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## **PRICING POLICY AS AN INSTRUMENT OF CRUISE DESTINATION MANAGEMENT**

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### ***Abstract***

*Destination management includes determination of development goals that are compatible with existing strategic planning documents, rules and limitations of sustainable development, defining mechanisms of action and management in accordance with the objectives and continuous adjusting of operational objectives to development strategy. The assessment of competitive position and analysis of competitive advantages are important for understanding the current situation as well as possibilities of adjusting the individual factors of competitiveness to market demands. When defining and designing different mechanisms of demand management it is necessary to first identify the factors of competitiveness, as well as the legality and cause - effect relationship between these phenomena. Handling of the ship, passenger and crew members is an important part of port supply. In order to perform such complex and highly demanding work at the user's satisfaction, it is necessary to appropriately organize that process and clear normative regulation of responsibilities, relationships, standards and costs, in order to know at all times the tasks and activities of individual holders, which is the scope of their work, which standards / criteria need to be fulfilled and what is the cost of services. Active participation of the organization / destination in relation to the market situation should be based on scientific - research activities as the basis in conducting business policy and development policy. Marketing is the business function that is future-oriented, using the results of research of all states and conditions at the market. Pricing policy is an essential part of the integrated destination management, but is also directly conditioned by its existence and functioning.*

***Key words: cruise destination management, port authority, pricing policy, management performance***

## 1. INTRODUCTION

Destination management involves determining development goals compatible with existing strategic planning documents as well laws and limitations of sustainable development, defining action and management mechanisms in accordance with its objectives and continuously adjusting of operational objectives to development strategy.

Assessment of competitive position and analysis of competitive advantage are important for understanding of current status and opportunities of adjusting certain factors of competitiveness to market demands. When defining and designing different mechanisms of demand management, first of all it is necessary to identify the factors of competitiveness, as well as the regulations and cause-effect relationships between phenomena. Acceptance and handling of vessels, passengers and crew members represent an important part of port supply. In order to deal with this complex and highly demanding activity in a user-friendly manner, it is necessary to appropriately organize this process and to clearly normatively regulate responsibilities, relationships, standards and prices, in order to know at any time which are the tasks and activities of individual holders, what is the scope of their work, which standards / criteria should be met and what is the price of services.

Active participation of the organization / destination according to the market situation should be based on scientific - research activity as the basis for conducting business policy and development policy. Marketing is the business function that is future-oriented, using the results of all situations and happenings in the market.

### 1.1. Port system as an integrated element of a cruise destination

Port problems are often considered separately in terms of individual economic and transport operators, forgetting the vital parts of the national economy and overall national and international transport and logistics chains with extremely high economic multiplier effects. The requirement for achieving the goals of development Croatian port system should define the appropriate port policy, which will have a clearly defined and elaborated objectives that must be relevant, measurable and achievable within a certain timeframe. To increase the competitiveness of Croatian port system it is necessary to establish a consistent port policy, based on legal solutions with realistic and clearly defined goals, as well as the mode of financing of port system. It is necessary to improve port management system by establishing modern management and marketing activities in the market, to establish a coordinated approach by all stakeholders in the realization of services on routes with the aim of raising the quality of services provided and achieving competitive prices.<sup>1</sup>

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<sup>1</sup> Batur, T., Pravni status morskih luka i luèka politika u Republici Hrvatskoj Zbornik radova Pravnog fakulteta u Splitu, god. 47, 3/2010., p. 677-692

Destinations that offer greater value for money than the average of their competitors have the ability to increase market position. This improvement can be achieved by:

- Increasing market share,
- Increasing prices.

Depending on the chosen competitive strategy, the destination is in favor of one of these development opportunities. Given the limited capacity of the destination, Dubrovnik would have to choose a strategy that is focused on improving its market position by increasing prices. It is about developing as a cruise destination center or as a transit destination.<sup>2</sup> Maintaining a proper value-money

relation means constantly improving the quality of all supply elements, which is one of the most important ways of positioning in the market compared to the competition.<sup>3</sup> This is especially important because of the trend of continuous strengthening of competition and the inclusion of new destinations in the cruise market.

Plans of destination development in the cruise market inevitably include marketing plans - medium and long term. Marketing is a social and management process through which individuals and groups achieve what they need and want by creating and exchanging products with others. The task of destination marketing is to create an adequate marketing mix. It includes marketing aspects and strategies used by the management to gain competitive advantage. The basic concept of the marketing mix includes product, price, promotion and distribution.<sup>4</sup> These elements are the variables of marketing that a company can control. Effective marketing mix must fulfill four conditions:

- to be adapted to the needs of the customer,
- to create a certain competitive advantage,
- that its elements are well combined,
- it is compatible with the available resources.

Concepts of marketing management evolved from the production concept, product concept, sales to marketing concept, and the latest concept of social marketing. The concept of social marketing assumes that the organization should determine the wishes and needs of end customers and fulfill their needs in a way which is more efficient than the competition, in a manner that it takes into account the value for the user as well as for the overall social community.<sup>5</sup> By applying this marketing concept, the function of tourist destination marketing management must include analysis, planning, implementation and control of programs designed to shape, develop and maintain the processes of exchange with the customers, in a way that they are directed towards the achievement of given goals and those objectives are to the benefit of the final consumer as well as for narrower and wider social community.

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<sup>2</sup> Integrirano upravljanje kretanjem brodova i putnika na pomorskim krstarenjima u Dubrovniku, Dubrovnik, 2011, p. 68

<sup>3</sup> Kotler, P., Bowen, T.J., Makens C., Marketing for Hospitality and Tourism, Issue 4, 2006, New Jersey, p. 50

<sup>4</sup> Kesić, T., Ponašanje potrošača, Zagreb, 2006, p. 22.

<sup>5</sup> Kotler, P., Bowen, T.J., Makens C., Marketing for Hospitality and Tourism, op. cit., p. 27

### **1.1.1. Economic impact of cruising in a destination**

Cruising is a very complex social-economic system which includes a range of activities from various areas of the economy. If development is controlled, cruising can be a moving force for social and economic destination development. However, there are dangers of uncontrolled unlimited development when the negative impacts outweigh the positive ones.

Possible positive effects of cruising in a destination relate to port and destination promotion, increasing employment and incomes. Negative effects of cruising are related to environmental effects, endangering the destination image due to large uncontrolled growth that is not accompanied by increased quality of services, traffic jams and bad influence on other groups of tourists.

Revenues generated by cruising differ from country to country, depending on the management model at ports and destinations and entities that participate in the formation of various supply elements. Analysis of the economic impacts of port fees and charges must consider the function of individual holders of income within the port system and their characteristics. Revenues from port fees and charges relate mainly to the service elements of the destination supply, primarily for the process of acceptance of ships and passengers at the port. The port fees and charges paid for basic port activities that are part of the procedure of acceptance of ships in the port represent an obligatory expense for the shipping company. In addition to basic port operations, other services are also available in the port area such as:

- Ship supply,
- Pest control;
- Forwarding,
- Washing and ironing,
- Excursion programme and transfer,
- Taxi services and car rental services,
- Transport of passengers, crew and port authorities to/from the ship and other activities.

Fees from these activities are income of concessionaires in the port area. Active approach to shaping the system of port fees and charges and pricing policy, first of all must include total relations among different categories and the ability to manage them. Port management or port authority, in this context, represents a governing body under whose jurisdiction these activities are carried out, through various legal control mechanisms:

- Regulating the amount of port charges by specifying the maximum allowed fees
- Creation of business conditions in the concession contract (concession fee, the minimum conditions for the activity, etc.) and Ordinance on Port Order,
- Supervising the establishment of quality standards for individual services.

The purpose of business process of cruise port management (port authority) is efficient use of the maritime domain in terms of public benefits. Such defined purpose of business is carried out and realised through business goals:

- Provide the basic conditions for safe acceptance of passengers, vessels and crew in the port in compliance with all applicable / required standards through efficient organization and coordination of port services operation, and a satisfactory level of basic port receptive facilities,
- Ensure the satisfaction of port end users (shipping companies, passengers) through the range and quality of services,
- Ensure the satisfaction of business subjects that operate in the port area (concessionaires, suppliers), through market competition protection and other business conditions,

- To ensure the maintenance and construction of port reception facilities (infrastructure and superstructure) in accordance with strategic local / regional economic and tourism / marketing planning documents.

In accordance with the concept of social marketing, organization / destination must direct their efforts towards the realization of benefits to the end consumer as well as the overall social community. This marketing concept is a modern adaptation to market conditions characterized by increasingly sophisticated requirements on the demand side, as well as increased competition. In the center of interest, therefore, is the ability to allocate their effects on improving the values that represent the public good. It is about increasing the overall value / quality of cruise destinations from the perspective of visitors from cruise ships, as well as other groups of tourists and local population. The quality of cruise destinations can be increased by the allocation of economic effects on improvement of the following elements:

- Destination Management,
- Investment in port infrastructure,
- Investment in basic port superstructure, as well as additional services (commercial and business centers etc.),
- Procedure of acceptance of ships, passengers and crew members,
- Standardization and control of service quality,
- Excursion programme supply,
- Other supply and service elements of a destination.

In order for the effects of cruising to be properly directed in the aim of increasing the total value of the destination, when determining certain fees and charges, it is necessary to take into consideration the criteria of allocation of certain types of income.

Port fees represent the port authority revenue, therefore the allocation of revenues generated from this source is legally defined. This revenue is directly invested in public maritime domain and thus in improving cruise destinations. Port service charges are private sector income. The amount and manner of funds allocation depends on contractual obligations defined in the concession agreement. Possible ways of direct allocation of these funds in public maritime domain are: the construction of port superstructure, increase of service standards and concession fees (Table 1).

Table 1

Revenue categories from cruising in ports

Revenue holder	Revenue source	Revenue categorization	Revenue allocation
Port Authority	Port fee	Income from mandatory fees for receiving ships and passenger at the port	- Maritime domain (port)
Port services	Fees and charges for customs procedures, border control, sanitary control		- State budget → maritime domain
Company maintaining the waterways	Light fee		- Maintenance of waterways - Private sector income
Pilot service	Pilotage fee		- Private sector income
Concessionaire and for main	The fee for mooring and unmooring,		- Revenues of private sector - Concession fees →

port activities	embarking and disembarking passengers, shipping agent		maritime domain (port) - The construction of the port superstructure - Achieving and maintaining quality of service and the relationship between price and quality (quality of destinations)
Concessionaire and for other port activities	The fee for garbage disposal, supply ships, excursion programme	Income from fees for additional services	- Private sector revenues - Concession fees → maritime domain (port) - The construction of the port superstructure - Achieving and maintaining quality of service and the relationship between price and quality (quality destinations)

Source: Processed for the needs of this research

## 2. DESIGN OF PORT FEES AND CHARGES PRICING POLICY

Pricing policy includes managing entire cause-effect relationships between individual elements of the port system. In particular this applies to the relationship between certain types of economic impacts of cruising.

The prerequisite for managing pricing policies is the possibility of a unified marketing approach, control and the adoption of common guidelines on pricing models and the amount of certain fees and charges. It points out the importance of destination management, as well as national level port system management. The other assumption for management of entire pricing system is to understand theoretical concepts and knowledge of cruise market (competitive environment, price elasticity of demand). It is also necessary to keep in mind the development policy of the destination and the parameters of sustainable development. In addition to those well-known elements the pricing policy can be used as a mechanism to direct the development of destinations.

When determining the amount of port fees and charges it is necessary to operate while keeping in mind the following objectives:

- To achieve the maximum possible income, provided that the tariff policy does not adversely affect the movement of cruise ships and passengers in a destination,
- Shaping pricing policy as a mechanism of demand management policies in the context of destination policy.

From the analysis of the relationship of port fees and charges with ports / destinations in the competitive environment, it is clear that cruise ports in Dubrovnik have space to increase port dues and fees while maintaining a satisfactory level of competitiveness. This would mean increasing the economic impacts of cruising in a destination, however, depending on the chosen competitive strategy, it is necessary to decide in which way these effects should be directed and consequently to which holders of income they should be distributed.

The increase in port fees and charges can be achieved by:

- Increasing the existing fees and charges and
- The introduction of new fees and charges.

If increasing existing fees and charges it must be decided, given the allocation of revenues that are generated on their bases (Figure 1), which are the categories in which action is needed. Following the principles of allocation of certain categories of effects arising from the formal definition of the status of the revenue holders, the reasons for the increase of port fees could be increased investment in maintenance and construction of port reception facilities, primarily the infrastructure.

On the other hand, the reasons for the fee increase may be related to the contractual obligations of the concessionaire for construction of port superstructure or increased concession fees. By increasing

the fees under such contractual obligations, the launching effects of cruising in port reception facilities is also achieved. Furthermore, by the increase of concession fees port authority achieves the increase of its own revenues without increasing cruise port fees. The conclusion is that when considering port fees, we must take into account the amount of concession fees and fees for services as the elements that are part of the same system. The increase in port fees for services can be elaborated by increased requirements in terms of service quality that the port authority determines through concession agreements.

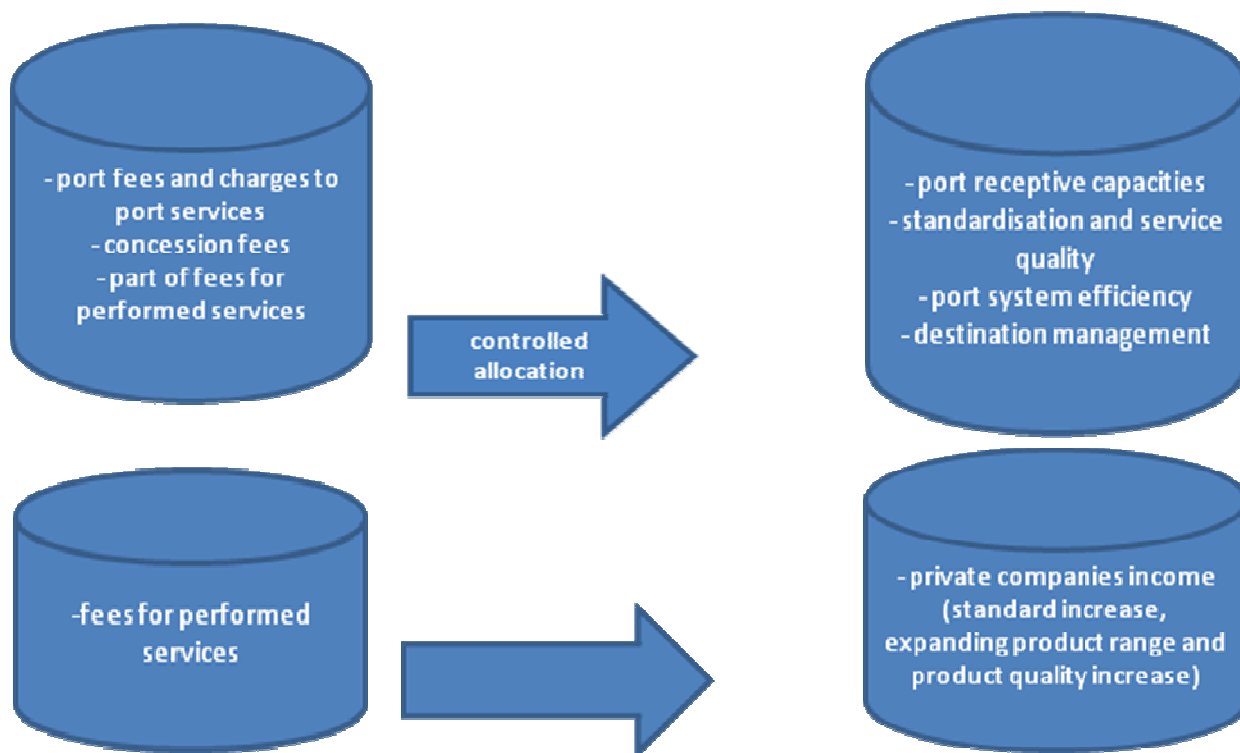


Figure 1. Revenue sources and their allocation in the scope of port system

*Source: Processed for the needs of this research*

Many European ports have introduced environmental taxes and security fees. Namely, environmental and safety standards in recent years are given growing importance and they are also one of the criteria of competitiveness of the port in the market. The issue of safety of navigation is under the jurisdiction of the Harbour Master's Office, while the issue of security of the port area is under the jurisdiction of the Port Authority, i.e. the security department of the institution. This department is also responsible for environmental issues. Safety and environmental issues of the port are largely related to port reception facilities with an extent of use in direct contact with the ship capacity, therefore the calculation of the fee may be linked to capacity (GT).

### 3.1. Port pricing policy

Tariffs in the narrow sense represent a systematic review of certain dues, while in a broader sense they include all the regulations and conditions under which prices are determined. When charging

the prices of transportation services, including the cost of port services, it is necessary to highlight the market "maximum principle", according to which the user tends to minimize the costs and the service provider tends to maximize the profit. To optimally valorize the "maximum principle" for tariff policy it is important to design measures to stimulate the use of services and certain principles such as the principle of competitiveness, the principle of economy and the principle of the value of goods / services. Appropriate measures of tariff policy can stimulate proportionally greater, smaller or equal use of services, which is achieved by applying one of the tariff types:

- Proportional tariff (same price, regardless of the volume of services)
- Differential tariffs (basic tariff rate is changing along with the volume of traffic)
- Preferential tariffs which are applied in certain conditions when discounts are granted.<sup>6</sup>

In relation to the category of mandatory expenditure of cruise ships several problem areas are covered.

#### 1. Proper distribution of a large amount of annual income to individual holders of income

It is necessary to take into account that the surplus revenue in the public sector is reinvested in public domain. Income of the public sector, i.e. income of the port authority are concession fees and quayage port fees.

#### 2. Pricing method

Most of the items is the concessionaire's income. Concession fee is one of the costs that are calculated into the price, therefore, when determining the concession fee, it is necessary to establish a balance between the maximum allowed fee for the service that the concessionaire may charge to the consumer and the amount of the concession fee paid by the concessionaire for the concession. The amounts of the concession fee and quayage port fee are determined by the port authority.<sup>7</sup>

The basis for determining the amount of fees is the need for funds according to the plan of maintenance and investment in port reception facilities, as well as the prices in competitive ports. By the concession plan, traffic plan and financial plan of the port authority, the shares of individual income sources are determined and, in accordance with the plans, the amounts of concession fees and quayage port fees are defined.

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<sup>6</sup> Mitrović, F., Kesić, B., Jugović, A., Menadžment u brodarstvu i lukama, Zagreb, 2010, p. 176.

<sup>7</sup> Maritime Domain and Seaports Act, op.cit.

For certain port authorities and destinations, it is necessary to start determination of the amount of the price through the managing planning function, which includes the strategic long-term development plans, as well as medium-term and operational plans. According to the content, types of plans on the basis of which we can determine the need for financial resources and the amount of fees and charges include: procurement plan, concession plan, traffic plan, financial plan, marketing plan and work plan. It is necessary to establish a rational and efficient planning process and to ensure a system of collecting information and records of business events as input data.

#### **3.1.1. Price of ship accommodation in the port as a mechanism of regulating demand**

This problem area has much in common with the policies of the destination. Specifically, under the condition of creating a joint management-level acceptance of ships in the port and expenses arising



from the functioning of this process, the tariff could be used as a mechanism of demand regulation and management. Preferential rates can be used to influence:

- Seasonality,
- Distribution of calls on weekdays
- Impact of the length of stay at the destination.

Such measures of pricing policy must be consistent with the development policy of a cruise destination. Destination development strategy and a unique governing body for destination development management are conditions for the proper formation and implementation of the measures described.

Active approach to pricing policy management, keeping in mind all of the above elements and the manner in which their interaction can result in effects on several management levels:

- Increase in fees and charges or introduction of new ones, resulting in higher revenues for individual business subjects,
- Redistribution of economic effects among some subjects in order to achieve the desired results in terms of resource allocation within the port system, which works to improve the quality of service elements of the total destination supply,
- The use of pricing policy for action on certain characteristics of the demand and as a mechanism for managing the development of a cruise destination and the allocation of resources to increase the overall quality and competitiveness of the cruise destination.

### **3.2. Port fees and charges as a factor of destination competitiveness**

Competitiveness of a destination is the ability to create a unique experience.<sup>8</sup> Competing destinations are those in the tourist market which offer similar tourist product, taking into account all relevant factors of competitiveness.

All participants in the formation of integrated destination product at the cruise market (port authorities, shipping companies, travel agents, service providers, local communities) must adapt, cooperate and act as partners in joint work to settle the growing needs and demands of cruise passengers. Lacks of only one partner can act negatively on the overall experience of the destination, whereas a successful business can become a driving force for economic and social development of a specific tourist destination and all entities involved in the production of services.<sup>9</sup>

Action of the port, i.e. port system is determined by a number of factors with regard to the complex function of the port in traffic and economic sense.<sup>10</sup> The system of port fees and charges is part of the port system. Amount of port fees and charges is one of the factors of competitiveness of the port, and thus the destination.

In order to determine the objective meaning of prices of port call, the prices of call per passenger is compared to the price of ship arrangements (Table 1). The arrangement price includes<sup>11</sup>:

- Full board in a deluxe cabin category / 5-7 meals a day,
- The use of ship space and equipment (pool, beach, fitness centers, gym, library, night clubs)
- Participation in all daily activities,
- Live music, entertainment, events in the ship's theater,
- Loading and unloading of personal baggage.

The share of expenditure on charges and fees in the total package price is quite high, ranging between 11 and 16 percent (Table 2).

There are two main aspects of the meaning of the level of fees and charges for the shipping company:

- The level of lump sum which a shipping company pays for "port taxes" and which is treated as a mandatory addition to the price and its amount is based on the planned prices according to tariffs in the ports included in the itinerary,
- The question of the difference between actual costs and lump sums charged, which the shipping company tries to maximize, given that this difference represents an extra income of the company.

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<sup>8</sup> Institut za turizam, [www.iztztg.hr/UserFiles/Pdf/Pedeseta-obljetnica-IT/02-Konkurentnost-turisticke-destinacije-Ivandic.pdf](http://www.iztztg.hr/UserFiles/Pdf/Pedeseta-obljetnica-IT/02-Konkurentnost-turisticke-destinacije-Ivandic.pdf), op.cit.

<sup>9</sup> Kesić, B., Jugović, A., Pomorski promet Republike Hrvatske teretni i putnički razvoj, Rijeka, 2008., str. 41.

<sup>10</sup> Mitrović, F., Kesić, B., Jugović, A., Menadžment u brodarstvu i lukama, op. cit., str. 197.

<sup>11</sup> [www.generalturist.com](http://www.generalturist.com)

Table 2.

Port charges and fees in relation to the current price of shipping arrangements

Number of ports of call	Cruising area	Vessel name	Arrangement price (EUR)	Surcharge for port fees (EUR)	Total arrangement price (4+5)	Share of port fees in arrangement price (%)	Average fee per pax (EUR)
1	2	3	4	5	6	7	8
7	Eastern Mediterranean	Costa Serena	715	124	839	14,78	17,71
9	Western Mediterranean	Louis Majesty	820	120	940	12,77	13,33
7	Eastern Mediterranean	Costa Mediterranea	640	125	765	16,34	17,86
7	Eastern Mediterranean	MSC Fantasia	618	116	734	15,80	16,57
8	Mediterranean	MSC Poesia	980	130	1110	11,71	16,25

Source: Processed according to data on websites: [www.magellan.hr/krstarenje](http://www.magellan.hr/krstarenje), [www.krstarenjamediteranom.com](http://www.krstarenjamediteranom.com), [www.msckrstarenja.com](http://www.msckrstarenja.com)

#### 4. IMPROVEMENT OF PORT CHARGES AND FEES SYSTEM AS A BASIS OF TARIFF POLICY MANAGEMENT

Character of port fees and charges results from the basic features of management model and the role of various entities within the port system and their relationships. Port authorities have an economic and social dimension. They are very sensitive to economic trends, especially the process of globalization. These dynamic changes have formed a very uncertain and complex environment for the port, which has led to the change of management concept. The traditional function of the port authority has undergone a transformation. The function of the operator turned into the regulatory function and the function of managing the port territory. It is believed that the function of the management of port territory is the most important function of modern port authorities and that the present trend of development of management models is a "landlord" principle, which in financial terms means the responsibility of the port authority for port infrastructure and the responsibility of the private sector for port superstructure.<sup>12</sup> Function of port territory management consists of the management, maintenance and development of the port area, ensurance of infrastructure and port facilities, as well as the development and implementation of policies and development strategies regarding the exploitation of the maritime domain. With the pricing policies of port fees and charges the role of port authorities relating to the management of the port area is closely connected, as well as the regulatory role. These functions are accomplished through concession system and through adoption of tariff ordinances of port fees and charges.

<sup>12</sup> Vanhoeven P., European Port Governance, The ESPO Fact – finding Report, revised and enlarged in 2010, European Sea Ports Organisation, 2010

#### **4.1. Disadvantages of port charges and fees system**

Pricing policy is one of the most important mechanisms for the implementation of strategic plans of tourism development. In the formation of supply at Croatian cruise market problems arise regarding the price of acceptance of ships and passengers in the port:

- The structure and the basis of calculation differs greatly from port to port,
- The amount of individual elements of the system is changing without the design and implementation of pricing policy in relation to the fees and charges as a whole,
- Different models of calculation are applied to individual elements of port fees and charges,
- Deficiencies in the model of calculation result in illogical price distribution,
- Tariff regulations are often vague and conceptual definition of certain categories is not precise enough, which prevents the traceability and consistency in the application.

Since the management basis in terms of competence is not clearly defined and established, the question of competitiveness of the port in terms of the amount of port fees and charges is very difficult to manage. Poorly defined responsibilities of individual elements of port fees and charges and the lack of a unique level approach to this issue prevents a systematic approach. The procedure for acceptance of ships involves numerous actors: representatives of the public sector and service providers. For shipping companies, as service users of acceptance of ships, passengers and crew in the port, port fees and charges are a unique expenditure. Protection of the market and price regulation is implemented by different entities that are not mutually coordinated and harmonized. Keeping pricing policy in relation to the demand does fulfill desired results because the final price depends on the decisions of all the others. As the acceptance of ships and treatment of passengers in the port are a significant portion of the total destination supply, it is necessary to organize the regulatory and normative platform, all with the aim of setting up a unique package of services, controlled cost and quality.

In order to implement the tariff policy of port fees and charges it is necessary to:

- Uniform tariff models for those elements of call expenditure, for which tariffs are set by each individual port authority
- Set up a logical basis and calculation model for the elements of call expenditure, whose rules are unique at all ports.

Based on the set of general rules for the establishment of tariff ordinances of individual port authorities it is necessary to uniform tariff regulations in order to meet the needs of predictability and ease of application, which is important for companies as service users and the service providers. These general rules should be elaborated at the national level and defined through appropriate legal documents, which is in line with the expressed need for standardization of port procedures, especially procedures related to the

reception of the ships, passengers and crew in the port. General rules should include provisions on the types of fees and charges including unambiguous rules on applicability to particular situations.

## **4.2. Integrated port information system as support to pricing policy management**

The procedure for acceptance of ships involves numerous actors: representatives of public sector and service providers. Since the acceptance of ships and treatment of passengers in the port are a significant portion of the total destination supply, it is necessary to achieve an acceptable level of organization and coordination among holders of certain activities, including the regulatory and normative platform, all of which is in the aim of setting up a unique package of services and controlling cost and quality.

Functionally there is quite a high level of coordination of individual activities in ship acceptance, which are in the largest part the responsibility of the port authority, since it is one of the core functions of the institution.

In terms of documentation there is very poor coordination and functional arrangement. In fact, although there are very good technical prerequisites for setting up a single database, in practice, each entity has its own way of recording events and publishing documents, also the data sources are inconsistent and insufficiently defined.

One of the most important elements in the context of the need for improving the port system is to create a system of control and processing of traffic data in the ports. It is a complex project that aims to establish standardization and uniformity of reporting, which should ultimately result in a single system for monitoring and processing of traffic data and charging port fees in all Croatian ports.

Basically these efforts are striving to establish full control over port system, i.e. improving the legal system of a given port and its implementation in practice. The purpose of establishing systematic monitoring of traffic is the following:

- Integration of functions of port services through a unified documentation system,
- Complete control of all aspects of ships and passengers at each port of call,
- Unique system of monitoring concessionaires' work
- Unified port fees system,
- Contribution to the establishment of safety standards in the port,
- Contribution to the establishment of quality standards in the port,
- Providing accurate traffic data from a unique source for authorities and agencies that operate in the port area,
- Creation of database that can produce high-quality statistical reports needed for business plans and port development plans as well as for the needs of different business subjects.

## **4.3. Port fees and charges and determination of TQM system**

Lately the role of the port authority is distinguished as a holder of standardization and systematic care for the quality control of port services. This role is associated with the management of the port and destination and the quality of the overall destination product at the cruise market. The inclusion of all members of the organization puts us closer to the total quality management (Total Quality Management, TQM). TQM is a management system focused on continuous improvement of products and / or services in order to develop high levels of customer satisfaction and loyalty to their organization. Total quality management involves the application of quality management principles to all aspects of the organization, including customers and suppliers and their integration with key business processes.

The objectives of TQM are increased customer satisfaction, productivity and profitability. TQM is a joint collaboration of everyone in the organization with the associated business processes in order to produce high-quality products and services that meet and, if possible, exceed customer needs and expectations. Evolution of TQM shows that the implementation of ISO 9000 standards are bases of

quality management, which can be followed by the introduction of one of the world's models of Business excellence.

Advantages of introducing a system of TQM are manifold:

- Increasing the quality of products / services;
- Increasing customer satisfaction and retaining their loyalty;
- Strengthen the competitiveness and market power of the organization;
- Reduced operating costs;
- Increased productivity and profitability;
- Increases the satisfaction of all employees;
- Increasing the quality of management;
- Increases the reputation and value of the organization.

The introduction of TQM in management of port system is primarily the task of the port authority. This effort will in the future especially come to the fore as part of the realization of the project of port development and modernization project, which will require a redefinition of the port system in the port of Dubrovnik (Gruž).

System of measure series ISO 9000:2000 defines quality as the degree up to which a set of existing properties meets the requirements. Product quality is an absolute prerequisite for its social recognition and transformation into a commodity and thus, at the same time, the basic requirement for life and work of any manufacturer and its appearance in the market.<sup>13</sup>

ISO 9001:2008 standard for business quality implies a dynamic and continuous process of adjustment of business requirements. As a start of introducing TQM system, Dubrovnik Port Authority carried out the standardization of business process and aligning it with the requirements of ISO 9001:2009. Standards are written (documented) agreements containing technical specifications or other precisely defined criteria to be constantly used as rules, guidelines or definitions of characteristics and to ensure that materials, products, processes and services are matching their purpose.<sup>14</sup>

The objectives of the implementation of the ISO system in the port system management process:

- describe and document operating procedures in such a way that they are applicable, sustainable, comprehensive and transparent,
- specify the duties and responsibilities for specific tasks and procedures - transparent lines of decision-making and
- specify the duties, responsibilities, organizational structure for business process management efficiency and minimization of repetition / overlapping of actions
- standardize the handling of documentation,
- establish mechanisms for controlling and monitoring the implementation of set standards and feedback in terms of the achieved level of quality and
- align goals with business objectives.

Integrated Quality Management System supports all processes in the function of identifying problems and finding optimal solutions for efficient management of the port system. The system is set up in such a way that all participants in the process understand the functions that must be implemented and mechanisms of action that are applied to achieve the satisfaction of all stakeholders and users of the port area.

The implementation of TQM in business of port authorities and port management, will enable access to the management of fees and charges as an integral part of the complex process of port

management. Such a system requires the management of all aspects of the business:

- Defining the purpose, vision and mission of the organization's operations,
- Setting measurable and objective goals of the business,
- The design and documentation of business procedures,
- Managing the financial aspects of the business,
- Organization of a unified documentation system,
- Establishment of an efficient reporting system.

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<sup>13</sup> Injac, N., Mala enciklopedija kvalitete - Upoznajmo normu ISO 9000, II. Prerađeno izdanje, Oskar, Zagreb, 2002, p. 72.

<sup>14</sup> Avelini Holjevac, I., Upravljanje kvalitetom u turizmu i hotelskoj industriji, FTMM, Opatija, 2002, p. 4.

Process approach to business in ports for the reception of cruise ships and passengers will provide guidance at all levels of the organization towards achieving the set goals. The well-organized process of port system management will make it easier to determine the fair amount of fees and charges in accordance with the effects to be achieved. This business function will become an integrated part of the business process of the port authority and thus port system management and cruise destination management. The introduction of a quality system, especially the environmental management system, will mean increasing the quality of port services and it will affect the competitiveness of ports and destinations. This will be an argument for increasing fees or for introduction of new fees for the protection and security.

### **4.3. Improving the system through cooperation and partnerships**

Business processes in ports open to international traffic are largely incompatible with each other, which makes the course of cooperation with the business environment more difficult, as well as consideration of the situation in this part of the economic activities at national and regional levels. It is necessary, therefore, to establish an organized cooperation at a higher level among all entities that can contribute to the formation and development of the port system. This idea would be embodied in the establishment of an advisory body at national and regional level, which would consist of representatives from universities, ministries or other bodies of local and state governments and port authorities.

Objectives and contributions of the project:

- Standardization of business process in ports, especially the procedures of accepting vessels and passengers / cargo in documentational and operational terms,
- An established and organized way of gathering and deployment of expert teams in addressing issues related to the port system, such as tariff models, investment models and concession models,
- Standardization of business reports, particularly financial reports and traffic statistics,
- Standardization of the content and flow of documents, as well as a unique information system at the level of individual ports,
- Database of charges and fees in cruise ports of the region, uniform price models and adoption of a common pricing policy,
- Developing a port – city interface,
- Joint marketing efforts with the aim of presenting unique national markets,
- Organizing thematic conferences and workshops for information, knowledge and experience exchange

## 5. CHOICE OF COMPETITIVE STRATEGY OF CRUISE DESTINATION DEVELOPMENT

When creating a competitive advantage destinations need to consider the legality of sustainable development. Michael Porter has proposed three competing strategies that can be applied in order to achieve sustainable competitive advantage.<sup>15</sup>

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<sup>15</sup> Renko, N., *Strategije marketinga*, Naklada Ljevak, Zagreb, 2005, p. 189

These are ways in which the company can successfully confront the competitive forces in the market:

- Leadership in low costs (low cost strategy)
- Product differentiation (differentiation strategy)
- The strategy of focusing (or focused segmentation strategy).

Leadership in low-cost strategy is a strategy by which the company achieves competitive advantage by lowering costs at the lower level than competition costs. The first approach in the framework of this strategy is the one according to which the company makes low cost. The result achieved is low profit per product unit but large total profit due to its high market share.<sup>16</sup> By applying this strategy a destination of low operating costs is developed, it has the characteristics of a mass tourism destination. The emphasis is on cost control, the use of economies of scale and maximum productivity of employees. The supply of these destinations, as well as physical capabilities must be adapted to accommodate a large number of tourists.<sup>17</sup>

Product differentiation is a strategy by which the company achieves competitive advantage by increasing the value of the goods or services in relation to competitors. Competitive advantage of this strategy is based on elements of the image and reputation and resources of the company, or any other aspect of the company that can be emphasized in relation to competitors. Differentiation strategy provides protection from competitors for customer loyalty to brands and therefore less sensitivity to the price.<sup>18</sup>

Implementation of the strategy of differentiation develops high value destinations for passengers. This implies great marketing skills, creativity, built image and a highly skilled workforce, as well as large investments in port infrastructure and superstructure. This type of destination can be developed as a transit port / destination or a cruise center.<sup>19</sup>

The strategy of focusing is a combination of two previous strategies, and implementation of the strategy of leadership in low-cost or product differentiation strategy in relation to a specific market segment. By applying this strategy, a destination is being developed as an exclusive / unique destination. Supply focuses on one or more selected narrow segments seeking uniqueness. These destinations are hard to reach in terms of traffic, so these are mostly transit destinations.<sup>20</sup>

Company / destination participating in each of the strategies and failing to create any of them is stuck in the middle, which is a very bad strategic position because it does not have any competitive advantage.<sup>21</sup>

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<sup>16</sup> Ibidem, p. 190

<sup>17</sup> Integrirano upravljanje kretanjem brodova i putnika na pomorskim krstarenjima u Dubrovniku, op. cit., p. 66

<sup>18</sup> Renko, N., *Strategije marketinga*, op. cit., p. 192

<sup>19</sup> Integrirano upravljanje kretanjem brodova i putnika na pomorskim krstarenjima u Dubrovniku, op. cit., p. 66

<sup>20</sup> Ibidem, p. 66

<sup>21</sup> Ibidem, p. 195

Given possible competitive development strategies, there are two recommended ways for the development of Dubrovnik as a port / destination:

- Transit port / destination or
- Cruise center.

In the case of selecting transit port / destination option, it is necessary to choose a strategy of focusing or differentiation strategy. Implementation of the strategy of differentiation means better evaluation of tourist resources, attracting new segments of passengers, but also destination management and better coordination of participants in cruise tourism development. The strategy of focusing means focusing on one or more narrow market segments, a good knowledge of the needs of target segments and development of exclusive / unique transit destination.

Destination development as a cruise center using differentiation strategy dictates the need for development of port infrastructure and superstructure, as well as a clear vision of development, closer cooperation of direct and indirect business holders, better organization of cruise passengers stay and redistribution of ship calls throughout the year.<sup>22</sup>

## **6. CONCLUSION**

Cruise ports are intrinsically embedded in a wider local and regional tourist and economic context, as their activities at operational level, as well as strategic development plans, must be in accordance with the plans of a higher order. Impact on factors of competitiveness requires a systematic approach to managing the functions of planning, organizing and controlling performance against set criteria arising from sustainable destination competitive strategy.

Active approach to destination management requires adequate management body at destination level that would enable an integrated and coordinated guidance of destination development including:

- Determination of development objectives, compatible with existing strategic planning documents and the laws and limitations of sustainability (destination image, the structure of demand, setting quantitative restrictions)
- Understanding of theoretical assumptions and legalities through continuous and systematic monitoring of trends, scientific research and collection of similar experiences and cooperation with other destinations with the involvement of competent and professional people
- Defining the mechanisms of action and management
- Continuous determination and adjustment of operational objectives and courses of action

Pricing policy is an essential part of the integrated destination management, but it is directly influenced by its existence and functioning.

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<sup>22</sup> Ibidem, p. 68



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