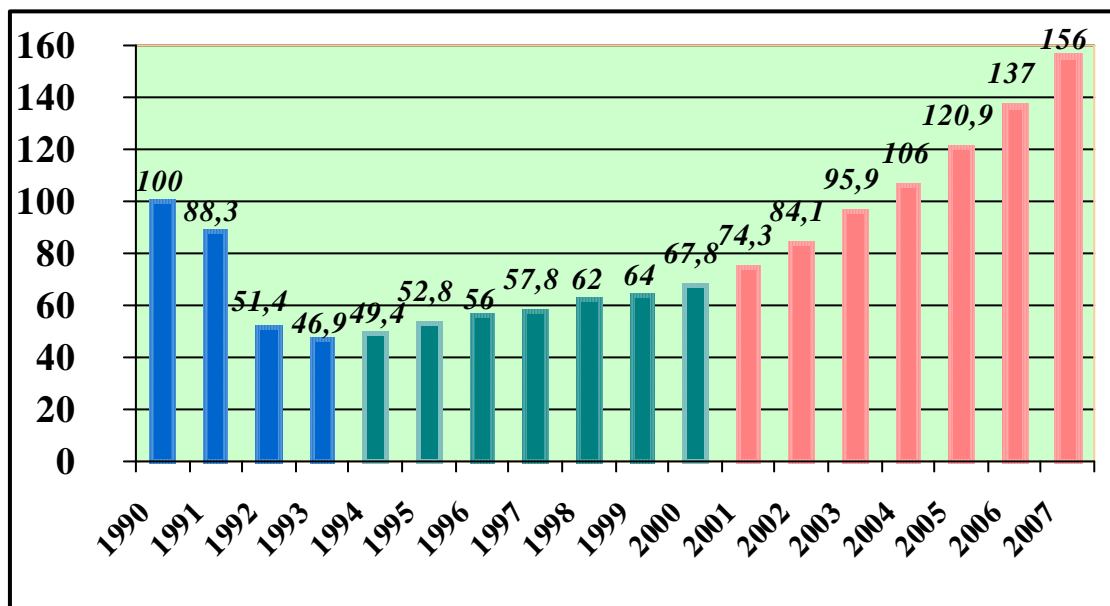


The Hotel Service Market Situation in the Republic of Armenia

The role of tourism and hospitality industry in world economy is steadily increasing. This is one of the most profitable and dynamically developing industries of the global economy.

The industry hasn't achieved impressive results in Armenia yet and is currently in the establishment stage. The analysis of Armenia's hotel business development perspectives, as in any other country, is based on the assessment of the real situation in the country's economy as well as financial, social and other spheres, which do not only affect the development of this sphere but also determine the place of hotel business in the country's social-economic development.

Reforms in Armenia's economical, political and social spheres have begun after the Soviet Union collapsed and the country gained independence. The reforms are still in the stage of implementation – the process of social transformation is very dynamic. When looking at the transformation of Armenia's economy, we can conditionally divide it into three stages (see picture 1).



Picture 1. GDP growth rates in 1990- 2007 (in % to 1990).

The first stage: 1991- 1993 – the launch of institutional reforms. This is the most difficult stage of the country's transition to market economy. During 1991-1993 the level of economic development considerably decreased. Unprecedented GDP shortage (more than 53%) and hyperinflation of prices were recorded/

The second stage: 1994 - 1999.- this is a stage of relative stabilization and some macroeconomic growth. Positive changes were observed starting from the middle of 1994, when the ceasefire agreement was signed with Azerbaijan and when preconditions for the

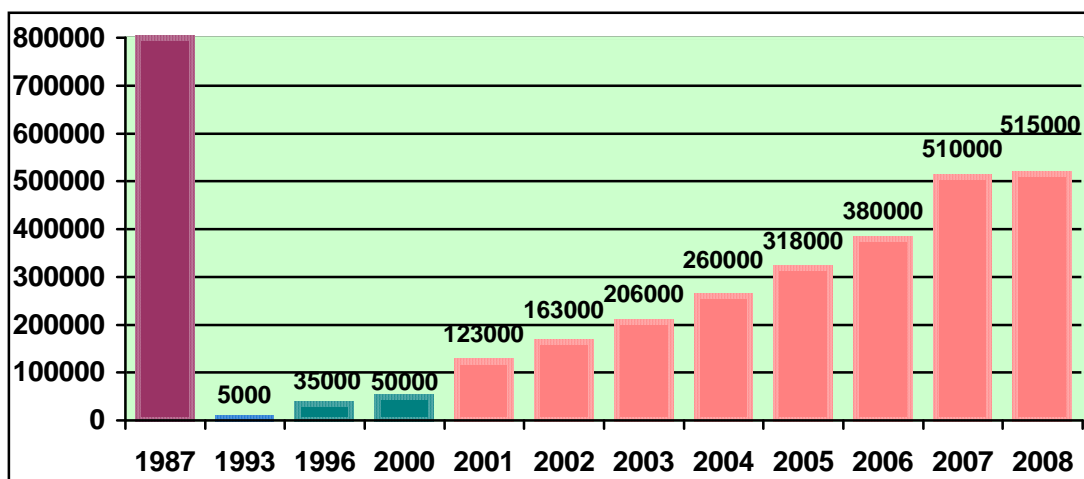
stabilization of the country's political and economic situation and launch of market reforms were established. At this stage, the economy of the country was reviving and developing rather positively (GDP growth rate in 1994- 2000 was 137%).

The third stage: since 2001 up to date. This stage is characterized by the strategy of transition "from stabilization to development". At this stage Armenia has achieved economic growth and has improved its key macroeconomic indicators. GDP growth was 210% in 2007 as compared to 2001. The stability of tendencies for steady economic growth is proved by the fact that the average annual GDP growth (15,7%) in 2001-2007 is 2.5 times higher the same indicator for 1994-2000 (5,3%).

When looking at Armenia's development stages, parallels may be drawn with tourism development. The first stage is characterized by economic decline and tourism didn't exist as an economic sector in this period. Only 4-5 thousand tourists visited Armenia during 1992-1993. For comparison, Armenia hosted almost 500 thousand tourists annually during Soviet Union times and the number of tourists reached 800 thousand in 1987.

During the second stage of economic development, which was characterized by the stabilization of the country's economic situation, there were positive developments in tourism industry as well. Approximately 35 thousand tourists visited Armenia during the International Chess Olympiad in 1996. In the following years no significant increase in the flow of tourists was recorded (see picture 2) due to fact that major hotels were closed for renovation after the Olympiad and the country could not host large number of tourists.

Armenia has started to record economic growth since 2001. This was also a crucial year for tourism development mainly owing to the events organized to celebrate the 1700th anniversary of adoption of Christianity as a state religion in Armenia. Hence, according to the State Statistical Service, over 123 thousand tourists visited Armenia. 20-25% from them traveled by tourism packages, while the rest visited on their relatives' and friends' invitation. The flow of visitors did not decrease and even increased after the celebrations in 2001 (see picture 2).

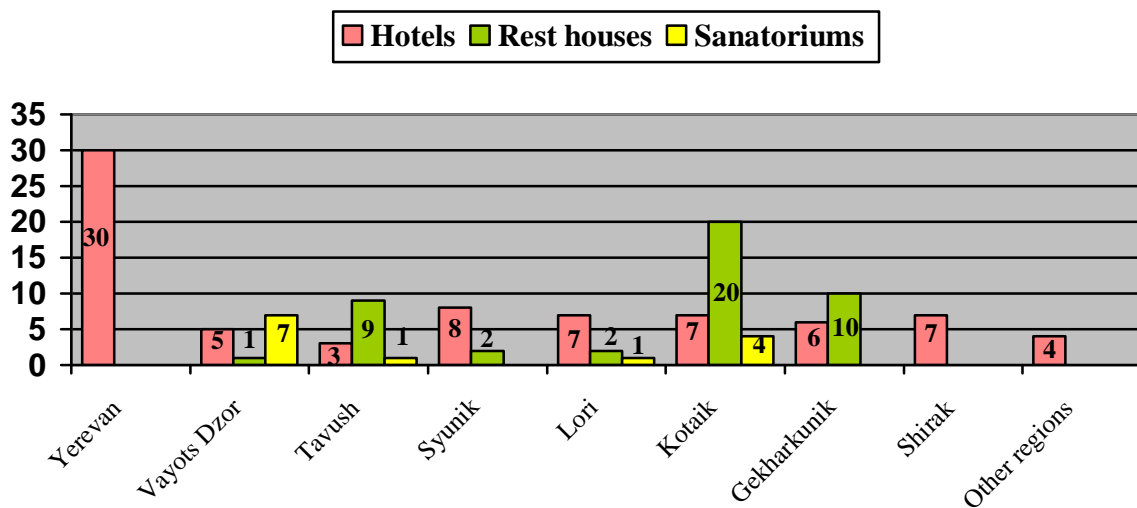


Picture 2. The dynamics of international tourism visits (thousand/people)

Today the share of tourism industry in GDP amounts to around 6-7%. Tourism is one of the leading industries in terms of the volume of exports (foreign currency inflow to Armenia from incoming tourism is equal to the fifth part of country's export and tourism is the second export article after diamond processing).

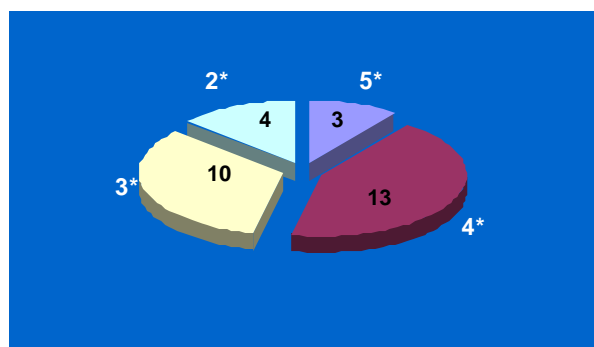
However, the experience of 2001 showed that Armenia is not able to host great number of guests. A number of pressing issues occurred during celebrations: lack of qualified guides, lack of tourism transport, bad condition of roads, lack of hotels in regions, very low quality of service with services provided in cheap motels equal in price of those of four and five star hotels.

Nowadays, there are around 141 accommodation establishments in Armenia (see picture 3), from which 76 are hotels with the rest being sanatoriums/spas and rest houses.



Picture 3. Hotel industry in Armenia

In general, 91% of hotels are located in urban areas, including 40% in Yerevan, 53% in other cities and 7% in rural areas. From the total number of hotel enterprises in Yerevan 43.3% are four star hotels, 30% are three stars hotels and 10% (only 3 hotels) are five star hotels (see picture 4).



Picture 4. Hotel industry in Yerevan

From the view point of the state of the hotel service market, Yerevan is a comparatively well established city. Things are much more complicated in regions. There are only 2-3 hotels in such regions as Tavush, Aragatsotn, Armavir etc, while most of tourism products are located in Armenian regions. Because of the lack of hotels, tourists have to come back to Yerevan after visiting the sights. American entrepreneur of Armenian origin James Tufenkian played a significant role in the decentralization of the country's hotels. With his efforts the Armenian hotel chain Tufenkian Heritage was established with the aim of building hotels in Armenian regions. The chain already has hotels in Yerevan, Sevan and Lori. Another two hotels are in construction stage (in Syunik and Vayots Dzor regions).

Most of the hotels (74%) are owned by private entities or local enterprises (without foreign participation). Only 18 hotels (23.8%) have foreign investments, mainly from the Armenian diaspora. Two hotels ("Armenia Marriott" and "Golden Tulip Yerevan") are managed under a franchising agreement. Two hotels ("Congress" in Yerevan and "Bohemian Resort" in Sevan) are managed under a contract on management. The rest are independent hotels. Nowadays, the hotel chain "Hilton" constructs a hotel in Yerevan and "Hyatt" in Jermuk.

Other factors having a negative impact on the hotel business development are the failure of hotels to fully utilize their strategic marketing planning and inadequate use of tactical pricing solutions and sales stimulation: discount system, various programs for guests, special offers during holidays etc., which contribute to the flexible differentiation of potential clients. A pressing issue is the competent management of hotels. There are currently 4 hotels in Armenia with Western management and they significantly differ from independent hotels. It is impossible to solve issues related to tourism development and the country's integration into world economy without the establishment of a modern and effective hotel infrastructure, which complies with international standards.

About author:



Mane Sargsyan graduated from the Moscow branch of the Institute of Tourism and Hospitality at the Russian Tourism and Service State University, with a specialism in “Social-cultural service and tourism” with honors. She has international work experience as a hotel administrator and sales manager. She has undertaken various training programs related to management and marketing in the tourism and hospitality. Currently, she is a PhD student in the department of "Management of Tourism and Hotel Industry Enterprises" at the Russian Tourism and Service State University.



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