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# Analysis of the Competitive Environment of Tourist Destinations Aiming at Attracting FDI by Applying Porter's Five Forces Model

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**Author's contribution**

*This work was carried out by the author. The author read and approved the final manuscript.*

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## ABSTRACT

**Aims:** The aim of this article is to come to the conclusion whether Porter's five forces model can be adjusted for the purpose of assessing competitive environment of the tourist destination, in order to attract Tourism Foreign Direct Investments (TFDI), and use it as such as an alternative method for comprehension and enhancement of competitive advantage.

**Study design:** Research paper.

**Methodology:** The research relies on the well-known Porter's five forces, which the author adjusted and applied on local tourism destination. It was tested whether in this way opportunities and threats for the development of tourism in the local destination could be found, and the possibility of strengthening its position in relation to the five forces, in order to enhance the competitive advantage of a destination, for the purpose of defining strategies for attracting TFDI.

**Results:** By applying the adjusted Porter's five forces on the example of Divcibare in Serbia, opportunities that allow the development of tourism products in line with world trends were recognized, the necessity of improving the quality of accommodation and services and the need for greater administrative and procedural efficiency of local self-government were pointed out, as well as trends and volume of FDI outflows that needs to follow in finding potential investors.

**Conclusion:** The research has shown that by applying the adopted Porter's five forces, tourist destinations are given an opportunity to see their position in the domestic market,

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compared to their competitors, consider the extent and trend of investment flows in the world and the trends in the global tourism market and develop their services and contents in accordance with them. Tourist destinations can also realize the opportunities that are offered to investors in other countries and compare and consider that await investors in making investment decisions in their country and local tourist destination.

*Keywords: Porter's five forces; foreign direct investments; tourism; Serbia.*

## **1. INTRODUCTION**

In recent decades, modern tourism has become the largest and fastest growing industry. International revenues generated by tourism in 2011 reached 1.030 billion dollars. New destinations, including former transition countries, the underdeveloped and developing countries, have won an increasing share of the international market in recent years. Their share, from 30%, as it was in the 1980s, increased to 47% in 2011, and according to the predictions, will reach 57% until 2013 [1]. Based on the above mentioned, it is not surprising that an increasing number of countries see tourism as an option for a stable economic and social development, and places tourism development in their political and development agendas.

Strategic decision-makers must be aware of the developments in a competitive environment in order to identify opportunities and dangers an organization faces [2]. This includes constant scanning and monitoring of environment and collecting data on the existing and potential competitors [3]. Porter's five forces model is widely used in analyzing the competitive environment, and it describes a competitive environment through five basic factors: entry of new competitors, the threat of substitutes, the bargaining power of buyers, the bargaining power of suppliers and the rivalry among the existing competitors [4]. The analysis of competitive forces provides the managers with "the groundwork for a strategic agenda of action" and enables them to "find a position in the industry where his or her company can best defend itself against these forces or can influence them in its favour" [5].

However, considerable investment and resources are required for the positioning in the international competitive market, and developing countries, such as Serbia, due to the limited resources available, see the FDI as efficient generator that can support the development of the tourism sector and enable modernization of offer, increase of export, employment and income but also prevention of migrations from undeveloped regions, where, due to preserved resources, tourism often can be the only opportunity for development.

Serbia is a Danube Basin, Central European and Balkan country and has diversified structure of attractions. Danube, as Europe's longest river, is a unique tourist potential of Serbia, not only due to the development of nautical tourism, but also due to variety of natural and anthropogenic tourist resources in its coastal zone. The mountain landscape of Serbia has a very differentiated geomorphologic, climatic and vegetation features, for which this resource provides a variety of opportunities for tourism development: from picnic and recreational on the lower and middle mountains to winter sports in the mountains above 1500 m altitude. Spa tourism is also widely spread in Serbia, because there are more than 130 mineral springs, which are a natural potential for development of health tourism. Serbia is also characterized by a rich cultural and historical heritage. Monasteries are one of the most important cultural, historical and spiritual values in Serbia. They were built in the period between XII and XVII century.

Tourist destinations in Serbia are facing stiff competition from both destinations in other countries, which tend to attract foreign investors and tourists, and competition in the country, between domestic destinations. Therefore, the task of the strategic management is to develop a strategic plan to attract foreign investment and to determine how to compete with its competitors in order to create a competitive advantage in the market, at the same time making sure that this advantage becomes permanent in the market and those competitors cannot easily copy it or replace [3].

Divcibare, which is the subject of this paper, is a mountainous plateau on Maljen Mountain, only 117 km from Belgrade, the capital of Serbia and the international airport. This mountainous location has a variety of well-preserved tourist resources, which allow creation of various tourism products, such as mountain activity holiday, business tourism, health tourism, rural tourism, short breaks, special interests, touring and events, and favourable geographical position favours the development of transit tourism. When the ongoing construction of the highway completes, this mountain location will have a fast connection with the capital of Serbia. The large number of tourism products of different seasonality creates conditions for development of tourism in the destination throughout the year.

This paper represents the author's original approach. The adjusted Porter's five forces model will be applied in this paper, for the purpose of comprehension of competitive environment of the mountain tourism destination Divcibare, in order to find a strategy for attracting TFDI and it will be examined whether it can be used as an alternative model for assessing competitive advantage. The force "the intensity of rivalry among competitors" is shown through "domestic market and competition", "entry barriers" through "conditions for attracting foreign investors in a host country", "bargaining power of buyers" through "customers of tourist service" and "threat of substitute products and services" through "competition from other host countries".

## **2. METHODOLOGY**

The five forces model, which was developed by Michael Porter, is the most commonly used instrument for analysis and a very useful tool when examining the competitiveness of environment. Through Porter's five forces, competitive environment is described by the intensity of rivalry among competitors in one branch of industry, entry barriers, bargaining power of buyers, bargaining power of suppliers, threat of substitute products and services. Based on the analysis of these five factors, strategic decision makers can determine their opportunities and threats that exist in the competitive environment of a company.

### **2.1 The Intensity of Rivalry among Competitors**

According to Porter, the level of rivalry among companies in the same industry is affected by seven circumstances [2]. First - when there are many equally balanced competitors. Second - when demand for a products of an industry declines and when the company, in order to continue to grow, has to win market share from competitors. Third - when due to the elimination of the high fixed costs, companies use the full capacity, forcing competitors to cut prices, thus strengthening the rivalry between them. The fourth circumstance occurs due to the lack of product differentiation and replacement costs, which is why customer makes a decision based on price and service. The fifth circumstance occurs when capacities are being increased on a larger scale, which inevitably leads to lower prices and tougher competition. The sixth circumstance arises when, due to the differences, is hard to predict

how the competitors will act in a certain situation, especially when they are ready to reduce their profitability in order to achieve goal for high strategic stakes. The seventh circumstance occurs when there are high exit barriers, that is, when companies from certain economic, strategic, and emotional factors, are ready to do business with small profit or even negative business.

## **2.2 Entry Barriers (Threat of New Entry)**

Entry barriers are obstacles to entry of new companies in an industry. According to Porter [5], there are six basic sources of entry barriers:

1. "Economy of scales" - when with increase in production, costs per a unit of product are decreased, which brings newcomers, in order to be competitive, before a choice to enter the market on a large scale, or work on smaller scale with high cost.
2. "Product differentiation"- when "newcomers" are faced with high costs, in order to cope with existing brands and their loyal customers.
3. "Capital requirements"- when newcomers need to invest substantial financial means in order to be competitive, especially if they do not have such resources at their disposal.
4. "Cost disadvantages independent of size" - which can derive from owning a technology for production of exclusive and propriety products, purchase of raw materials at affordable price, state subventions or favourable state policy."
5. "Access to distribution channels"- when "newcomers" are denied access to distribution channels.
6. "Government policy"- when government imposes laws and regulations (requirements for license and limits on access to raw materials, government restrictions operate in fields like ski-area).

## **2.3 Bargaining Power of Buyers**

"Buyer Power" occurs [2,3] when customers buy large quantities of product of a particular seller, thus in this situation the customer is more important to seller than the seller to the customer, or when buyer is faced with a low-cost replacement costs, because these products are not standard or even not differentiated. Low levels of personal income and the achievement of a small profit will also force the customer to reduce the cost of purchase, which manifests their bargaining power. In addition to the many factors that strengthen the bargaining power of buyers, we will also mention awareness of customers on current market prices, costs of suppliers etc., which gives them a much greater chance of getting better prices and makes their bargaining power greater.

## **2.4 Bargaining Power of Suppliers**

Bargaining power of suppliers occurs [2,3] when an industry has not many suppliers or if an industry consists of a large number of smaller buyers, that is, companies. However, the bargaining power of suppliers is reduced by substitute products if they are present in that branch of industry. If a supplier delivers its products to several production sectors, its bargaining power increases with larger number of customers to whom it supplies its products. The power of suppliers also grows if product of a supplier is a critical input for the customer. The supplier also strengthens their bargaining position when their products are differentiated and when there are replacement costs for customers. Finally, the bargaining

power of suppliers increases if the supplier can perform business performed by the companies, and are more cheap. In such situation, if the buyer does not accept the terms of the supplier, supplier could acquire a new competitor in his branch of industry that would eventually shut him out of business.

## **2.5 The Substitute Threat**

In order to assess the risk of substitute products, it is necessary to see whether the other production branches have products that can perform the same function as the original products of a manufacturer.

Therefore, the Porter's Five Forces Model provides „the framework for determining opportunities and threats both in economy and competitive environment“ [2].

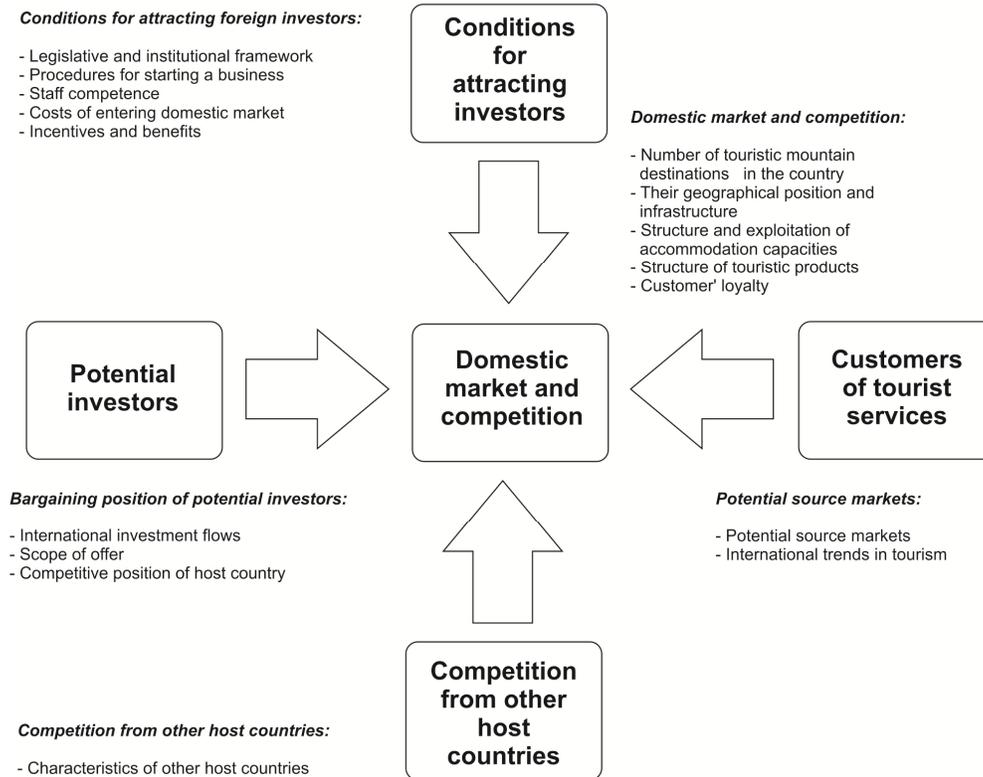
## **3. RESULTS AND DISCUSSION**

The adopted Porter's five forces, shown in Fig. 1, were adapted for the purpose of testing the competitive environment in order to attract TFDI and tourism development in mountain tourist destination Divcibare, through “home market and competition”, “conditions for attracting investors”, “customers of tourist services”, “potential investors” and “competition from other host countries”.

### **3.1 Domestic Market and Competition**

According to the Fig. 1, “the intensity of rivalry among competitors” in the competitive environment of a destination, was defined as “Domestic Market and Competition”, and within this force, the competitive mountain destinations in Serbia compared to Divcibare, their geographic location, tourist arrivals and registered overnight stays, structure and utilization of accommodation and differentiation of offer of their touristic products, will be observed.

Based on data taken from the Statistical Yearbook of the Republic of Serbia shown in the Table 1, the most famous mountain tourist destinations of Serbia and tourist traffic they achieved in 2011 were presented. From tourist destinations shown in the Table 1, as already mentioned, by geographic location, the nearest destination to Belgrade and the international airport is Divcibare, while the route of the new highway, Corridor XI, whose construction should begin soon, will contribute to an easier and faster access to Rudnik, Ivanjica, Zlatibor and Tara. The number of tourist arrivals and registered overnight stays in Zlatibor, Kopaonik and Tara is far greater compared to Divcibare. Number of registered overnight stays in Divcibare is modest, while the share of foreign tourists is symbolic. (Table 1).



**Fig. 1. Porter's Model of Competitiveness of Tourist Destinations**

**Table 1. List of Visits to Mountain Places in 2011**

Mountain Places	Tourist Arrivals		Nights	
	Total	Foreigners	Total	Foreigners
<b>Zlatibor</b>	118248	19650	483316	65046
<b>Kopaonik</b>	65874	6524	270535	28978
<b>Tara</b>	55482	3751	198314	12021
<b>Divčibare</b>	30400	1475	128897	4766
<b>Ivanjica</b>	16682	1256	85829	3210
<b>Zlatar</b>	5572	749	15541	1863
<b>Rudnik</b>	9812	511	62071	3892

Source: from [6]

When it comes to structure of accommodation facilities, more developed destinations such as Zlatibor and Kopaonik have accommodation facilities that are structurally better suited to the needs of the tourism market, however, their average utilization is insufficient.

Based on the number of tourist arrivals and registered overnight stays, utilization of accommodation facilities of mountain places can be derived. For the purposes of this paper, we will list the data contained in the Master Plan Zlatibor - Zlatar for the period 2001-2006: average utilization of facilities in Zlatibor was 20%, while in the seven famous hotels was

53%, and in Zlatar, in 2006, the average utilization was 25%, and 39% in hotels (2 in total) [7].

When it comes to Divcibare, according to the Feasibility Study for Designation of Divcibare as Tourist Area, the highest level of occupancy have resorts (55%), while the occupancy of hotels is unprofitable (from 25 to 33%, and 20% in inns [8]). For higher capacity utilization, it is necessary to raise the quality of accommodation and service.

Within this force, it is necessary to consider the differentiation of tourism products of the mentioned mountain destinations (Table 1). Based on their natural resources, it can be said that the potentials for development of tourism products are mostly similar. Differentiation exists in some tourism products. Thus, for example, Kopaonik is primarily positioned as a ski resort because of its altitude, the amount of snow cover, an extensive network of ski lifts and slopes. The range of tourism products that are developed and incorporated into these destinations' offer is mostly the same. Therefore, in these circumstances, for particular tourist products in destinations, pricing policy and the quality of service can be decisive for a customer.

### **3.2 Conditions for Attracting Foreign Investors**

"Entry barriers", according to the Fig. 1, was defined through "conditions for attracting foreign investors in a host country", and within this force, legislative and institutional framework in Serbia, procedures for starting a business, costs of entry into domestic market and incentives and benefits offered to foreign investors, will be observed.

Foreign direct investment in the tourism sector in Serbia are mostly regulated by laws and regulations related to the whole matter of FDI. In terms of the legal framework, for foreign investors and the safety of their investment, of particular importance is harmonization of legislation with the rules and principles of the WTO and EU regulations, on which Serbia was working intensively during the negotiations for membership in the WTO and preparations for European integration. Serbia has signed a number of Bilateral Investment Treaties (BITs) on mutual encouragement and protection of investments with many countries, as well as international agreements on avoidance of double taxation.

For foreign investors who are considering the option of investing in the tourism of a country, in addition to the legislation, which directly or indirectly has an impact on the tourism sector, of equal importance is institutional framework [9]. In Serbia, a key government body engaged in the development of tourism is the Ministry of Finance and Economy, and the National Tourism Development Corporation is responsible for providing information to potential investors about investment conditions, incentives that are given to them, market research and analysis, brownfield and greenfield investment sites, etc [10].

Within this force, very important is the indicator of the business cost. They vary in Serbia depending on the local government. Since recently, the business association "Naled" developed a calculator for comparing business, aiming at understanding and transparency of certain local taxes [11].

Finally, within this force, one should keep in mind that Serbia provides incentives to foreign investors, which includes the strategic projects in the field of tourism. „Regulation on Conditions and Ways for Attracting Foreign Direct Investments“ of 2012 provides for all cities and municipalities to have equal opportunity in terms of incentives, which for the services

sector is from 2000 to 4000 Euros per employee, regardless of the number of employees [12].

### **3.3 Customers of Tourist Services**

According to the Fig. 1, “bargaining power of customers”, has been defined as power of “customers of tourist service” and will be observed through potential source markets of a host country, taking into account current trends in tourism.

Bargaining power of customers increases when tourists can choose among a large number of destinations in the world and if the products are not differentiated. When tourism products are not differentiated, especially in the circumstances of the global crisis and lower living standards, the bargaining power of customers of tourist services is growing, because the need to reduce costs is especially pronounced.

In the case of Divcibare, in accordance with the existing level of development and accessibility of the destination, it is necessary to focus on attracting domestic tourists, tourists from neighbouring countries as well as non-residents from Serbia, especially from Belgrade, because of its proximity. With the arrival of foreign investors and completion of highway construction and high category accommodation with tourist attractions (golf, wellness, restaurants, tennis courts etc.) that meet the criteria of the demanding tourists market, and by providing a higher level of service quality, source markets should also be sought in other EU countries, depending on the tourism product.

Potential source markets should be also sought on the basis of analysis of the ruling trends in the international tourist market (tourism “over sixty”, sustainable tourism, fewer household members, more single people, a growing interest in small market niches, etc.), and in accordance with the offer and potentials for development of tourist products of a destination. In this way, one can comprehend changes occurring in the market, objectively evaluate their own position, and realize needs and guidelines for further direction of development of tourist destinations, which also defines a guideline in terms of selection of necessary investments and their attraction to the destination.

### **3.4 Potential Investors**

According to the Fig. 1, potential “power of suppliers” was shown as bargaining position of “potential investors”. Bearing in mind that only a few countries keep statistics on FDI in tourism and that international standards for the TFDI analysis do not recognize the tourism industry in its full meaning, a small number of studies have been carried out on this topic and the potential benefits of such data is still not well determined [9]. Therefore, the total global investment flows will be observed based on the data of the World Investment Report (WIR) 2011, in order to assess the trends and the extent of their investment [13].

Developed economies have a key role in FDI outflows (Table 2), as well as in FDI inflows. Particularly large is the share of the European Union and the USA. However, developing economies are becoming increasingly important, both as host countries and as investors. Among them, the biggest investors were from countries of South, East and South-East Asia. The sudden drop of FDI outflows in 2009, which was a result of the global crisis, was stopped in 2010. In developed countries, in 2010, their slight increase of 10% compared to

2009 was recorded, while flows of countries of South-East Europe and the CIS grew by 24%, reaching almost 61 billion USD [13].

Therefore, the scope of FDI outflows is also changing. Although still the largest scope of investments comes from developed economies, participation of developing economies and economies in transition is growing.

**Table 2. FDI Outflows, by Regions and Selected Economies, 2005-2010**

Region	FDI outflows (USD)					
	2005	2006	2007	2008	2009	2010
<b>World</b>	882.132	1.405.389	2.174.803	1.910.509	1.170.527	1.323.337
<b>Developed Economies</b>	745.679	1.154.983	1.829.044	1.541.232	850.975	935.190
<b>European Union</b>	605.515	690030	1.199.325	306.199	370.016	407.251
<b>USA</b>	15.369	224.220	393.518	308.296	282.686	328.905
<b>Developing Economies</b>	122.143	226.683	294.177	308.891	270.750	327.564
<b>Asia and Oceania</b>	86.176	151.611	221.727	218.560	219.579	244.656
<b>South, East and South-East Asia</b>	73.599	128.997	187.513	178.256	193.191	231.585
<b>Latin America and the Caribbean</b>	33.999	68.129	61.731	80.580	45.544	76.273
<b>Africa</b>	1.968	6.943	10.719	9.750	5.627	6.636
<b>South-East Europe and the CIS</b>	13.310	23.723	51.581	60.386	48.802	60.584

Source: from [13]

The bargaining power of investors is also affected by the competitive position of the host country, and in this sense, they can get information from the reports of various international organizations and institutions, which contain indicators of utmost importance for them. In the Table 3, some of the indicators of the elements of economic environment in Serbia were shown, according to the World Bank report, out of 185 economies.

Based on the presented data, far biggest administrative obstacle in the development of business in Serbia is obtaining construction permits, registering properties and paying taxes, which means that administrative and procedural efficiency did not improve, but on the contrary, it went worse in relation to previous year. In order to solve these problems, it is

necessary to implement public sector reform, simplify and shorten procedures, which will also result in reduction of costs. Significant step forward is recorded in starting business, where Serbia improved its ranking by 49 places compared to 2012.

**Table 3. Serbia's Position in the World by Conditions for Doing Business**

Category	Rank 2013	Rank 2012	Change in Rank
Starting a Business (rank)	42	91	49
Dealing with Construction Permits (rank)	179	178	-1
Registering Property (rank)	41	40	-1
Getting credit (rank)	40	38	-2
Protecting Investors (rank)	82	79	-3
Paying Taxes (rank)	149	145	-4
Trading Across Borders (rank)	94	92	-2

Source: from [14]

In the context of the observation of this force, it should be kept in mind that the investor's bargaining power is affected by a growing number of destinations, that is, countries that are interested in the development of the tourism sector and see in it the opportunity for development and employment growth.

### 3.5 Competition from Other Host Countries

According to the Figure 1, the power of "substitutes" was presented through "competition from other host countries", where analysis of characteristics from competitive countries with similar geographical characteristics and tourist resources is carried out. Starting from the geographical position of Serbia and its belonging to both the Balkans and Central European cultural circle, and respecting the existing resource base and Serbia, the Tourism Development Strategy of Serbia has defined Bulgaria, Romania, Czech Republic, Slovakia and Hungary as a real competitive circuit within which the long-term development of tourism in Serbia should be planned [15]. The rank of these countries in the world and Europe is shown in the Table 4.

**Table 4. Ranking of Countries from Serbia's Competitive Environment in 2011**

	Index	Rank in the world	Rank in Europe
<b>Bulgaria</b>	4,39	48	27
<b>Romania</b>	4,17	63	34
<b>Czech Republic</b>	4,77	31	22
<b>Slovakia</b>	4,35	54	31
<b>Hungary</b>	4,54	38	26
<b>Serbia</b>	3,85	82	38

Source: from [16]

Out of the countries shown in Table 4, the Czech Republic as a continental country, one of the newer EU members, which attracts the attention of investors from around the world and records continuous growth in capital investments in all sectors, including tourism, was examined in the paper.

The geographical position of the Czech Republic is very favourable. It is located in the centre of Europe, represents a crossroads of major transit corridors. Czech Republic has a highly developed transportation network and 91 airports. By becoming the EU member, it became an integral part of the single market of 27 European countries, with 502 million users [17].

Total number of employees in the tourism sector of the Czech Republic in 2009. amounted to 239,500. and accounted for 4.6% of total employment [18].

Thanks to Prague as a strong tourist attraction, Czech Republic has been able to develop tourism and provide a significant source of revenue needed for economic development.

Czech Republic participates with 4% in international arrivals in Europe, while in revenues its share is 2.6%, which compared to Serbia's competitive countries, is by far the largest revenue [1].

As the result of the application of the adjusted Porter's five forces model in order to attract TFDI and develop tourism, on the example of Divcibare, the opportunities for development of tourist products in accordance with current international trends in tourism, near Belgrade, international airport and highway under construction, were recognized in its natural resources. Five forces model pointed out the necessity of improving the quality of accommodation and services, as well as the need to achieve even greater administrative and procedural efficiency, such as obtaining construction permits, registering property in the area falling under the jurisdiction of local self-governments. Finally, by applying this model, a framework for finding potential investors was also recognized by taking into account outflows in the world.

#### **4. CONCLUSION**

The basic idea of this paper is to reach a conclusion whether Porter's five forces model can be adapted for the purposes of assessing the competitive environment of a local tourism destination in order to attract TFDI and develop tourism, and as such use it as an alternative method for evaluation and enhancement of competitive advantage. The Porter's five forces model proved to be a very useful tool that allows tourist destinations in the country to see their position in the domestic market, compared to their competitors, consider the extent and trend of investment flows in the world and the trends prevailing in the global tourism market and develop their services and contents in accordance with them. By applying this analysis, tourist destinations can also realize the opportunities that are offered to investors in other countries and at the same time compare and consider all the conditions that await investors in making investment decisions in their country and local tourist destination.

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## **COMPETING INTERESTS**

Authors have declared that no competing interests exist.

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