

Service sector in terms of changing environment

## Competitiveness strategies for supporting economic development of the touristic destination

Ph.D. Tatjana Dimoska, Assistant Professor<sup>a</sup> and Boris Trimcevič<sup>b\*</sup>

<sup>a</sup>Faculty of tourism and hospitality, *Kej Marsal Tito 95, 6000 Ohrid, Republic of Macedonia*

<sup>b</sup>Faculty of tourism and hospitality, *Kej Marsal Tito 95, 6000 Ohrid, Republic of Macedonia*

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### Abstract

The competitiveness of the touristic destination presents a multidimensional concept which includes economic, social, cultural, political, technological and environmental advantages. Appropriate combination of these components makes each tourist destination an unique creation more or less attractive for the tourists. The aim of this paper is to point out the importance of choosing the most appropriate competitiveness strategy and its influence over the touristic turn over and the consumption in the touristic destination, in a due time resulting with economic benefits as complete and rapid economic development of the touristic destination and well fare of the domicile population as well.

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\* Corresponding author. Tatjana Dimoska, Tel.: +389 46 262 147 (local 123); fax: +389 46 262 147  
E-mail address: [tanjadimoska@yahoo.com](mailto:tanjadimoska@yahoo.com)

## 1. Introduction

As a result of increasing competition that exists in the international tourist market between the existing tourist destinations and the emergence of new tourist destinations, achievement and particularly maintaining, protecting and strengthening the competitive advantage is a challenge and primary goal of each tourist destination.

The concept of tourism destination competitiveness stems from the concept of competitiveness in general. Research about the competitiveness of destinations began in the early 1990s. Some of the researches were focused only on analyzing the particular elements of destination, as factors that contribute to its competitiveness, while the others tended for developing a more comprehensive understanding of destination competitiveness, covering as large as possible number of elements, at the same time trying to establish different models of competitiveness.

In this paper, first will be analyzed the concept of competitiveness in general (both in terms of national level also in terms of different scientific disciplines), and then will be explained its application in the field of tourism i.e. will be analyzed competitiveness of the tourist destination, with particular reference on competitive strategies and their impact on the overall economic development of the tourist destination.

## 2. Competitiveness

### 2.1. Defining the term competitiveness

Competitiveness is a complex, multi- dimensional, multi-faceted, relative and very confusing concept. There are numerous definitions and models for this term, but still no universally agreed or widely adopted definition can be found, nor a universal model for competitiveness. Since early 1990s until today, various authors, depending on the width and aspect of their research, offer different definitions for the competitiveness and continually expand their models for destination's competitiveness. Thus, there are definitions of international competitiveness in terms of economics, management, history, politics and cultures as well as definitions for international competitiveness from national point of view.

When defining the international competitiveness from the national perspective, emphasis is placed on resident prosperity as the end result of competitiveness and the importance of consumer perceptions of competitiveness.<sup>†</sup>

Generally accepted definition of competitiveness from the national point of view is considered the definition of Waheeduzzman and Ryans, who define competitiveness as: "the degree to which a nation can produce goods and services that meet the test of international markets while simultaneously maintaining or expanding the real income of its citizens."<sup>‡</sup>

There are two broad approaches from economics perspective.

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<sup>†</sup> Dwyer, L., & Kim, Ch. (2003). *Destination Competitiveness: A Model and Determinants*. Australian Department of Industry, Science and Resources & Korea Research Institute. University of Otago. New Zeland. , p.3

<sup>‡</sup> Enright, M. J., & Newton, J.(2005). Determinants of Tourism Destination Competitiveness in Asia Pacific: Comprehensiveness and Universality. *Journal of Travel Research*. Vol. 43. Sage Publication., p.340

According to the first approach which is based on competitive advantage, prices are the major factor for international competitiveness. Thus, price competitiveness of a destination is the key factor for its attendance by tourists.

According to the second approach, the competitiveness is a multi-dimensional concept which depends from several factors: technology, capital, labor skills, management and organization, and government policy.

From a strategy and management perspective, the competitiveness of a nation stems from the competitiveness of companies within that nation. Thus, national competitiveness is dependent from a range of organizational and management variables such as: organizational structure (flexibility, balance, and dynamic aspects), competitive environment and strategy, firm-specific variables (information, quality, core competencies, etc.) and firm-specific resources (labor skills, assets, cash-flow, capital-investment, human, non-human and strategic).

From the literature on history, politics and culture, comes a recognition that just as the competitiveness of nations can be influenced by climate, morals, power of the state, cultural values and moral discipline, so too may destination competitiveness be influenced by such variables.<sup>§</sup>

## 2.2. *Competitiveness of tourism destination*

The term “touristic destination” incorporates in itself terms tourism and destination as two essential components, hence the success of the tourism destination development depends on both supply side and demand side. Tourism destination competitiveness from the demand side (i.e. from the perspective of actual and potential tourists) is closely related to the quality of the whole tourism experience in that tourism destination. From the supply side (which present a connection of various elements such as: attractions, cultural heritage, services, leisure activities, infrastructures), destination competitiveness is more concerned with the economic benefits of the destination (revenues, employment, sustainable growth of the destination and the firms within this destination).

There are many definitions and models for destination competitiveness and some of them emphasize the competitiveness of tourist destinations. Some of those definitions are the following.

Poon (1993), the pioneer in tourism competitiveness issues, believes that to be competitive, every destination has to follow 4 key principles:<sup>\*\*</sup>

- put the environment first;
- make tourism a leading sector;
- strengthen the distribution channels in the marketplace; and

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<sup>§</sup> Dwyer, L., & Kim, Ch.: *Destination Competitiveness: A Model and Determinants*, Australian Department of Industry, Science and Resources & Korea Research Institute, University of Otago, New Zealand, 2003, p.3

<sup>\*\*</sup> Hong, W. (2008) *Competitiveness in the tourism sector: A Comprehensive Approach from Economic and Management Points*. Physica – Verlag Heidelberg, p.43

- building a dynamic private sector.

According to d'Hartserre (2000) competitiveness is “the ability of a destination to maintain its market position and share and/or to improve upon them through time.”<sup>††</sup>

Dwyer и Kim (2003) define competitiveness of a destination as “the ability of a destination to deliver goods and services that perform better than other destinations on those aspects of the tourism experience considered being important by tourists.”<sup>‡‡</sup>

Enright и Newton (2004) concluded that “a destination is competitive if it can attract and satisfy potential tourists, and this competitiveness is determined both by tourism-specific factors and a much wider range of factors that influence the tourism service providers.”<sup>§§</sup>

Tourism competitiveness can also be defined as “the ability of a destination to create, integrate and deliver tourism experiences, including value-added goods and services considered to be important by tourists, which sustain resources while maintaining market position relative to other destinations.”<sup>\*\*\*</sup>

Because of the complexity of tourism competitiveness, the conclusion is that “what makes a tourism destination truly competitive is its 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 destination for future generations.”<sup>†††</sup>

Depending from the aspect of explanation of destination competitiveness, different authors suggest different variables from model to model that can be objective and easily measurable (such as: the number of tourists, market share, employment, level of expenditure per tourists, etc.) or subjective and difficult measurable variables (such as: quality of the tourism experience; level of tourist satisfaction, dissatisfaction or complaints; culture and heritage; quality of staff working in tourism; quality of facilities and services in tourism; etc.).

Although in the literature can be found numerous attempts for formulating a model of destination competitiveness, because of the complexity of this concepts, there is no one, universal and comprehensive model which covers all issues and aspects related to destination competitiveness. Researchers have agreed that Ritchie and Crouch’s model of destination competitiveness is now “arguably the most comprehensive and most rigorous of all models of this type currently available.”<sup>‡‡‡</sup>

Their model incorporates the main elements of macro (national) and micro (firm) competitiveness, as well as comparative and competitive advantages of tourism destination. According to Ritchie and Crouch,

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<sup>††</sup> Meng, F. (2006). *An Examination of Destination Competitiveness from the Tourists’ Perspective: The Relationship between Quality of Tourism Experience and Perceived Destination Competitiveness*. Virginia:Blacksburg., p.36

<sup>‡‡</sup> *ibid.*, p.36

<sup>§§</sup> Hong, W. (2008) *Competitiveness in the tourism sector: A Comprehensive Approach from Economic and Management Points*. Physica – Verlag Heidelberg, p.45

<sup>\*\*\*</sup> *Ibid.*, p.45

<sup>†††</sup> Ritchie, J.R.B., & Grouch, G.I. (2003). *The Competitive Destination: A sustainable tourism perspective*. CABI Publishing.,p.2

<sup>‡‡‡</sup> Meng, F. (2006). *An Examination of Destination Competitiveness from the Tourists’ Perspective: The Relationship between Quality of Tourism Experience and Perceived Destination Competitiveness*. Virginia:Blacksburg., p.44

tourism destination competitiveness is determined by five major components: “core resources and attractors”, “supporting factors and resources”, “destination management”, “destination policy, planning and development” and “qualifying determinants”.

The “core resources and attractors” are the factors that play a key role and have a decisive influence on selecting the appropriate tourist destination by potential tourists in relation to all other tourist destinations. These factors are: physiography and climate, culture and history, market ties, mix of activities, special events, entertainment and the tourism superstructure.

The “supporting factors and resources” form the base for establishing the successful tourism industry. These factors include: accessibility, entrepreneurship, communications infrastructure, local transportation infrastructure, other inputs provided by public services institutions, and the principal factors of production.

“Destination management” focuses on activities which implement the policy and planning framework in order to enhance the appeal of the core resources and attractors, strengthen the quality and effectiveness of the supporting factors and resources, and best adapt to the constraints imposed by qualifying and amplifying determinants. Destination management includes: destination promotion, service levels, information systems, organization of destination management activities and resource stewardship.

The component “destination policy, planning and development” includes: system definition, philosophy, vision, positioning, development, competitive analysis, monitoring and evaluation and audit. This integrative system should function in concert in order to achieve competitiveness and sustainability goals.

The “qualifying and amplifying determinants” include factors that can modify the influence of other factors of destination. Hence, these factors can limit a destination’s capability to attract potential tourists because they are beyond the control of the tourism sector. These factors include: location, interdependencies within and between destinations, safety and costs (in a broad sense including costs for inter-destination travel, local living costs and exchange rate effects).

According to Ritchie and Crouch, destination competitiveness is a very broad concept that includes in itself 6 dimensions: economic, political, social, cultural, technological and environmental.

However, all authors agreed “...it is clear that while there is not yet a widely accepted causal model of destination competitiveness, there is agreement that the construct comprises economic, social, cultural and environmental dimensions. A competitive destination is one that features profitable tourism businesses, an effective market position, an attractive environment, satisfactory visitor experiences, and supportive local residents.”<sup>§§§</sup>

Therefore, to be competitive, a tourist destination has to offer to the tourists an experience which is superior (i.e. on significantly higher level) compared to other tourist destinations. It can be concluded that the quality of tourist experience (which is reflection of attractiveness and equipment of a tourist destination i.e. of its supply) is a key factor in achieving competitive advantage and for choosing a destination by tourists.

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<sup>§§§</sup> Pike, S. (2008). *Destination marketing: A integrated marketing communication approach*. Butterworth-Heinemann, p.41

### 3. Competitive strategies

Competitiveness assessment of the tourist destination is increasingly becoming an important tool in the strategic positioning and marketing analysis of destinations, because of the fact that competitive advantage increases market share, creates loyal customers, increases attendance in the tourist destination and as result of this increases revenues gained from tourism. These are the reasons why managers are constantly looking for ways to develop competitive advantage.

The competitive advantage is a result of the successful formulation and implementation of strategies for competitiveness. It should be noted that competitiveness or competitive advantage of the tourist destination is not determined once forever and is not correctly specified, but it is a dynamic category that is constantly changing and it can be maintained only by a certain period of time.

“It is useful for the industry and government to understand where a country’s competitive position is weakest and strongest and therefore, know how why competitiveness is changing.”<sup>\*\*\*\*</sup>

The variable nature of competitiveness of the tourism destination, clearly emphasize Ritchie and Crouch: “Those are responsible for destination management are operating according to a constantly evolving set of rules that continually redefine the exact nature of competition. Even through the factors that determine the attractiveness of a destination may remain constant, the changing nature of the competition requires ongoing assessment of the ability of a destination to complete.”<sup>††††</sup>

The reasons for constantly changing the nature of the competitive advantage are based in the changes of the regulatory framework in the country in which is placed the touristic destination, and in the changes happening in the business environment, as well as in the constantly changes of the wishes, preferences and needs of the tourists, members in the targeted group. For adequate response to the changes happening in the environment and to keep the achieved competitive position in relation with the others destinations, or to improve it more, imminent are the changes in the competitiveness strategies who must be in coordination with the newly situation. Also the strategies have to be congruent with the closer and wider business environment to achieve the desired goal, maintaining or increasing the acquired competitive advantage.

Many authors (such as: Chandler, Andrews, Hofer and Schendel) analyze competitive strategies “not as a static phenomenon, but as a sequence of interconnected actions and reactions that unfold over time. The term “dynamic” here refers to the fact that the content of competitive strategies is subject to change over time.”<sup>††††</sup>

According to Michael Porter, competitive strategy is “about being different” from competitors. He defines competitive strategy as “a combination of the ends (goals) for which the firm (destination) is striving and the means (policies) by which it is seeking to get there.”<sup>§§§§</sup> According to him, competitive

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\*\*\*\* Meng, F. (2006). *An Examination of Destination Competitiveness from the Tourists’ Perspective: The Relationship between Quality of Tourism Experience and Perceived Destination Competitiveness*. Virginia:Blacksburg., p.3

†††† Ibid., p.4

†††† Israel, S. (2008). *Dynamic Competitive Strategy: Path Characteristics and Their Performance Implications*. Wiesbaden: Gabler-Verlag, p.14

§§§§ Anonym, (2001). *Dominican Republic – Approaches Toward a Sustainable Tourism Development: A Strategic Concept*. Germany: GRIN Verlag, p.61

strategy depends on a company's (destinations) capabilities, strengths and weaknesses in relation to market characteristics and the corresponding capabilities, strengths and weaknesses of its competitors".

Hence (because of the permanent need to change and to redefine competitive strategies), arise the difficulty of managing tourist destination. A further difficulty for the management of destination competitiveness and selecting an appropriate competitive strategy is the specificity of the tourism product, which by its nature is different from all other products and services offered to the international market. This product is actually "an experience" that receive tourists in the tourist destination and this experience is "produced" not by a single firm, but rather is a result of the activities and mutual stakeholders within that destination (such as tourism enterprises - hotels, restaurants, tour operators, airlines, other supporting industries and organizations, public sector, local residents, etc.). Also, the tourist product is a complex entity composed of many heterogeneous elements (goods, services and environment) and characterized by intangibility, inconsistency, indivisibility of the own source and inability to storage. On the other hand, each tourist experience is unique and it is based on personal views, experiences, values and preferences of the tourists which estimate their entire stay in the tourist destination. Sometimes, the aim of competition is not only increasing market share, creating loyal customers and achieving positive economic effects, but there are other social goals and goals related to the environment. Thus, the management of destination competitiveness needs to be focused on creating and implementing strategies which will enable to achieve these stated goals.

The tourist destinations can use the following strategies for competitiveness: strategy of differentiation, strategy of overall cost leadership, focus strategy or combinations of these above-mentioned strategies.

*The strategy of differentiation* is based on offering products which are different from the products of competitors in certain characteristics or quality. Therefore, these products can be sold at a higher price than the products from competitors and can earn higher profit as a result of the decreased demand's price elasticity.

"Differentiation can be achieved in several ways:

- by creating products that are superior to competitors' by virtue of design, technology, performance etc.;
- by offering a superior level of service ;
- by having access to superior distribution channels ;
- by creating a strong brand name through design, innovation, advertising, frequent flyer programmes and so on;
- by distinctive or superior product promotion."\*\*\*\*\*

*The strategy of overall cost leadership* aims to achieve a competitive advantage by reducing costs below the costs of competitors. Thus, maintaining low cost, a company (destination) can sell its products or services at low prices and realize earnings. Potential benefits of a strategy of overall cost leadership are:

- it can earn higher profits by charging a price equal to the competitors or reducing below that level due to lower costs ;
- it allows to increase sales and market share by reducing price below that charged by competitors;
- it allows entry into new markets by charging a price at lower level than competitors;

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\*\*\*\*\* Tiwari, R. (2009). *Tourism management: managing for change*. New Delhi: Pvt Ltd.,p.168



- this strategy is particularly important for markets where demand is price elastic;
- this strategy creates additional barriers to entry of new competitors in the relative industry.

Using the *focus strategy*, a tourist destination aims to attract a segment of the market on which will canalize its offer. This market segment can be identified by various demographic characteristics such as age, income, lifestyle, geography and so on, or by the expected benefits the members of the target market expect from the travel as well as from the tourism product of the appropriate tourist destination. Within the selected market segment, it can be applied a strategy of differentiation or a strategy of overall cost leadership.

“The major benefits of a focus strategy are:

- it requires a lower investment in resources compared to a strategy aimed at an entire market;
- it allows specialization and greater knowledge of the segment being served;
- it makes entry to a new market less costly and simpler.”<sup>†††††</sup>

It must be noted that all three above mentioned (Porter’s) strategies exist in every tourist market, in every tourist destination, but choosing the correct strategy is a result of the changes that occur in the immediate and wider environment and the attempt of the destination to respond to these changes according to its capabilities and resources.

Analysing the competitiveness of tourism destinations, some authors suggest that “the best competitive strategies for tourism destinations are widely declared as niche strategy or differentiation, coast leadership is due to the limited resources of destinations no suitable strategy.”<sup>†††††</sup>

Some authors consider that the best strategy for tourism competitiveness is “the strategy clock”, which contains eight combinations arising from interaction of three Porter’s generic strategies. This strategy clock is based on the principle that competitive advantage is achieved by providing customers with what they want or need, better or more effectively than competitors. Therefore, these strategies are called generic strategies “market facing”.<sup>§§§§§</sup>

These combinations i.e. strategies are the following: <sup>\*\*\*\*\*</sup>

- *no frills* – which present a combination of low price and low value (i.e. low cost and low product differentiation) relies on cost leadership and is usually segmented specific;
- *low prices* – a combination of low price and standard value relies on cost leadership but tends to generate low profit margins and runs the risk of price wars;
- *hybrid* – a combination of low price and high values that consumers receive, which means it is based on low costs and prices but introduces a high enough margin to be able to maintain and develop the basis for product differentiation;
- *differentiation* – a combination of standard price and high value, which can lead to increased market share and perhaps allow a price premium to be imposed;

<sup>†††††</sup> Tiwari, R. (2009). *Tourism management: managing for change*. New Delhi: Pvt Ltd., p.169

<sup>†††††</sup> Mayerhofer, T. (2010). *Positioning of destinations*. Germany: GRIN Verlag, p.3

<sup>§§§§§</sup> Johnson, G., Scholes, K., & Whittington, R (2008). *Exploring corporate strategy*. (8 th.ed.). England: Pearson Education Limited., p.224

<sup>\*\*\*\*\*</sup> Dwyer, L., Forsyth, P., & Dwyer, W. (2010). *Tourism economics and policy*. Channel View Publications, p.179



- *focused differentiation* – a combination of high price and high value, a strategy which encourages the imposition of a price premium;
- *increased price / standard value* – a combination of high price and standard value which can allow for higher margins but at the risk of losing market share;
- *increased price / low value* – a combination of high price and low value works only in cases of monopoly products;
- *low value / standard price* – a combination of standard price and low value which can lead losing market share.

Each of those eight strategies can be practiced in the tourism destination by different tourism stakeholders both within a sector and across different sectors.

#### **4. Impact of competitive strategies on economic development of touristic destination**

With the proper selection, creation and implementation of the right strategy, the tourist destination can achieve, maintain or enhance a competitive advantage in the international tourist market. Thus, it will attract the attention of potential tourists, will encourage them to visit it and will create loyal visitors i.e. “customers” for tourism product of the appropriate destination. That actions will put away the competitors (i.e. other tourist destinations) that have been focused their offer on the same target market. As a result of the increased touristic trade in that touristic destination, the income from the touristic services will increase, and because of the multiplier function of the tourism, the revenues will create economic benefits for the others sectors, directly or indirectly related with the touristic sector. The sale and the production of the additional goods and services in the touristic destination will be increased as well. That kind of actions will initiate raised level of employment in almost every sector, and also improved wellbeing and quality of life for the domicile population. As a resume, all that will contribute for greater and faster economic development of the touristic destination.

#### **5. Conclusion**

As a result of increasing competition that exists in the international tourist market between the existing tourist destinations and the emergence of new tourist destinations, achievement and particularly maintaining, protecting and strengthening the competitive advantage is a challenge and primary goal of each tourist destination.

Therefore, to be competitive, a tourist destination has to offer to tourists an experience which is superior (i.e. on significantly higher level) compared to other tourist destinations. Only in this way, the tourist destination will be chosen by potential tourists as a place to visit. In order to attract attention of potential tourists and to be chosen by them (and thus to supplant the other tourist destinations which are its competitors), the right choice, development and implementation of a successful strategy for competitiveness is particular important. As a result of its successful implementation and achievement its primary goal (increased attendance by tourists), the tourist destination will earn significant income from tourism, whose positive effects will be felt in all other branches which are directly or indirectly related to tourism and thus will lead to faster and greater economic development in the tourist destination and a higher quality of life for its inhabitants.

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