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T.E.I. Thessaloniki  
Greece



Department of Tourism  
Management

**UDC 338.486(495.4)**  
*Preliminary communication*  
*Received: 03.10.2007*

# TOURISM PRODUCT DIFFERENTIATION STRATEGY IN THE ZANTE ISLAND BASED ON THEMATIC ROUTES AND THE USE OF INFORMATION COMMUNICATION TECHNOLOGY

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**Abstract:** The unsatisfactory performance of tourism on Zante Island in Greece, expressed by low return on equity capital of hotels of the island, is due to the mass tourism product. The SWOT analysis is used as a tool of strategy analysis of the internal and external environment to describe the present situation of tourism on the island. Results show that the best strategy to achieve and promote competitiveness is to differentiate the product, ameliorate its quality and the use of Information Communication Technology, in order to decrease seasonality, prolong the annual period of tourism operations and connect it to the rest of the economy on the island. The case study of defining thematic routes for tourism in Zante by the local communities is an example of decisive contribution of the product differentiation to sustainable development of rural and less favorite areas.

**Key words:** Product differentiation, SWOT Analysis, ROE, Thematic Routes, Sustainability of Tourism, Information Communication Technology.

## INTRODUCTION

The island of Zante is situated west of Peloponnesus in the Ionian Sea in Greece. It is one of the main islands that form the Ionian region, it represents its southern end and it is the 2<sup>nd</sup> in tourism development island of the region. The economy of the island is based primarily on the mass tourism for summer vacations. Since the

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1980's, the model of mass tourism for summer vacation has been facing a gradual decline in favor of other forms of tourism which are focusing on the quality of service and customization.

The critical role of tourism in regional development, according to European Union (European Parliament, 1993, p. 3) is due to the attraction of income flows from outside the region, the interconnection with the other sectors of the local economy, which produces multiple final outcome per dollar spend. At the same time tourism is a labour intensive sector especially important in the era high unemployment rate (that plague local economies), an activity that takes place primarily in areas that are not industrially developed and remains the sector with the highest growth rate globally.

The total receipts from tourism globally reached the amount of 474 billion USD in 2002 according to WTO (2004) and the sector became the largest export oriented one. Europe accounted for the 50,6% of the total receiving approximately 240 billion. The World Travel and Tourism Committee considers tourism as an important activity (which employs 250 million people worldwide and 11 million in EU) that contributes to regional development and proposes a close and dependable cooperation between private and public sector for the production and disposal of goods and services for the benefit of all the parties concerned with respect to the environment, cultural identity and the society at large (WTTC Blueprint, 2003, p.3).

The sustainability of tourism in this paper encompasses the notions of a) the economic viability and b) the environmentally friendly factor. The economic viability is achieved through the attainment of competitiveness. Competitiveness means that the island uses its comparative advantage (basically its natural environment) without exhausting it according to Porter. Competitiveness is best defined at the level of company or industry according to Porter (1996), who considers a sector as being competitive when its majority of firms are considered so. Strategy is the means of achieving it through the harmonization of internal and external environment. The later, with the lapse of time changes more frequently. These changes create opportunities for profits, as well as risk.

The proposed approach to measure competitiveness is based on the return on capital that constitutes the basis of the investment decisions in the market economy, evaluates the consequences of the governmental policy in tourism and assesses the success of the strategy implemented. Strategic management according to Porter refers to choices regarding the products to be produced and the services to be offered in order to create value for the consumer and to establish a company's viability through the satisfaction of the main stakeholders. Towards that purpose analysis of a) financial statements of a representative sample of hotels for the Zante Island is implemented, followed by b) the "five forces" analysis in tourism industry and the framework of SWOT. To accomplish its task more thoroughly, SWOT analysis will be applied in conjunction with a theory of competitive advantage.

## 1. SWOT ANALYSIS AND THE FIVE FORCES OF ZANTE TOURISM

The financial position of hotels (that represent the backbone of tourism), as well as the policy alternatives, can be better understood through the use of SWOT analysis (Grant, 2002). The SWOT matrix constructed for the tourism of Zante Island reflects both internal and external environment of it and is presented in Table 1.

**Table 1:** The SWOT Matrix

<p style="text-align: center;"><b>Strengths</b></p> <ul style="list-style-type: none"> <li>• Valuable cultural and historical resources</li> <li>• Mild weather conditions</li> <li>• Clean beaches</li> <li>• Reasonable level of prices</li> <li>• Direct charters to the island</li> </ul>	<p style="text-align: center;"><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>• Development of alternative forms of tourism</li> <li>• Improvement of infrastructure and superstructure</li> <li>• Improvement of sea and air transportation</li> <li>• Application of ICT</li> </ul>
<p style="text-align: center;"><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>• Mass tourism for summer vacations concentrated on specific areas of island</li> <li>• High seasonality and great dependence on foreign tourist operators</li> <li>• Low level of hotel management and organization</li> <li>• Insufficient vertical integration and absence of cluster of business in tourism</li> </ul>	<p style="text-align: center;"><b>Threats</b></p> <ul style="list-style-type: none"> <li>• Changes in the preferences that don't favor mass tourism</li> <li>• Great dependence on the market of Great Britain</li> <li>• Increased price competition</li> <li>• Appearance of new tourism destinations</li> </ul>

The immediate external environment determines (in connection with the internal one) the opportunities and the threats for the industry or the company (hotel) which operates in it. The competitive advantage, which secures economic viability, contributes to the above average profits, and is determined to a great extent by the following industry attributes. The barriers to entry, the monopoly power and bargaining power (either of the suppliers or of the clients).

All these factors, which emanate from the industrial organization field, were further developed and operationalized by M. Porter and became a popular tool of industry analysis that attributes great significance to external environment of the companies (hotels) under scrutiny. The analysis of the external environment concerning the sector of tourism is approached through the popular tool of the "five forces". The application of "The Five Forces" tool of Porter that assesses the attractiveness of tourism, when applied to Zante island, gives us the following (Curtis, 2004):

- The intensiveness of competition in the sector of hotels has increased lately due to the unused bed capacity, the highly seasonal operation of hotels and the heavy investments in fixed assets, that don't have any alternative use.
- The impediments to the establishment of new hotels have been reduced, given that the investment fund needs are not prohibitive and the tendency for backward

integration of the big tour operators of the tourism countries of origin. The access to the international investment flows has been facilitated, the access to distribution channels is not prohibitive and the internet allows hotels to reach individual tourists and the absence of considerable economies of scale make the operation of small hotels equally competitive.

- The likelihood for the tourism product to be substituted has been increased due to the tendency for more journeys of shorter duration that favor alternative destinations which are closer to the countries of tourist origin (Spain, Italy, Croatia etc) and the appearance of new destinations in central and Eastern Europe that attract mass tourism for summer vacations.

These tendencies in mass tourism for summer vacations create more alternatives for European tourists. So, the price and the cross elasticities are increasingly favoring low price destinations, while at the same time the income elasticity of mass tourism is decreasing. At the same time:

- The bargaining power of hotels on the island is declining due to the excessive bed availability in relation to demand and the absence of product differentiation strategy. The high break-even point of operations, the comparative advantage of tour-operators concerning market information and their monopsony power that allows them to dictate the terms of any commercial agreement. The internet disseminates widely and instantaneously information regarding bed availability and prices.
- The bargaining power of the suppliers depends on factors the development of which is not straight forward. Specifically natural resources, the infrastructure and the public services related to tourism are neither controlled, nor can be influenced by the hotel sector. On the other hand, the influence that hotels can exert on food, entertainment and transportation services (offered to tourism) is considered substantial.

According to the previous analysis it is obvious that the five forces, which determine the attractiveness of the mass tourism product market, don't favour as much the hotel operations in it and consequently curtail their return to capital. Regarding the internal environment on the other hand, applying McKinsey's 7s approach, the quality of the factors involved is below the required one, under the circumstances in the sector. The great majority of cases where hotel ownership coincides with management, the quality of service, innovation and productivity are low. All these factors result in low prices, insufficient and unstable level of revenues, low profit margin and inadequate return on invested capital (Curtis, 2004).

## **2. COMPETITIVE STRATEGY AND ROE**

The competitiveness advantage is secured for the company or the sector (tourism), when appropriate strategy is used "to do the right thing" (which is tantamount to effectiveness) and at the same time "things are done right" which presupposes efficiency in operation (Hooley et al., 1998, Porter, 1996).

Successful strategies, is the result of alignment of internal to the external environment. Both environments are reflected in SWOT analysis ((Wehrich, 1982). The internal environment is usually related to the economic use of available resources in exploiting opportunities or neutralizing threats stemming from frequent, unexpected and uncontrollable changes in the external environment. As the internal environment can be considered that, it includes resources, competences and capabilities that are called strengths (in the case of existence) or weaknesses in case that does not exist in a company, a sector or a region (Raines, 2001). We know at the same time that SWOT analysis although it is used extensively at the early stages of strategy analysis process, it is rather considered as an ineffective and some time dangerous tool if it is not accompanied by complementary for that reason business strategy analysis tools (Hill and Westbrook, 1997). SWOT analysis is basically one of the five stages of a complete strategy cycle (Oliver, 2000, p.9).

To accomplish SWOT analysis its task more thoroughly in our case, should be applied in conjunction with a theory of competitive advantage. Porter's approach is considered more suitable for the analysis. According to Porter (2002) the competitive advantage is manifested on the return on capital. Lasting superior return on capital invested by a firm, presupposes operation in an attractive industry, appropriate strategic positioning in it and operational effectiveness in carrying out its tasks. The attractiveness of the tourism industry in this paper is approached through the average return on capital for the entire country (Greece). The unique competitive position and the operational efficiency in operationalizing (implementing) that position in Zante is assessed through the difference in return compare hotels for whole country.

Performance is the ultimate arbiter of strategy fitness and a sine qua non element that permeates any comprehensive strategic planning scheme, since "what gets measured gets done". The use of a meaningful and suitable performance measurement system, as a means of evaluating business strategy appropriateness (regarding its conception and implementation), is a prerequisite and indispensable tool, that translates strategy into operational and measurable objectives. Operation, culminating in superior return, over and above the cost of capital it is the profound outcome emanating from the competitive advantage of the firm emulating in a vibrant and attractive sector, which is not static but a dynamic one (McGahan,1999). Return on capital is a composite index consisting of a) the net profit margin and b) the capital turnover.

The revenues generated depend on the occupancy rate of the available beds. Net profit margin and capital turnover are interrelated since the level of occupancy determines to a great extend the percentage of profit margin. The economic effectiveness of the internal environment (efficiency) and the effectiveness in the satisfaction of the external (which determines the size of activity), jointly determine the success of a strategy, the competitiveness and the return on capital.

On the other hand these two elements constitute the synthetic elements of the RONA indicator.

$$\mathbf{RONA} = \frac{\text{Net Profits}}{\text{Sales}} \times \frac{\text{Sales}}{\text{Total Capitals}} \quad (1)$$

The return on equity results from the one on net assets (RONA) through its multiplication with the composition of assets and in particular with Total Assets/Equity.

$$\text{ROE} = \text{RONA} \times \frac{\text{Total Assets}}{\text{Equity}} \quad (2)$$

The utilisation of debt increases the fraction because it decreases the denominator and it renders bigger than one, strengthening further any positive efficiency (in case of profitable enterprise) expressed by RONA. ROE constitutes the criterion of attracting capital inflows to the sector.

Despite the fact that ROE suffers from a serious drawback compared to RONA, since it can be manipulated by changing financial leverage (the ratio of equity to total capital), it is considered a good measure "assessing the overall performance of the firm's management" (Flamholtz, 2000) and "traditionally the single most important and widely noted benchmark of corporate performance" (Teitelbaum, 1996). In 1970 the maximisation of the return on equity (ROE) was established as the acceptable aim of financing administration (Gitman, 1998) by transferring the central aim from the indicator of output to the return on net assets (RONA) which does not discriminate the assets by their source of origin

### 3. FINANCIAL STATEMENT ANALYSIS AND STRATEGY

According to the analysis of the financial statements published by a sample of 23 hotels representing over 60 % of the bed capacity on Zante island, we found that the annual average return to equity for the period 1993-2004 was **-3,1%**, due to low return to capital employed in the sector, which results in negative profit margin. The average rate of return on capital invested on hotels for the whole country (Greece) was positive but close to zero (reflecting the level of attractiveness for the sector due to the function of the five forces). At the same time the average risk free rate, approximated by the yield to maturity of ten year government bonds was **12,3%** for the same period. It indicates that investment in the hotel sector of Zante destroys value and it is at least the result of an inappropriate strategy. So, the return on total and equity capital remains negative and can't be used to attract any capital inflows for investment. The negative net profit margin renders any further decrease in prices dangerous without any substantial increase in invested capital turnover since it exacerbates losses as the past experience shows.

According to the return on equity capital, hotels in Zante show consistently lower and more volatile performance compared to the one exhibited by the sector countrywide. This observation indicates that domestic oriented factors operate adversely lowering even more the meager compensation to equity capital and leave investments to depend on government grants. The losses and the destruction of value is accentuated further on the Zante island where the losses are greater, indicating that the sector is lacking a lasting competitive advantage. This is due to the conditions of the region, followed by ill positioning of the companies through the absent of appropriate for the circumstances strategy.

The present strategy (if any), can be characterized as vague or “stuck in the middle” according to the results of a research implemented among the hotel managers in the island (Curtis, 2004). A strategy that is based on differentiation, quality, and customization will exploit opportunities related to the changes in tourism industry (which lead to the development of alternative forms of tourism, more frequent and shorter duration traveling). Besides it will contribute to neutralization of threats emanating from the appearance of new destinations, the new tastes of a more educated and environmentally sensitive tourist, who uses the internet to increase awareness. Any development of alternative form of thematic tourism (as it is the proposed thematic routes) will exploit the hospitality of the local population, conserve the environment, align tourism to the local economy and culture, spread activities more evenly across the island, mitigate seasonal operations, reduce price elasticity of demand and customize the product that will be marketed directly to the final consumer with the use of Information Communication Technology (ICT), so as to increase the bargaining power of the island towards the foreign tourist operators.

The viable strategy is the one that leads to profitable growth in accordance with the guidelines provided by Marakon matrix (Hax and Majluf, 1996). Product enrichment and differentiation, as well as “value for money” in connection with quality improvement strategy are overwhelmingly recommended to restore tourism viability by bolstering the return on capital employed in the hotel industry on the island. This strategy is in line with the belief that the mass tourism product of Zante is at the stage of maturity of its cycle, the adverse effect of five forces in the sector (that don't favour mass tourism), the findings of SWOT analysis for the present situation in the sector, and finally, in accordance with European's Commissions views (2003b) for the European tourism.

#### 4. THEMATIC ROUTES IDENTIFICATION ON ZANTE

There are three regions on the island that receive the main tourist load and exhibit saturation phenomena (LAG Leader+, 2003). The three regions are close to urban zones as presented in Figure 1. The heavy red color zone at the south coast area is the most attractive and well-known seaside, which gets the most arrivals during summer period.

**Figure 1:** Tourist saturated regions

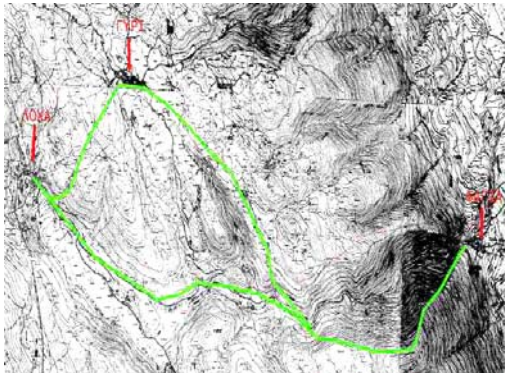


The realization that the mass tourism for summer vacations product has reached its maturity stage of the cycle, has led the local authorities to search for new type of tourist services and products. The research study proposed the thematic routes in the mountainous regions of Zante, as an alternative to the existing product. The mountain regions have already attracted environmental sensitive inbound tourism. The identification, the evaluation and the choice of thematic routes is performed according to seven criteria: Uniqueness, effectiveness, cost-benefit ratio,

complementarities, reliability, health protection services and environmental protection and preservation issues. An important contribution of criteria used is the transformation of qualitative characteristics of thematic routes in to quantitative.

Following a thematic route, the visitor has the occasion to combine vacations with learning, discovering the natural beauties and the cultural heritage, in a relaxing but also authentic space. The diversity of landscapes, the natural and cultural wealth that have not been developed yet, constitute a comparative advantages that has to be transformed to competitive one, without being exhausted. The analysis of the potential thematic routes resulted in the one presented on the Zante map using GIS technology (Figure 2, green line).

**Figure 2:** Thematic route GIS mapping



The presentation and the promotion of the thematic route as new product necessitate the use of new technologies of broadband communication (Ktenidis, 2003). The differentiated new tourist product is characterised by a large volume of digital content. This content is distributed not only through conventional marketing channels but also through internet and web marketing application. Internet attracts new potential customers and provides

details about the thematic route, like small museum operating time, cultural events dates, availability of residential spaces, in real-time.

The broadband communication technology provides to the visitors of rural areas the potential of using small portable devices such as palmtop, mobile phones (Figure 3), in order to receive low-cost valuable information on-spot regarding landscape important views, historical monuments, cultural festivities etc.

**Figure 3:** Palmtop, thematic route and landscapes



The broadband communication supports the new services provided to the potential customers and facilitates the local community to be trained in order to offer new tourist products. The producers themselves become the sellers of the products (A-BARD, 2006).



## **5. INFORMATION COMMUNICATION TECHNOLOGY AND TOURISM**

Information Communication Technology (ICT) applications and the Internet use are the major changes that have occurred in the tourism sector. The increasing global competition has led to the proliferation of eBusiness in tourism. During the last three decades the tourism industry has been affected by “three major waves of ICT” (EC, 2007).

In the context of the Lisbon strategy aiming at improving European competitiveness, it is acknowledged that information and communication technology has a profound influence on the potential for economic growth through its effect on innovation, productivity, corporate performance, accountability and corporate governance. So, governments in Europe and around the world are adopting ICT-enabled strategies to enhance tourism's business and regional economic performance (Frew et al., 2005).

The need for close cooperation and coordination of all the stakeholders of a region, responsible in producing the tourism product, is paramount to enhance customer satisfaction with Zante area and promote the destination in global markets (Buhalis and Spada, 2000). This is a means of enhancing product (service) quality and differentiation of the destination. The cooperation for the development of a comprehensive and valuable proposition that is distinct, based on the internal strengths of the region is facilitated through the use of ICT and the adoption of eBusiness model, which foster innovation and integration and at the same time is evolutionary. It should be noted that according to The European e-Business Market Watch (2005) “the internal structure of a destination may be considered virtual enterprise (Ndou and Petti, 2007). Destination Managements Systems (DMS) is the means of destination management policy purporting at initiating and promoting eBusiness and the use of ICT.

The Information Economy Report for 2006 of UNCTAD finds that of information and communication technologies exert a favourable effect on productivity growth. It stresses the importance of “promoting broadband adoption” in countries to enhance competitiveness and productivity at the level of private firms. Finally, e-Business is considered a tool for expanding marketing” opportunities, as it does the broadband connectivity.

## **6. CONCLUSIONS**

The return on capital invested on hotels in Zante Island is negative due to their unfavourable competitive environment regarding mass tourism for summer vacations, its undifferentiated product which cannot avoid imitation by rival destinations.

The three saturated tourist regions of the island with overloaded carrying capacities lead to the need for the development of new tourism products targeting the prolongation of the tourism period and the higher quality of services.

The thematic routes shape new products, exploiting the island resources in a sustainable way. The evaluation and the selection of the thematic routes according to certain criteria guarantee the optimum choice.

The marketing of the thematic route product characteristics needs ICT and broadband communications that will bring the rural areas out of the isolation. Zante non-urban areas are promoted in real time with low-cost to international customers. High volume valuable information reaches the customer even on-spot through portable devices. Thematic routes exploiting the broadband communication motivate local community not to leave their home place and provide them the capacity to think global and act local in a totally sustainable (financially viable and environmentally sound) way.

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