
TOURISM VALUE CHAIN AND SUSTAINABILITY CERTIFICATION

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LABELSCAPE
Integration of sustainability labels into Mediterranean tourism policies

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1. Value chain definition

Across every industry where the transaction of a product or service is present between client and business, **value chains define the structural activities and output of the transactional process and “help all companies strengthen their competitive nature”** (Morales-Zamorano, Camacho-García, Bustamante-Valenzuela, Cuevas-Merecías & Suarez-Hernández, 2020). In fact, **research into value chains within the business sector can be traced back to Porter (1985)**, who intertwined the roles of “competitive advantage” to “value chain”. He states that competitive advantage “describes the way a firm can choose and implement a generic strategy to achieve a competitive advantage, and addresses the interplay between cost and differentiation - and the scope of a firm's activities” (p.26). The scope and tools chosen by the firm determine if the company will gain a competitive advantage over its market, and value chains play an important role in this process.

Porter (1985) defines value chains as a “tool to diagnose and find ways to enhance competitive advantage – it divides a firm into the discrete activities it performs in designing, producing, marketing and distributing its product” (p.26). Each separate step from extraction and input of raw materials, to product creation and manufacture, to distribution “becomes part of the value added” (McGee, 2014) and ultimately, consumer satisfaction (or dissatisfaction) when they make use of said product. In this regard, value added comes from every activity within the chain of production and is “the sum of the benefits that the client receives, less the perceived costs by him, when acquiring and using a product or service” (Morales-Zamorano et al., 2020). It can be understood as a multiplier effect – every step taken adds more and more value to the product or service, utilizes more resources and ends with the finished piece operated by the consumer. McGee (2014) describes the gain and loss effect by stating that “value is created by reducing stocks, accounts receivable, and so on, while value is lost via raw material purchases and other liabilities” (p.1).

Although this process happens internally within the company, the value chain does not start at the beginning of production, but from the client himself, “who should set the tone to give the value” (Morales-Zamorano et al., 2020) of every phase the company goes through. Consequently, listening to and noting down consumer demands/complaints/issues aids the process of value added by emphasizing certain aspects of activities that might need improvement.

As mentioned above, the value chain model is a tool to scrutinize and achieve competitive advantage, but it does not only surround the operation of value creation through stages. As Partale (2020) points out, “on the one hand, it encompasses the value creation process of products or services, and on the other, a management approach that helps to systematically achieve strategic objectives” (p. 13). As an instrument aimed at the internal management of a company, value chains are very useful to examine and regulate internal activities and “shape them against the backdrop of goals and strategies” (Partale, 2020). For instance, goal-oriented project managers with a keen eye on sustainability might take a resource management approach to effectively contribute to the value chain while cutting costs at the same time. The act of analysing value chains is emphasized by Hergert and Morris (1989), who define

its advantages “as a source of sustainable competitive advantage, resolving linkages that are complicated and identifying strategies for value creation” (p.176).

2. Introduction of the value chain model

The concept of a value chain model was first introduced by Porter (1985). According to Porter (1985), “every firm is a collection of activities that are performed to design, produce, market, deliver, and support its product” (p. 36). In other words, it's important to maximize value at each specific point in a firm's processes (Investopedia, 2020).

In his concept of a value chain, Porter splits the firm's business activities into two categories, (i) primary and (ii) support. **Primary activities consist of five components, and all are essential for adding value and creating competitive advantage (Porter, 1985):**

1. *Inbound logistics* include functions like receiving, warehousing, and managing inventory.
2. *Operations* include procedures for converting raw materials into a finished product.
3. *Outbound logistics* include activities to distribute a final product to a consumer.
4. *Marketing and sales* include strategies to enhance visibility and target appropriate customers—such as advertising, promotion, and pricing.
5. *Service* includes programs to maintain products and enhance the consumer experience—like customer service, maintenance, repair, refund, and exchange.

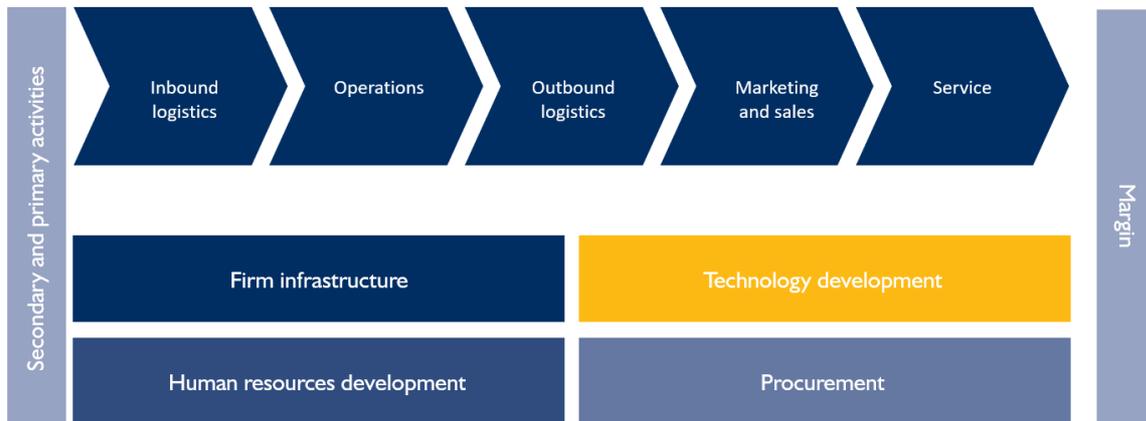
The role of support activities is to help make the primary activities more efficient. When you increase the efficiency of any of the four support activities, it benefits at least one of the five primary activities.

These support activities are (Porter, 1985):

1. *Procurement* concerns how a company obtains raw materials.
2. *Technological development* is used at a firm's research and development (R&D) stage—like designing and developing manufacturing techniques and automating processes.
3. *Human resources* (HR) management involves hiring and retaining employees who will fulfill the firm's business strategy and help design, market, and sell the product.
4. *Infrastructure* includes company systems and the composition of its management team—such as planning, accounting, finance, and quality control.

As shown in the figure below, the integration of these activities generates profit for the firm and creates value for customers in the form of a value chain (Song, Liu, and Chen, 2013).

Figure 1. Porter's value chain.



Source: Adapted to Porter, 1985.

The ability of any firm to understand its own capabilities and the needs of the customer is crucial to be successful. The profitability of a firm depends on how effectively it manages the various activities in the value chain; the price that the customer is willing to pay for the company products and services exceeds the relative cost of the value chain activities (Kumar and Rajeev, 2016). Porter (1895) argued that the source of the competitive advantage cannot be detected by looking at the firm as a whole.

Value chain includes a full range of activities and services required to lead a product or service from its conception to sale in its final market, be it a local, national, international or global one. **Value chain includes** (Porter, 1985; Kumar and Rajeev, 2016):

- Producers
- Inputs suppliers
- Operation
- Processors
- Retailers, and
- Buyers.

They are supported by a range of technical, business and financial services providers. The value chain mainly focuses on the market collaborating strategy, emphasizing the connections between production, marketing etc. activities of the products and services in an effective and efficient manner. Vertical alignment is another important aspect where companies connect one end of the primary activities up to the last end of the supportive activities, at each stage of the products which to increases value.

3. Product-based vs. service-based application of value chain model

In a service-oriented industry such as tourism, the specialized service takes the shape of “any activity or benefit that one party offers to another, and that is basically intangible and does not result in the possession of something.” (Porter, 1985). In this sense, the services offered by tourism companies vary

from products sold by retail industries, for example. A good is tangible, in that it is made of physical resources that are moulded to ascertain a specific state or purpose. Contrarily, a service “possesses the characteristics of inseparability (when production, sales and consumption happen at once), intangibility, variability (difficulties in maintaining the consistency of quality), as well as perishability (cannot be stored as inventory like other products)” (Goni & Yustika, 2019, p.139).

Indeed, each one of these attributes renders service as quite a volatile and ephemeral type of business transaction, and they cause “their own complexity for the value chain of the tourism industry” (Baum, 2006), however, it is crucial to point out Porter's (1987) definition of value chain mentioned previously, as it portrays tourism's inherent identity as an intangible, and not resulting in the possession of anything, but rather, having acquired an experience between benefitor and benefitee. In this sense, a tourism product is translated as a tourist experience through service.

4. Value chain model implementation in tourism

Tourism is composed of various stakeholders, with the majority of them being small to medium enterprises that “operate in different industries (lodging, transportation, attractions, food and beverages, retail, etc)” (Goni & Yustika, 2019), which is why it has such a complex value chain. Moreover, this industry is impacted by economic, social, political, environmental and technological uncertainties which include “the matureness of tourists as independent travellers, fluctuating economic conditions, social media, environmental concerns and changing tourism distribution systems” (Madera, Guchait, Dawson & Belarmino, 2017, p. 56). Even though they are not easy to predict, enterprises have adapted to the fluctuations of demand and supply during these evolutionary events. Besides being an intangible service, tourism is also very flexible, and in its process of service-provision, its enterprises have birthed new skills in the workplace such as “social media-based marketing, new communication strategies and a demand for “green” skills” (Madera et al, 2017).

Although the tourism value chain might not be as easily palpable as a product-related one, it “comprises a set of interrelated activities that take place in the same destination and add value to the tourist experience” (Morales-Zamorano, 2020). The value chain for the tourism industry can be thus broken down into sub-groups of primary and support activities that embrace the entire tourist experience within the destination, and Jonker (2004) devised a plan where value is added throughout every stage: product (service) creation, promotion, internal logistics, destination services and post-sale services.

UNWTO has proposed a model of the tourism value chain in 2013 which illustrates the complexity of a typical tourism value chain (DEVCO and UNWTO, 2013) (see figure 2). To the left, the figure illustrates activities that take place in the outbound country (i.e., the tourists’ country of residence) and to the right those taking place in the inbound country (i.e., the tourists’ destination country). The bottom half of the figure represents activities that are a direct part of the tourism sector, while those indirectly linked to the tourism sector are represented in the upper segment. The development potential of

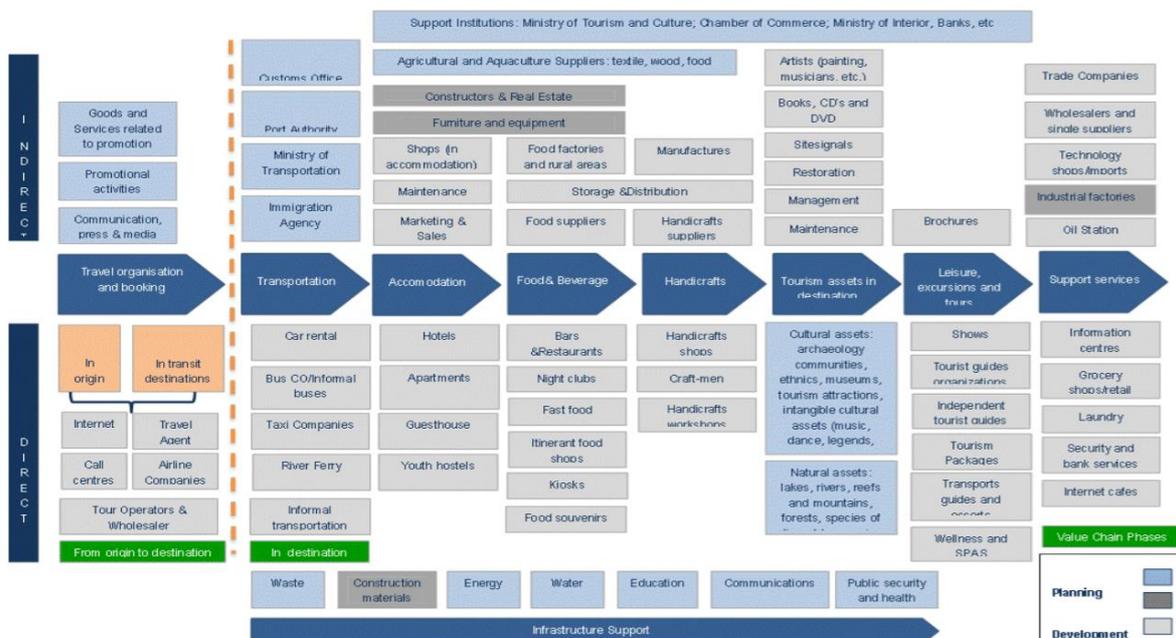
tourism is maximized in countries that manage to exploit the indirect linkages in an optimal way, and the figure illustrates that a broad range of activities can be considered relevant in order to achieve this.

A tourism value chain should be driven by the passion, pride and confidence of key stakeholders that ensure visitors will experience the best that a destination can offer. A tourism value chain can simply be defined as a system that describes how private sector firms in collaboration with government and civil society receive or access resources as inputs, add value through various processes (planning, development, financing, marketing, distribution, pricing, positioning, among others) and sell the resulting products to customers. A tourism value chain approach can be used as the methodology for analysing the process and identifying opportunities to increase value through positive action or the elimination of barriers or constraints.

In order to apply the tourism value chain properly, governments and businesses need to establish and enforce (UNWTO, 2018):

- Inclusive and integrated policy frameworks for sustainable tourism development
- Businesses need to demonstrate their commitment to sustainability in core business models and value chains with enhanced action
- Individuals and civil society need to advocate for and adopt, consciously sustainable practices and behaviours.

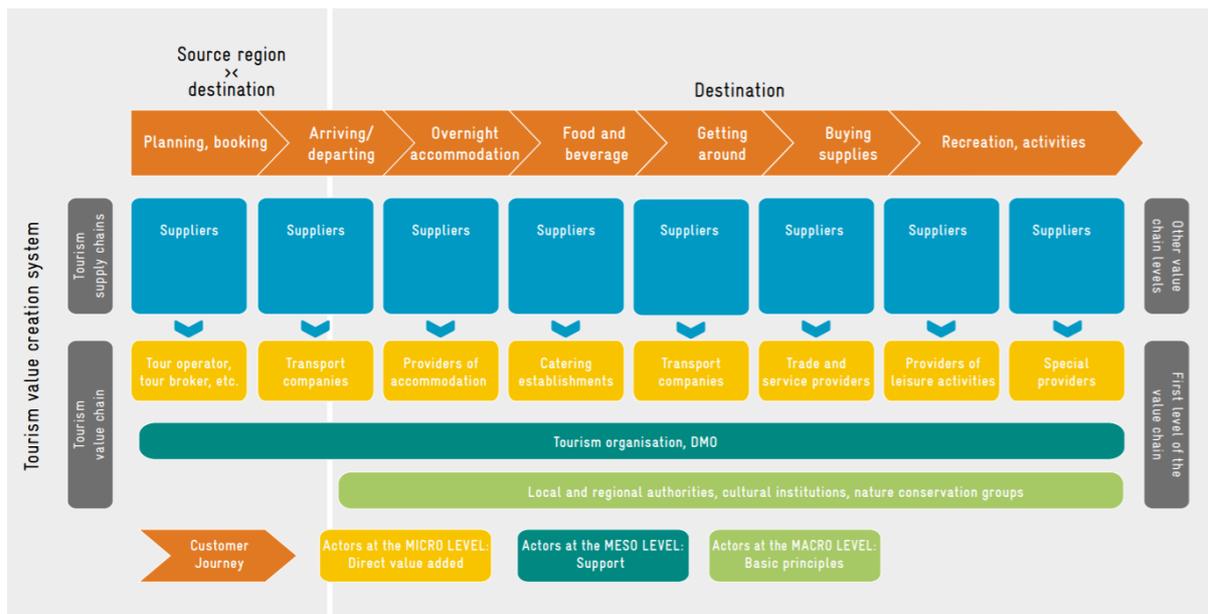
Figure 2. Tourism value chain



Source: DEVCO and UNWTO, 2013 in OECD/UNWTO/WTO, 2013.

Figure 3. Tourism value creation system





Source: Kai, 2020.

5. Tourism destination as a “tourism value chain”

Tourism destination itself can be identified as a macro-level value chain. The term “destination” originates from the Latin word *destinatio* and in its original form has been used as a synonym for a final point of travelling. The term tourism destination, as we know it today, emerged in the scientific and professional literature four decades ago. Gunn (1972) was one of the first authors who tried to define the tourism destination, suggesting the classification of the so-called tourism destination zones as urban, radial and extended zones. The contemporary concept of a tourism destination is significantly different from a traditional one. Tourism destination is associated with places and areas defined by certain administrative boundaries, the formation of which was influenced by ownership of land, means of land usage, geographical and morphological features of space, as well as important political events (Miličević, 2016).

According to Kušen (2010, p. 412), “tourism destination is a clearly defined geographical area; it is always a part of the area strongly marked by distinctive physical features, potential and real tourism attractions and spatial relations between them and other tourism attractions”. According to Jafari (2000), a tourism destination is a place where tourists intend to spend their time away from home. A tourism destination may be a self-contained centre, or a village, a town, a region, an island or a whole country. Also, a destination may be a single location or a set of multi-destinations as part of a tour such as a cruise. According to Medlik (2003), a tourism destination is the main location of tourist activity with a tendency of occupying tourists’ time which will consequently increase their intention for spending. From the consumer’s perspective, a tourism destination is the principal motivating factor behind the consumer's decision and expectations (Cooper, Fletcher, Fyall, Gilbert and Wanhill, 2008).

Kušen (2010) further argues that today's generally accepted definitions of tourism destination are mainly in the function of marketing and less in the function of physical, geographical, and long-term tourism development. According to Buhalis (2000), a tourism destination is a place that offers different tourism products and services that are under the same brand name in order to offer an integrated experience to tourists. Leiper (1995) argues that tourism destinations are places that people travel to and decide to stay in for a certain period of time in order to attain a certain experience. Generally speaking, a tourism destination is commonly defined as an administrative or geographical area visited by tourists because of certain benefits. It is a place that is characterized by the real or imagined boundaries that may be a natural boundary (e.g., between the islands), political boundaries or even a boundary created by the market (Hall, 2000; Jafari, 2000; Kotler, Bowen and Makens, 2006).

Previously mentioned definitions of tourism destination primarily represent a theoretically defined concept of this important term. However, a **more professionally oriented and technical definition of a tourism destination is provided by the UNWTO (2007, p. 13), which argues that a tourism destination is “a physical space in which a tourist spends at least one overnight. It includes tourism products, such as support services and attractions, and tourist resources within one day's return travel time. Tourism destination has physical and administrative boundaries defining its management on one side, and images and perceptions defining its market competitiveness on the other. Local destinations incorporate various stakeholders often including a local community, and can nest and network to form larger destinations”**. From the tourism destination definition provided by the UNWTO, it is possible to extract elements necessary for an area to be considered a tourism destination:

- Tourism destination must have clearly defined administrative boundaries or borders defined on the basis of its tourism resources and attractions, such as national parks
- Tourism destination must have a defined image and certain abstract characteristics and qualities that can contribute to a clear definition of a destination brand and
- Tourism destination must be an area where the local community is ready to develop tourism and where different tourism activity stakeholders find it convenient to cooperate.

Destination stakeholders are a focal point for the destination's value chain development. Generally speaking, actors along a tourism value chain can be categorized into four tiers (Romero and Tejada 2011; Kaplinsky and Morris 2001):

- Planners or designers of the basic tourism product
- Suppliers of products and service
- Tourism intermediaries, and
- Tourists themselves.

The planners or designers of the basic tourism product are responsible for policy-making and planning, and are displayed at the very beginning of the value chain. Tourism products and services include attractions, accommodation, restaurants, bars, souvenir shops, airlines, transportation and so forth, which may be operated by governments, contractors, or local residents. These suppliers provide the primary product or service to tourists directly or indirectly via intermediaries. There are two possibilities



in the third tier of the value chain: tourism intermediaries who purchase products or services from suppliers and sell them to tourists, or the tourists themselves if they purchase directly from suppliers.

*Additional text (Rahmiati, Ismail, Amin, Simatupang, Larso, & Othman, 2019):

- **How tourism can contribute to the Sustainable Development Goals**
SDG 8 – Promote sustained, inclusive, and sustainable economic growth, employment and decent work for all tourism employees, as services trade, is one of the top four export earners globally, currently providing one in ten jobs worldwide. Decent work opportunities in tourism, particularly for youth and women, and policies that favour better diversification through tourism value chains can enhance tourism positive socio-economic impacts.
- **Strengthening linkages and opportunities in the tourism value chain**
The tourism value chain is a sequence of primary and support activities that are strategically fundamental to the performance of the tourism sector. Key activities of the tourism value chain encompass a range of processes linked to the tourism sector, such as policymaking and integrated planning; product development, promotion, and marketing; distribution and sales; and destination operations and services. A systematic analysis of the tourism value chain at the local destination level can be a useful tool to trace income flow in the tourism sector. Such analysis identifies which part of tourism income goes to disadvantaged groups, while also determining possible interventions to enhance tourism’s local economic impact. Such assessments can be supplemented by market assessments and by working with stakeholders to identify future opportunities for engagement, supported by capacity building. Combining value chain development and local economic development strategies can also enhance the functioning of the market system while supporting pro-poor development and job creation. A number of actions can be taken to work with established tourism enterprises in order to strengthen their supply chains. This requires engaging with businesses, as well as encouraging supply audits and new sourcing. It also requires working with local suppliers to strengthen their capacity. Surveys from leading tourism firms have highlighted uncertainty about the quality and regularity of service from local suppliers as a major operational challenge. Since tourism offers potential for new enterprise formation – as it requires relatively low levels of technical skills or financial resources compared with other sectors – particular opportunities exist to establish micro-businesses in both direct and indirect parts of the tourism value chain. These areas could include handicrafts, tour guide services, catering, maintenance, food supplies, cleaning and various other activities. Priority should be given to supporting existing and newly-established micro-, small- and medium-sized enterprises (MSME) through capacity building, including training on business skills, market access, ICT skills, accessible finance, standard-setting and marketing. Non-traditional tourism-related businesses – such as Uber and Airbnb – can also help to spread tourism income, while simultaneously affecting the formal economy and the local communities in which their business takes place.

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