

# OVERTOURISM: PERCEPTIONS AND STRATEGIES OF BUSINESSES IN THE OLD TOWN OF DUBROVNIK

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# OVERTOURISM:

PERCEPTIONS AND STRATEGIES OF BUSINESSES IN THE OLD TOWN OF  
DUBROVNIK

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## **Abstract**

Overtourism is the term from 60s popularly used today to express negative effects of overcrowding of touristic destinations. Croatia is a country very dependent on tourism, and Dubrovnik is the most popular touristic city suffering from overtourism, threatened to become profit-thirsty resort. Since there has been a lot of media attention to this problem, this paper focuses on strategies and perceptions of the businesses in the Old Town of Dubrovnik on the current situation and the future. Survey of 30 businesses investigates their business strategies and thoughts on the proposed limitation on visitors to the Old Town. The survey confirmed they are operating in the mass market, and focus on premium pricing. It revealed there could be a major impacts on the businesses if the city limits the number of tourists. However, since many of them have been in the Old Town for more than a decade, people do not actually believe these measures would ever be implemented – that anything would change.

**Key words:** overtourism, business strategies, perceptions, hospitality industry, tourism, Old Town Dubrovnik

## **Introduction**

Changes in business environment represent a challenge for every industry. As we go further in the future, the pace of change is only bound to accelerate. These changes imply bigger globalized markets and fierce international competition (Hagiu & Bărbulescu, 2017). Today,

more than ever, we see the limits and borders being moved; competition is not only next-door, it is virtual, too. Internet brought online shopping and supersaturation with information. As change is continuous, so is adaptation; those who adapt the fastest have a competitive advantage. There is a need for change in thinking process: we need to innovate, and give space to technology usage. Disruption comes in many forms: getting rid of intermediaries, disruptive, fast-developing technology, breakdown of hierarchy and implementation of flat structure into businesses, and formation of unusual, revolutionary partnerships (Forbes, 2017).

### *Factors Driving the Change*

There are a number of external factors impacting business in general: socio-cultural, technological, economic, political, environmental, and legal (Bush, 2016). Changes in those aspects happen simultaneously, therefore businesses need to be up to date with the external environment.

Social environment affects a company's culture and values. For example, it would be very hard to establish a flat-structure company in Japan, where the society is very hierarchal and formal in business interaction ("5 Factors", 2016). Millennials are impacting the society and business environment by being the biggest consumer group with the highest buying power. They are the generation that has the most information at their fingertips than any generation before. The ability to attract them and capitalize on them is the matter of winning or losing in the marketplace (Tucker, 2018).

Economy is obviously the inevitable factor: demand and supply, competition, inflation, crisis, etc. Commoditization is one of the driving forces of change that requires constant

innovation (Morris, 2011). Companies that do not revise their main competitive advantages get obsolete and thrown out of the market, just like Walmart threw Sears out of the game to become the world's leading retailer. Sears assumed it was immune to changes and competition, so Walmart took the opportunity and beat it at performance (Morris, 2011). Globalization is the phenomenon that brought all countries together into "a single economic system", and as a consequence "every company's strategy must address a globalized market" (Morris, 2011).

Technological component affects company's investment in and use of technology. In the present, there is almost no chance for success without using modern, sophisticated technology. Customers want to be able to get live support, to access an interactive, user-friendly website, and to have technological gadgets in the physical space of a company ("5 Factors", 2016). Digitalization has accelerated the process of commoditization at the large scale, and it has impacted of aspects of life; it has an effect on how products are designed, delivered, and promoted, how customers get information and how they buy, and also how companies manage their operations and finance (Morris, 2011).

Political environment and government's leadership style are important factors influencing business field. For example, there are certain regulations that can favor the company, or hinder its flexibility in operating the business, such as import and export regulations, or those for employing foreign workers. The extent of public liberty, or bureaucracy is significant to the company; in a less liberal environment, there is less space to express your opinion, take social action, or uphold organizational values. Strict bureaucracy is an expense to a business, because the time use to operate and grow the business is wasted on endless

forms and reports. Legal environment applies to the laws and legal regulations affecting the company, such as licensing allowances (“5 Factors”, 2016).

Missing to adapt to these factors and changes in them results in failure. There are few examples of the companies with long traditions of doing business that failed miserably due to their inability to adapt and change their directions.

One of them was Pan American World Airways, known as Pan Am, which had several issues it failed to solve. It had internal problems with corporate management and succession planning, however, there were many other reasons such as international terrorist attacks and mistrust of travelers. The U.S. government had an impact, too; they didn’t allow Pan Am to connect a numbers of domestic routes like other American airlines (Byrne, N.D.).

Other companies, like Tower Records, General Motors, and Kodak, failed to adapt to technological changes. General Motors was one of the leading car manufacturers for more than a century. However, it failed to bring in new technologies and innovations. It didn’t listen to its customer needs, and it focused on other things rather than on the product quality. Kodak was one of the best examples of failure to change direction and embrace the new technologies; instead of capturing new market value with the investment in digital cameras, it focused on its business products at the time. It went bankrupt in 2012. (Goh, 2017)

All the driving forces are interdependent, and simultaneous. “As their impacts converge, the result is the potential for thoroughly disruptive acceleration and the amplification of their impact in a way that is decisive and inescapable” (Morris, 2011).

External factors are not the only source of change that firms must contend with, but there are internal factors as well. Some of the most important internal factors are company's staff, corporate culture, and money. It is important for staff to be talented, skilled, educated, and trained, but it is equally important to have a good internal policy on how to make them cooperate, how to be efficient, and how to solve conflicts. Furthermore, it is crucial to show employees appreciation for their work, otherwise they will not stay for long. The culture is an essence of the firm; it has a major impact on the relations between employees themselves, and between employees and their superiors. However, nothing is possible without sufficient cash to pay your employees, to be able to hire enough people, and the qualified ones, as well as to buy good equipment (Sherman, 2018).

There are reasons behind these internally oriented failures, and we can generalize them in several different categories: outdated, rigid management processes, old metrics, neglected front line employees, too much homogeneity, and being risk-averse (Birkinshaw, 2013). There are many processes that are just too bureaucratic and bring no value to the business, but rather hinder flexibility and efficiency. Measuring customer satisfaction and defining relevant market segments and strategies is crucial for business and its success. Being able to measure the market share and to compare realistically against the right competitors is relevant for staying in business. Nokia, for an instance, was once an innovative, pioneer in technological evolution, however, they missed to recognize and acknowledge their competition that ended up eating them for lunch. Moreover, companies sometimes recognize the situation, but fail to act. Furthermore, front line employees, who are in contact with customers, should have the right to contribute to the decision making, because they are the ones who have crucial knowledge of customers' demands. Neglecting them can

lead a business into ruin. Companies that lack variety also face a threat of failure, because different perspectives that come with different age, culture, gender, etc. Can add value to the company. It could bring a discomfort among employees, because diversity often brings conflict. However, conflict is good for innovation and changes that are need to keep the business going. When employees get too comfortable, the company stagnates, and usually loses the battle against rivals. Finally, as companies get bigger, they also get more risk-averse; they are afraid to fail. All the processes and the structure of big companies disables it from innovating. Tolerance of failure diminishes since the stakes get bigger, and bigger (Birkinshaw, 2013).

#### *“The Four”*

Times are changing quickly, and so are the leading companies. One hundred years ago, the United States’ leading companies were mostly from the rubber industry, along with the telecom, and oil and gas industries. In the 1967, there was still a telecom firm at the top, AT&T, it held the second place behind a technology company, IBM. This is when technology started to evolve and advance. Today’s list of top firms in the USA is quite different than it was fifty years ago: the top 5 leading firms are all tech companies. That means that financial power and monopoly has been centralized in the tech industry, replacing banks, telecoms, and basic industries. (Shall & Kollmeyer, 2017).

According to Scott Galloway, who was an entrepreneur himself and is now a professor of marketing at New York University’s Stern School, the big four are Amazon, Apple, Facebook, and Google (Poletti, 2017) “The year of 2017 has been dominated, no surprise, by iphone maker Apple, which recently became the first public company to cross the \$900



billion market capitalization milestone... And looks to be on the path toward \$1 trillion” (Shall & Kollmeyer, 2017).

The issue with the concentration of power in these four big companies is the impact on society. As they got so huge, they started losing control over the content they provide. According to Professor Galloway, this could result in a major downfall of one of the four. He also predicts that these companies would not exist by the end of this century, or more precisely that they are going to fail in the next 50 years (Poletti, 2017).

#### *Hospitality and Tourism Business Environment*

Politically stable environment is crucial for the development of tourism industry. If a country is politically stable and if the government supports tourism development, a particular destination’s image would be positive and appealing to visitors. On the contrary, political instability brings insecurity, strikes, high rate of crime, violence, and similar negative effects that repel tourists from visiting the destination. Tourism industry brings investment, and investors are looking for a stable, structurally attractive business environment; with political instability, the return on investment is uncertain as well. Furthermore, every country has different traveling regulations which determine how the tourism industry will develop (Haseeb, 2017).

“Economically the travel industry has been considered as one of the best industries in the world” (Haseeb, 2017). Economic factors impacting this industry include taxation regulations, inflation, interest and exchange rates, economic growth, etc. (Kasi, 2017). The impact of economic factors are visible in Marriott example: slower economic growth in China, and economic turmoil in Europe are the two major impacts. China’s stock market

collapse and Europe's crisis have decreased people's buying power and therefore their ability to travel. Marriott is a hotel chain heavily dependent on people's disposable income, which in this instance declined (pestleanalysis Contributor, 2015).

Not only politics and economy play an important role, but also people's awareness of societal norms and destination's culture. Social factors are very important for tourism, because practices like child labor, or violence against women in some countries can seriously hurt tourism progress. Visitors, who came to relax and enjoy, want to feel safe, and don't want to support industry or country that uses children as a work force (Haseeb, 2017). Sri Lanka is an example of a country with good societal norms: it is one of the most literate developing countries with diverse religious and cultural background, where tourists from all around the world can feel welcome (Essays, UK, 2017).

In order to stay competitive in the global market, it is important that companies and countries keep the environment safe and clean for a sustainable development (Haseeb, 2017). Natural factor such as severe weather conditions, earthquakes, floods, fires, etc. Are very important effects that can cause potential damage to the tourism and hospitality industry. It affects hotel sales, therefore hotels and other businesses should be prepare to control the situation as much as possible to minimize negative impacts (Kasi, 2017).

Generations also bring changes; millennials are now one of the main tourist segments that determine hospitality trends. They are age 18 to 34, tech-savvy people, who make decisions spontaneously and like personalization. They travel a lot and are active on social media ("Top 10 Trends", 2018). Therefore, hospitality industry must adapt to serving this generation: hospitality must get in touch with technology and use it extensively to interact

with guests. As Stephen Croix, vice-president of marketing at Starwoods Hotels and Resort and owner of hotel chains W Hotels and Aloft, said, “digital technology has changed the way we connect with guests, creating a 24/7 relationship in and out of stay”. According to him, the whole hospitality has changed due to usage of digital technology; mobile phones are used for searching and booking a hotel room, for check-in, making orders, and check-out. (Smart meetings, 2018) People who want to avoid human touch can do everything by themselves over their mobile devices. One step further is implementing artificial intelligence into hospitality industry, such as e-concierge (Newman, 2018). Hilton, for example, introduced its robot-concierge, Connie. Connie is used to avoid waiting in lines, and to impress guests. Of course, not everyone might like talking to a robot instead of a person, however, it is a big efficiency booster to the hotel (Trejos, 2016).

Focus on technology is important because guests crave a constant access to information, and they have less patience than ever when searching for it. They want everything at their fingertips. However, this has a positive side for hospitality businesses, too. While they search, they leave their fingerprints: they leave important pieces of information about themselves that companies can collect and use in order to better serve their individual customers in the future. Big data can help solve problems that are common to all guests as well (Newman, 2018).

Technology can be useful, but it all depends on how it is used. The way guests use it is to express their (dis)satisfaction with their stay, and to give clue to other potential fellow guests. This pushed hospitality firms to put more emphasis on the quality of their offers in order to generate more good reviews, because nowadays, online reviews are available to everyone, and most of the guests rely on them as a first and most trustworthy source of

information about the company (Newman, 2018). Hospitality firms could take the advantage of technological usage and make their guests' stay more comfortable by providing them with all information online before they come, enable them to communicate with staff online, or to order a room service through an app. Technology could be the way to add flexibility; instead of waiting in lines for check-in, guests could do it via their devices (Petersen, 2019).

However, for those who want new relationships and more personalization, there are now live chats with hotel employees ("Top 10 Trends", 2018). Hospitality and service industry needs not only to adapt to generational but also to cultural differences of the guests, who now come from the most exotic places of the world. Places that were once far and undiscovered today may not seem exotic anymore. Hospitality workers have to think globally and expand knowledge ("Top 10 Trends", 2018).

People are nowadays more concerned about environmental issues, and about their own well-being, too. Environmental and social sustainability is not a plus, rather it has become a norm, so guests expect companies to be environmentally and globally responsible. Guests want to fully recover when on vacation, and that means they want to continue their healthy lifestyle. For hotels, it means to have a variety of healthy food on the menu, offering spa treatments and spaces for recreation, etc. (Sayawat, 2019).

Just as quick adaptation to external forces is important, a quick, real-time recovery from failure is crucial to providing a good service, or experience. Customers expect companies to be able to adapt to the changes that happen in the house. Being empowered to deal with a problem on the spot adds value to providing any kind of guest service or experience.

Sometimes, there are situations where a guest feels even more satisfied after a successful recovery from a damage. It is important for hospitality industry to understand the importance of the damage control, and with that comes the empowerment of employees, especially those on the front line, because the reputation of the company depends on it ("Top 10 Trends", 2018).

Hospitality and travel industry is no exception in the changing business environment. "The tourism industry is one of the fastest growing industries in the world" ("PEST Analysis", 2019). As mentioned before, markets are expanding on a global level; the number of international tourists is on the rise: in 2016, there was a total of 1,235 million of international tourists. That had been 7<sup>th</sup> year of a continuous growth despite threats to safety and security ("Sustained growth", 2017). The main reason for this growth are Chinese tourists; China's middle class is growing. In 2000, there were 10,5 million overseas trips by Chinese travelers, and that number got to 145 million in 2017. However, it has to be taken into consideration that this number (145 million) includes 69,5 million "overseas" trips to Hong Kong, Macau, and Taiwan, which are also considered part of China's territory (or have a disputable status), (Smith, 2018). One more example of global tourism growth and expansion is the fact that tourists visit less popular places. It is because of the access of information, better connections, and cheap airlines. According to Marco d'Eramo, Italian sociologist, 98% of international tourists visited 15 popular destinations in 1950, however, this decreased to 57% in 2007 (Yolshin, 2018).

### *Mass Tourism and Overtourism*

“Tourism directly accounts for nearly 3% of the world’s GDP and it employs 5% of the world’s workforce”, according to the World Travel and Tourism Council (“Wish you weren’t here”, 2018). However, is there a point when there are just too many tourists? Yes, and it is popularly named “overtourism”. It is a term that describes destinations overcrowded with tourists, which diminishes the quality of visitors’ experience and the quality of locals’ life (Goodwin, 2017). However, overtourism impacts cannot be measured objectively; it is a social and political problem that negatively impacts economy, ecological environment, and sociocultural aspects of living (Martín Martín et. Al., 2018).

Barcelona and Venice are two of the main European examples of the tourist cities for which tourists became a problem (Martín Martín et. Al., 2018). While tourism itself brought Spain out of economic crisis, tourism also puts this country in new, social and political crisis – the battle with overtourism (Murison, 2017). Citizen protests against overcrowded cities across Spain brought up downsides of mass tourism. While tourism has huge economic benefits, those benefits are not equally felt by all stakeholders, and to some are even harmful. Harmful effects of tourism are felt by Spanish citizens when it comes to long-term rentals; since tourists more often choose short-term stays, renting an apartment for a longer period of time has become economically unsustainable for many people (Murison, 2017).

The tourists’ numbers in Spain have become unsustainable for living there that one of the protestors in Barcelona raised a banner that said: “Tourist flats displace families” (Murison, 2017). In 2016, the record annual number of visitors to Spain hit 75.3 million, according to Alvaro Nadal, the Minister of Energy and Tourism. Overcrowded public transportation, overburdened infrastructure, and overwhelmed cultural sights are just some of the signs that tourism, not only in Spain, should become sustainable (Murison, 2017). Moreover,

tourists have a more direct impact on local people's lives by misbehaving while visiting a destination, which often includes excessive drinking and noisy parties (Martín Martín et. Al., 2018).

A study done by Ko Koens, Albert Postma, and Bernadett Papp (2018) on the visible impacts of overtourism in European capitals and also in smaller European cities, and also about managing the consequences. The research was done in two periods: the first from 2015 to 2017, which research 6 European capitals, and the second from 2017 to 2018, which researched 6 smaller European cities that had the problem of overtourism, or are expected to have it in the future. The research involved different stakeholders: citizens, businesses related with tourism, policymakers, politicians, etc. Altogether, there were 86 participants involved. Additional source was 150 local residents (Koens et. Al, 2018)

The issues identified in the conversation with these stakeholders were several. Overcrowdedness of public spaces had not only the impact of not being able to move around the town, and in public transportations, but it also had an effect of wiping off the local identity from the city. Tourists' misbehavior was another issue discussed: drunk tourists making noise and mess on the streets, which also contributed to the loss of identity of the cities, because everything was adapted to pervasive tourists. Airbnb made locals move out of the city centers, which impacted the community that lost its connectivity. Furthermore, there was also pressure on the environment with increased waste, air pollution from the cruise ships, excessive water use, etc. (Koens et al., 2018).

Another insight that the research provided was that the unexpected growth was bigger concern than the total number of tourists. For example, small cities that have neither the

capacity nor the desire for tourism growth could easily become a target of some popular influencer that would bring them into the spotlight. Furthermore, cruise ships, like it is the case in Barcelona and Venice, bring a lot of people at one time and congest the city. This suggests that carrying capacity is not the right measure for tourism impacts, and that it has to be used as an addition to some other measures (Koens et al., 2018).

### *Croatian Tourism*

Croatia as a small country is, surprisingly, first among the countries suffering from overtourism. According to Interpid Travel, Australian tour operator, Croatia has the highest tourism density index among the countries suffering from overtourism. Tourism density index compares total visitor number to the resident population of a destination. In Croatia, this index indicates 14 visitors per 1 local person, which is 1380,78% more tourists than locals (McLaughlin, 2018).

According to Croatian Bureau of Statistics (2018), in 2017, 17,4 million tourists visited Croatia, and 86,2 million tourist nights were recorded. It was an increase of 13% in arrivals, and 11% in tourist nights in comparison to 2016 (Croatia Bureau of Statistics, 2018).

So far, it has often been heard in the public that tourism generates 18 to 20 percent of Croatian gross domestic product (Vresnik, 2016); (Rihelj, 2017). The Central Bureau of Statistics has released the results of the calculation of the economic importance of tourism for the Republic of Croatia for the first time in accordance with the Tourism Satellite Accounts (TSA) methodology. The tourism satellite calculates the direct economic contribution of tourism to the national economy. According to TSA methodology, the direct tourism contribution to GDP in 2016 was 10,9% (Brkljača, 2019).



According to article written by Mladen Obrenović (2017), mass tourism brings many problems for a host country, and one of these is deepening the differences between tourist attractive and less attractive parts of the country. In the long run, the development of tourism negatively impacts sustainability of the environment by turning green areas into concrete, disrupting natural sea life cycle, and by polluting the environment (Obrenović, 2017).

Senior research associate from the Institute of Tourism in Zagreb, Ivo Kunst gave an example of how the aforementioned differences are created by stressing that only seasonal renting of 10 apartment units in an average destination on the Adriatic Sea generates €40-50,000 annual (non-taxable) net income (Obrenović, 2017). This has an impact on the youth population as young people lose motivation to enroll in a college and educate themselves further; it is much easier and much more profitable to rent apartments and work only a part of the year as opposed to doing an average paid job for all 12 months (Obrenović, 2017).

It is not just the natural environment that is changing due to mass tourism, but the city itself and its population. Due to profitability tourism brings, people are renting their apartments. However, it is not just the profit, but also the crowds that make people rent or sell their properties in the city and move to the outskirts. With citizens moving outside of city centers, cities lose their souls and authenticity (Obrenović, 2017). The city center focuses on adapting its offer to tourists and visitors; this causes an indigenous gastronomic offer to die out and be replaced with popular offers, like burgers and pizza. Furthermore, businesses that focus mainly on local customers are disappearing from city centers as well (Obrenović, 2017).

According to Goran Rihelj, the chief editor of the specialized tourist portal *hrturizam*, Croatia could soon be the victim of unmanaged tourism like Spain. By neglecting local people, destination, and resources of tourism, Croatia is risking to become a country where tourists are not welcome by locals. Furthermore, he is pointing out that Croatia is going into a totally wrong direction; in its offer, Croatia lacks authenticity, which is the reason people travel. Visitors want to experience another culture and the way of life, but Croatians are just giving them what they can find anywhere, and at home as well. He stresses how Croatian people have the authenticity and diversity within the country itself, but they are still focused on renting out apartments and selling “sun and sea” (Obrenović, 2017).

Tourism is dynamic, complex, and heterogeneous; it impacts and connects many other industries, therefore it is very important to manage it strategically and sustainably. According to Rihelj (Obrenović, 2017), Croatian statistics are wrong to count the number of tourists and the overnight stays from year to year, they should rather focus on tourist spending and how it is dispersed on the local economy. According to Rihelj (Obrenović, 2017), Croatia is turning into a profit-thirsty resort, where only a few gain much while locals become cheap work force, and where most of the profit goes abroad compared to a little amount that fuels the local economy. He emphasizes that local people often do not participate in the touristic offer, nor they are able to live from tourism alone. Local people suffer continuously raising prices due to growing tourist visits. This, and the fact that infrastructure is often not adapted to those growing numbers of visitors makes locals avoid going into a city, which is turning into a museum rather than a place of living (Obrenović, 2017).

Paradoxically, tourism brings a lot of money, but jobs in Croatia in tourism and hospitality have 35% lower salaries than the average, according to the research on the salary of mojposao (2018). The City of Zagreb has the highest average salary, which is 14% higher than Croatian average, which amounts to 6474 HRK. Dubrovnik-Neretva County is on the second place, but surprisingly the average salary is 3% lower than Croatian average (Danas.hr, 2018). According to NUMBEO, the quality of life in Dubrovnik, Croatia is very high, but the purchasing power index is low. This could be explained by aforementioned fact that local people cannot live only from tourism, which is the primary source of profit in Dubrovnik.

#### *Tourism in Dubrovnik, Croatia*

The most popular touristic city in Croatia is indubitably Dubrovnik (Putinja, 2019); (“10 Best Places”, 2018) with its Old Town (“10 Tourist Attractions”, 2016) that has been under UNESCO’s protection and on its World Heritage site since 1979. UNESCO threatened to take Dubrovnik off of the list in 2016, when the city reached unbelievable number of over 10,000 tourists visiting the old city walls in just one day in August (Simmons, n.d.).

Why did this happen? There are many reasons, which are similar across all countries and cities fighting overtourism: cheap flights and accommodation, and cruise ships. In 2017, 742,000 people visited Dubrovnik on 538 cruise ships. (Simmons, n.d.) Moreover, Dubrovnik is famous as a filming destination: Game of Thrones, Robin Hood, Star Wars, and many others. Cheap flights enabled everyone to come to far-away places like Dubrovnik, and Airbnb’s cheap accommodation enabled people to find affordable apartments in the expensive city.

Airbnb had one other effect: all those apartments that people have been renting once provided accommodation for local people. In 2014, Airbnb had around 155 million guests, which is 22% more than Hilton Worldwide (Matrín et al., 2018) In Dubrovnik, there are 45 hotels and 3000 accommodation units (croatiameetings.com). Around 400 of those are in the Old Town, according to Booking.com. There are a dozen of the top luxury hotels in Dubrovnik out of 23 in the whole Croatia (Wikitravel). This all had an impact on the rise of properties' and goods' prices (Simmons, n.d.).

Cruise ships are a huge problem for many cities on the coast like Dubrovnik, because they bring many passengers who do not spend much. They do more damage by clogging the places intended for locals or other tourists than any good, because they have all-inclusive on the cruise ship, and they will not support the local economy. All of these lead to infrastructure overcharge, ecological problems, overpricing, and threat to cultural heritage. (Simmons, n.d.) In 2018, cruise ships brought the total of 776,612 people to Dubrovnik, and in 2019, this number would go to 823,984 cruise ship passengers, according to Dubrovnik Port Authority's reports.

According to Wikipedia, the number of permanent residents in Dubrovnik and in its Old Town grew until 1991, and since then it has only been declining. In Dubrovnik, there were 49,728 residents in 1991, and that number came to 28,434 in 2011 according to population censuses (Wikipedia). In 2016, the Old Town Dubrovnik had 1,157 citizens, which is less than 4% of total residents in Dubrovnik (Pavlić et al., 2017), and a shockingly small number if we compare it with 1991 when about 5,000 people lived there. (Simmons, n.d.)

This problem had been addressed by the former Dubrovnik mayor, Andro Vlahušić, who implemented 16 surveillance cameras in 2017. The purpose of the cameras was to monitor the number of people, and to enable putting the limit number on the people entering the Old Town at the same time. In June the same year, Mato Franković became a new mayor, who took a different approach. Since UNESCO proposed the limitation of 8,000 people at the same time, he said he would aim even lower; he would limit the number of people allowed in the Old Town at the same time to 4,000 by 2019. (Simmons, n.d.)

However, Kunst points out that physical constraints are not always the best solution, and says it would be much better to monitor the (unwanted) growth of accommodation capacity by appropriate tax policy, or to encourage the development of tourism in other parts of the country, not just those that are already attracting many tourists. He adds that the influx of tourists can always be physically limited by administrative measures (determining the maximum number of simultaneous visitors to an attraction), or limiting the construction of accommodation facilities, especially family apartments and reducing tourist development zones (Obrenović, 2017).

Since overtourism is a social problem, it affects many stakeholders: tourists, hospitality and tourism employees, local people and those who live in the areas around Dubrovnik, government, and business owners. In this paper, the focus is going to be on the owners of businesses in the Old Town of Dubrovnik. This paper is trying to look at the situation from their point of view and see how they react to these new restrictions that are going to be imposed on them. It is very important to see how the major stakeholders see the problem in order for the government of the city to be able to plan and make decisions.

## Method

The method of this research paper is a questionnaire that investigates what strategies the business owners in the Old Town Dubrovnik use in response to the declining market (limiting the number of people in the Old Town at the same time). The general questions is: Are they ready for the change?

The instrument used in this research is a validated survey associated with successful strategies in declining markets (Bamiatzi and Kirchmaier, 2012). The survey has three sections: questions pertaining to strategies employed in declining markets, limitation plans, and firm demographics. There are 22 questions in total in this survey.

According to the study *Strategies for superior performance under adverse conditions: A focus on small and medium-sized high-growth firms* (Bamiatzi & Kirchmaier, 2012) from where the questions about the business strategies were taken, there are 4 categories of strategies businesses with continuous growth in declining markets use. The first category concerns focus on cost, and includes: cost-efficiency, low pricing strategy, and core technologies or services. The second one is focus on differentiation including innovation, adaptation to customers, premium pricing, and marketing differentiation through creating a positive company's image. The third group represents focus on customization, which includes customization and high prices, and niche market focus. The fourth category is focus on internalization that includes market expansion, or minimal expansion efforts and focus on domestic market. According to this study, these strategies are not mutually exclusive, rather they are independent, and only one strategy is not enough to achieve growth and good results in declining market. According to this study, the most successful firms used the

combination of market differentiation with the emphasis on innovation, and customization, while almost all of the firms questioned used cost-efficiency approach (Bamiatzi & Kirchmaier, 2012).

The questions in the first part of the survey are questions adapted from Bamiatzi and Kirchmaier (2012). The questions have a 1-5 Likert scale response set, ranging from strongly disagree to strongly agree. The second part of the survey ascertains how confident or not that the proposed visitation restrictions will be implemented and, if they are, what the effect will be on their business in terms of numbers of customers and the overall impact. These questions also have a 5-point Likert scale as the response set as well as a defined response set. The third portion of the survey, demographics, gathers the following information: years in operation, location within the Old Town Dubrovnik, business type, and size (number of employees, both full time and part time).

The sample of this survey are business owners and managers of the business operating in the Old Town Dubrovnik. The types of businesses include any and all firms that rely on tourists, for example: restaurants, cafés, pubs, souvenir shops, ice cream shops, candy shops, museums, etc. The survey will be distributed in person in order to increase participation rates at the end of March, and at the beginning of April, 2019. At this time, business people have more time to dedicate to research since the season has not yet fully started.

## **Results**

The sample for this research were the owners and managers of the businesses in the Old Town Dubrovnik. From the sample, 30 participants answered the questionnaire about their business strategies, and opinions about limiting the number of visitors to the Old Town.

The survey consisted of 3 parts: 11 questions on the strategies businesses use from the validated survey (Bamiatzi & Kirchmaier, 2012), questions about opinions on limitation of visitors to the Old Town, and finally, demographic questions. Gathering the information from participants took one week in April, 2019. Out of the total 30, 20% of the businesses included in this survey are located on the main street Stradun.

The two thirds of participants were managers and owners of small and medium-size restaurants with more than 10 years of experience in tourism industry. Nineteen out of 30 business locations have been opened for 10 years, or more, which suggests established, stable businesses. Seventy percent of the businesses have only the location in the Old Town. From 30 participants, 28 of them were in the restaurant business. There was one owner of a souvenir shop on the main street Stradun, and one owner of ice cream shop, also on the main street. Results suggested that 28 businesses out of 30 are seasonal.

The research revealed that 23 participants have thought about possible future measures of limiting the number of visitors into the Old Town. However, 16 of those, who have thought of this issue, do not believe that the city government would ever implement those measures (Figure 1). What is interesting is that 24 of those participants believe the restriction on the number of tourists would impact their businesses. What is even more interesting is that the answer on the next question about the type of the impact it would have, 11 chose the neutral answer (Figure 2). The last question in this section of the survey was about the possible consequence of the limitation. Participants could have circled more than one answer to this question. The answer “decreased number of customers during the season” got circled 14 of the times, while the answer “better customers; customers spend more per transaction” was chosen 66% of the time.



There were 11 questions in the first section of the survey that queried respondents as to strategies that they use to conduct business. Out of those 11, 4 turned out to be strongly positive. Those were focus on: innovation, following trends, quality, and adapting to the needs of guests. Those 11 questions can be divided into 4 categories according to the mean of the sample's response: somewhat disagree (for mean responses between 2.00 and 2.99), neutral (mean response of 3.00), somewhat agree (for mean responses between 3.01 and 3.99), and agree (for mean responses between 4.00 and 5.00). Out of those 11, 4 turned out to be strongly positive: innovation, following trends, quality, and customization.

Questions about focus on the low pricing strategy and on the domestic market got the most negative answers; 46% disagree with the low pricing strategy, while 30% participants remained answered neutrally, and 40% disagree with focus on the domestic market as their business strategy, while 33% chose the neutral answer. As we, in the prior paragraph, set up categories for the questions based on their mean responses; for an instance, the use of low price strategies received the lowest mean score, 2.71, and the standard deviation of 1,15 (Figure 3). The question that got straight neutral answer with the mean of 3,0 concerns the niche market focus, which confirms that these businesses operate and focus on the mass market. Questions about cost efficiency, premium pricing, core services/technologies, and market expansion are in the category of somewhat agree. Interestingly, most agreeable result in this category is the market expansion focus: 70% agreed on that, with mean score of 3,70 and standard deviation of 1,49 (Figure 3). Paradoxically, 70% of them have no more than one location in the Old Town Dubrovnik or/and outside of Dubrovnik city. Finally, the last category "agree" includes, as mentioned before: innovation, following trends, quality of products or services, and adapting to customers. From these 4 questions, the strongest

agreement was for the quality; 90% of participants agreed with the focus on quality. The mean score was 4,90 with the standard deviation of 0,31 (Figure 3). 60% agreed with adapting to the needs and wishes of their customers, while exactly 50% agreed on both using innovation and following trends as their business strategies.

Some of the comments of participants were: 'there should not be a limitation on the number of visitors, rather they should be spread out more evenly' ; 'I am for limitation measure, but it depends on the type of guests: there should be limit on the cruise ships that bring worse consumers, and better consumers should be encouraged to come'. Also, one participant stressed that entrance in the Old Town should be charged, and with that measure, city would already eliminate those who do not want to spend their money in the Old Town. That participant suggested 'park&drive' on the main street above the city, and pedestrian space around the Old Town, where tourists should be directed to avoid congestion.

## **Discussion**

There has been a lot of talk and media attention to UNESCO's request and mayor's promises of limiting the number of tourists. Survey gave out interesting results: more than two thirds of the participants think about those measure, but they are not taking them seriously. Why is that? There are several possible explanations. From the demographic results, clearly two thirds of the participants have 10 or more years of tourism experience, and almost two thirds have been leading businesses in the Old Town about as long. This could imply that there have been not many changes, and therefore these people do not believe there would be any major changes in the near future; more than half of the participants believe it would not

happen in the next three years, or even afterwards. Another possible explanation is that they are simply ignoring the warnings, or another one is that they do not believe the media not the mayor.

This could be explained by another following question of possible consequences as the most frequently circled questions were decreased number of guests, and better guests who spend more. Since there are obviously many visitors at the time, businesses make money on the quantity. However, if some assume that these measures would bring better consumers to their restaurants, it means that they would be making money on quality of the guests rather than quantity, which is evening out the effect.

Results of the survey reflect the observable reality of the market. According to answers on the question about the pricing strategy, there is a clear inclination towards high, or premium prices. From the analysis of the answers about the niche market focus, and focus on the domestic market, conclusion is that businesses in the Old Town of Dubrovnik operate in the mass market, where they are focused on serving different tourists rather than local people as their customers.

So, why is this study actually important?

Just like Venice and Barcelona, Dubrovnik is struggling with mass tourism that is getting out of hand. This year we can see higher numbers in the offseason, but not lower numbers in the season, it seems. A solution has to be found and implemented – sooner or later. If the businesses do not think about it, or if they do not believe it, they would not be prepared for the changes that would eventually come. Consequently, most of them would fail. This is an important warning to the business owners and managers, and also to the mayor; if the

mayor wants to change something about the mass market in Dubrovnik, he would first have to consider businesses and work together with them.

Without businesses in the Old Town, Dubrovnik has nothing to offer besides the city walls and the sea, which is not good enough nor differential offer to keep tourists coming in the long run. The problem of Dubrovnik, and thus also the businesses, is that most of the people think short-term; they are concerned with what it is today, and no one asks about tomorrow. People are so used to making money from tourism that any kind of reverse situations seems like an unimaginable future for them. Furthermore, people as well as businesses are too isolated and work individually; there is not enough cooperation and co-creation of offer. In this kind of market, everyone thinks of themselves, and no one thinks of the community as a whole and its possible future.

From the 30 companies questioned in this current survey, most agreed with using the suggested, and proven strategies on innovation and adaptation to customers' needs. Surprisingly, for cost-efficiency, the results were closer to neutral. However, it is very obvious that businesses in the Old Town, be it restaurants or souvenir shops, have same offers. Every businesses offers very similar menu, while almost no one offers authentic Dalmatian cuisine and fresh fish.

Business owners and managers should review their strategies more often, and differentiate their offers. An obstacle in this case could be the types of tourists, who do not want to spend much on food, rather they want to buy something cheap and fast. The results of the last survey on tourist spending in Croatia in 2018 (HINA, 2018), showed that average tourist spends €79 on a daily basis. However, most of it, €40 goes towards accommodation costs,

while only €13 are spent on food and beverage. Therefore, it is understandable that businesses owners go with the flow; they sell what people buy – cheap food. Fresh fish is expensive, and the assumption is that average tourist would not spend so much money on a meal. The results from my survey confirm that businesses in the Old Town Dubrovnik are not fully ready for the changes; they strongly agree with only 4 out of 11 suggested strategies.

Furthermore, the mayor should involve business owners and managers in discussion when it comes to the matters like limitation of visitors to the Old Town. The mayor should also incentivize them in order for them to be able to accept, and be able to operate in the declining market.

However, the questions is: will the limitation on the number of visitors to the Old Town really solve the problem? Will it really bring better consumers, and make the experience better for both tourists and locals? How do we decide on the number: UNESCO proposed 8000 people maximum, the mayor aims for 4000? As Mladen Obrenović (2017) mentioned in his article while citing Ivo Kunst, physical limitations are never welcome. Tourism not only brings profits to the city and individuals living in it, but also to the whole country as it is a big part of Croatian GDP (Obrenović, 2017). However, how long before we destroy all of our natural and cultural-historical resources? Is few pennies more every year worth it, and do we really think it can go on forever like this? Tourism should be beneficial for all stakeholders: locals, tourists – and nature. People living from tourism in Dubrovnik sell their apartments, but they are also selling their sea and the Old Town; they all brag it is theirs to trade, but no one owns it in a way that it is theirs to enjoy and preserve as well.

Physical limitations without strategic planning and destination management are useless. When there are established smart goals, then there is progress to follow. Without thinking of the future, there cannot be a good, sustainable use of the present situation.

### **Limitations**

Potential limitations of this research are: the lack of time, relatively small number of participants, people's level of seriousness and honesty while filling out the survey, and wording of some questions.

### **Suggested Future Study**

Future study should focus on potential answers on why the businesses in the Old Town Dubrovnik do not take the problem of overtourism seriously. Another possibility for the future study is to consider the correlation between the strategies used and perceptions on the overtourism problem, and experienced versus less experienced businesses.

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## **Appendices**

Respected,

My name is Petra Todorović and I am a senior student at the private American college, RIT Croatia in Dubrovnik, which is conducting a program of graduate management of Rochester Institute of Technology faculty of Rochester, New York (USA).

At the moment I am writing a graduate thesis, and my work is: Strategies and perceptions of businesses in the Old Town Dubrovnik.

Since you are the owner/manager of a company in Old City, I hereby invite you to participate in my research in my research for the purposes of my graduation. Filling the questionnaire in the attachment will take approximately 10 minutes.

Participation in this questionnaire is completely voluntary, and your data is anonymous and confidential, and there is no risk of doing so. In order to ensure that your information is kept confidential, please do not enter your name or company name or company name for which you are working.

If you choose to participate, please answer any questions as clearly and precisely as possible.

I thank you for your time and participation in this research.

If you would like any further information on this dissemination or my diploma work, please feel free to contact me at my personal email: [todorovic.petra@yahoo.com](mailto:todorovic.petra@yahoo.com), or directly to my mentor, Professor Kevin Walker, [kevin.walker@croatia.rit.edu](mailto:kevin.walker@croatia.rit.edu).

Sincerely,

Petra Todorović

## QUESTIONNAIRE

**PART 1:** this section seeks information regarding to how your run the business.

Please answer the following statement-questions 1.-11. by circling only one answer: 1 stands for strongly disagree, 2 disagree, 3 neutral, 4 agree, 5 strongly agree.

1. I focus on cost efficiency when managing my business,  
including focusing on low production costs      1   2   3   4   5
  
2. I focus on low price strategies.      1   2   3   4   5

- |  |   |   |   |   |   |
|--|---|---|---|---|---|
| 3. I focus on premium or high price strategies.                      | 1 | 2 | 3 | 4 | 5 |
| 4. This business focuses on its core technologies/service.           | 1 | 2 | 3 | 4 | 5 |
| 5. This business focuses on innovation.                              | 1 | 2 | 3 | 4 | 5 |
| 6. This business focuses on following trends in the market industry. | 1 | 2 | 3 | 4 | 5 |
| 7. This business focuses on market expansion.                        | 1 | 2 | 3 | 4 | 5 |
| 8. This business focuses on the domestic market.                     | 1 | 2 | 3 | 4 | 5 |
| 9. This business focuses on a specific type of customer (niche).     | 1 | 2 | 3 | 4 | 5 |
| 10. This business focuses on product/service quality.                | 1 | 2 | 3 | 4 | 5 |
| 11. This business focuses on product/service customization.          | 1 | 2 | 3 | 4 | 5 |

**PART 2:** this section seeks information regarding your opinion on various aspects of the proposed reduction in visitors to the Old City.

12. The relative amount of time that I have spent thinking about the implications of the proposed visitation limits for the Old City (circle one)

None                      Very little                      Some                      A fair amount  
A lot

13. I think the proposed plan to limit the number of tourists in the Old Town Dubrovnik is going to be implemented in (circle one):

The next 1-3 years                      After 3 years                      Never

14. If this plan is implemented, how much do you think it would affect your business (circle one)?

Very much                      Moderately                      Not at all

15. What kind of effect do you think the limit of the number of tourists would have on your business (circle one)?

Strongly negative                      Negative                      Neutral                      Positive                      Strongly positive

16. Please circle the statements that correspond to what you think might result from the proposed restrictions on the Old City visitor levels:

- a) Increased number of customers during the season
- b) Decreased number of customers during the season
- c) Increased number of customers in the pre and post season
- d) Decreased number of customers in the pre and post season
- e) Better customers; customers spend more per transaction
- f) Worse customers; customers spend less per transaction
- g) Other: \_\_\_\_\_

**3. DIO:** this section gathers the demographic data regarding your business.

17. How many years have you been working in tourism?

- a) 0 – 3.5 years



- b) 3.6 – 7 years
- c) 7.1 – 10 years
- d) over 10 years

18. The length of time in business in this location:

- a) 0 – 3.5 years
- b) 3.6 – 7 years
- c) 7.1 – 10 years
- d) over 10 years

19. Does company have more than one location in the Old Town? Yes/No

20. Does company have more than one location outside of Dubrovnik? Yes/No

21. What is the approximate number of employees in the season?

- a) 0-9
- b) 10-49
- c) 50-249
- d) 250+

22. What is the approximate number of employees in the offseason?

- a) 0-9
- b) 10-49
- c) 50-249
- d) 250+

23. OPTIONAL COMMENT:

Figure 1

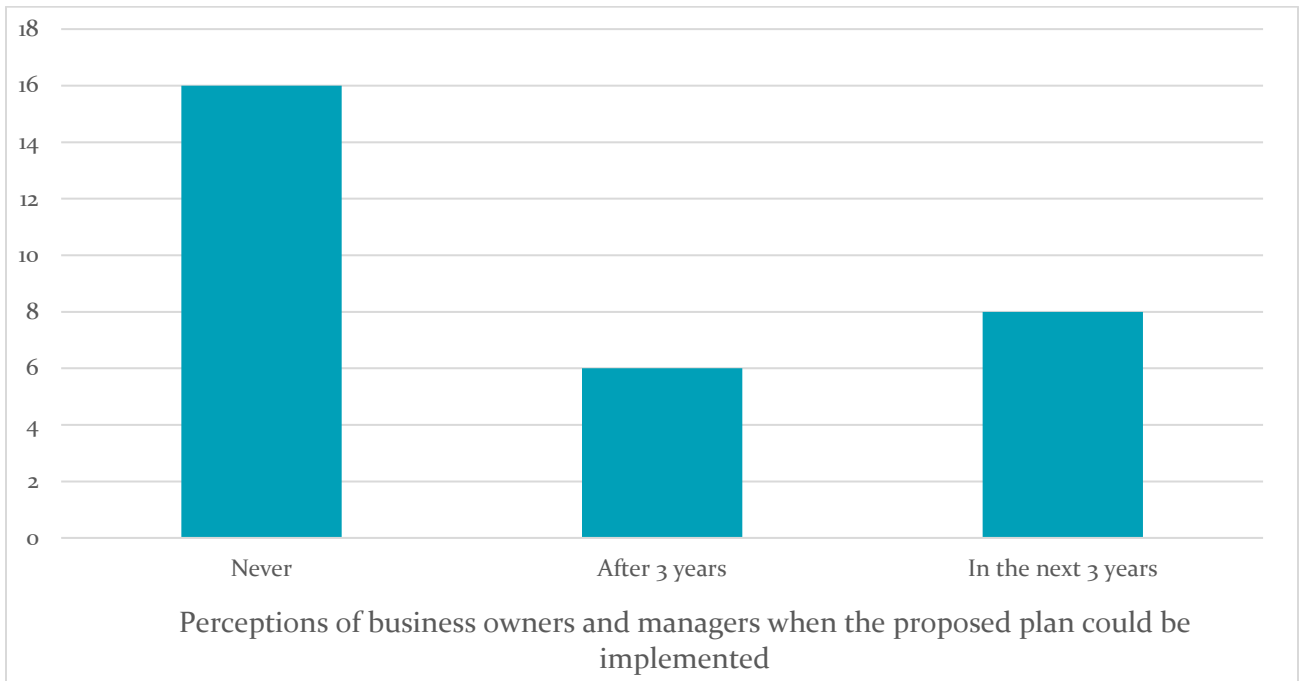


Figure 2

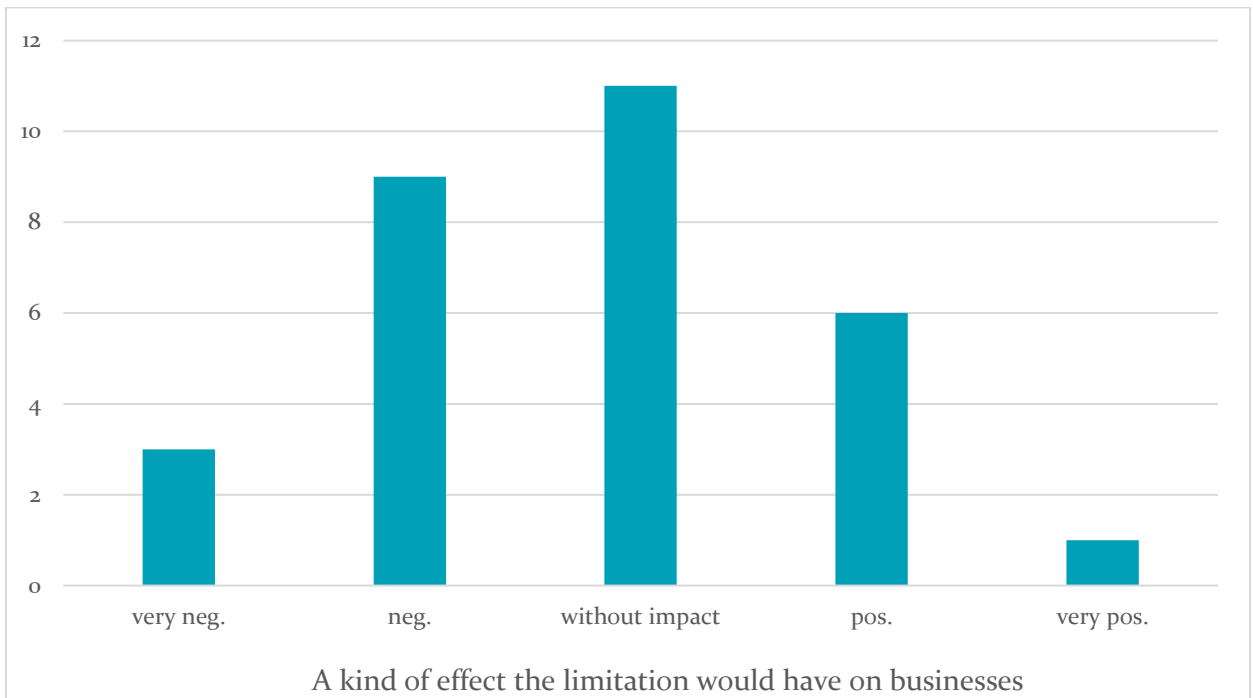


Figure 3

