

## BUSINESS STRATEGIES IN TOURISM

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### **Abstract**

*The tourism sector is gaining increased importance for the economic development of countries around the world. The purpose of this paper is to give a theoretical overview of the classical and contemporary business strategies that can be implemented in a more or less modified form by tourism companies in different countries.*

**Key words:** *Business strategies, tourism, tourism marketing strategies*

**JEL Classification:** *L83, L1, M31*

### **I. INTRODUCTION**

Tourism represents one of the most important factors influencing economic growth and development of contemporary societies. Tourism is primary or secondary activity for a large portion of the population living in for tourism attractive regions around the world, but also a large number of people living in other locations around the world. Tourism is perceived as a very important mean of economic development both in developing and developed countries worldwide. In common thought tourism is usually perceived as an activity of leisure of fun, but the facts speak of billions of dollars in tourism business around the world. Having this in mind, without doubt tourism should and is seriously analyzed both by scientists, researchers, policy makers, national and local governments etc.

Although, geographical position and natural resources play an important role in the development of tourism, numerous examples around the world prove that this is not enough. Obviously the ability to use the gifts of nature in order to attract tourists. Building proper touristic capacities and using proper business strategies in order to gain competitive advantage, the competitive edge in the harsh and competitive world of tourism is of crucial importance for all businesses that are engaged in tourism. The situation gets even more complicated having in mind that the success of touristic companies, besides all other factors is in many cases influenced by the overall hospitality of the population with a given region. The number of tourists returning to a given region is deeply determined by the level of their satisfaction during the first visit to the region. Besides this word of mouth can be very influential on the decision to visit a certain touristic location.

### **II. DEFINING TOURISM**

When we think of tourism, we think primarily of people who are visiting a particular place for sightseeing, visiting friends and relatives, taking a vacation, and having a good time. They may spend their leisure time engaging in various sports, sunbathing, talking, singing, taking rides, touring, reading, or simply enjoying the environment. If we consider the subject further, we may include in our definition of tourism people who are participating in a convention, a business conference, or some other kind of business or professional activity, as well as those who are taking a study tour under an expert guide or doing some kind of scientific research or study (Goeldner and Ritchie, 2009, p.4).

We can go on to say that, self-evidently, the tourist is one who engages in tourism. Tourism, as one element of leisure, involves the movement of a person or persons away from their normal place of residence: a process that usually incurs some expenditure, although this is not *necessarily* the case. Someone cycling or hiking in the countryside on a camping weekend in which they carry their own food may make no economic contribution to the area in which they travel, but can nonetheless be counted as a tourist. Many other examples could be cited in which expenditure by the tourist is minimal. We can say, then, that tourism is one aspect of leisure that usually, but not invariably, incurs some expenditure of income and that, further, money spent has been earned within the area of normal residency, rather than at the destination (Holloway, 2009, p.6).

For most people *tourism* has a connotation of leisure travel and tends to be synonymous with holidays (vacations). This is also reflected in dictionaries, which commonly refer to tourism as travel for pleasure. By contrast, tourist boards and others concerned with the development, marketing and coordination of tourism in their countries tend to take a broader view; for them tourism means travel for most purposes, with such exceptions as travel to work, to migrate and as part of local and neighborhood activities. Between these ends of the spectrum lies business usage, the language of those who earn their living from serving the tourists; most of them see tourism in terms of the products they sell and the markets they serve (Medlik, 2003, VII).

Different definitions on tourism can be found in literature as can be noticed from table 1.

**Table 1 Defining tourism**

<b>Author</b>	<b>Definition</b>
Weaver	Tourism is the sum of the phenomena and relationships arising from the interaction among tourists, business suppliers, host governments, host communities, origin governments, universities, community colleges and non-governmental organizations, in the process of attracting, transporting, hosting and managing these tourists and other visitors
Veblen	Tourism, then, is a form of leisure which demarcates the classes from one other and separates the enriched life from the ordinary person. Certainly, if Veblen were still alive, he would argue that exotic travel functions as a conspicuous display of wealth, and constitutes a class-identifying activity.
Hunziker, Craft	The sum of the phenomena and relationships arising from the travel and stay of non-residents, insofar as they do not lead to permanent residence and are not connected with any earning activity

Having in mind the above mentioned approaches, the logical conclusion would be that tourism is an activity composed of those that offer touristic services and those that demand touristic services and have the willingness and the capability to pay for them. If seen from this point of view, tourism is in fact a business activity as any other that requires the existence of supply and demand at the same time and place, although products and services in tourism are specific due to the differences in culture, specific need and wants and the many factors that influence the decision and possibilities to travel abroad.

### III. THE CONCEPT OF BUSINESS STRATEGY

Critics of formal planning systems argue that we live in a world in which uncertainty, complexity, and ambiguity dominate, and in which small chance events can have a large and unpredictable impact on outcomes. In such circumstances, they claim, even the most carefully thought-out strategic plans are prone to being rendered useless by rapid and unforeseen change. In an unpredictable world, there is a premium on being able to respond quickly to changing circumstances and to alter the strategies of the organization accordingly (Hill, Jones, 2010, p.21).

At their simplest, strategies help to explain the things that managers and organizations do. These actions or activities are designed and carried out in order to fulfill certain designated purposes, some of them short term in nature, others longer term. The organization has a direction and broad purpose, which should always be clear, articulated and understood, and which sometimes will be summarized in the form of a mission statement. (Thompson, Martin, 2010, p.6).

Strategies are the means or the “game plan” by which enterprise mission is put into practice, and objectives achieved. Authors have different approaches towards defining business strategies as can be seen from table 2.

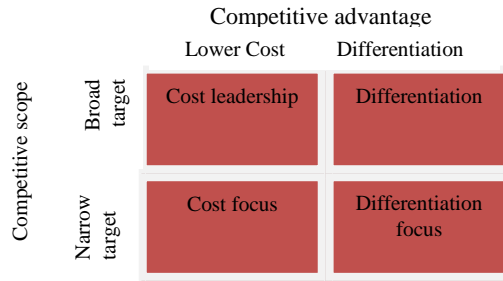
**Table 2 Defining strategy**

<b>Author</b>	<b>Definition</b>
Ansoff	The common thread among the organizations, activities and product markets, that defines the essential nature of business that the organization was or planned to be in future.
Andrews	The pattern of objectives, purpose, goals and the major policies and plans for achieving these goals stated in such a way so as to define what business the company is in or is to be and the kind of company it is or is to be.
David	Strategies are the means by which long-term objectives will be achieved.
Johnson, Scholes and Whittington	Strategy is the direction and scope of an organization over the long term, which achieves advantage in a changing environment through its configuration of resources and competences with the aim of fulfilling stakeholder expectations.

**IV. CLASSIFICATION OF BUSINESS STRATEGIES**

When talking about types of strategies, it is almost impossible not mentioning Porter’s and Ansoff’s approach.

Michael Porter (1985) determines three major types of generic business strategies: cost leadership, differentiation and focus. The focus strategy on the other hand can be differentiation focus and cost focus. The generic strategies as they are presented by Porter are shown in figure 1.



**Figure 1: Porter’s generic strategies**

The main idea behind the cost leadership strategy is the ability of companies to produce with lower costs compared to their competitors. The basis on which companies can manage to produce with lower costs can vary depending on the industry and the capabilities of the company itself. From this point of view the usage of economies of scale, access to raw material at a lower cost, technology are some of the factors that can enable the company to implement the cost focus strategy.

According to the differentiation strategy, the company tries to differentiate itself from its competitors. The many basis of differentiation include but are not limited to the characteristics of the product itself, the capacities of the company to market the product, the capacities of the company to distribute the product to its customers.

The main idea behind the focus strategy is the company narrowing its competitive scope. In other words the company should determine specific market niches in which it is going to compete and be better than other companies within that market niche. From this point of view cost focus and differentiation focus would be the two main approaches for the company.

Each generic strategy is fundamentally different approach to creating and sustaining a competitive advantage, combining the type of competitive advantage a firm seeks and the scope of its strategic target. Usually a firm must make a choice among them, or it will become stuck in the middle. The benefits of optimizing a firm’s strategy for a particular target segment (focus) cannot be gained if a firm is simultaneously serving a broad range of segments (cost leadership or differentiation). Sometimes a firm may be able to create two largely separate business units with the same corporate entity, each with a different generic strategy (Porter, 1985, p. 17).

Evans, Campbell and Stonehouse (2003), determine possibilities for the implementation of Porter’s generic strategies in travel and tourism, table 3.

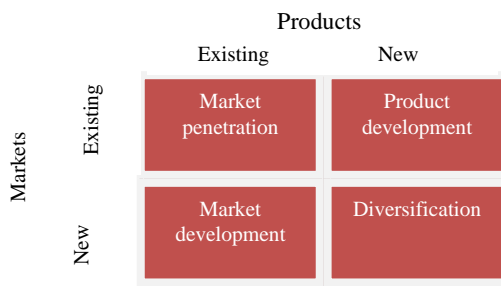
**Table 3 Implementing Porter’s generic strategies in travel and tourism** (Evans, Campbell and Stonehouse, 2003, pp. 210-218).

Strategy	Implementation
Cost leadership	<ul style="list-style-type: none"> <li>- Reducing costs by copying rather than originating product design features. For example, a tour operator might copy the design and functions of an existing web site developed by a competitor.</li> <li>- Using less expensive resource inputs. For example, easy Jet, the ‘no frills’ airline, lowers costs by substituting operational resources in the form of computer technology for more expensive labour inputs by using the Internet as its primary source of bookings.</li> <li>- Producing products with ‘no frills’, thus reducing labour costs and increasing labour productivity. For example the low cost so-called no frills airlines such as Southwest Airlines in the United States and Ryanair, EasyJet, Go and Buzz in the UK have removed additional product features thus leading to reduced staffing and other costs.</li> <li>- Achieving economies of scale by high volume sales perhaps based on advertising and promotion, allowing high fixed costs of investment in modern technology to be spread over a high volume of output. For example, LastMinute.com promoted their late booking</li> </ul>

	<p>website heavily in the early stages, allowing it to raise investment capital and achieve market leadership in its area of operations which has allowed the company to invest heavily on developing its Internet technology.</p> <ul style="list-style-type: none"> <li>- Using high volume purchasing to obtain discounts for bulk buying of resource inputs such as accommodation or transportation requirements. For example TUI has grown to a pre-eminent position in European tour operations allowing it to demand lower prices for resource inputs than might be available to smaller competitors.</li> <li>- Locating activities in areas where costs are low or government help, such as grant support, is available. For example, British Airways has located call centers at peripheral locations in the UK such as Newcastle and Glasgow where abundant fairly cheap labour is available and where government aid in the form of tax savings is available for incoming investors.</li> <li>- Obtaining ‘experience curve’ economies. For example, the operator of an established theme park may be able to operate the park with lower costs than a new entrant since they might have experience of staff scheduling, minimizing power costs, purchasing new rides, waste disposal, etc.</li> <li>- Standardizing products or resource inputs. For example, Holiday Inn is able to franchise its concept internationally to franchisers because it is fairly standardized throughout the world. Southwest Airlines is able to achieve economies in maintenance, purchasing and crew training because it operates only one aircraft type (albeit in various versions), the Boeing 737.</li> </ul>
Differentiation	<ul style="list-style-type: none"> <li>- By creating products that are superior to competitors’ by virtue of design, technology, performance etc. For example, only two airlines, Air France and British Airways, are able to offer flights which cross the Atlantic in under four hours since they are the only airlines featuring Concorde supersonic aircraft in their fleets.</li> <li>- By offering a superior level of service. For example, an upscale hotel chain such as Mandarin–Oriental (which operates largely in Southeast Asia) differentiates by offering a very high level of service, which is achieved by having a high ratio of staff to guests.</li> <li>- By having access to superior distribution channels. For example, a multiple chain of travel agents which has been established for some time may have been able to develop a network of branches in prime retail locations (especially important in the retail sector) which it would take a newcomer some time and expense to accumulate.</li> <li>-By creating a strong brand name through design, innovation, advertising, frequent flyer programmes and so on. For example, the development by American Airlines of the world’s largest frequent flyer programme (American Advantage) creates a loyalty for its brand among passengers.</li> <li>- By distinctive or superior product promotion. For example, the ‘I Love New York’, ‘Glasgow’s Miles Better’ and British Airways’ ‘The World’s Favourite Airline’ were successful examples of promotion which highlighted the distinctive features of the respective products or destinations concerned.</li> </ul>
Focus	<ul style="list-style-type: none"> <li>- Focusing on a particular group of buyers. Contiki, for example, markets its coach-based holidays to customers in many parts of the world. The company founded by a New Zealander as a safe and secure means for Australians and New Zealanders to see Europe now offers tours (which combine activities and sightseeing) in North America, Australia, New Zealand and Europe targeted at the 18–35 age group.</li> <li>- Specializing in particular geographic destinations. For example Sunvil Holidays, a small specialist UK-based tour operator, was founded, and is still owned by, an entrepreneur from a Greek Cypriot background. Although it has now diversified into other areas, the company is able to compete with larger rivals in the market for holidays to Cyprus by utilizing in-depth knowledge of the destination and a network of contacts.</li> <li>- Catering for the benefits sought by a particular group of buyers. For example, PGL Adventure Holidays in the UK provide holidays for children offering a large range of organized activities at an all-inclusive price.</li> <li>- Resort destinations targeting particular market segments. La Manga in Spain has, for example, successfully targeted sports enthusiasts particularly golfers.</li> </ul>

Ansoff on the other hand introduces the Ansoff matrix according to which four main types of strategies can be implemented by business organizations in order to gain growth opportunities: market penetration, product

development, market development and diversification. The Ansoff product-market growth matrix is presented in figure 2.



**Figure 2: Ansoff’s product/market growth matrix** (Johnson, Scholes, Whittington, 2008, p.258)

The market penetration strategy requires the company to try to gain an increased share in existing markets with existing products. According to the product development strategy, the company tries to gain increased share in existing markets, but by offering new, improved products.

The market development strategy implies that the company will increase its market share by offering its existing products to new market. On the other hand according to the diversification strategy the company should offer new products to new markets.

As it seems the most complex and probably most difficult strategy to implement according to the Ansoff matrix is the diversification strategy. In fact a difference between concentric and conglomerate diversification should be made.

According to the concentric differentiation approach the company differentiates through activities in related markets while according to the conglomerate differentiation approach the company differentiates through activities in non related markets.

Vertical integration and horizontal integration are the two most common growth strategies.

According to the vertical integration strategy the organization seeks to control its inputs or the distribution of its outputs. From this point of view vertical integration backward and forward vertical integration can exist.

There are limits to vertical integration. For example, an outside supplier may produce the product at a lower cost. As a result, internal transactions from vertical integration may be expensive and reduce profitability relative to competitors. Also, bureaucratic costs may occur with vertical integration. And, because vertical integration can require substantial investments in specific technologies, it may reduce the firm’s flexibility, especially when technology changes quickly. Finally, changes in demand create capacity balance and coordination problems. If one business is building a part for another internal business, but achieving economies of scale requires the first division to manufacture quantities that are beyond the capacity of the internal buyer to absorb, it would be necessary to sell the parts outside the firm as well as to the internal business. Thus, although vertical integration can create value, especially through market power over competitors, it is not without risks and costs (Hitt, Ireland, Hoskisson, 2007, p.179).

Horizontal integration is the process of acquiring or merging with industry competitors in an effort to achieve the competitive advantages that come with large size or scale. Managers who pursue horizontal integration have decided that the best way to increase their company’s profitability is to invest its capital to purchase the resources and assets of competitors. Profitability increases when horizontal integration lowers operating costs, increases product differentiation, reduces rivalry within an industry, and/or increases a company’s bargaining power over suppliers and buyers (Hill, Jones, 2009, p. 164).

**V. TOURISM MARKETING STRATEGIES**

Integrated in the marketing strategy of the travel agency, *the product strategy* establishes a series of objectives specific to this area as: the superior valuation of the of the tourist potential, attracting a larger number of local and foreign tourists, preventing season effects, consolidation of the position held on certain intern and extern markets, launching new tourist products, obtaining an increased competitiveness of the tourist product through an optimum balance between quality and price.

*Tourism product renewal strategy* can consist of:

- **The increase of the activity of some travel arrangement for the present travel consumers without operating deep changes (for instance, offering supplementary services, installing pools or fitness centers within the accommodation unit);**
- Making some important modifications in the product structure though without its nature (for instance, the increase of the classification of a hotel product).

One notices the fact that in tourism the structure of a product can be changed much easier than in other domains. The modular character of the tourist product allows some modifications of the transport, accommodation, public supply or divertissement services offered to the consumer or of the tourist tour configuration.

*The diversification strategy* implies the simultaneous development of new or improved tourist products and of the new markets (for instance, a tour operator specialized in the soft tourism can vary his mix of products offering also tourist tours with cultural character or treatment vacations in balnear resorts). This type of strategy allows the realization of a *medium and long term flexibility* of the derived tourist offer.

*The strategies of the low season travel product* are specific to the hotel industry. Therefore, marketers will have to counterbalance the decrease of the activity of the travel destinations in low seasons by diversifying the services and products on the market. In this respect, we notice the making of some tourist arrangements (of the type “trip + trip” or “trip + tour”) in which there are combined attractivity elements with different degrees of seasonality (seaside, mountain, delta, monasteries, balnear resorts).

The accessibility degree of a tourist product in low season can be increased by including in the proposed arrangement a minimum set of exercises (for instance, in case of a trip, the tourist can choose for accommodation with half board or only for accommodation) and by establishing a minimum period for the trip (tourists having the possibility to prolongue it according to their incomes and their satisfaction degree for that particular tourist destination).

The attractiveness of the low season tourist product can be increased by offering some varied divertissement options at the destination place, (for instance, hunting or fishing programs, riding, different trips, folk programs, hiking, etc.).

According to the price level and accessibility the following *price strategies* can be seen: high price strategy (practiced in case of exclusivity of the offer or in case of limitation of the competition’s offer), contractual price strategy (contractual, inclusive, “all inclusive”), differentiated rates strategy (characteristic to the tourism industry), discount and bonus strategy (adopted by tourism companies who adjust basic prices of products in order to stimulate a certain type of clients, that is: clients who ask for a high volume of services, clients who accept vacations during low seasons).

*The distribution strategies* adopted by tourism operators take into consideration: the sale of a tourist service by going to more agents, to the same consumers’ segment, the sale of the same product through different channels of distribution to various segments of public consumers, the sale of more products through different distribution channels to one or more consumers’ segments on the market. As one can easily notice, in this attempt to classify the component objects of strategies, the quantitative criterion is very important, the three aimed elements – tourist service, distribution channels, consumer segments – being involved (combined) in different numerical proportions.

From the number of agents perspective (together with their location) we can see three strategic options of tourism distribution:

Exclusive distribution is the restriction of a small number of agents (even only one) who exercises – on a certain market or geographical area – the exclusivity of distributing products or tourist services, as a given and assumed privilege through contractual conditions that govern the relation provider – distributor.

Selective distribution implies choosing and using a number of limited agents whose distribution activity is appreciated as being more efficient than the competition’s, having the possibility to ensure a higher volume of sales for the tourist products. Adopting this strategy allows the tourist unit to perform a more efficient control over certain market segments, in the conditions in which they have less expenses.

If the distributors show different trade qualities from one case to another, the tour operator can for instance renounce to those less efficient in order to concentrate its attention upon the more dynamic sales offices, to whom it can offer increased commissions, according to the reached objectives.

Intensive distribution implies the use of a big number of channels and agents through which the services reach the final consumers. When a tour operator is not sufficiently known on the tourist market it will seek to sell its offer through a very big number of distributors to increase the number of sold products and to make a name.

In case of important market segments characterized through a big number of possible tourists it is recommended to use extended distribution systems, with lots of agents. More, in case on a certain market there are conflicts between competing tourist companies who apply an intensive distribution strategy, having a great number of distribution units, it is less possible that a tourist company enter in competition by selecting a limited number of agents.

On the tourist market there is a tendency of vertical integration of accommodation, transport, trip planning and distribution activities, therefore have appeared many companies that are able to ensure all of these services under the form of a package. In this way, touristic operators as Club Méditerranée, Nouvelles Frontières, TUI represent examples of successful integration of the distribution network. The main objectives that they had in mind were the improvement of the control over the tourist product, to beneficiate of smaller distribution prices, and use immediately the amount cashed from clients even before they began their trip.

On the international tourism market we can identify also the manifestation of a tendency of horizontal concentration (integration). This tendency is manifested both at the level of the service providers and at the level of distributors. We find the horizontal integration strategy adopted in hotels (voluntary and integrated hotel chains), rent a car companies (Hertz, Avis), tour operators, who have founded very powerful groups almost in every country (for instance TUI and NUR in Germany), travel agencies.

Varied development of the distribution network and of services under a unique trademark implies a strategy used by Club Méditerranée (for the accommodation and leisure services), by McDonald's (for fast food restaurants) and by American Express (for travels). Tourist operators who adopted this complex strategy seek to benefit at the same time of the name of the trademark, the effect of the network and the opportunities of each location on the market.

Almost no activity in the world needs such an active, clever, and aggressive *promotion* as the tourism. The promotional activities in tourism need important investments due to the large geographic areas of the tourist markets, of the manifestation of a bitter international competition and the intangible character of the tourist product.

In order that the messages, the whole communication destined to the promotion of a tourist product, to be more efficient, must have at its base the research of the needs and motivations of the potential tourists.

The advertising in tourism stands under the imperative sign of highlighting certain tangible elements, to help the tourists understand and evaluate the provided services. Hereby, it should be taken into consideration the physical characteristics of the provided service or some relevant objects that symbolize the service itself. For example, in the case of restaurants, the advertising can mark out qualities in general, searched of the physical facilities offered (clean, elegant, rustic), in order to offer some clues regarding the qualitative level or the nature of the provided services in that tourist unit. Similarly, the elegance, comfort and the possibilities of pleasure provided by a cruise in the Mediterranean Sea can be associated with tangible elements, visible, (that reduce the abstract nature of the tourist services), as: ship, entertainment spaces arranged to offer the tourists a pleasant ambiance, etc.

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