designs of visitor experience around attractions and service facilities, including with the use of contemporary technologies, as well as redesign of services from transportation to food or accommodation.

Trend relevance for fYR Macedonia: The growing demand for experiential travel creates a great opportunity for designing experiences around local culture, nature, food and farming traditions that engages visitors on sensory and intellectual level at the same time. Such experiential offerings can include sight-sounds-smells exploring tours of towns and nature, discovery experiences, dancing and cooking demonstration, dancing and cooking classes, tasting experiences, demonstration of and classes for growing, harvesting, processing techniques of local cultures, farm stays and visits allowing visitors to immerse in local traditional life.

3.3.2.4. Millennials and hipster holiday styles

Just like in many industries the growing importance of Millennials as a distinct consumer segment is a fact in tourism. This younger generation recently outnumbered baby boomer travelers and is naturally starting to influence trends in demand. As Millennials become professionally active and move along lifecycle stages, their spending power is increasing too. In a recent study by WYSE Travel Confederation 50% of Millennials spent more than EU 1,000 per trip (WYSE 2014). The same source reveals that among the main motivations for millennial travelers are meeting friendly locals (55%), living like a local and experiencing everyday life (46%), and increase own knowledge (43%).

Millennials are also looking to avoid mainstream touristic places and driving the rise of so called 'hipster areas', which are a bit off the beaten path and offer foodie favorites, artistic hangouts, and less traditional sites and attractions. Because of their interest in such places, they are also likelier to stay in peer-to-peer rentals rather than traditional accommodations. Being natural with technology, millenial travelers are avid users of mobile phones and social media, and most of their bookings are made through mobile channels (WTM & Euromonitor International 2015).

Trend relevance to fYR Macedonia: The growing market power of the millennial segment requires adapting destination strategies to their needs and expectations. For Macedonia this means a necessary adjustment of existing product and service offerings but also represents an opportunity. If Millennials seek out places that offer local experiences and are off the beaten path, then they may serve as beachhead market for some new developments in less active tourism areas. Macedonia's proximity to the European market and existing low-cost airline routes make it possible to start marketing trips including unusual and off-the-beaten-path experiences as quick getaways for hipster-oriented European Millennials.

3.3.2.5. Steady growth of third-age travel

While the rise of millennial travelers as a globally significant segment is unquestionable, the third-age generation continues to be a profitable and growing segment for destinations around the world. According to Eurostat 18.5% of the population across EU member states falls in the age bracket of 65 or older (2014)[3]. The share of the elderly has been increasing at steady rates mainly in the advanced economies such as EU-28 (especially Germany, Austria, Italy and others) but also in the North America (10%) and Asia (7%) (Resonance Consultancy 2016). With increased longevity and access to better healthcare older segments of the population are increasingly active as travelers.

Elderly travelers are not among the top spenders but their sheer volume makes them a worthwhile segment to consider for many destinations. While their spending resource is not unlimited, this group is unrestricted in terms of time, which provides opportunities for specific product offering and service design. Third age travelers travel in couples, with close friends or members of the family but the share of single travelers in this age bracket is also increasing at fast pace. The share of women among retiree travelers tends to be higher.

The choice of destination for this demographic varies greatly depending on a multitude of factors such as country of origin, travel career, education and other demographics. However, across all destination choices retiree travelers are most concerned about safety, climate and ability to communicate in a language they understand. In terms of preferred activities they are most interested in food and culinary offerings, learning something new and exploring different cultures (Resonance Consultancy 2016).

Trend relevance to fYR Macedonia: The significant net worth of the third age traveler segment is a great opportunity for fYR Macedonia. Given the close proximity to European source markets with high shares of healthy and active population that is 65 years or older, it represents an appealing target for the country's cultural heritage and nature-based offer. Direct and low-cost flight connections from many European cities are great advantages due to the importance that this segment assigns to easy access and value for money. Despite the strengths of Macedonia as potential destination for third generation travelers, the local tourism industry needs to align with their expectations.

[3] EUROSTAT: http://ec.europa.eu/eurostat/statistics-explained/index.php/Population_structure_and_ageing

Safety and convenience are a primary concern, which means that attractions and tourism facilities need to meet relevant standards. In this context availability of relevant medical and healthcare services is also important.

3.3.2.6. Food in the spotlight

Food has always been an important element of the travel experience but in the recent years its prominence has reached new levels. This is partly due to the more general trends associated with focus on healthy eating and living, new appreciation for natural and fresh ingredients and home-cooked food, and associated rise of celebrity chefs and food media. In travel context culinary experiences are more than expression of the new cult for food.

The demand for local and culinary experiences is in itself undergoing changes. Along with the local aspects, contemporary travelers are increasingly demanding simplicity and high quality. According to the UNWTO Global Report on Food Tourism destinations and companies need to increasingly invest in quality through protection and recognition of local products, specialized training and service design.

Trend relevance for fYR Macedonia: The rise of food tourism on global level represents an attractive opportunity for Macedonia, which has enough assets to develop such offerings and where visitors identify good food as one of the pleasant surprises during their trips. To benefit from these trends fYR Macedonia needs to: 1) encourage investment in food- and farm-tourism activities that can diversify the offerings for existing markets; 2) offer assessment and training of "food experiences" to ensure competitiveness of offerings; and 3) use the distinctive character of food offerings as platform for new differentiated positioning and marketing.

The increasing focus on quality in food tourism offerings means that Macedonia might consider developing offerings with higher level of sophistication and with thoughtful consideration of the details. This relates to: 1) designing food experiences in a way that shows (rather than tells) the traveler that the food is local and fresh, 2) focusing on simplicity and considering the small details of food presentation, traditional design and artisan elements, 3) investing in interpretation services and service culture that accompanies food offerings, and 4) understanding that the traveler is sophisticated and understands the difference between "organic certified" and "organic practices", and is more demanding of "local" quality.

Table 5: Summary of Trends and Relevance to fYR Macedonia

Trends	Relevance to Macedonia
Travel 3.0: the rise of smart travel and technology-mediated experiences	• Promote and sell via mobile channels (e.g. Viator) • Design customizable experiences
Quest for small, local and authentic	• Improve visibility of local tourism businesses and entrepreneurs • Use local food and associated traditions as source of differentiation
Experiential consumption all around	• Focus on experience design
Millennials and hipster holiday style	• Target as beachhead market for new off-the-beaten-path experiences

	• Adapt offerings to segment specifics
Steady growth of third-age travel	• Target as high-potential market with high net worth and expectations that align with Macedonia's assets • Adapt offerings to segment specifics and needs
Food in the spotlight	• Diversify with food and farm offerings • Design more experiences with local flavor • Focus on simplicity and authenticity

3.4. Market Segmentation

Having interpreted the overall macro demand data and supplemented it with qualitative research on visitor behavior, the research identified a total of 16 market segments – 'the long-list' (see Figure 8). These are the segments that are currently visiting fYR Macedonia and are relevant to those promoting individual destinations, or those promoting themes (such as lake tourism, or cultural heritage). Market segmentation can help stakeholders understand what tourists are visiting the country's destinations and attractions, and how they are using them. The market segments do not replace the current activity-based segmentation in fYR Macedonia's tourism strategies, but rather complement them from the demand perspective.

The segments show that tourists are not all the same. There are very different types of tourists who may visit the same areas but may have different reasons for visiting, different expectations in terms of offerings and extremely different impacts on the social and natural setting. In that sense, domestic tourists are not identified as a separate segment but rather integrated across different behavioral segments such as travelers who engage in active outdoors activities or travelers who travel in the region for food and leisure. Just like international tourists, domestic tourists do not all travel in the same way, or want the same things from a destination. 'Domestic tourism' is therefore not an accurate market segment because it does not tell the destination the profile of that visitor, how they like to travel, or how to plan for their experience.

Figure 8: Top 16 Market Segments for Tourism in Macedonia

1. Charter tourists

These are travelers who arrive from Western European countries on low-cost packages on charter flights landing mainly in Ohrid. They usually spend 7 days, stay mostly in Ohrid and take one-day excursions in the nearby areas or other parts of the country. The main driver for their choice of fYR Macedonia and Ohrid is the lowest possible price for vacation package. The Netherlands is the main market for this type of travel but in 2016 charter flights from Belgium and Israel will also commence.

Due to the limited geographical dispersion of this segment, it has limited potential for impact beyond the areas which these travelers currently visit. Their conservative spending behavior and the fact that a large share of their spending is concentrated in the mediating tour operator and the local provider of accommodation services, are limitations on the economic impact that may be yielded by growing this segment further. At the same time, this segment is already active in the country and may represent a good beachhead market for the testing of new products in the areas that are relatively close to Ohrid.

2. European short break tourists

These are travelers who arrive from different Western European countries for short city breaks. They usually arrive on low cost airlines, mainly in Skopje and spend a weekend or a long weekend exploring Skopje and nearby regions. The main driver for this group is the combination between curiosity in visiting the ‘off-the-beaten-path’ Macedonia, low cost (low prices for food and lodging on the ground) and easy cheap access due to low cost airline. They might engage in some hiking or biking around Skopje but would mostly visit popular sites on their own based on guide books or peer recommendations.

This is a segment, which is somewhat limited in terms of geographic dispersion due to the short time they spend in the country. While one-day trips to Ohrid are within the demanded experiences, this is so only because of Ohrid’s reputation as a top destination in the region with UNESCO World Heritage status. The higher spending levels of this segment represent an attractive opportunity for Skopje and the immediate surrounding areas in terms of new offerings and potentially new jobs. The main limitation is the narrow geographic scope within which this segment can have impact. In addition, the competitiveness of fYR Macedonia here is based on value for money and can turn out to be unsustainable if new destinations become available to these markets.

3. Classic Balkan tourists

These are travelers who are part of groups traveling on bus around the Balkans. They typically visit three or four countries in the region and stay between two and three days in fYR Macedonia. These travelers usually spend a night in Ohrid and in Skopje, and visit the most important cultural and religious sites in the country. They are more likely to adhere to classic tour models with standard guiding and limited physical or outdoor activity. They come from Europe but also from some Asian countries.

This segment generates high number of visits at the leading Macedonian tourism attractions. It shows a relatively medium level of dispersion around the country but focused around already well-developed and mostly traditional cultural heritage attractions. New products and attractions would typically not be attractive for this segment until they generate recognition by the market so it cannot be expected to drive new developments and new job creation. Classic Balkan tour tourists can be good spenders but are not among the segments with high local impact as their expenditures are channeled mostly through packages purchased through tour operators and tend to be conservative in terms of food and accommodation.

4. Domestic short break tourists

These are travelers who live in fYR Macedonia and who visit different resorts or holiday places for weekends, for short breaks during the week or around official holidays. This group includes Macedonians but also expatriates residing in the country. They stay in a variety of different accommodation types ranging from vacation homes to higher-end hotels, and travel by car. They are motivated by change of scenery from their regular place of living, need for relaxation and spending time with friends and family. Frequently they travel with family, and very often with groups of friends. Macedonians have traditionally been more focused on passive relaxation and food and drink without seeking to engage in active outdoor activities. However, in the recent years there has been increased interest to incorporate a more active type of recreation such as hiking or biking during their stay. Expatriates living in Macedonians tend to be more adventurous and like to explore new places each time they travel. They also have more of a need to learn about local culture and nature. They are characterized with higher spending power.

This segment is a leading generator of arrivals across regions in Macedonia. This segment has some potential for geographic dispersion, especially with development of new offerings and accommodation facilities that align with its expectations. It is characterized with spending that is channeled directly to local providers so it can be expected to produce new jobs as it grows. The main competitive advantage of Macedonia here is location and proximity, which will remain unchanged in the future.

5. Regional short break tourists

These are travelers from Bulgaria and Serbia who visit Macedonia for leisure purposes staying for one of more nights. Arrivals are concentrated close to the border with Bulgaria and Serbia but regional travelers also overnights in Ohrid, Bitola and Skopje. A number of travelers from Bulgaria come in an organized way in groups up to 50 people. They book a package for one or two nights and usually stay in one single destination. Hotels in Kratovo, Berovo and Ohrid are actively offering packages to this market. There is also a significant market for regional travelers who travel independently and book their hotel or rental home directly from the provider. The majority of regional travelers have similar behavior patterns as domestic short term leisure travelers: they seek relaxation and enjoy good food in the company of friends and family. They travel on weekends, around holidays or for short breaks.

This segment provides a significant number of arrivals and has good geographic spread especially. Spending is relatively high and benefits the destinations directly. The similarities in culture and language as well as the proximity have made regional tourists a relatively easy market for destinations to explore and target

6. Organized large group explorers

These are travelers who are part of a tour group (size ranging from 15-30 people) traveling around fYR Macedonia by coach bus. Some tour operators also offer the same tour as a self-drive with rental car and pre-arranged accommodation. Many of the tour groups are from the Netherlands but Poland, UK and some other European countries are emerging source markets as well.

Length of the tour varies between 7-12 days, shorter tours focus on the western region and longer tours also cover parts of Eastern Macedonia. The main focus of the tours is Macedonian culture and nature. The majority of these groups consist of travelers who are older than 50 years of age.

Macedonia tour explorers are characterized with good geographical dispersion as they travel throughout the entire country. They could be easily interested in additional and new offerings if they are easy to link to other places they are visiting, and if they are linked to distinctive characteristics of fYR Macedonia as a destination. This segment can generate good economic impact through its local spending and could support diversification of offerings that leads to the creation of new jobs.

7. Organized active tourists

These are travelers who are part of an organized tour group (frequently smaller size ranging from 5-14 people but could reach up to 30) traveling with a specialty operator around fYR Macedonia. Some of the tours combine Macedonia with neighboring countries such as Greece and Bulgaria. These tours usually involve traveling by mini bus or bus, and may combine road transportation with hiking and/ or biking. Length of the tour varies between 7-14 days, shorter tours focus on the western region and longer tours also cover parts of Eastern Macedonia. The main focus of the tours is Macedonian culture and nature through authentic experiences in off-the-beaten-track locations. Some of the tours are standard and others are tailor-made for specific interest. The majority of these groups consist of travelers who are older than 50 years of age. Many of the tour groups are from the UK, the Netherlands but Israel, other European countries and North America are emerging source markets as well.

Organized active outdoor tourists are eager to explore different places throughout the country and can be characterized with high potential for geographic dispersion. They are particularly interested in less visited and rural areas, which can lead to enhanced impacts in areas, which are currently outside of Macedonia’s tourism map. Development of more offerings for this segment can be expected to yield direct economic benefits and new business opportunities associated with new jobs, as they tend to leave higher share of their spending locally.

8. Independent active tourists (including domestic)

These are travelers from a variety of source markets (Europe, US/ Canada, region and domestic from Macedonia itself) who travel to and within Macedonia engaging in active outdoor exploration (hiking, biking) combined with cultural and culinary experiences. The age bracket for this group of travelers is quite wide (could be between mid-20s and 30s to mid-50s). They tend to be independent in the planning of their stay (using online channels such as booking.com) in fYR Macedonia and are usually in small groups (up to 4-5 people). These visitors typically spend several days to a week in the country and visit a variety of places outside of the main tourism centers. If international, they might be combining fYR Macedonia with one or more other country in the region.

Independent active outdoor tourists are also associated with high potential for geographic dispersion and positive economic impacts outside of leading tourism areas. While younger independent travelers may be more conservative in their spending compared to small group organized adventure travelers, they tend to book and spend directly with local providers, which magnifies their local economic and social impact. For this segment fYR Macedonia has strong competitive advantage based on the combination of culture and nature.

9. Hard adventure travelers (including domestic)

These are travelers who are passionate about hard adventure activities such as paragliding, rock climbing, freestyle skiing, etc. They come to very specific places in Macedonia, which have built a reputation for offering prime conditions for their favorite sport. These tourists are willing to travel to fYR Macedonia even from distant countries and stay longer periods of time (one week, two weeks and more). They might seek to combine their core activities with food and some culture, especially on days when whether conditions prevent them from engaging with their adventure activity. They are not very pretentious in terms of accommodation and food but expect to have reliable even if basic conditions. Local specialty clubs usually serve as contact point and support their activities in fYR Macedonia.

Hard adventure travelers are characterized with high spending and especially long length of stay, which generate new business opportunities and potentially new jobs. They are drawn to specific places that offer prime conditions for their adventure activities, which limits their potential for geographic dispersion. Given that certain regions seem to have globally competitive assets for certain hard adventure offerings, this segment can be extremely important for specific regions.

10. Transit tourists

These are travelers (mainly Serbian but also Romanian and other nationalities) who pass through fYR Macedonia in the summer on their way the Greece for summer vacation. Many of them look to break the long trip to the Greek coast with stopovers in fYR Macedonia. They can spend between a few hours for lunch to 2-3 days in locations that are alongside the corridor and give them reason to spend time.

Due to the nature of their motivation to visit fYR Macedonia transit tourists have limited potential for growth and impact. They are highly unlikely to deviate from their original route on the way to or back from the Greek coast so they do not offer potential for geographic dispersion. Attractive offerings can increase their spending and to little extent also the time they spend in the country.

11. Domestic MICE (Meetings, Incentive, Conferences and Events)

These are Macedonians who travel for the purpose of training, meetings, seminars or conferences that are being organized at a location off-site of their usual work place. These trips are sometimes combined with activities promoting team building or relaxation. The length of domestic MICE programs can vary between one and several days. The majority of this type of travel takes place in shoulder and low-season period (October, November, January, February and March), which is source of welcome income for hotels that do not receive leisure tourists in these months.

Domestic MICE tourists are highly dependent on the availability of meeting facilities. This segment is very important for specific regions where there are hotels with meeting facilities and where it secures occupancy during the low tourism seasons. It does not have major potential for geographic dispersion and relatively limited opportunity for new products and services that can produce more jobs.

12. Gaming tourists

These are tourists, mainly from Greece, who are attracted to specific areas in fYR Macedonia with large number of casinos. Their main motivation is gambling and they have limited interest in anything outside of access to casinos and potentially basic supporting services such as lodging and food. They are attracted to Macedonian game establishments because they offer significantly cheaper services than competitors in Northern Greece.

Casino tourists are concentrated mainly around Gevgelija and hold no potential for geographic dispersion. They do not hold potential for expanding business opportunities outside of casino services and are unlikely to produce any additional jobs outside of the gaming establishments and the hotel they are staying at.

13. One-day shopping visitors

One-day shoppers usually come from Kosovo or from other Macedonian towns to Skopje’s main shopping center in the city (City Mall). They visit the city for a day with the sole purpose of shopping in the mall or some shops. Outside of their main activity they may rely on some food services but no additional tourism attractions.

This segment has very limited potential for geographic dispersion and for growth that can produce jobs.

14. Medical services tourists

The relatively low cost of some medical and dental services in Macedonia has fueled the rise of a segment of travelers who come to see local doctors, dentists or other medical specialists. Medical services tourists are predominantly visiting Macedonian diaspora but may come also from Serbia, Kosovo and Greece. Much of this activity is informal and not organized in a particular manner. The main source of promotion is therefore word of mouth and brochures in hotels. Medical services tourists may be interested in some leisure activities during their stay but this is not a must.

This is a very small segment driven by low cost of desired services offered by particular medical service providers. It is concentrated mainly in Skopje, Ohrid and Gevgelija, and holds no potential for geographic dispersion. It is unlikely to grow in a way that produces jobs in the tourism sector.

15. Visiting friends and relatives (VFR)

The number of people visiting friends and relatives in Macedonia represents a relative large segment of the market. While official numbers are not available, the Diaspora is estimated at about 500,000 people. Besides the neighboring countries, Australia, Canada. Switzerland, Sweden, Germany, the USA and Italy are the top countries for the Macedonian Diaspora. The recent introduction of low-cost airlines as well as a rise in emigration has caused an increase in the VFR market.

This segment has a higher average length of stay, good geographic dispersion but a very high percentage does not stay in paid accommodation and this limits the economic impact.

16. Business travelers

Business travel includes international as well as domestic travelers whose primary purpose of travel is business related. Business travel is concentrated in the larger cities such as Skopje, Bitola and Kumanovo.

Growth in business travel is driven by different reasons than leisure travel. A rise in business travel is mainly stimulated by increased domestic economic activity and international connectivity.

3.5. Priority Segment Selection

The research confirmed that different market segments should be considered a priority for more tourism-mature parts of the country (Western Macedonia), and others for more emerging areas (Eastern Macedonia). After applying the criteria to each of the 16 market segments that are relevant for fYR Macedonia, six segments are have been prioritized according to the criteria laid out in the methodology. Three were found to be most relevant for the more mature Western destinations, and five for the East with some overlap as illustrated in the figure below.

Figure 9: Priority Segments

<table>
<tr><th>West Macedonia</th><th>East Macedonia</th></tr>
<tr><td colspan="2">Organized Active Tourists</td></tr>
<tr><td colspan="2">Independent Active Tourists (incl. domestic)</td></tr>
<tr><td>Hard Adventure Tourists</td><td>Domestic Short Break Tourists</td></tr>
<tr><td></td><td>Regional Short Break Tourists</td></tr>
<tr><td></td><td>Organized Large Group Explorers</td></tr>
</table>

The market study and the priority segments were presented to the public and private sector stakeholders in June 2016 during two different meetings – one in Gradsko for the East and one in Ohrid for the Western part of fYR Macedonia (the list of participants are included in the list of stakeholders consulted, presented in Annex 1).

3.5.1. Priority segments for the West

The more developed destinations in the West focus on three market segments with high spending power. Focus on these segments makes market sense because they are already a growing market for both more advanced tourism destinations and are among the most active visitors in less visited tourism areas. They are also among the best spenders in the country leaving a lot of their expenditures in the local economy. The three high potential growth markets are:

Organized active tourists
Travelers who are part of an organized tour group (size ranging from 5-2 people) traveling with a specialty operator around fYR Macedonia offer high potential for growth in destinations in the west. They are among the first to engage in new off-the-beaten path experiences in the country. Tour operators working with them have the expertise and capacity to identify new and underutilized assets, and weave them into tour itineraries enriching the market. It is important to note that the experiences that are attractive for these segments are based on local culture, traditions and distinctive offerings, which contribute to the stronger differentiation of fYR Macedonia among competitors and its appeal among other segments. Many of the investments that would meet the needs of these travelers will appeal to representatives of other segments as well so there will be strong spillover effect. This segment is high priority for all destinations in the West

Independent active tourists (including domestic)
These travelers are naturally drawn to all destinations in the Western part of fYR Macedonia and offer further potential for growth. They are a leading market for many rural offerings, including traditional B&Bs, traditional restaurants, culinary experiences, combined with outdoor activities such as biking, hiking, mountaineering, etc. They hold significant potential for growth in terms of arrivals as well as length of stay and spending that is direct with local providers. This segment is high priority for all destinations in the west.

Hard adventure tourists (including domestic)
This segment is high priority for Krusevo, Prilep and the surrounding areas where there is sufficient market proof for the international competitiveness of the assets for paragliding. Growth in this segment as well as diversification of the hard adventure offering with other activities such as rock climbing, bouldering and others has very strong potential to create new business opportunities and new high-skilled jobs. Developing additional offerings that are not directly linked to the core hard adventure activity is also important as cultural, heritage and soft adventure activities also represent interest for this segment and can lead to increased spending.

<u>Table 6: Scoring Results – West</u>

	Selection Criteria							
Market Segment	Segment size	Spend per trip per person	Competitiveness of supply	Cross-segment capacity	Geographic dispersion	Job creation	Skilled workforce need	Total Score
Charter tourists	√√√	√√	√√	√√	√	√√	√	9
European short break tourists	√	√√	√	√√	√	√	√	7
Classic Balkan tourists	√√	√√	√√	√√	√√	√√	√√	14
Domestic short break tourists	√√√	√√√	√√√	√√√	√√	√√	√√	18
Regional short break tourists	√√√	√√√	√√	√√√	√√	√√	√√	17
Organized large group explorers	√√√	√√	√√	√√√	√√	√√√	√√	18
Organized active tourists	√√√	√√√	√√√	√√√	√√√	√√√	√√√	21
Independent active tourists	√√√	√√√	√√√	√√√	√√√	√√√	√√√	21
Hard adventure tourists	√√	√√√	√√√	√√	√√√	√√√	√√√	19
Transit tourists	√	√	√	√	√	√√	√	8
Domestic MICE	√√	√√	√	√	√	√√	√	10
Gaming tourists	√	√	√	√	√	√	√	7
One-day shopping visitors	√	√	√	√	√	√	√	7
Medical service tourists	√	√	√	√	√	√	√	7
VFR	√√	√	√√	√	√√	√	√	10
Business travelers	√√	√√	√	√	√	√√	√√	12

3.5.2. Priority segments for the East

The East of the country currently receives a relative small number of tourists and is still considered in a development stage (according to the life-cycle curve described in the methodology). When looking at the demand in the East, focusing on multiple markets makes sense for a number of reasons:

- Each of the individual priority market segments are too small to create sufficient demand on their own
- High season for some of these markets complement each other (e.g. domestic leisure tourists also travel during the winter season and organized large group

explorers travel from May through October). Multiple markets will off-set some seasonality issues

- The different markets are attracted to similar tourism products (e.g. nature, food, agri-tourism) and the volume created by multiple markets will provide increased opportunities and economies of scale for SME's and accommodation providers to successfully develop new products

The five high potential growth markets for the East are:

Domestic Short break tourists

Macedonians, especially those living in the cities, have increased interest in a healthy lifestyle and have concerns regarding the air quality in cities especially Skopje. There is also a noticeable increased interest in domestic sightseeing. This trend has caused people to take more trips into the countryside to be in nature and explore sights such as lakes and waterfalls. There is also an increased interest in farm-fresh and locally grown food. Destinations along in the East are not as explored by domestic tourists as destinations in the West which provides as an opportunity to increase arrivals. This type of domestic traveler requires a medium or luxury level of accommodation standard. They stay in hotels but also rent comfortable houses where they have the opportunity to cook and travel with friends and family. There is currently no significant demand for winter sport activities in the East due to lack of snow.

Regional short-break tourists

The eastern region borders to Serbia in the north and Bulgaria in the east. While the East does receive tourists from Serbia, the Bulgarian market is currently more prominent. Tourist from Bulgaria travel independently but also on packaged group tours. The Bulgarian tour groups tend to overnight in 'more-off-the beaten path' destinations such as Kratovo and Strumica.

Organized large group explorers

While shorter tours (7 days) usually focus on the western part of the country, tours longer than a week also include the East. The majority of these tour groups are Dutch but there is growing market of Polish and Israeli tour groups. They currently mostly visit the Tikves region, Strumica and Berovo.

Organized active tourists

The eastern region also attracts organized active tour groups. These groups are sometimes tailor-made and include 8-25 people. The majority of these organized tours come also include the western region in the tour. The east is promoted as a authentic and rural experience. The smaller tour groups are an important niche market as they provide more flexibility, for the demand as well as the supply side. These tours are usually more expensive than the larger tours and attract a slightly younger market. The tours are booked through smaller niche international tour operators or directly through the ground operators in fYR Macedonia. There is an increased interest by Israeli tour operators as the tourism product in the eastern regions fits the needs of the more adventurous Israeli tour groups. The active organized groups have shown small but steady growth over the last few years.

Independent active tourists

While still in small numbers, there are independent travelers who travel around the eastern part of the country. Hotels reported small group of bikers and hikers but also people who have a particular interest such geologists and historians. While the majority of the travelers within this segment originate from Western Europe they are also coming from North America. There is growth potential for this market but the East will be dependent on the West to further expand this market first as active foreign tourists will mostly initially be attracted to explore destinations in the western region and then add the eastern region.

Table 7: Scoring Results – East

	Selection Criteria							
Market Segment	Segment size	Spend per trip per person	Competitiveness of supply	Cross-segment capacity	Geographic dispersion	Job creation	Skilled workforce need	Total Score
Charter tourists	√	√	√	√	√	√	√	7
European short break tourists	√	√	√	√	√	√	√	7
Classic Balkan tourists	√√	√√	√√	√√	√	√√	√	12
Domestic short break tourists	√√√	√√√	√√√	√√√	√√√	√√√	√√	20
Regional short break tourists	√√√	√√√	√√√	√√√	√√√	√√√	√√	20
Organized large group explorers	√√	√√√	√√√	√√√	√√√	√√√	√√	19
Organized active tourists	√√	√√√	√√√	√√√	√√√	√√√	√√√	20
Independent active tourists	√√√	√√√	√√√	√√√	√√√	√√√	√√√	21
Hard adventure tourists	√	√	√	√	√	√	√	7
Transit tourists	√	√	√	√	√	√	√	7
Domestic MICE	√√	√√	√	√	√√	√√	√	11
Gaming tourists	√	√	√	√	√	√	√	7
One-day shopping visitors	√	√	√	√	√	√	√	7
Medical service tourists	√	√	√	√	√	√	√	7
VFR	√√	√	√√	√	√√	√	√	10
Business travelers	√√	√√	√	√	√	√√	√√	12

3.5.3. Market segment persona profiles

Full market segment profiles have also been developed for each of the six priority segments that should help guide tourism stakeholders further in understanding their target markets, and their characteristics, habits, preferences and needs.

The hard adventure segment was split into two sub personas- one for paragliders and the other for freeriders. These are the main hard adventure sub-segments for Macedonia and their respective travel behavior required different personas.

An example is provided below; the full profiles can be found in Annex 4.

Figure 10: Example of a Visitor Profile for One Market Segment

Organized large group explorers: Peter and Silvia

Who are they?
Peter and Silvia are a well-travelled couple in their late 60s from the Netherlands They are empty nesters, retired and with a good income. They have traveled a lot in their lives both within Europe as well as outside. When they were younger and their kids vacationed with them, they only travelled independently. Now they take multiple trips a year, enjoying life. Sometimes they book a city trip within Europe, other times they drive to Germany and spend two weeks in a rented vacation home and other times they decide to book an organized group tour. They have already been an organized group tours in Egypt, Italy and Turkey.

What is their spending behavior?
For Peter and Silvia it is all about value for money. They have a good income but like to go on several trips per year. Before they book a trip they carefully compare the different options and see which trip gives them more value for their money. If a tour includes higher-rated hotels and offers more activities, they are willing to pay a higher price if they feel its worth it. They also understand if they book a budget tour, they will also only stay in basic hotels and will have to pay for extra's. If the tour does not include all meals, they will sometimes eat in nice restaurants but never splurge.

How do they decide on their next destination and how do they prepare?
Every fall they receive the travel brochures from their favorite tour operators. These brochures list all the destinations, tours, dates and prices for the next year. The information is also available online via the tour operator's website. They look at the offerings for the coming season and see if there is any tour they are interested in. They might have a 'bucket list' of places they would like to go to. If there is a country that appeals to them, they will go online to find additional information. They will check out the standard of the hotels by going to sites such as Booking or Tripadvisor. They might also ask their travel agent for advice. They will compare similar tours offered by different tour operators. Safety and security is very important to them and they won't travel to a destination if they feel it is not safe. They will just pick another destination and save the country for another year. They don't have children at home so they are flexible in their booking and prefer to travel off-season as it cheaper, more quiet and more pleasant temperatures. They might ask friends or family if they any advice on what to expect in the destination.

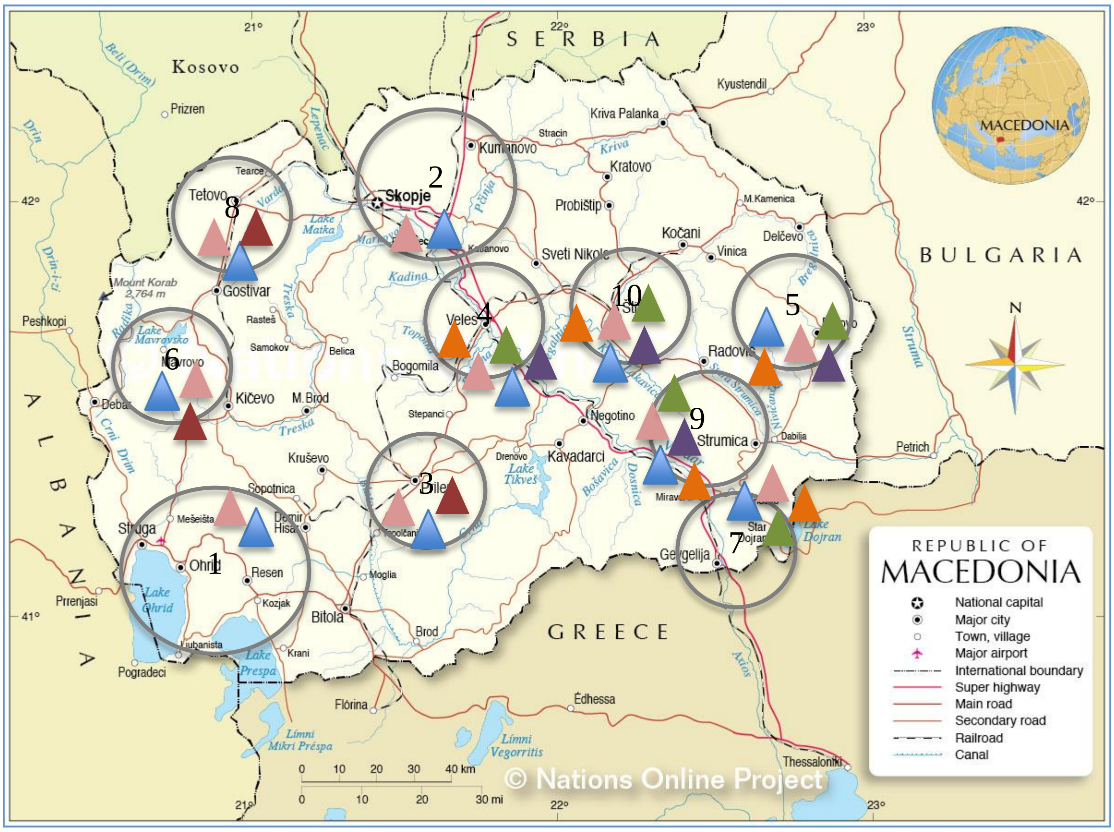
3.6. Destination Supply Analysis

Supply analysis was carried out as per the methodology (2.6.) in all ten destinations. It was found that only a few destinations (e.g. Pelagonija) had earlier prepared tourism strategies and when available these were used as a starting point for further analysis of the particular destination. The supply side analysis is provided in Volume II destination per destination. A list of interviewees at the destination level including companies, organizations and institutions can be found in Annex 1. During the process stakeholders also indicated the current constraints to tourism development in the destination as well as potential opportunities.

3.7. Matching Priority Segments to Destination

With the knowledge of the supply in each of the destinations as well as the needs and wants of the pre-selected priority markets, the supply and demand were matched for each of the ten destinations, according to the methodology detailed in 2.7. The results showing the priority market segments for each destination have been mapped below.

Figure 11: Map of Macedonia with Priority Segments



Note: The delineation of each destination on the map is approximate.

- Organized active tourists
- Independent active tourists
- Hard adventure tourists
- Domestic short break tourists
- Regional short break tourists
- Organized large group explorers

Destination 1 encompasses Ohrid, Struga, Prespa and their surroundings
Destination 2 encompasses Skopje, Kumanovo and their surroundings
Destination 3 encompasses Pelagonija
Destination 4 encompasses the Tikves region
Destination 5 encompasses Malesevo
Destination 6 encompasses the Reka region
Destination 7 encompasses Gevgelija and Dojran
Destination 8 encompasses the Polog region
Destination 9 encompasses the Strumica and its surroundings
Destination 10 encompasses Stip, Radovis and their surroundings

3.8. Value Chain Analysis

The VCAs revealed that many of the same weaknesses and gaps are shared across the different market segments, but some market segments have challenges that are unique. The full set of six VCAs can be found in Annex 4.

A few of the key findings are summarized here:

1. **Ownership or responsibility for each part of the value chain changes**. Whilst the destination may have a role in ‘Anticipation’ ‘Travel to place’ ‘Travel back’ and ‘recollection’ their main role is in fact in onsite ‘Destination experience’. This is the most significant part of the value chain in many ways.
    a. Destinations are individually responsible for managing tourists’ experience once they arrive in the destination. Destination management, defined by the UNWTO as “An ongoing process in which tourism, industry, government and community leaders plan for the future and manage a destination” plays a key role in addressing gaps at this level. The different stakeholders will have to work towards the common goal in strengthening the destination’s competitiveness. Gaps at the destination level may be related to infrastructure, signage or interpretation, product development, skills and training, marketing, destination management, regulatory environment, policy, access, economic linkages or other.
    b. Equally, destinations are not entirely responsible for the development of each market segment and rely on many other factors that happen at the national level, or even outside the country. For these other areas of the value chain, other actors including national level organizations may need to take more responsibility. Gaps in these areas refer to activities like marketing, visa access, or airlift.
2. **Many of the same gaps or weaknesses were identified across the same market segments, and at the same destinations**. Whilst there are many unique gaps or challenges to the specific experiences of each market segment, many are shared and can be seen as a collective issue that is likely to affect most (if not all) destinations in the country. For example the visible signs of trash along major route-ways has been identified universally as part of a ‘negative experience’. All of these shared issues have been extracted and listed as a separate chapter under Volume II.

3.9. Development Plans and Destination Management

Based on the output of all the previous steps, separate development plans for each of the ten destinations have been developed and can be found in Volume II. Each of the plans include the following components:

- The vision for the destination
- Development goals and targets
- Overview of supply
- Arrival and demand trends
- Priority market segments
- Gaps and opportunities to improve competitiveness of the offer (for the target segments)
- Proposed and prioritized interventions/actions
- Overview of resources available

The vison and goals for the destination have been defined by respective stakeholders of the destination as a key part of a destination management process. The overview of the supply is more detailed in the smaller destinations, e.g. includes brief description of the main hotels. For the larger destinations such as Ohrid and Skopje this section in more descriptive in nature. The arrivals trends section provides an overview of the available tourism statistics for the municipalities included in the destination. Each of the plans also includes a section on the current and future opportunities regarding the selected priority market segments for the destination. The gaps and opportunities identified at the destination level are linked to the gaps addressing the priority segments. They are formulated in a way that allows for a granular approach in addressing gaps/ opportunities through manageable projects that can be executed by different stakeholders depending on their capacity and role within the sector. In less mature destinations, the gaps and opportunities identified seek to advance development through growth in arrivals while in more mature destinations focus is placed on improving effectiveness, creating economic linkages and improving the economic performance of the sector.

The value chain analysis produced observations about gaps or missing elements of the tourist experience as well as opportunities for better performance in the delivered experience. This logic has been applied in the recommended timing of interventions presented in the plans. The first layer of interventions classified as short-term, is needed to close gaps in the value chain. Improvements that are classified as mid-term to long-term address opportunities for better performance along the value chain.

The development plans also provides an overview of gaps and opportunities' that require a national level approach. These gaps and opportunities are either considered relevant for all destinations or cannot be addressed by individual destinations.

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Annex 1: List of Interviewees and Stakeholders Consulted

Public Sector and International Organizations

Agency for Promotion and Support of Tourism	Skopje
Archaeological Museum	Vinica
Cabinet of Deputy Prime Minister for Economic Affairs	Skopje
Center for Development of Eastern Planning Region	Stip
Center for Development of Pelagonija Planning Region	Bitola
Center for Development of South Eastern Planning Region	Strumica
Center for Development of South Western Region	Ohrid
Delegation of the European Union	Skopje
GIZ	Skopje
International Finance Corporation (IFC)	Skopje
LRCP PIU	Skopje
Ministry of Culture	Skopje
Ministry of Local Self Government	Skopje
Municipality of Berovo	Berovo
Municipality of Debar	Debar
Municipality of Dojran	Dojran
Municipality of Gazi Baba	Gazi Baba
Municipality of Ohrid	Ohrid
Municipality of Pehcevo	Pehcevo
Municipality of Prilep	Prilep
Municipality of Zrnovci	Zrnovci
Municipality of Zrnovci	Zrnovci
Pelister National Park	Bitola
Project Office - Small Business Expansion Project, CARANA	Skopje
Regional Cooperation Council	Podgorica
Regional Economic Growth (REG) Project	Washington DC/ Sofia
State Statistical Office	Skopje
Swisscontact	Skopje
UNDP	Skopje
UNIDO	Skopje
USAID	Skopje

Private Sector

Organization	Location
Association of Women Farmers Vinica	Vinica
Aurora Resort	Berovo
Aurora Tours	Skopje
Balojani Tourist Services	Bitola
Bela Voda	Berovo
BikeHike Adventures	Canada
Biketours.com	U.S.
Black Mountain Montenegro	Montenegro
C-Cape Travel	Italy
CENET	Krusevo
Cluster Eden	Skopje
Cocev Kamen, Porta Kokino	Kokino
CulturalExplorers	U.S.
Dalas Union	Skopje
Donkey Safari	Kuratnica
Economic Chamber for Tourism of Macedonia	Skopje
Economic Chamber of Macedonia	Skopje
EDEN Tourism Cluster	Ohrid
Enjoy Balkans	Skopje
Eskimo Freeride (Shar Mountain)	Skopje/ Shar mountain
Ethno House Shancheva	Kratovo
Eurohotel Gradce	Kocani
ExperiencePlus!	U.S./ Italy
Explore	UK
Exploring Macedonia	Skopje
Eye 4 Cycling	Netherlands
FIBULA	Skopje
Galicnik Horseback Riding Club	Mavrovo
General Tourist	Skopje
Go Balkans	Skopje
Green Visions Ecotours	Bosnia & Herzegovina
Hotel Gradce	Kocani
Hotel Kratis	Kratovo
Hotel Manastir	Berovo
Hotel Millenium	Bitola
Hotel Montana Palace	Krusevo
Hotel Podorgski	Kolesino
Hotel Romantique	Star Dojran
Hotel Sirius	Strumica
Inex Gorica	Ohrid
Karatanova Tours	Netherlands
Kezovica Spa	Shtip
Kompas	Skopje
Kosovrasti Spa	Kosovrasti
M6 Educational Center	Skopje
M6 Investments	Skopje

Macedonia Experience	Skopje
Macedoniat Travel	Skopje
MacSun Travel	Skopje
Monastery of St. Gavril Lesnovski	Lesnovo
Monastery of Sv Leonthius i	Vodoca
Monastery Osogovski	Krivi Palanka
Mountaineering Club	Bitola
Mustseedonia	Skopje
Ohrid Holidays	Ohrid
Oxford Economics	Oxford
Paragliding club	Krusevo
Popova Kula Winery	Demir Kapija
Ramada Hotel	Gevegelija
Restaurant Canyon Matka	Matka
Restaurant Fuk-Tak	Star Dojran
Restaurant Javor	Mrzemci
Robinson Adventures	Serbia
Rock Art Center	Kratovo
Rockland climbing	Demir Kapija
Sheepfold	Berovo
Shumski Feneri Hotel and Freeride operation	Bitola
Silhouette Spa	Gevgelija
SNP	Netherlands
Stobi archeological site	Gradsko
Stobi Winery	Gradsko
Tikves Winery	Kavadarci
Toria	Skopje
Treskavec Monastery	Prilep
TUI	Netherlands
PS Sojmenova	S. Istibanja
Tutto Hotel	Janche
Uniline	Croatia
Vardar Express	Skopje
Via Dinarica Alliance	Sarajevo
Vila Brajchino	Braichino
Vila Dihovo	Dihovo
Vila Ignatia	Vevcani
Vis Poj	Skopje
Visit Macedonia	Skopje
Wines of Macedonia	Skopje

Annex 2: List of Strategic Reports

National Strategy for Tourism Development of the Republic of Macedonia 2009-2013 (2011), Planeth

From World Heritage to World Destination: Policy Options to Increase the Competitiveness of the Tourism Sector in fYR Macedonia (2012) World Bank

Draft National Tourism Strategy Republic of Macedonia (2016), Kohl & Partner

Industrial Policy of Macedonia 2009-2020

National Strategy for Rural Tourism 2012-2017 (2012), Target Communications

National Strategy for health tourism 2012-2018

National Strategy for sports tourism 2015-2018

Sub-strategy for MICE tourism 2015

Sub-strategy for events and traditions 2014

Strategy for Prespa Lake Basin 2012-2016 (2012), UNDP

Tourism section from the Government Program 2014-2018

National Strategy for culture 2013-2017

Programs for development of the eight planning regions 2015-2019

Findings Report: Shaun Mann (2009), IFC Tourism Specialist

Market Sector Report on Tourism and Hospitality by Increasing Market Employability (IME) Project, SwissContact

Feasibility Study and Master Plan for Tourism Development Zones in Republic of Macedonia (2014), Horwath HTL

Market Sector Report on Tourism & Hospitality – Ohrid Tourism Destination (2014), IME

Market Sector Report on Tourism & Hospitality – Krusevo Tourism Destination (2014), IME

Market Sector Report on Tourism & Hospitality – Mavrovo Tourism Destination (2014), IME

Annex 3: Tourism Trends

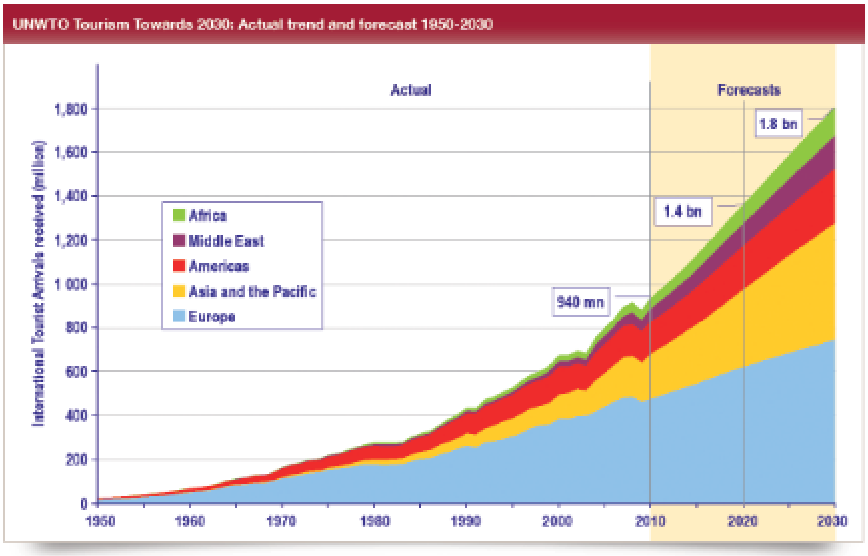
Global Tourism Arrivals

Tourism plays a large and growing role in the world economy. The World Tourism Organization (UNWTO) estimates that direct, indirect and induced impacts of tourism generated 10 percent of global GDP, one in eleven jobs and 30 percent of global services exports. International tourism achieved a new record in 2015 with 1.184 billion arrivals, an increase of 4.4 percent compared to 2014. This is the sixth year of consecutive growth since the financial crisis in 2009. International tourism receipts reached US$1,245 billion worldwide in 2014, up from US$1,197 in 2013. Europe remained in 2015 the world's most visited region. France, the United States, Spain and China are the top most visited countries in the world. Travel for holidays, recreation and other forms of leisure accounted for just over half of all international tourist arrivals in 2014. International tourist arrivals worldwide are expected to increase by 3.3 percent a year between 2010 and 2030 to reach 1.8 billion by 2030.

Travel for holidays, recreation and other forms of leisure accounted for just over half of all international tourist arrivals (53% or 598 million) in 2014. Some 14% of international tourists reported travelling for business and professional purposes, and another 27% travelled for other reasons such as visiting friends and relatives (VFR), religious reasons and pilgrimages, health treatment, etc.

International tourist arrivals in Europe grew 4.9% in 2015, to reach a total of 609 million, just over half of the world's total. Europe was the fastest growing region in absolute terms, with 28 million more tourists than in 2014. This is the result of economic recovery in most of the European countries, strong Euro as well as growth in some of the main non-European source markets.

Figure 12: Global International Tourist Arrivals



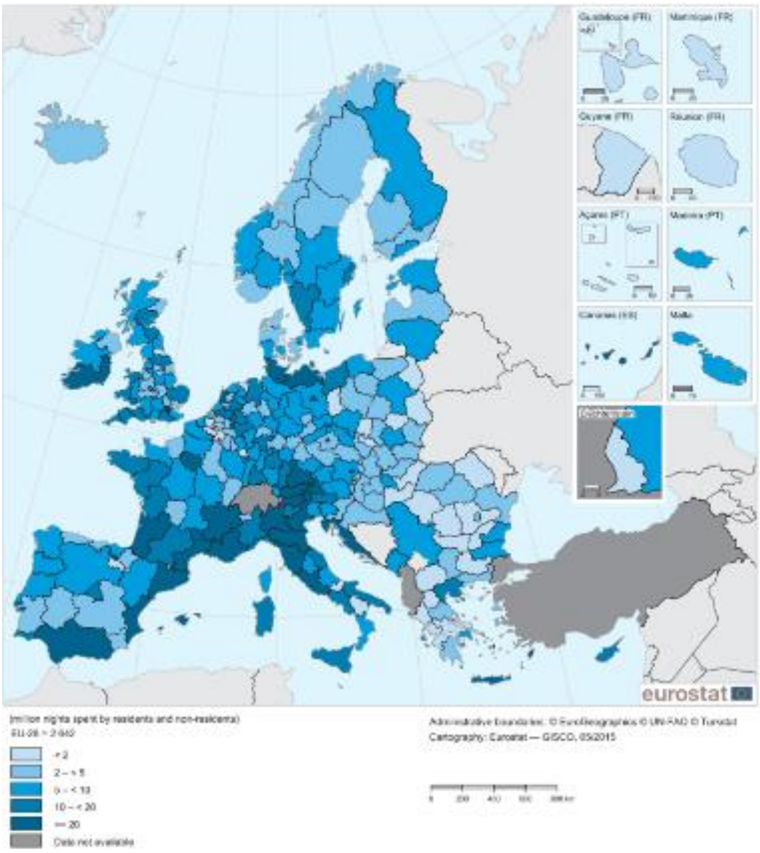
Source: UNWTO

Europe is still the largest source region followed by the Asia Pacific. China has been the top tourism source market since 2012 and increased their tourism expenditure abroad by 27 percent in 2014 reaching a total of US$165 billion. The other top five largest tourism spenders are the United States, Germany, the UK and Russia. In 2014, about four out of five worldwide arrivals originated from the same region according to the UNWTO Tourism Highlights 2015 report.

European Travel Trends

Europe is not only the largest receiving region but also still the world's largest source region, generating just over half of the world's international arrivals. Most of the Europeans travel within the continent. While the global annual average growth rate between 2005 and 2014 was 3.8%, for Europe this was just 2.7%. Europe was hereby the slowest growing outbound market. According to the European Travel Commission (ETC), Europeans went on a total of 1.2 billion trips spending a total of 416 billion Euros in 2013. The total participation factor[4] for EU countries was 60 percent. About 75% of these trips were in country and of the 25% of all trips that were made to foreign country, 75% was in another EU Member State and 25% was outside the EU. First results of 2015 show a 3.5% increase in the number of nights spent at tourist accommodation establishments in the EU compared to 2014.The map below shows the nights spent in paid tourism accommodation by residents and non-residents. It shows that the areas around the Mediterranean receive the highest numbers of overnight tourists.

Figure 13 : European Tourism Receiving Countries, Nights Spent in Tourism Accommodation, 2013



Source: Eurostat

[4] Percentage of the total population taking a trip during the year

According to the ETC, the Europeans like to travel to new destinations. While discovering new destinations they are especially interested in round trips to learn as much as possible about the destinations' culture and nature.

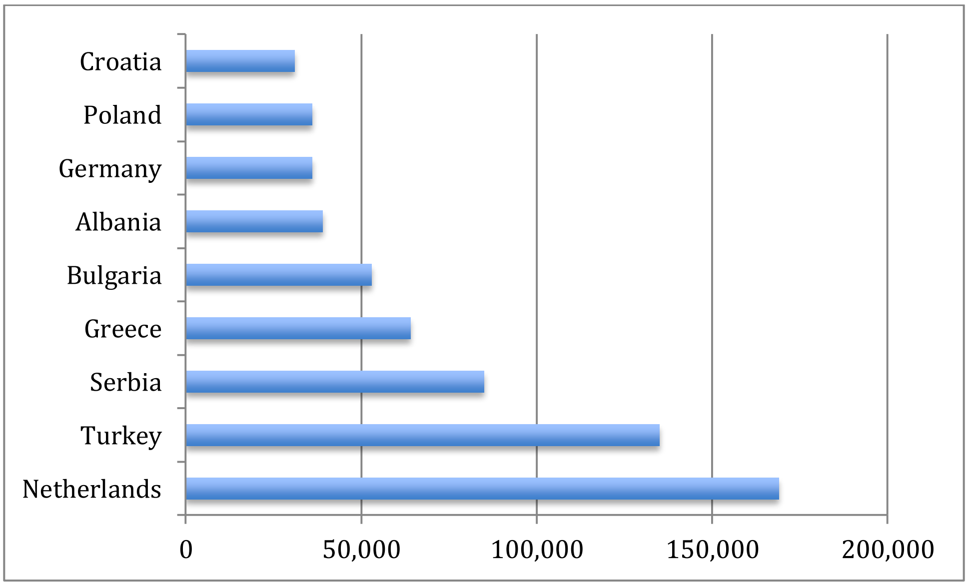
Table 8: Top ten EU member states for outbound holidays, 2014

		Nights abroad ('000)	Share (%)
	EU-28	2,566.30	100
	Top 10	2,208.80	86.1
1	Germany	730.1	28.5
2	UK	563.9	22
3	France	235.1	9.2
4	Netherlands	166.7	6.5
5	Poland	103.7	4.0
6	Spain	94.0	3.7
7	Italy	90.2	3.5
8	Belgium	86.5	3.4
9	Austria	69.8	2.7
10	Sweden	68.7	2.7

Source: Eurostat

Figure 2 shows the countries generating the highest number of overnight stays in Macedonia. Regional markets will be discussed in more details in the following section.

Figure 14: Main Source Markets, by Overnight Stays, 2015



Source: State Statistical Office

Regional Travel Trends

This section outlines demand trends in the Balkan region. A regional perspective is necessary to understand the market dynamics in Macedonia because many international travelers visiting the peninsula frequently look to combined more than one country itineraries. In addition, regional cross-border travel is also very active and is important source of arrivals for a number of countries, including Macedonia.

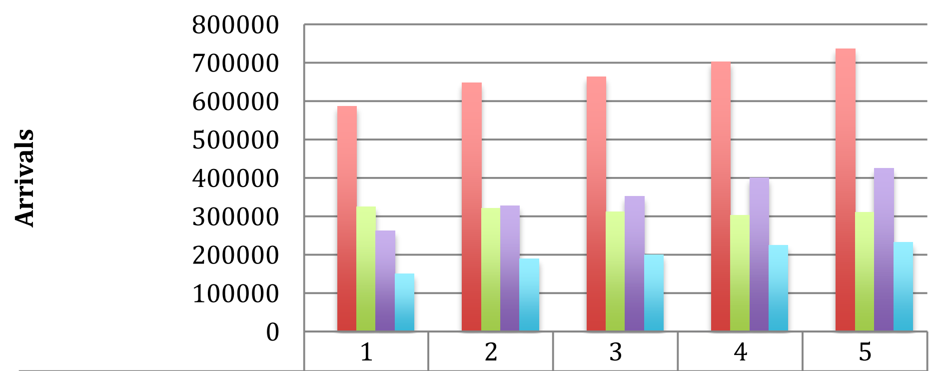
An overview of tourism plans and strategies of other countries in the region provides information about opportunities for growing cross-country linkages, benchmarking and competitive pressures Macedonia should consider.

Regional Demand trends

The Balkans region is a region of active cross-border travel. This includes combining more than one country when visiting the region for European and long-haul travelers, as well as regional travel.

For Macedonia arrivals from neighboring countries represent an important share of overall arrivals. Based on national statistical data in 2014 arrivals from the region (Albania, Bosnia & Herzegovina, Bulgaria, Croatia, Greece, Montenegro, Slovenia, and Turkey) represented 32% of all arrivals and 55% of international arrivals (see table below).

Figure 15: Regional Arrivals in Context



	2010	2011	2012	2013	2014
TOTAL	586 241	647 568	663 633	701 794	735 650
DOMESTIC TOURISTS	324 545	320 097	312 274	302 114	310 336
FOREIGN TOURISTS	261 696	327 471	351 359	399 680	425 314
REGIONAL	150 549	189 036	199 267	224 495	231 749

Source: Generated on the basis of data from the State Statistical Office of the Republic of Macedonia (SSORM)

A major driver of regional travel is Greece, which is a popular leisure destination for residents of Bulgaria (1.5 Million in 2014, 7% of all arrivals), Macedonia (N/A), Romania (540,000 in 2014, 2.5% of all arrivals) and Serbia (986,000 in 2014, 4.5% of all arrivals) [5] who visit the Greek coast for both short breaks and longer summer holidays. Active regional traffic to Greece starts around Easter and other holidays in May, and ends in mid-October. FYR Macedonia benefits significantly from regional traffic to Greece as the route of all Serbian and many Romanian tourists passes through the country and they often spend a night on the way to and the way back.

[5] Based on country-specific data for Greece from UNWTO (2014)

Bulgaria is also an attractive regional destination. The Black Sea coast draws summer tourists from Romania, Serbia and Macedonia. During winter periods resorts in Bansko, Borovets and Pamporovo draw tourists from Romania, Serbia, Macedonia and Greece. The leading regional market for Bulgaria is Romania (1.4 million in 2014, 15% of all arrivals) followed by Greece (1.1 million in 2014, 12%), Serbia (454,000 in 2014, 5% of all arrivals) and Macedonia (441,000 in 2014, 5%)[6].

The leading regional markets for Macedonia are Turkey, Greece, Serbia and Bulgaria (see table below). More details on the areas within Macedonia visited by regional tourists are discussed in the market segment analysis section later in this report. Due to the significant differences in the methodology used to generate statistical data on international arrivals between Macedonia and other countries in the region, it is not possible to perform a cross-country comparison of the importance of regional markets.

Table 9: Arrivals in Macedonia from Countries in the Region

	2010	2011	2012	2013	2014
TOTAL	**586 241**	**647 568**	**663 633**	**701 794**	**735 650**
REGIONAL (includes countries below)	**150 549**	**189 036**	**199 267**	**224 495**	**231 749**
Albania	17 110	13 614	13 412	16 982	17 561
Bosnia and Herzegovina	5 619	4 959	4 740	4 540	5 771
Bulgaria	15 513	18 541	19 815	20 914	26 480
Croatia	12 791	13 885	13 939	12 722	15 392
Greece	26 843	45 509	43 976	46 184	42 677
Montenegro	4 180	3 522	3 197	3 498	4 802
Serbia	35 840	35 692	36 530	38 127	41 013
Slovenia	12 606	14 063	13 252	13 404	14 486
Turkey	20 047	39 251	50 406	68 124	63 567

Source: State Statistical Office of the Republic of Macedonia (SSORM)

Regional Supply Trends

Many of the countries in the region rely on assets that are similar across the Balkans. Therefore, development in countries neighboring Macedonia can represent both opportunity for collaboration and partnerships, as well as source of strong competition and market pressure. To understand these dynamics better the next table provides an overview of the market focus of countries in the region surrounding fYR Macedonia.

Table 10: Summary of the Market Focus of Tourism Strategies in the Region

Country	Promotion Tagline	Market Focus
Albania	Go your own way	Diversification of sun and sea Focus on the undiscovered nature of Albania as destination

[6] Based on country-specific data for Bulgaria from UNWTO (2014)

Bosnia & Herzegovina	*Enjoy life*	Focus on East-meets-West combined with rugged and pristine nature Linkages with neighboring countries
Bulgaria	N/A	Aimed diversification of beach and winter portfolio Strong focus on culture and history Grow specialized tourism offerings (culinary, outdoors, cultural, etc.)
Croatia	*Full of life*	Shift towards year-round tourism Stronger focus on experiential and active exploration rather than "classic" tourism attractions Incorporation of active and culinary
Montenegro	*Wild beauty*	Focus on preserved nature and natural beauty Effort to diversify beach with nature and outdoors Effort to place focus on quality
Serbia	N/A	Strong focus on rural and farm combined with nature Focus on culinary and natural food
Slovenia	I feel Slovenia	Very strong focus on active and adventure exploration of nature Focus on sustainability

Regional Insights

The overview of market dynamics in the Balkans region reveals significant opportunities for tourism development in fYR Macedonia. The similarity of assets and themes across the region offers opportunities for cross-border linkages and development of regional themes that can increase the ability of all countries to draw together tourists from different segments. This is especially important for long-haul markets (North and South America, Australia and Asia) as well as specialty markets (archeology, bird watching, extreme adventure sports, etc.). The market logic behind collaborative offerings between Macedonia and neighboring countries was confirmed by interviewed international operators as well as during the AdventureNEXT conference that took place in Ohrid in May 2016. While fYR Macedonia shares a lot of cultural, historical and natural assets with others in the region, it holds advantages that can secure its differentiation alongside the collaboration. An important advantage for fYR Macedonia in the region is the rich mix of cultural and natural assets that combined represent a strong draw for many market segments, including high-spending travelers interested in combining outdoors and cultural experiences. A second key advantage of the country is its top attraction – Lake Ohrid, the UNESCO status of which motivates many travelers throughout the region to include fYR Macedonia in their itineraries. The country’s central location on the Balkan Peninsula is also a strong advantage as it increases the convenience of including Macedonian destinations in regional and cross-border offerings.

Regional context realities offer significant opportunities for Macedonia in particular. First, the fact that due to its location it enjoys a lot of traffic from regional tourists allows it to benefit from offerings that attracts transit tourists to stay a day or two on their way to or back from Greece. The strong demand for regional (Balkan) tours is another indication of the attractiveness of cross-border offerings in the area of culture, history and religion. Countries on the Balkans share common history and to a large extend culture so designing and promoting such experiences on regional level can create a lot of benefits for the entire region, and fYR Macedonia as a centrally position country in particular. A third important opportunity is the access to regional good practices. Slovenia, Croatia and to some extend Bulgaria and Romania can share good examples in the area of rural tourism, nature-based and outdoor experiences, culinary and traditional lifestyle offerings. Sourcing ideas and models from neighboring countries is more effective and easy to implement due to similarity in culture and setting.

Annex 4: Value Chain Analyses

This annex presents the value chain analyses of the priority market segments:

- Organized Active Tourists
- Independent Active Tourists (including domestic)
- Hard Adventure Tourists (freeriders and paragliders)
- Domestic Short Break Tourists
- Regional Short Break Tourists
- Organized Large Group Explorers