A review on value creation in tourism industry

Abolfazl Tajzadeh-Namin*

Faculty of Management and Accounting, Allameh Tabataba'i University, Tehran, Iran

ABSTRACT

Tourism is one of the fastest growing sectors in the world and a major driver of growth for developed countries. To maximize the tourism sector's economic benefits, tourism development, planning and strategies not only have to focus on increasing demand and supply, but also they must concentrate on raising the level of value retention and on value-creation and value co-creation within the sectors. Serious policy in one of these sectors may threat the whole tourism value chain. This makes analysis of the sector complex but crucial as it could be the catalyst for wide spread reforms. To offer a better tourism product, one should understand the sources of critical factors (ie: environmental, industry and organizational factors) for competing either domestically or internationally. Comparative and competitive advantages, information and communication systems and E-tourism, knowledge of value and value chain (identifying and analyzing the specific activities through which it can create value for its customers) all are the prequisite for value creation and value co-creation (the source of value lies in the personalized experiences that are unique to each individual customer). To achieve these, special attention must be devoted to strategic management, planning and society, in order to satisfy all stakeholders' expectation. Based on the above paradigm a model for value creation in tourism is proposed in this paper. It is hoped that this study could drive destinations to create and co-create the values that makes a unique and memorable experience for each tourist.

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1. Introduction

During the past few years, there have been various studies, which suggest that tourism can be considered as the main vehicle for advancing economy (Vanhove, 2011). Therefore, we need to have a crystal clear definition for tourism industry. Medlic and Middleton (1973:201) define tourism products as a bundle of activities, services and benefits, which constitute the entire tourism experience. This bundle consists of five components including destination attractions, destination facilities, accessibility, imagine and price. Buhalis (2000:98) summarizes the core components of a destination as follows:

- Attraction: natural, manmade, artificial, purpose built, heritage, special events,
- Accessibility: entire transportation system comprising routes, terminals and vehicles,
• Amenities: accommodation and catering facilities, retailing, other tourist services,
• Available packages: prearranged packaged by intermediaries and principals,
• Activities: all activities available at the destination, what consumers can do during their visit,
• Ancillary services: services used by tourists such as banks, telecommunication, post, newsagent, hospitals, etc.

1.1 Source of critical factors

Analyzing of the literature (Rockart, 1979:87; Leidecher & Bruno, 1984:26; Lynch, 2000:253) indicates that, while the views provided by authors of the sources of critical success factors differ, there appears to be some agreement on the following three sources, namely:

• Environmental factors: following out of social, political, economic, technological, ecological and legal environment,
• Industry factors: such as competition, geographic, location, characteristics, markets.

Various authors (e.g. Johson & Scholes, 2002:172; Hitt et al., 2003:69) agree that the best way to identify industry success factor is to do an industry analysis. Methods are promoted by these authors are Porter's five forces; a market analysis and competitor analysis. Hitt et al. (2003:69) argues strongly that because of globalization, international markets and rivalries must be included in the analysis.

• Organization factors:

Each organization in the industry is in a unique situation determined by its history and current resources, competences and competitive strategy (Johson & Scholes, 2002, 103).

In this paper, we present a comprehensive literature review on different aspects of value creation in tourism industry. The paper studies comparative and competitive advantages of tourism in section 2. Section 3 is devoted to national perspectives of tourism advantages. The information and communication technology is explained in section 4 and knowledge and value are explained in section 5. The value chain and its concepts are discussed in section 6 and 7 and a conceptual model is given in section 8. Finally, concluding remarks are given in section 9 to summarize the contribution of the paper.

2. Comparative and competitive advantages

For a tourism destination, comparative advantage would relate to inherited or endowed sources such as climate, scenery, flora and fauna while competitive advantage would relate to a destination's ability to use these resources over the long term such as quality of management skills of workers, service levels and government policy (Crouch & Ritchie, 1999:142).

A destination's environment constitutes the most salient elements, which defines its immediate arena of competition. Apart from the destination self include members of the travel trade, i.e. tour suppliers, travel agents, tourism markets, competitive destinations and destination stakeholders. Components of the tourism system shape the immediate environment within where a destination must adapt in order to compete. The global environment recognizes that a range of major global forces constantly influences the field for tourism. These forces present a given destination with a number of special concerns, problems or issues that it must either adapt or overcome if it is to remain competitive. At the same time, these forces provide destinations with a whole new spectrum of opportunities for innovation and market exploitation (Crouch & Ritchie, 1999:146).

Qualifying determinations are factors that will determine or influence the success or competitiveness of a destination on an international level. These factors will therefore define, limit or govern the destination's competitive potential and location, which refers to destination's ability to attract visitors.
It also includes interdependencies, which refers to the competitive complementary nature of destination, safety/security, which is internationally considered a critical success factor for tourism destination to be competitive, awareness/imagine/brand and cost/value (Crouch & Ritchie, 1999:150). Creating a safe and secure environment was also identified as one of the main issues of concern for the future success of destination. Safety was also identified as one of four important critical success factors (Crouch & Ritchie, 1999:149). Destination prosperity is a function of the competitiveness of different sectors in the destination, which includes the tourism sector. Tourism competitiveness is made up of a number of determinants, which must be identified and evaluated.

The determinants of the competitiveness are:

- Destination appeal both the destination's attractiveness and the destination's deterrents,
- Destination management includes marketing efforts and managerial efforts,
- Destination organizes the capabilities of destination management and the impact of strategic alliances,
- Destination information internal management information systems and research capabilities,
- Destination efficiency productivity and integrity of experience (Ritchie & Crouch, 1993).

Destination management focuses on those management processes, which could enhance the appeal and attractiveness of supporting factors and resources (i.e. infrastructure, accessibility, facilities resources, hospitality and enterprise) and best adapt to the constraints imposed by the qualifying determinants. They include resources, stewardship, marketing, finance and venture capital, organization, human resources development, information research, quality of service and visitor management, core resources & attraction i.e. physiography and climate, culture & histories, market ties, mix of and destination stakeholders.

3. Determinants of national competitive advantage

One of the best models in this respect is Porter's Diamond (Porter, 1990:77), which includes the following components:

- Factor endowments or condition: a nation's position in factor of production such as skilled labor or the infrastructure necessary to compete in a given industry.
- Demand condition: the nature of home demand for the industry's product or service.
- Related and supported industries: the presence or absence in a nation of supplier industries and related industries those are nationally competitive.
- Strategy structure and rivalry: structure and rivalry the conditions in the nation governing how companies are created, organized and managed the nature of domestic rivalry.

Fabricus (2001:30) applied Porter's Diamond to a tourism destination by indicating the same examples for each component as follows:

- Factor condition: natural & cultural resources and attraction; manmade attraction and activities, human resources, intangible resources such as brand identify & perception, safety & health perception, service levels, destination culture & acceptance of visitors, distance from market, etc.
- Demand conditions: growth trend and patterns; price sensitivity; market preference & trend's market segment expansion; economic growth conditions in Geographical target markets; sales and reservation channels, etc.
- Related and supported industries: hospitality services; travel services; infrastructure provider; public transportation services; security services; cleaning; aesthetics, etc.
- Industry structure, strategy & rivalry: institutional “thickness”; price competitiveness; diversity of facilities and services; quality and standards; competitive maturity; technological astuteness, etc.
Fabricius (2001:3031) argues that various important qualities of the tourism industry need to be considered when applying Porter's Diamond to tourism destinations, which are as follows,

- The primary tourism product is an experience rather than a tangible product or services. Tourists travel to destination to enjoy experience and tourism is therefore highly driven by the discretion, tastes and attitudes of the consumers.
- The product cannot be delivered to a market, rather the market is confronted with a “virtual” proposal often in the form of pictures, descriptions and perceptions based on media exposure and personal interactions.
- The tourism experience is not delivered to the consumers as finished product. The consumer purchases various components of the experiences, which are delivered at the destination as the experience unfolds. Considering the factor conditions, Porter (1990:80) argues that advanced factors such as skill labor, research facilities and technological aspects are the most significant for competitive advantage.

Unlike basic factors such as natural resources, climate, location, demographic, etc. are products for investment by individual, companies and governments. Thus, government investment in basic and higher education by improving the general skills and knowledge of the population and by stimulating advanced research at higher education institutions, can upgrade a nation's advanced factors.

Crouch and Ritchie (1990:140) and Fabricius (2001:29) argue that factor conditions, both basic and advanced ones, are important sources of competitiveness for tourist destination. Fabricius (2001:30) emphasizes that the comparative advantages of a tourism destination are mainly located in its factor conditions. Crouch and Ritchie (1999:140) support this argument and point out that the wise stewardship of resources is critical to the long-term competitiveness of a tourism destination. Fabricius (2001:76) highlights the variable of value chain of the destination which leads to visitor yield as follows:

- Primary activities: destination and product packaging, promotion, distribution and sales,
- Support activities: destination planning & infrastructure, human resources development, product development, technology and systems, related industries and procurement.

### 4. Information and communication systems and tourism

The information revolution is drastically reshaping global society and pushing the world toward information based economy. Daniel (1961:111) first mentioned the concept of critical success factors. Daniels main thrust was the need for the elimination of issues not directly related to the success of the firm in the planning process of management information systems. Information technology is increasingly used strategically to enhance profitability and competitiveness for tourism organizations and to facilitate the planning, managing and marketing of destination. The internet influences every part of tourism network and it enables each player including new ones to get in contact with other player in the value chain, in particular with the consumer. The internet provides opportunities for expansion, strengthening position and developing partnerships (Buhals, 2005). Zhang and Jensen (2007) explained international tourism flows based on supply-side factors associated with its production in destination countries. Unlike demand-oriented analysis, the study recommends that there are parallels between tourism and international trade flows, which are typically explained from the supply-side variables, the comparative advantage of the exporting countries.

Tourism is very information intensive activity. Communication and information transmission tools are therefore indispensable for the global marketing of the tourism industry (Sheldon, 1997). The travel and tourism area is one of those industries that are able to gain enormous synergy effects from use of internet. Poon (1993), for example, describes four profound implications for travel and tourism industry affected by the information and communication technologies (ICT):
• ICT changes the rule in the industry,
• ICT is substantially altering the role of each player in the value creation process of industry,
• ICT facilitates the production of new, flexible, and high quality travel and tourism services. Those are cost competitive with mass, standardized, and rigidly packaged options,
• ICT helps to engineer the transformation of travel and tourism from its mass, standardized, and rigidly package nature into a more flexible, individual oriented industry.

The tourism industry is one of the most vital industries connecting directly its services throughout a website and consumers. In a strongest competitive environment, cities have to develop new tools to seduce tourists and thud to guarantee their long-term viability. As information and consumers increasingly drive the industry, firms can diagonally integrate to control the more attractive areas of value chain (Poon, 1993:216). Diagonal integration is generated by new information technologies. E--tourism is the dynamic interaction of ICT & tourism. ICT can be applied for tourism in many ways such as destination management systems (DMS) and destination integrated computerized information reservation management systems (DICIRMSs).

Some of the service and features for DMS advanced systems are as follows information search by category, geography and keyword, etc. It can also provide necessary planning for consumers and reservation, customer/contract database management, market research and analysis, weather forecasting, etc. E-tourism reflects the digitalization of all processes and value chains in the tourism, travel, hospitality and catteries industries. At the tactical level, it includes ICTs for maximizing the effectiveness of the tourism organization. At the strategic level, e-tourism revolutions all business processes, at the entire value chain as well as the strategic relationships of tourism organizations with all their stakeholders. E-tourism determines the competitiveness of the organization and takes advantage of intranets for reorganizing internal processes, extranets for developing transactions with trusted partners and the use of internet for interacting with all its stakeholders.

The e-tourism sectors are e-consumers, e-airlines, e-transportation, e-travel agencies, e-tour operator, e-hospitality, e-attraction, e-destination, e-car rentals, etc. In addition, E-tourism includes all business function such as e-commerce activities as well as e-strategy, e-panning, e-management and etc. However, there are also barriers to successful development of DMSs as follows (Buhallis 2003):

- Lack of strategic orientation,
- Inability to strengthen competitiveness of local industry,
- Technology leading rather than following marketing strategies,
- Inability to provide total services for tourism demand and supply,
- Limited geographical basis, which makes the systems non-feasible,
- Premature innovation in a traditionally reserved industry,
- Lack of standardization and compatibility,
- Lack of public sector finding,
- Product rather than demand orientation.

5. Knowledge and value

Knowledge is the most critical sources of competitive advantages. Every destination depends increasingly on knowledgebase. People have a tendency to interpret value in terms of money, and consider it as a tradeoff between benefits and sacrifices returns and expenses (Walter et al., 2001). It may be a result of an interaction between a customer and a product or service (Payen & Holt, 2001).

Some people, however, use a more extensive value definition, which concerns also the non-monetary side e.g., competence, market position and social rewards (Biong et.al. 1997). As Trischler (1996) in Amanor Boadu (2003:6) states “value is the perceived balance between what people receive and what
they must give up to get them”. Intellectual capacity can be defined as the sum of everything everybody in your company knows that to give you a competitive edge in your market place, such as know-how, patent, brand, culture, customer relationship with customer or suppliers/stakeholders, processes, management skills, experience, procedure, networks or data bases, tacit rules, organizational culture and customer satisfaction, stakeholders value and etc.

The first step is to identify key intangibles. The obvious starting point here is the organization's strategy; we identify the most important intangible required to achieve our strategic objective. Others go even further and advocate that we can start with identifying our intangibles and then building the strategy around the key intangibles. Either way, we need to identify the resources, which drive our value creation.

The second step is to visualize the value-creation pathways. A visual representation of how these intangibles help our destination achieve its overall strategic objectives. In a mapping process, we produce a framework on how our organization considers itself and maps out the assumed casual relationship. These maps offer a great opportunity to visualize how intangible interrelate and link into the overall strategies. It is often this unique interaction among intangibles, which gives firms a competitive advantage, which that is hard to copy. The value-creation map can be used to identify the measures that will help us understand whether the organizations are successful in implementing the strategy.

As McGarry (1998:50) states “if defining value is a difficult exercise, then creating in can be more challenging”. So the questions to be asked are: how can value be created and what does value creation mean? For these questions, we can find varies answers depending on whom we ask them and from which point of view we are looking. If we look at them from Porte's (1985) value chain perspective, which concentrates on the production industry, or contrarily from the value constellation perspective presented by Norman and Ramirez (1998) that focuses on the relationship between different actors we will receive different responses, many of value creators are the sources of competitive advantages for various firms.

6. Value chain-the base of value

Porter's (1985) value chain model is one of the earliest and perhaps the most famous concepts ever presented in the field of value creation. According to Porter (2003) the valued chain helps us identify and analyze the specific activities to create value for customers and achieve competitive advantages. Porter (1985:36) proposes that every company is a combination of different activities and company's value chain is “a reflection of its history” strategy. Furthermore, he argues that comparing a company's value chain with its competitors, equivalents will expose the differences and define competitive advantages. In competitive terms, as Porter (1985) claims, value means the amount that buyers are ready to pay for the firm, offering and total revenues are considered to measure the value. The company is profitable if the created value exceeds the costs incurred when creating the product. Based on this thinking it can be said that creating value for the customers is the goal of any general strategy. The value creation, according to Porter (1985), happens when identifying and understanding the customer benefits, costs and combination of the company's activities.

Nomann and Ramirez (1998) state that the relationship between any two actors has a tendency to be far more complex than at the time. In today's world “partner” creates value through different types of co-productive, reciprocal relationships, instead of just adding value one after another. What is the nature and logic of value creation in the future? As Normann and Ramirez (1998) explain, the companies have to “come together” and start to co-produce the value.

7. Value co-creation-the future

Prahalad and Ramaswamy (2004) suggest that the future of value creation can be found in co-creation
of value. What does this mean? According to Prahalad and Ramaswamy (2004) the source of value lies in the personalized experiences that are unique to each individual customer.

7.1 Strategic management

Strategic management and marketing's objective for destination:

- Enhance the long-term prosperity of a local people,
- Delight visitors/tourists by maximizing their satisfaction,
- Maximize macro economic benefits through maximizing multiplier effects,
- Optimize tourism impacts not necessary attract more visitors,
- Ensure sustainable balance between economic benefits and socio-culture and environment costs.

The competitive positioning paradigm is largely on the work of Porte (1980, 1985) and it emphasizes the idea of “strategic fit” between the organization and its environment to achieve competitive advantage. According to Porter (1985), competitive advantage arises from the selection of a generic strategy, which best fits the organization's competitive environment. There are three main alternatives, which are differentiation, cost leadership and focus.

Health and Wall (1992:115) define destination positioning as the art of developing and communicating meaningful differences between a region or destination's tourism offering and those of competitors serving the same target market. According to Buhalis (2000:106) Porter's model fails to explain the specific needs of tourism and in particular, the lack of sufficient resources at the destination level. Fabricus (2001:59), who emphasizes that traveling cost to a destination is one of the key costs associated with tourism travel, support this view. Poon (1993) based on the concept of “flexible specialization” of the tourism business argues that “flexible specialization” is a strategy of “permanent innovation” and “ceaseless change”, which provides for “new” tourism. New tourism is flexible, segment, customized to tourist's need and diagonally integrated (Buhalis, 2000:108).

7.2 Planning and society

Tourism planning and development are increasingly important components of societal planning and development. Tourism planning decisions must be increasingly integrated into a society's overall social, economic and environmental planning decisions (WTO, 1996:51; Ritchie, 1999:273).

- Public participation should be a cornerstone for decision,
- Making existing practices and in tourism area programs should be reviewed for public involvement opportunities,
- Public participation creates new partnership that, in turn can create new constituencies and support groups,
- Continually evaluating the tourism programs effectiveness and provide progress reports on a regular basis in a comprehensive fashion to the public.

In global climate of increased competition and greater visitor demands for professionalism and service, planning emerges as one of the most valuable tools. The major interest of many studies is to investigate on how destination competitiveness can be sustained as well as an enhanced while maintaining a strategic market position among other destination competitor.

International success factor could be used to direct the national destination efforts in developing strategic plans and to evaluate international competitiveness. According to Richie (1993) and Ritchie (1999), the development of a vision for a destination needs to consider a number of key aspects such as the role of origin and destination.
Yoon (2002:28) argues that one of the goals of tourism planning and development is to create more valuable tourism products and services for potential or current tourists so that destinations and their communities receive social and economic benefits. Planning and promotion of tourism destinations must analyze the destinations' competitive factors and development strategies (Hassen, 2000). Once stakeholders have agreed to tourism philosophy for the destination and formulated a vision reflecting their philosophy, they will undertake a critical analysis, or audit of the destination's exiting tourism resources and capabilities, as well as the current functioning of its tourism operation.

Various authors, for example, (Leisen & Sautter, 1999:313, and Buhalis, 2000:99) agree that all parties or stakeholders interested in or affected by tourism within a particular market or collectively be involved in influencing and managing the tourism system. There are several forms of networking, which could be chosen for collaboration among the tourism enterprises-formal, no-formal, public-private, private-private, public-public, horizontal-vertical, centralized or de-centralized and other ways each enterprise or the group of enterprises can choose. All stakeholders of tourism at the local society level, as well as the national and international levels need to participate in the process, which relies the potential of tourism to contribute to the sustainable development of a destination. Tourism stakeholders include visitors, business sector, public policy makers and local residents. Close collaboration is required between public & private sectors.

There is a need for the creation of meaningful and specific value for individual consumers. Terborg (2003) argues that the experience of the co-creation itself is the basis of a unique value for each individual. Co-creation takes the individual as a starting point and it is directed towards the personal social and cultural values where the individual itself holds (Boswijk et.al, 2005:43). All people and thing that surround the tourist make the “experience environment” in tourism. Each person surrounded by a unique tourism experience network of all stakeholders such as people and things involved.

The identification of international critical success factors are:

1) Safety/stability of the destination,
2) Unique and diverse attraction,
3) Accessibility of destination and attractions,
4) Quality of tourism experience,
5) Effective and collective marketing effort,
6) Destination image and reputation.

Future strategic issues:

1) Easy access to major destinations,
2) Creating a safe and secure destination,
3) Decreasing cost,
4) Providing an up-to-date product offering,
5) Distributing effective information.

8. The Model

Based on the above literature the author has developed the following model. We believe value creation is the missing link in the tourism area and we must manage strategically a destination to be more
competitive. Fig. 1 shows details of our proposed framework for creating value in a chain.

As we can observe from Fig 1, there three layers associated with the proposed framework of our proposed conceptual model, namely international, national and microenvironment. In the third level, we consider different missions, destination, etc in accordance with tourism and destination advantages. These components will eventually generate the necessary value in the chain.

9. Conclusion

The present study presented a comprehensive review of the most influencing and significant on studies associated with value creation on tourism industry. We have explained the key elements for creating value in a tourism industry and explain that in order to succeed in this industry, we need to consider environmental elements, competitors, equipments, heritage, etc. We have also provided a framework, which could be used for developing any business plan in tourism industry.

References


