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## **THE LONG-TERM PORT DEVELOPMENT STRATEGY PLANNING ELEMENTS**

*The paper aims to spotlight the importance and significance of the long-term port development strategy planning which allows for the maximum effects to be produced with a minimum of the resources (production and service capacities, human resources, financial potential) invested, and thus, by making the optimum short-term and long-term decisions, leading to the permanent growth and development of the whole system. The strategic objectives and, through that, the business policy and its implementation can be set up only after the port vision and mission are clearly defined. Understanding the competition is crucial for the efficiency of the strategy which, in order to be successful, must be focused on the competition weaknesses aiming at neutralizing its advantages. Hence, the importance of defining the existing and potential competitors and making a comparison between their and our own strengths and weaknesses is of utmost importance. Sometimes, the real business opportunities and threats are placed beyond one's own line of industry and business. It is therefore necessary to make a careful analysis of the port environment. After the port competition and environment have been analyzed, it would be possible to initiate the building of the SWOT matrix. The matrix will incorporate all perceptions and, consequently, propose strategies based on the analysis of internal and external factors.*

**Key words:** strategic planning, strategy, port, SWOT matrix

## 1. INTRODUCTION

To make plans for the port strategy means to set the business operation on the course of the basic long-term objectives, bringing it into line with the both, internal, material and intangible resources and external conditions of the environment. No strategic planning is possible before the vision and mission of the port are defined. These are the framework in which the port strategic objectives, which are *condicio sine qua non* for the establishment of a good business policy and its implementation, will be set up.

Generally speaking, the management of an organization (the port in this case), having a small market share, calls for the undivided attention to be paid to the strategy and its implementation. As regards the organization with a large market share, their superior resources can be directed to the market of the organization with a small market share in order to gain control of it. A segmented market is one of the best strategy to stand up against such expanding business operations. A large slowly-growing market, with barriers and no replacement products, is a propitious business environment for the organization with small market shares.

The advantages of an organization, its minimized disadvantages respectively, are the basis of every successful strategy. Their planning requires a reliable analysis of the economic, technological, demographic/social/cultural, political and ecological environment which are subject to continual changes. However, no competitive advantages can be determined without a precise and neutral analysis of the following: the organization (port) strengths and weaknesses, competition strengths and weaknesses, key factors of the market success and finally all changes in the environment.

The SWOT analysis method is therefore applied aiming at defining the weaknesses and strengths of the economic subjects as well as opportunities and threats coming from the environment. The development strategies of the Port of Rijeka are articulated pursuant to the analysis of the internal strengths and weaknesses and external opportunities and threats.

## 2. STRATEGIC PLANNING OF THE PORT - AN INTRODUCTION

### 2.1. Definition of the port vision and mission

The long-term strategy planning is imperative for the successful integration into the global economic trends<sup>1</sup>. To plan a strategy means to direct the busi-

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<sup>1</sup> As stated in the McKinsey study, 20% of the world production is subject to the global competition. In thirty years, the percentage will be 80%, the study foresees. According to Ridderstrale J., Nordstrom K.A. *The Karaoke Capitalism, Management for the Humanity, Part 7*. Zagreb, Differo, p.118.

ness operations towards the basic long-term objectives of the organization, bringing them into line with the internal material and intangible resources and external conditions of the environment in which the port is functioning.

No strategic planning is possible before the vision and mission are fully defined. These are the framework in which the port strategic objectives, which are of the utmost importance for the establishment of a good business policy and its implementation, will be set up. The business vision as a proclaimed, bold orientation towards a longed-for, ideal future organization, must answer the question: "*What do we want to be?*" Although there is no vision without daring, caution is also necessary. The vision should have a motivating effect on the employees, building their self-confidence and working enthusiasm.

The far-reaching idea of a desired long-term strategic development of the Port of Rijeka can be defined as **opting for a port dislocated in the port basins specialized to handle different types of cargo, concession from the side of highly-motivated and quality operators capable of acquiring adequate quantities of cargo necessary for putting the modern and technically advanced harbor capacities to a maximum use.**

The sense of purpose of every modern organization, the port included, should be defined through a market-oriented mission. It becomes the highest priority from which all other objectives take rise. It is a document in which the basic policy, the company intends to follow, is laid down. The mission is thus becoming the source and focus of the company strength.

The mission of the Port of Rijeka can be determined as follows: **we help the carriers to deliver the cargo to the place of destination**, which is to stress the main zone of interest and the intended range of the port's operation.

## 2.2. Elements and characteristics of the port long-term strategy

The port long-term strategy should be carefully planned in order that, with a minimum of the resources and potentials (production and service capacities, human and financial resources) invested, one can accomplish maximum performances and thus, by taking the best possible long-term and short-term decisions, contribute to the continual growth and development of the business system.

The correct strategy will facilitate the better understanding of:

- the elements crucial for the profitability (e.g. good hinterland connections for the ports),
- the organization strengths and weaknesses, and the advantage-built strategy,
- competition strengths and weaknesses
- the users and the way in which the organization products and services are used by them,

- The way in which the first four elements are changing. The strategy will also help foreseeing the future development, preparations for them and the change-managing.

Furthermore, there are certain characteristics which are very important for the strategy to work, although there is no guarantee for the success. It is thus possible to determine the following characteristics of a successful strategy:

- its being based on the precise, accurate and reliable data,
- the absence of ambiguity manifested as exactness, availability and simplicity,
- sturdiness, i.e. suitability for application under different conditions and unforeseen circumstances,
- possibility of implementation through the available resources of the organization.

### 2.3. Development strategy for the ports with a small market share

The market share of an organization can be defined as a coefficient of the sales value realized in a given period of time as compared to the total sales effected by the competitors in the same period. As regards the port's market share, it can be calculated in two ways. Taking into consideration the cargo volume, the market share is calculated as<sup>2</sup>:

$$\text{Market share of the port (q)} = \frac{\text{cargo traffic in the port in the period n}}{\text{total cargo traffic of the main competitors in the period n}}$$

However, the market share can be also calculated by taking the value realized on certain market. Such calculation may be considered as a more credible one than the profit, i.e. a long – term revenue generation depends on the price of the cargo being handled in the port. The market share can be therefore worked out as follows<sup>3</sup>:

$$\text{Market share of the port (v)} = \frac{\text{value of cargo in the port in the period n}}{\text{total value of the main competitors cargo in the period n}}$$

The market share is profitable as it:

- **Creates the economy of volume.** In other words, the total average costs are decreased by the increase of the production or service providing volume
- **Makes the bargaining power stronger** – thus providing a better control over the relations with both the competitors and users.

<sup>2</sup> worked out by the authors

<sup>3</sup> Ibidem

- **creates the experience or learning curve effect** – every time the production or service provided is doubled, the production or service costs shall be adequately reduced.

A large, slowly growing market with no free access (barriers protected) and no replacement products is a propitious business environment for the companies with a small market-share, as is the case with the Port of Rijeka and its environment.

As regards the Port of Rijeka, whose market-share in the port catchments area is a small one, it is necessary to work out a strategy suitable for companies with a small market-share. The small market-shares, if competently managed, can be as profitable as the large-ones. Taking a long-term view, the Port of Rijeka will not manage to increase its market-share unless bearing in mind the following:

- Reduction of prices is not a good solution for the increase of the market-share since the competition (Trieste, Koper) will do the same thing and this could only lead to a lower income of both the port and its associated industries.
- It is necessary to become aware of own strengths and create such market segments (market niches) where these can be successfully implemented.
- The available resources should be used for the realization of a small number of chosen cost-effective projects and business activities.
- It is not easy to make managers acting like that.

When managing a small-market share company, it is necessary to pay an undivided attention to the business strategy and its implementation. A company (ports) with a large market-share has the capacity of directing its superior resources to the markets of the company with a small-market share in order to gain control of it. A segmented market is one of the most effective strategies to stand up against such an expanding business operation. It is therefore necessary to create such market segments where the strengths of a small share company can come into the play. When creating the marketing niches, the essential point is the ability to compete, i.e. high quality of products and services. No valid definition of any of the competitive advantages can be made without a precise and objective analysis of:

- the port strengths and weaknesses
- the strengths and weaknesses of the competitive ports
- the key factors of the market success
- changes taking place in the environment.

The strengths of the port, its minimized weaknesses respectively, should be made the basis of every successful strategy. Their planning requires a reliable analysis of the economic, technological, demographic /social/ cultural, political and ecological environment, which are subject to continual changes.

## 2.4. Analysis of the port competition

For a successful implementation of the strategy, it is essential to understand the port competition, to focus at the competition weaknesses and avoid their strengths. It is therefore important to determine the existing and potential competitors, making a comparison between them. In order to establish a real market position of the port, it is necessary to make a list of the port essential business factors, drawing a parallel with those of the competitors. This is the only way to evaluate all the relevant business factors as the profit, which is the goal of every business operation, can only be realized under the market conditions.

The available sources of information about the competitors are as follows:

- annual reports containing a large number of statistical and operational data and giving many useful strategy suggestions;
- newspaper articles;
- fairs, congresses and conferences;
- companies engaged in commercial research works.

There are other ways to get acquainted with the competition:

- by studying their managers and their management concept;
- by analyzing their capital investment, and
- by looking into their advertising and promotional material.

The very purpose of collecting such a large amount of diverse and heterogeneous data is to provide transparent and clear information on the strategy of our competitors in order to become aware of our own competitive strengths or weaknesses, thus paving the way for a long-term prosperous development of our own organization.

## 2.5. Analysis of the port environment

The first step to follow, after determining the strengths and weaknesses of the port and its competitors, is to work out the strategy, identify the key business factors and analyze the environment in which the competition will take place. The business environment is becoming more and more complicated and its most characteristic features at the beginning of the new century can be described as changeability, impossibility to anticipate and instability.

The real business opportunities and threats are often placed out of one's own line of industry. It is therefore necessary to make a careful analysis of the port environment which can be classified as<sup>4</sup>:

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<sup>4</sup> According to Alderton, M.P. : *Port Management and Operations*, London, LLP, 1999, str.125.

- economic environment
- technological environment
- demographic/ social /cultural environment
- political environment
- ecological environment

For a strategy, to take into account the competition environment, it is important to:

- asses each of the above stated environments in order to determine the immediate opportunities and threats;
- anticipate the future developments in the environment with an estimate of their influence on the port;
- establish a supervisory body whose task will be to make an objective analysis of the environment and asses the accuracy of the suppositions made.

When the financial benefit of the port is at stake, the most important is the economic environment. By the size of its influence on the interest rate, market growth rate and by that on the sales rate and capital providing ability, it can affect the port in many ways.

There is no doubt that the most aggressive threats are those coming from the technological environment. This is particularly noticeable in the segment of the port transport system and service, which has become a highly industrialized branch of the economy, whose advanced and sophisticated technology and information system has contributed to the accomplishment of optimum-logistic and economic effects in this branch of industry. New technologies, helping towards the development of new production methods, with a considerable implication on the change of the cost-benefit structure, can constitute serious threats.

The demographic/social/cultural environment is characterized by relatively gradual but most significant changes. It affects all business activities. This environment is hard to understand, hence difficult to make reasonable assumptions about the future. Its influence on the business activities can be manifested either through the users, to whom the products or services are sold, or the employees who need to be motivated.

### 3. THE PROPOSAL OF THE RIJEKA PORT STRATEGIES THROUGH THE SWOT MATRIX ANALYSIS

#### 3.1. SWOT MATRIX

No SWOT (*Strengths, Weaknesses, Opportunities, Threats*) Matrix can be worked out before analyzing the port competition and environment. It shall not only encompass all the perceptions but also give the strategy proposals based on the analysis of external and internal factors.

In other words, the efforts shall be made to analyze the port strengths and weaknesses and make an evaluation of the opportunities and threats in the environment. The Matrix would therefore allow for the identification of the relevant factors, positive or negative, which have a considerable impact on the realization of the strategic targets, and as such make it possible for us to influence the factors in time, i.e. bring a new approach to the realization of the strategic objectives<sup>5</sup>.

SWOT analysis is a method which provides for the balance to be introduced between the internal capabilities and external possibilities. In other words, it is a set of analytical methods used to compare one's own capabilities and weaknesses with the opportunities and threats in the environment. The SWOT Matrix is shown in table.1

Table 1. SWOT matrix

Internal factors	Internal Strengths	Internal Weaknesses
External factors	SO-STRATEGY Maxi - Maxi	WO- STRATEGY Mini – Maxi
External Opportunities	ST-STRATEGY Maxi – Mini	WT-Strategy Mini / Mini
External Threats		

**External aspects of the SWOT Analysis** cover the opportunities and threats emerging from the outside environment. For example, the opportunities for the port may be: access to new markets and market segments, vertical integration with other organizations, ability to develop towards more prosperous and profitable sectors, expansion of complementary production, variety of related products, fast market development etc. The threats can take rise from the unfavourable political and economic situation, recession of economy, negative demographic changes, new competitors, upward trend in the use of alternative modes of transport, down

<sup>5</sup> Kesić, B., *Ekonomika luka, Rijeka, Pomorski fakultet u Rijeci, 2003., str 119.*



trends in the market growth, better bargaining the position of suppliers and buyers, changes in the buyers' needs, wishes and tastes.

**Internal Aspects of the SWOT Analysis** include the advantages and strengths arising from the port's internal resources. Clear visions and missions, clear objectives and strategies, good competing abilities, positive clients' opinion, approved market leadership, good liquidity and profitability, adequate financial resources, access to the economy of volume, development of a proper technology, competitive advantages, innovative trends in the production, proved management, a good company image are the elements which the port must use to develop its own strengths and advantages. On the other hand, the weaknesses may take rise from the absence of leaders, shortage of clear objectives and strategies, decline of competitive position, poor liquidity and profitability, poor strategy implementation, operational problems, inability to change the financial situation, poor image on the market, down trends in the research and development sectors and the like.

In an effort to determine the right strategies to be applied in the Port of Rijeka, the following internal strengths and weaknesses, external opportunities and threats respectively, have been noted:

***Internal Strengths (S):***

- possibility to accommodate the largest vessels - sea depth in the port waters is 50-70 m and up to 27 m along the quayside;
- distances from the Port of Rijeka to the Mid and East European ports are shorter than those from Koper or Trieste,
- with regard to the North European ports, the Port of Rijeka offers a five day shorter seaway to the destinations in Asia, East Africa and Australia,
- Rijeka Gateway Project is strongly supported by the political bodies, local authorities and government administration.
- Gateway Project has as its purpose - the expansion of the port capacities.

***Internal Weaknesses***

- the port infra-and superstructure is old and needs to be improved, poor road and rail hinterland connections,
- low productivity
- high call costs due to light dues,
- inadequate logistics,
- poor flow of information among the subjects of the port system
- inadequate application of modern information and communication technologies,
- the port is underused by Croatian importers and exporters
- limited port frigo capacities in relation to Trieste and Koper
- excessive customs formalities

### *External opportunities*

- changes in the political environment – ever growing interest of foreign investors for investments in Croatia
- *Green Paper on the EU Seaports* published in 1997.
- availability of funds from the EU Institutions (World Bank, EIB, EBRD) for joint programmes and internal restructuring of the port,
- The Republic of Croatia entering CEFTA and becoming the associate member of the European Union,
- Croatia joined the PHARE and TACIS Aid Programmes
- Croatia has become a member of the World Trade Organization.

### *External threats*

- important strategic partners have left the Rijeka traffic direction because of the war risks ( such as Slovakian Steel Plant from Košice, Austrian Steel Plant VOEST-Alpina which left Rijeka because of the war and some commercial reasons),
- foreign partners have little confidence in the possibilities for investing into Croatia,
- the Trieste – Koper connection posing a strong competition to the Port of Rijeka,
- no cooperativeness in Slovenia to link the Fifth Corridor's extension from Trieste to Rijeka, in other words connect the Rijeka Traffic Route, via Slovenia, with the European Union,
- close links between the Port of Koper and Slovenian Rails (low transport costs in Slovenia),
- application of EDI in Koper,
- down trend in the industrial production in the Czech Republic and Hungary,
- there are no adequate legal solutions in the Maritime Demesne and Sea Ports Act, for the problems related to either capital investments on the maritime demesnes and vested interests, particularly in the ports open for public traffic, or property-rights issues.

## **3.2. Possible strategies**

Based on the analysis of the internal strengths and weaknesses and external opportunities and threats, it is possible to define the following strategies for the Port of Rijeka:

### **SO-Strategy MAXI – MAXI (makes use of the strengths to exploit the opportunities)**

The favorable international position of Croatia, resulting from the recent political changes, should be turned to the port's advantage by attracting the cargo and getting it back to the Rijeka traffic route. Because of low transport costs

and the interest shown, Hungary is particularly interested in. The efforts should be also made to come to closer terms with other countries of Central and East Europe, and with the possibility of the Republic of Croatia to join the European Union in the foreseeable future, the situation will considerably improve.

**WO- Strategy MINI –MAXI (overcoming the weaknesses by using the advantages of the opportunities offered)**

The willingness of the international associations to take Croatia in their membership makes way for the foreign investments. These would lead to the elimination of a part of the internal weaknesses related to the outdated infrastructure and superstructure. Furthermore, the Croatian Government, by cutting down the light dues, simplifying customs formalities and giving priority to the construction of modern road and rail connections linking Rijeka to its hinterland, can also considerably contribute to bring the port of Rijeka productivity up to competitive standards. The above stated measures, once implemented, will stimulate the interest of both, the foreign and Croatian exporters and importers for the Rijeka traffic direction. The quality of the port services is also one of the problems that could be relatively easily solved. It is therefore the port operators' duty to see if all quality-building measures have been complied with.

**ST – strategy MAXI-MINI (using the strengths to overcome or avoid the threats)**

The threats posed by the competing ports of Trieste and Koper can be minimized by stressing not only the advantages of a shorter and cheaper transport from Rijeka to the destinations in the Central and East Europe but also the reaffirmed wish for cooperation on the part of the Hungarian companies and Administration. This cooperation could, in the long run, generate favorable synergic effects and encourage the ex-partners, by restoring their confidence, to return to the Rijeka traffic route. For the competitive positioning of the Port of Rijeka, it is also necessary to make a good thing of the cooperativeness existing on the part of the political structures in Croatia and insist on the completion of the transport links between the Port of Rijeka and its hinterland.

**WT – strategy MINI – MINI (making efforts to minimize the weaknesses and threats)**

A good part of the internal weaknesses can be, with a strong support of the Croatian Government in the field of reducing the expenditure (light dues), customs formalities improvement and upgrading the road and rail hinterland connections, overcome by the extensive capital investments, not only by means of guarantees and credits but also through the joint-venture projects and public-private partnership projects, where applicable<sup>6</sup>. With the improved quality

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<sup>6</sup> There are plans to construct a multi-purpose terminal (containers, timber, general cargo) in the west part of the Rijeka basin. As planned the construction will be founded on pillars, and the part of the shore not covered by the World Bank loan, shall be financed on the basis of the BOT (build – operate – transfer) contract.

level of the port services and reduced costs and time of the cargo handling, the threats coming from the competition could be reduced to a minimum.

#### 4. CONCLUSION

The port long-term strategy planning is an absolute priority for a successful integration into the global economic trends. The strategic objectives and, through that, the business policy and its implementation can be set up only after a clear definition of the port vision and mission framework. The far-reaching idea of a desired long-term strategic development of the Port of Rijeka, in other words the port vision, can be defined as opting for a port dislocated in the port basins specialized to handle different types of cargo, concessioned from the side of highly motivated and quality operators capable of acquiring the necessary quantities of cargo so that the modern and technically advanced harbor facilities can be put to a maximum use. The source from which the Port of Rijeka is deriving its strength, i.e. the mission, can be determined as follows: we help the carriers to deliver the cargo to the place of destination.

The port long-term strategy should be carefully planned in order that, with a minimum of resources and potentials invested, one can, by taking the best possible long-term and short-term decisions, accomplish optimum performances thus helping toward further development and growth of the business system. Every correct strategy means a better comprehension of the elements crucial for the profitability, strengths and weaknesses, strength-built strategy, competitors' strengths and weaknesses, the users and the way in which the organization products and services are used by them and the way in which the first four elements are changing. The strategy will also help foreseeing the future development and managing changes.

In an effort to determine the strategies to be applied for the Port of Rijeka, the following internal strengths and weaknesses, external opportunities and threats respectively, have been noted. Internal strengths: possibility to accommodate the largest vessel, short distance and transit time between Rijeka and the Central and East Europe, shorter seaway to the destinations in Asia, East Africa and Australia with regard to the North European ports, support of the local and government authorities in the development of the Rijeka Traffic Route, realization of the Rijeka Gateway Project. The internal weaknesses being: poor infra- and superstructure, low productivity, high light dues, inadequate logistics, inadequate flow of information among the subjects of the port system, inadequate application of the modern information and communication technologies and excessive customs formalities.

External opportunities are the changes taking place in the political environment resulting in the growing interest of the foreign investors for investing

into Croatia, *Green Paper on the EU Seaports from 1997*, financing (World Bank, EIB, EBRD) the joint programmes and organizational restructuring of the port by the EU Institutions, the Republic of Croatia entering CEFTA, PHARE and TACIS Aid Programmes and becoming an associate member of the European Union. Some of the external threats are: as a result of the war, the important partners have withdrawn from the Rijeka traffic route, lack of confidence for the foreign investments in Croatia, Trieste – Koper economically connected represent a strong competition to the Port of Rijeka, lack of cooperativeness in Slovenia with respect to the extension of the Fifth Corridor from Trieste to Rijeka, close links between the Port of Koper and the Slovenian Rail, application of EDI in Koper, etc.

Based on the analysis of the internal strengths and weaknesses and external opportunities and threats, the following strategies to be applied in the port of Rijeka have been defined: SO – strategy MAXI – MAXI (making use of the strengths to exploit the opportunities), WO – strategy MINI – MAXI (overcoming the weaknesses by using the advantages of the opportunities offered), ST-strategy MAXI – MINI (using the strengths to overcome or avoid the threats), WT – strategy MINI – MINI (making efforts to minimize the weaknesses and threats).

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## Sažetak

### ELEMENTI PLANIRANJA DUGOROČNE STRATEGIJE RAZVOJA LUKE

*Cilj ovoga rada je ukazati na važnost i značaj planiranja dugoročne strategije razvoja luke, kako bi se uz minimalno uložene resurse i potencijale (proizvodne, uslužne, ljudske, financijske) proizveli maksimalni učinci i posljedično tome doprinijelo permanentnom rastu i razvoju cijelog poslovnog sustava, donošenjem optimalnih kratkoročnih i dugoročnih odluka. Definiranje vizije i misije luke okvir su za postavljanje strateških ciljeva, a time i determiniranja poslovne politike kao i njene implementacije. Shvaćanje konkurencije presudno je za uspješan razvoj strategije, koja će biti uspješnija ako se usmjeri na slabosti konkurencije i izbjegavanje njihove prednosti. Zato je bitno definirati postojeće i potencijalne konkurenente te njihove prednosti i nedostatke usporediti s vlastitima. Prave prilike i prijetnje za poslovanje ponekad dolaze izvan domicilne industrijske/gospodarske grane, stoga je potrebno pozorno analizirati okružje luke. Nakon analize konkurencije i okružja luke moguće je pristupiti izradi SWOT matrice koja će objediniti sve spoznaje i dati prijedloge strategije temeljene na analizi obrađenih unutarnjih i vanjskih čimbenika.*

***Ključne riječi:*** strateško planiranje, strategija, luka, SWOT matrica

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