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Current State and Development Potential of Luxury Heritage Hospitality in Old City Center of Split, Croatia

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by

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Abstract

Tourism is one of the main lines of profit for Split; however there is no unified strategy reflected

in one line of tourism. In order to protect that UNESCO heritage site and assure long-term

industry success it is proposed to take a shift to building a luxury brand that connects all business

located in the site in a unified manner. The purpose of this study is to gain an understanding of

the current state and context of the luxury tourism industry, specifically considering the

accommodation and dining services in the old city center are of Split, Croatia. The objective is to

provide future research areas regarding the luxury tourism industry in Split as well as add new

knowledge about the area.

Keywords: Tourism, luxury tourism, heritage tourism, UNESCO heritage site, branding

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1. Introduction

The city of Split, located in Croatia, has had a long history in tourism, with writings found indicating the first hotel was already in function in 1835 (Borčić, n.d.). In 1979 the Diocletian's palace area that includes the old city center became one of UNESCO World Heritage sites (VisitSplit, n.d.). In 2019 Split had a record shattering touristic season that peaked in the month of August when the number of guests was at the highest point since establishing the independence of Croatia (Ministarstvo Turizma RH, 2019). According to the global tourism competitiveness Croatia ranked at 27 out of the 140 countries considered, a rank that was higher than the 32nd position it held in 2018 (Ministarstvo Turizma RH, 2019). Croatia was also awarded 5th place in regards to touristic infrastructure (Ministarstvo Turizma RH, 2019).

Despite the high rankings and a capacity of 94 beds available for guests on 100 citizens in 2017 in Split there were only 7 hotels considered as heritage hotels, and not all of them are located in the old city center (Ekonomski fakultet sveučilišta u Splitu, 2017). It is also interesting to note that hotels only account for 11.2% of the entire capacity offered in the city of Split (Ekonomski fakultet sveučiličta u Spllitu, 2017). That is not in line with most successful world destination that usually account for hotel accommodation as 40% of the entire capacity of accommodation (Ekonomski fakultet sveučilišta u Splitu, 2017).

This indicates unused potential of Split as a touristic location, especially when regarding the UNESCO World Heritage site status. Another indication is a lack of unified strategy for destination development, as there is a recorded high number of accommodations provided, but there is also a low number of hotels at the location.

1.1. Problem statement

The entire capacity offered in Split only has a small number of hotels, and even less heritage hotels. The entrepreneurs that decide to develop hotels and wish to locate them in the old city center have to follow strict guidelines due to the UNESCO status of the site (Bužančić, 2020). The hotels located in the UNESCO site have to get permits from the Split department of conservation, assuring they followed the guidelines. Those strict guidelines also limit the options for the hotels developed in both size and category. The size of hotel is limited by the nature of the UNESCO site itself, making it impossible to develop large hotels. The category is limited by the heritage category, meaning that all hotels in the site are automatically considered heritage hotels as they cannot be newly built.

Due to low amount of hotel development sites available and prevalence of private accommodation providers as well as overall number of residents there is no unified type of offering provided inside the old city center as it hosts both backpackers as well as luxury guests (Bužančić, 2020). That luxury offering also has to have supporting services in order to accommodate the needs of guests that have the financial ability to visit such locations. This disunited approach to offering opens the potential for mass tourism which could have negative impacts on the preservation potential of the UNESCO heritage site since the site is accessible by everyone for free. There is also an inadvertent effect of those guidelines and that is a high project value, meaning the hotels developed need to have a higher price per room due to the higher cost of development so they have to have a luxury offering to validate that higher price point.

This qualitative study aimed to provide an insight into the heritage hotel industry as well as supporting services – restaurants and bars, all of which are strictly located inside the old city center of Split. This study also examined how effective of a differentiator is the UNESCO badge for the participants, as UNESCO badge has proven to be a great differentiator for other world destinations such as Italy and Spain presented in the literature review section of this study.

1.2. Review of past studies and deficiencies

Studies considered luxury offering on a general Croatian level, but did not account the context certain locations may have such as the UNESCO badge, which can be considered a great differentiator (Cuccia et al., 2016). When considering the potential Croatia has in terms of natural resources and heritage it is interesting to see that it is nowhere near developed enough to compete with other European countries such as Italy and Spain (Ivanić, 2018). However, a major deficiency is that there are currently no available studies regarding the area of Split specifically, but rather just the general Croatian area or specific Croatian regions. This shows great exploration potential for the topic of the luxury tourism industry in Split.

Cerović, Pavlia and Floričić (2019) conducted a study regarding the entire Croatian area, based on innovation in the luxury tourism offering from the perspective of stakeholders. It was found that the offering should be developed in line with the needs of luxury guests and should also include a synchronized strategic development of both the accommodation as well as the supporting services since that would have a positive impact on not only general tourism development, but would also reduce the negative effects of mass tourism (Cerović at al., 2019). This is particularly interesting since there has been more mass tourism, especially in Split, with such events as Ultra festival that attract younger backpackers, resulting in a greater number of

private accommodation offers as well as a greater number of hostels, some of which are also

located in the UNESCO badge area of the old city center of Split (Bužančić, 2020). These types

of accommodation do not have to fulfill the needs of luxury guests and are able to offer much

lower prices, but due to their location are considered competition to the luxury hotels in the same

area that are not able to match their lower prices.

The needs of luxury guests in all locations around the world are always evolving and the

needs as they were in 1979 when the old city center area in Split was awarded the UNESCO

status are not the same needs we see today. In order to fulfill the expectations and wishes of

luxury guests, and become a competitive force on the European market with a clear and focused

strategy, there should be a boost in investment of luxury offering, more specifically luxury hotels

in the 4 to 5- star categories (Ivanović, et al., 2015).

There are certain areas that require further research, like satisfaction with government

support; that perceived level of satisfaction may influence the level of investments in innovation

of the service (Pletikosa, 2015). It is important to stress that in Croatia, government run agencies

are those that most often fund cultural events, help organize them and decide which event may

be held in what location (Bužančić, 2020). Besides that, the agencies are also the ones that allow

location project development and if they do not provide their support a project will not be able to

be realized. Another area for research is how well are the needs of the luxury tourism guests met

by the luxury establishments located in Split, since there have been no studies regarding the

topic.

Another area that needs further research, as stated by the Subject Matter Expert interviewed

for this study is that the needs of guests that do visit Split, and are those guests that have a higher

purchasing power and are considered luxury industry guests, are not examined enough, as their

needs are not the same needs of guests on a global scale (Bužančić, 2020). This area is extremely

under researched and has a great potential for future studies. This study will not focus on those

needs as the context of the industry should be the first step examined, and will provide the guide

for future research into this topic.

1.3. Significance of the study

There is currently no study that specifically considers the luxury heritage hotel industry in

Split. This will be the first study specifically examining the old city center of Split area, meaning

it will focus on the UNESCO badge area and will not include the entire city center area. This

study will provide a better understanding of the topic of the unique luxury industry in Split and

the underlying implications imposed by UNESCO heritage site regulations.

This study will also help bridge the gap between the available information about the luxury

tourism industry in Croatia and the luxury tourism industry in Split. Mainly, this study will show

what the current context of the industry is and assess the current level of development. This will

allow the industry stakeholders to have a better understanding of the perception of the industry,

since the luxury tourism industry in Split has an offer that is not in-line to most luxury

destinations.

It will also be applicable as a future framework development basis, more specifically it will

provide the insight into the current state of the industry and locate areas that the industry insiders

that are a part of this study state as crucial for future development.

This study will also allow the reader to learn more about utilization of the UNESCO badge

and how it is perceived by the participants. The uniqueness of this area proves to be an

interesting point of research as all individuals and businesses that are located in the old city

center of Split must adhere to the strict regulations for area preservation (Bužančić, 2020).

Meaning they are not allowed to change any visual identity of a location (no adding

constructions or new developments), display sings, or have air conditioning units present on the

outside walls of their properties as well as other regulated ordinance (Bužančić, 2020).

This study will also locate the areas for future research in this extremely limited and under

researched topic. It will add deeper understanding of the context of current environment that has

not yet been considered in previous research.

1.4. Purpose statement

The purpose of this study is to explore the current state of the luxury tourism industry,

specifically accommodation services and dining services located in the old city center of Split.

The objective of this study is to add new knowledge about the area and industry which may be

impactful for future strategy development as well as provide future research opportunities.

1.5.Research questions

This study will focus on 3 questions in relation to the luxury tourism industry in Split.

1) What impact does the UNESCO World Heritage status have as a differentiator for the

old city center area of Split?

2) What is the current state of the luxury tourism industry in Split and is the industry

developing?

3) Do the luxury industry entrepreneurs in the research area feel supported by local

authorities?

2. Literature Review

2.1. Luxury tourism

Luxury tourism refers to a separate area of tourism that includes both supply and demand, but is extremely dependent on the demand (Pepouscu & Olteanu, 2014). It is difficult to specifically define luxury tourism as there is no unified definition for what is luxury tourism as what is considered as luxury depends mostly on the perception of individual (Stankova & Kaleichev, 2013). For luxury tourism, the most influencing factor on guest perception is the branding of the destination, more specifically branding of accommodation (Ryu et al., 2018).

A strong brand is built by developing a story, especially if that story has a historic connection (Ryu et al., 2018). However, one of the biggest overlooks in the luxury tourism industry is not efficiently using brand storytelling, referring to a lack of a solid emotional connection with guests (Ryu et al., 2018). Building a solid emotional connection ensures long-lasting relationship between the guest and offering provider and a positive emotional connection positively impacts the level of earnings for the destination (Ryu et al., 2018).The more clear the plot developed by a destination, and the more connected it is to historical facts; the easier it is for the customer to develop an emotional connection to it (Ryu et al., 2019). Strategically developing a story rooted in culture and heritage of destination that allows that story to grow into a strong brand, and that is crucial for any luxury accommodation to attract guests (Ryu et al., 2019).

The guests that visit luxury destinations identify their options by focusing on two main factors including uniqueness of the offering and high quality or customization of services at the destination (Pepouscu & Olteanu, 2014). The uniqueness of the offer as well as the quality and

customization of a service are best communicated with guests through developing and marketing

a strong and clear brand (Pepouscu & Olteanu, 2014). Additionally, the guests are motivated by

the desire to visit places that are not accessible to everyone – they avoid mass tourism

destinations if there is no specific luxurious offering that they are able to use as a way to show

off to their peers (Pepouscu & Olteanu, 2014).

Other factors that are considered, but do not have the same level of impact, include the level

of professionalism from the staff as well as knowledge since the guests want to be immersed into

local culture and experience local customs during their stays (Stankova & Kaleichev, 2013). The

other factors according to Stankova and Kaleichev (2013) also include:

- Travel reviews

- Destination marketing

- Supporting services with an emphasis on the food offer (as described in the following
  section)

- Access to other tourist destination

- Amenities available at the destination

2.2. Importance of supporting services in luxury tourism

One of the biggest drivers for luxury guests is being able to choose when it comes to services

that are located in their preferred destination; by allowing the tourists to choose amongst at least

a few services that are in line with their perception of luxury they will have more incentive to

become loyal to the destination and will have a higher overall sense of satisfaction (Frleta, 2018).

The most important of the supporting services provided for Croatia is the food and beverage

category – more specifically the restaurants and bars; the reason for that is that most of Croatian

luxury offerings do not typically have a restaurant as a part of their main offer (Frleta, 2018).

When examining satisfaction, the guests of luxury accommodation show a greater level of

satisfaction with their stay if they feel the management takes into account their ideas for

destination improvement, with some guests having suggested adding on additional supporting

services such as in-house restaurants (Frleta, 2018). This point is extremely important as the

luxury destinations located in Croatian areas most often do not provide their guests with all-

inclusive options, as many hotels are limited in their size – be it family owned rustic hotels,

boutique hotels and even heritage hotels, so they may not have as many services that other

luxury tourism destinations have – such as in-house restaurants and bars, room service, spas,

shops, etc. (Frleta, 2018).

One of the service offerings that can heavily influence the perception of a luxury destination

is the food offering (Chen & Peng, 2018). The way the destination presents its food image,

affects the motivation of the guest to spend more if the image fits the luxury branding (Chen &

Peng, 2018). The more the destination is able to differentiate with their food offer, the higher

chances they have to attract a higher number of luxury travelers that are interested in ethnic

cuisine (Chen & Peng, 2018).

Other service offerings that can influence the perception of guests include availability of

spas, availability of bars and availability of higher class toiletries inside the accommodation

(Chen & Peng, 2018). However, it is important to acknowledge that the needs of luxury industry

guests have shifted and as such the guest expect a high level of digital services at the location of

their choice, availability of the front desk and customization potential of room service, meaning

that the guests today have a greater need for unique content that they can easily communicate to

their peers via digital solutions (Chen & Peng, 2018). This indicates that a destination today has

much more to consider when developing an offer for a luxury industry guest, than it had to

consider 15 years ago (Chen & Peng, 2018).

Croatia has a great potential to use food and bars as a differentiator as it would be able to

create a greater value for upper scale guests, but could also have a positive effect on decreasing

seasionality (Šimić & Pap, 2016). Croatia has a unique but an underdeveloped and underutilized

offering when considering natural resources, heritage and cuisine (Šimić & Pap, 2016). The

current marketing efforts and strategies do not do enough to promote the products and services to

guests that would be interested in traveling to Croatia, and by doing so diminishes the full

potential of Croatian tourism (Šimić & Pap, 2016).

2.3. UNESCO World Heritage destination implications

The area that is considered the old city center of Split is an area that developed from the

ancient Diocletian's Palace that started construction in 293 AD (VisitSplit, n.d.) From that area

the center grew and developed into the city it is today, but the old city center strictly refers to the

area of the former Diocletian's Palace. The area is unique as it has been populated since the 4th

century, and has through times changed many different rulers and as such had significant impact

of the many cultures that shaped it (VisitSplit, n.d.).

A crucial aspect of development of any touristic offering is the overall culture and heritage

associated with the destination (Danesi, 2017). The story a destination develops through a brand

based on the heritage can not only be one of the best motivators for visit, but is also a viable way

to establish a strong emotional bond between destinations and guest (Danesi, 2017). Many

destinations, especially those in Italy, do not understand the significance, and the economic boost

they could have if they accepted their heritage and culture and were able to use it in development

of their offering (Danesi, 2017).

Heritage, especially that that is recognized by UNESCO, is a great marketing tool (Caust,

Vecco, 2017) as it allows for a full story to be developed and clearly translated to a unified

brand. However, the preservation of that status and heritage is also extremely important as it is

common that UNESCO status bring the issue of mass tourism and with it the potential for

damage of the site (Caust & Vecco, 2017).

The UNESCO status itself brings on certain expectations from guests, but does not guarantee

their satisfaction, so there is still a need from each UNESCO site to develop the proper offer and

level of service to meet each of those expectations (Cuccia, Guccio and Rizzo, 2016). Also, there

is a common mistake on the management side as they have great expectations from the fact the

site is under UNSECO accreditation, and therefor do not try to fulfill customer needs on a higher,

more satisfactory level, expecting the status to be enough of a differentiator on its own (Cuccia,

Guccio and Rizzo, 2016).

2.4. Summary

Luxury cannot be defined as it depends on unique perceptions of guests (Stankova &

Kaleichev, 2013). However there are factors that can influence the perception of potential guests,

the strongest being a brand that is able to clearly translate their message (Ryu et al., 2018). If a

brand is developed strategically with a story that is established in the historical value of the

destination, it is more likely the guest will be able to develop an emotional connection, therefore

having more incentive to visit the destination long-term (Danesi, 2017).

Out of all the services available, bars and restaurants in the destination are the two services that may impact the personal perception of luxury in guests (Chang & Peng, 2018). Croatia is not promoting the uniqueness of the cuisine of the area, therefore diminishing the potential for development of luxury tourism (Šimić & Pap, 2016). By putting more emphasis on restaurants and developing the offering more, a greater value could be produced for the guests but an even greater value for the destinations is developed (Šimić & Pap, 2016). Another source of value that is often overlooked is focusing on the heritage of the destination, especially if the destination has a UNESCO badge (Danesi, 2017).

Past the initial perception, the offering of luxury tourism is shaped by the needs of guests (Pepouscu & Olteanu, 2014). Luxury guests prefer unique experiences, knowledgably staff, quality of service, choice of services and diversity of services provided by the destination (Pepouscu & Olteanu, 2014).

The UNESCO badge has the potential for development of mass tourism which could result in damage to the site, so a strategy focused on luxury tourism would also have an added benefit of site protection (Caust & Vecco, 2017). However, it is important to align services, especially food offerings, and branding, as the historical value alone cannot support a strong brand in the long-term without development of additional services (Cuccia, Guccio and Rizzo, 2016).

3. Methodology

3.1. Research design

   This study was developed in line to qualitative research characteristics, since it is of a

phenomenological nature (Creswell & Creswell, 2018). The data collection instruments used

were observations of hotels, bars and restaurants as well as one-on-one interviews. Elements that

substantiate qualitative approach can be found throughout the design of this study. The

researcher acted as a key instrument as the instruments used for the inquiry were not developed

by other researcher, but were emergently designed for this specific study - meaning the

interviews were open ended to assure a holistic approach to the topic and no loss of meaning

from the participant's answers (Creswell & Creswell, 2018). This allowed for a deeper insight as

there are no studies concerning the luxury tourism industry specifically in Split so this served an

exploratory purpose.

   The main guide for structure was the purpose of the study and the research questions the

study explores. Those questions include "What impact does the UNESCO World Heritage status

have as a differentiator for the old city center area of Split?", "What is the current state of the

luxury tourism industry in Split and is the industry developing?", "Do the luxury industry

entrepreneurs in the research area feel supported by local authorities?".

   By making sure both strategies of inquiry were conducted in the natural setting of the

participants, rather than a different venue, the participants are able to act within their natural

context, decreasing the potential for channel noise (Creswell & Creswell, 2018). There were

multiple sources of data used to conduct this analysis, including interviews and observations both

divulged in open form (Creswell & Creswell, 2018). Observations were conducted in 10

different locations that include 5 luxury heritage hotels, 3 upscale restaurants and 2 cocktail bars

all located inside the old city center of Split – the area that holds the UNESCO World Heritage

badge. The one-on-one interviews that followed were also conducted in the same locations with

those responsible for managing the locations, since all participants expressed a desire for an

interview in their respective business location, mostly due to time constraints.

3.2. Strategy of Inquiry

Since this is a phenomenological study, the purpose was to gain new knowledge about

the luxury tourism industry in the old city enter of Split, interviews and observations as a data

collection method were appropriate (Creswell & Creswell, 2018). This strategy best fits the

needs of this study as the methods used are those that allowed for deeper insight than a

questionnaire would, as well as they allowed for strict guidelines when choosing the population,

therefor assuring insider knowledge is gained. The research questions presented earlier are those

that guided the exploration.

The interviews conducted were semi – structured and more importantly open ended, the

researcher was able to avoid influencing the participants and leading their answers (Creswell &

Creswell, 2018). The semi-structured nature of the interviews allowed the researcher to make

sure specific topics were covered, assuring the all interviews addressed the same topics, while

still allowing the participants to express themselves freely. Observations were conducted during

the same time of day at all locations and a tour of each location was conducted before the start of

each observation. This allowed the researcher to build the context of the location. The

observation frame and interview framework were sent to the researchers institution for approval

of use. The interview framework and the observation form used in this study can be found in

Appendix A and Appendix B.

To ensure validity of the findings and strategy of inquiry two separate interviews with a

Subject Matter Expert (SME) were conducted. The Subject Matter Expert is the head of the

conservation board in Split and is the one that allows project development and assures the

projects developed in the UNESCO area – the old city center of Split are developed in line to

conservation requirements.

First interview discussed the aspects and context of the luxury tourism industry in Split,

and the second was conducted to gain deeper perspective into the topic of research and asses the

results from the inquiry.

3.3.Participants

The participants for this study included 5 luxury heritage hotels, 3 upscale restaurants and 2

cocktail bars. All participating locations were chosen by specific criteria that includes the

physical location of the venue as it had to be located in the old city center, an area that unlike the

rest of the city center holds a UNESCO World Heritage badge, they all had to be considered as

high class or luxurious by the categorization awarded to the location from the city of Split. There

were also 10 separate interviews conducted with the individuals aligned with the locations

considered.

The participants are all managers or owners that act as managers of properties that are

located in the old city center of Split. These criteria significantly reduced the size of population

available as participants for this research, since there are not that many entrepreneurs that operate

in the old city center area that are a part of the luxury tourism industry (Bužančić, 2020).. It was

crucial to only consider participants who run luxury establishment as they provide insider

knowledge in the industry as well as they hold knowledge of how to operate a business that is able to prosper despite the strict regulations and guidelines set by the appropriate authorities.

All the participants were contacted by phone prior to both the observation and interviews to ensure participation. The participants are labeled as participants to ensure privacy since the topic of research is business sensitive and because the number of individuals who fit the selection criteria are very small and participants could be identified. All the data about the participants was collected by the researcher and checked to qualifications of the participants. The participants were interviewed according to their availability in the locations included in the study. Out of the 10 interviewed participants 2 were female and 8 were male, the age of participants was between 35 and 50 years old. All participants have been involved in the business since the initial opening of their respective properties. The interviews were recorded with the permission of the participants and the content was used as the base of data analysis for this study.

3.4. Role of researcher

As the researcher is a key instrument in a qualitative study (Creswell & Creswell, 2018) it is important to note the researcher has had 7 years of experience in tourism industry in Split. The researcher has experience as a personal assistant of the owner of a Michelin guide restaurant and a manager in a tourism service provider. The researcher's background helped in development of the questions for this study.

The researcher understands the bias that may come from such a background but the participants included were in no way directly connected to the researcher nor has the researcher ever been employed by any of the participants included in this study. To assure careful collection and validity of data the researcher followed all general guidelines for a qualitative study design.

3.5. Limitations

This study is only taking into account the context of luxury tourism for the old city center of Split, and as such is not applicable to the greater city center. Since the body of literature is scant in regards to the greater topic of luxury tourism in Croatia this study will add a deeper level understanding and shed light on the current context of the industry. However this study is time specific due to these reasons and future circumstances, as well as the current situation with COVID-19, may shape that context differently.

3.5. Data analysis

Following the face-to-face interviews the researcher made sure to reflect the content of the interviews multiple times to assure there are no overlooks or misunderstandings of participant perspectives (Creswell & Creswell, 2018). This was important since the interviews were open-ended so it was crucial to interpret the data participants provided in a way that did not influence the answers from the side of the researcher. The data was coded following the reflection to assure there are patterns and common themes identified in the answers and they were cross validated as accurate by the SME. The information that was not considered relevant to the topic at hand was dismissed. The interviews were audio recorded but field notes were also taken while conducting the interview (Creswell & Creswell, 2018).

The observations focused on all aspects of business, including visual presentation, uniqueness of offer, guest communication and flow of customers. All locations were observed using the same observation form. The observations were conducted for the same amount of time at each location at the same time of day during work weeks to assure all locations are examined

in the same way and the context is built according to same variables (Creswell & Creswell,

2018).

The patterns and themes identified in this study relate to the current state of the industry

from the perspective of the participants and from the perceived interactions with their guests.

The subthemes identified relate to the levels of satisfaction of the participants with the current

state of the industry, the level of satisfaction with support received of the city and the perceived

level of utilization of the UNESCO brand as a differentiator.

4. Results

In the previous section the researcher presented the ways the analysis was conducted and how the data was gathered. In this section the researcher presents what were the results of the analysis conducted. The themes located during the interviews and observations serve as answers to the research questions guiding the study. Those questions are as stated in previous sections: "What impact does the UNESCO World Heritage status have as a differentiator for the old city center area of Split?", "What is the current state of the luxury tourism industry in Split and is the industry developing?" and "Do the luxury industry entrepreneurs in the research area feel supported by local authorities?".

The observations were conducted in the following locations presented in Table 1:

Location 1	A 4-star luxury heritage hotel located in the old city center of Split. Consists of 4 rooms that can fit 2 people and 1 room that fits 4 people.
Location 2	A 4-star luxury heritage hotel located in the old city center of Split. Consists of 8 rooms that can fit 2 to 4 people with 2 of those rooms being apartment rooms and the rest regular rooms.
Location 3	A 4-star luxury heritage hotel located in the old city center of Split. Consists of 7 rooms out of which 6 can fit 2 to 4 people and 1 being able to fit up to 6 people.

Location 4	A 4-star luxury heritage hotel located in the old city center of Split. Consists of 10 rooms that can fit 2 to 3 people.
Location 5	A 4-star luxury heritage hotel located in the old city center of Split. Consists of 7 rooms that can all fit from 2 to 4 people in total.
Location 6	A high end restaurant located in the old city center of Split. Famous for their fish dishes and traditional cuisine approach. The total number of tables is 10 with 8 tables located in the inside of the venue and 2 located in the outside.
Location 7	A high end restaurant located in the old city center of Split. Best known for their menu that is consistently changing depending on what is fresh and available that day. Their location is the biggest differentiator as they are located inside the actual guard walls of the Diocletian's palace. The total number of tables is 8 and they are all located outside of the venue so the décor is truly focused on the beauty of heritage.
Location 8	A high end restaurant located in the old city center of Split. Best known for their homemade pasta dishes and Mediterranean cuisine. They

	have 15 tables all located inside the venue with no outside tables.
Location 9	A cocktail bar located in the old city center of Split. The bar has 7 tables outside of the venue and 8 tables inside the venue.
Location 10	A cocktail bar located in the old city center of Split. The bar has 2 tables outside the venue and 6 inside the venue.

Table 1- description of observed locations

The locations are described using the number of rooms/ tables as any other information may impact the level of privacy of participants as any more information could potentially impact the anonymity of the location and it could be recognized.

4.1. Observations

4.1.1. Visual presentation of location

The observations revealed a pattern in interior design across all locations. The design was established in line to the historical base of the old city center. All hotels had antique style furniture, all of it from Italy or refurbished Croatian furniture that is visually similar in style to Italian furniture. However 2 hotels had antique furniture that included 16th century Italian furniture pieces such as armoires, lounge benches, original Murano chandeliers.

Each location had a unified brand in their presentation with a clear but different story presented to the guest. One location built their brand on the fact that their space was once a

family palace with preserved walls dating back to the Diocletian era, so their story focused on more historic elements. Another location focused their story brand on a more romantic idea, of two lovers that faced adversity in the 18th century as those individuals used to reside in that location. All locations would not be considered as "spacious" with the biggest hotel offering a total of 10 rooms and the smallest 5 rooms.

None of the hotels had in-house kitchens, pools or spas since their size prevented development of such amenities. None of the hotels had an elevator either since the architecture of the old city center prevents the entrepreneurs from installing them. Since these two amenities specifically affect the star-awarding system in Croatia all the hotels are 4-star hotels but are considered luxury by the Croatian set standards (Bužančić, 2020).

All the restaurants and bars do not have more than 15 tables for four people. All the locations have preserved architecture as part of their offering. The preserved architecture involves walls of all locations, as they are all part of the original Diocletian's palace.

One of the restaurants has a unique position that allows the diners to dine inside the actual guard walls of the palace. That restaurant does not have any inside tables and they depend on the weather to open or close every day. Another restaurant has décor that combines the historical value of the location with modern details such as a chrome bar as well as tables and chairs that are a combination of wood and chrome. The final restaurant has the décor that is completely focused on antique style with Mediterranean and Italian influence. That is visible from décor details such as actual fishnet that is used on the ceiling and chandeliers that use actual rope from old fishing vessels.

The bars have a simple décor, using wooden details and a wooden bar, tables and chairs. Both bars have the different alcoholic beverages they have available on display behind the bar. The pricelists are presented at all times on the tables of the customers and are presented as small booklets. There were no beverage commercials or signs at bot bars.

None of the locations had any public signs present on the outside walls of the venues; they all had signs presenting the brand upon entrance. None of the locations had visible air conditioning units on the outside walls, however they are all air conditioned.

4.1.2. Response to service offer

In restaurants and bars, some customers were loudly discussing the quality of the offer presented. As stated in the literature review, perceived level of quality of service is one of two main factors that influence the choice of travel destination. A group of guests in one of the restaurants expressed to their server that the food quality was above the levels they expected. In one of the cocktail bars a guest asked for a specific mixture for a cocktail that was not listed on the menu and was openly satisfied when the server customized that drink by their requirements. In hotels all guests checking out were very vocal about their satisfaction with the accommodation. One guest specifically stressed the accommodation was unique and unlike they have ever experienced. Another guest stressed they have never felt as a part of the culture of a town as they have in Split. A customer checking into one of the hotels stated the historical value of the location was their main driver for visit. No customers in any of the locations complained about the service during the time of the observation.

4.1.3. Guest communication

The staff at all locations was able to answer all questions asked by guests right away, including questions about historic facts as well as the offering. All guests were greeted upon arrival and greeted upon departure across all locations. The language used by the staff was professional and all staff across all locations is multi-lingual. In the hotels the reception staff all took between 10 to 15 minutes with each arriving guest and answered all questions the guest had. The guests departing were all asked to leave reviews across social media platforms if they chose to.

4.1.4. Flow of customers

The customers in bars and restaurants spent on average an hour and a half in each location with the average number of tables fulfilled was 80%. This was calculated by adding all the times spent in restaurants and bars and dividing it amongst the number of tables occupied. The average number of tables taken was calculated by counting the number of occupied tables across all bars and restaurants during the observation and dividing them by the overall number of customers. This is an important indicator during the off-season period, since there are very little tourists in Split during the off-season (Bužančić, 2020). All restaurants had reservations for the dinner service, but only one took reservations for lunch.

In the 5 hotels observed a total of 7 guests checked out and a total of 4 checked in during the observation period.

4.2. Interviews

4.2.1. Perception of current state of industry

All participating locations included are open all year long, however Participant 3 (2019) stated that they were much more dependent on seasonality 10 years ago, and they were not able to be

open all year long more than 5 years ago. 80% of participants reported they are satisfied by the

current customer demands, and are confident in being able to fulfill them. All participants stated

they have noticed a change in customer demand, while only half reporting a change in the

customer base. The customer base for luxury hotels in Split for 2019 mostly consisted of

customers located in the United States that are from 40 to 60 years old, they were most often a

pair or family (Participant 2, 2019). Other customers include business travelers that are most

often executives or upper management (Participant 3, 2019). However, only 40% are satisfied

with the current customer base. The current customer base is limited, and as such does not

provide the best utilization of the offers developed (Participant 6, 2020).

Percentage of participants that positively responded (*n=10*)	
Satisfied with current customer base	40%
A noticeable change in customer base*	50%
A visible change in customer demand*	100%
Satisfied with current customer demand	80%
Positive change in stay longevity/no. of visits	90%
UNESCO differentiator for customers	100%
Consider customer feedback for decisions consistently*	30%
Open all year long	100%
Customers inquiring about entertainment	60%

*in the past 3 years(2016-2019)

Fig. 1- Emerging patterns regarding current state of industry and development

4.2.2. Industry development

90 % of participants reported a positive change regarding longevity of visits. The average

stay of guests in hotels has risen to an average of 3.5 nights while it was 2 nights three years ago

(Participant 2, 2019). Only 30% of the participants include the feedback of customers for future

development purposes. The feedback that is considered is that regarding available toiletries,

opening hours, and other smaller level innovations (Participant 3, 2019). There has been an

increase in customers asking about supporting services, specifically entertainment with 60% of

participants reporting it. The customers desire entertainment that is in line to the service offering

and branding of destination as a UNSECO World Heritage site, meaning they are not as

interested in night clubs and other events such as Ultra festival, and prefer more classical forms

of entertainment such as plays, operas and acoustic shows (Participant 7, 2020).

All participants mentioned UNESCO World Heritage as the main differentiation driver

when it comes to offering. Despite that differentiator only70% of participants reported

investments in the business in the past 3 years that would be considered innovative investments

to the service. The investments made focused on acquiring more staff and minimal investments

in the décor of the location, the service as such has not been invested in heavily past to the initial

investment necessary to open the location (Participant 3, 2019). The main reason for those lower

investments, as the entrepreneurs state, is that once the initial investment is made it takes some

time to break even from it, but there is no set of guidelines regarding how the location must stay

competitive, past the ones that are required to open the location and operate (Participant 6, 2020).

However, the increase of number of competitors is the biggest motivation for investment

(Participant 8, 2020). All of participants raised an issue about the rise in number of competitors,

while only 30% of participants consider that rise a threat to their business. Participant 4(2019)

explained that they do not feel the competition to provide the same level of quality so they are

not threatened by them; They would feel threatened if the competition focused on the same

guests as they do, but since they focus on those that are guests with lower monetary funds, those

guest would not be likely to choose their location regardless of quality of service (Participant 4,

2019).

Percentage of participants that positively responded (n=10)	
Supported by local authority	80%
Sufficient entertainment options provided for customers by local authority	20%
Invested in the business*	70%
Considered hiring consultants*	10%
Consider their location as main differentiator	100%
UNESCO branding properly utilized	60%
Split's branding is sufficiently developed	20%
Rise in competition*	100%
Rise in quality of competitors*	30%

*in the past 3 years(2016-2019)

Fig. 2 - Emerging patterns regarding industry development, level of support and branding

4.2.3. Perceived level of support

80% of participants stated they feel supported by local authority when it comes to their

business development. All participants noted they do have to present their development decisions

for approval if they concern a physical change of the location, in line to the regulations for

heritage protection.

20 % of participants stated there is sufficient support in the form of entertainment

services organized from the city of Split. Since the city of Split has the authority to allow cultural

events and entertainment options inside the old city center area of Split, the entrepreneurs are in

a way supported by the local authority by organizing and allowing events that are in line to the

needs of luxury tourism industry guests (Participant 2, 2019). By not providing sufficient

entertainment options from local authorities, the entrepreneurs are not able to further develop

their offering which may result in the services not being able to meet the customer needs and

they lose their competitiveness to other historic locations across Europe (Participant 5, 2020).

Participant 5 (2020) added that they decided to hire outside consultants to help them develop a

strategy that will help fulfill that need for entertainment and achieve competitive advantage over

other businesses.

4.2.4. Brand differentiation

All participants consider their location to be the main differentiator, especially to other

businesses in the area of Split. The physical placement of participating locations that is inside an

area that is awarded the UNESCO badge allows the business to reach higher paying customers

than those that are not located there (Participant 1, 2019). The UNESCO badge is something

every guest wants to learn more about (Participant 3, 2019). 60 % of the participants stated they

do not feel that differentiator is properly utilized. The strategy for some businesses that are in the

center is to just rely on the UNESCO badge and they feel there is no need to add onto their offer,

remaining a budget level service, while those that ensure they build a solid brand on the heritage

end up suffering as they are no unique strategies for all businesses in the area (Participant 8,

2020).

20% of participants stated that the overall branding of Split as a destination developed to

the level they find satisfactory. Participants stated that the branding of the old city center area

that is located in the UNESCO World Heritage area is not translated well to guests, and they are

unable to differentiate the UNESCO badge area to the rest of the city center (Participant 8,

2020). The branding of Split is not unified and by not providing a unique strategy and assuring

business follow that strategy, the customer is not able to consider Split as a cultural and heritage

destination, as there are festivals such as Ultra that enable branding as a party destination

attracting younger guests that not have the same needs as luxury guests (Participant 2, 2019).

5. Discussion and recommendations

5.1. Discussion

The purpose of this study was to assess the current state of the luxury tourism industry in the old city center of Split that is a UNESCO World Heritage site. Guided by the interviews and observations the current state of the luxury heritage hotel industry can be assessed as developing. It is existent, as there are locations that fit the criteria for this study, however as reported in previous sections there is no unified strategy when it comes to further development so we cannot conclude that it is truly competitive to other destinations such as Spain or Italy nor can we state that it is fully developed.

There are investments in the industry, but they are not necessarily consistent since there are no established guidelines or set standards regarding innovation. It is also important to note that the owners rarely base their investment decisions on customer feedback and that may limit the customer experience in the future. The interviews show that there has been investment in the business, but as the subject matter expert stressed upon learning about the results, the fact that the owners do not consult outside experts in most cases, may be detrimental to the heritage aspect of their offer (Bužančić, 2020). By omitting expert advice the owners may overlook steps needed to protect the value of their business but even more than that, they might be unaware of the necessary recommendations when working with heritage.

What is set for the industry are strict rules for preservation of heritage that certain owners of business from all over the Diocletian's palace try to circumvent but are unable to due to many checks by the city, as the subject matter expert stated in his interview (Bužančić, 2020). Just protecting the site is not enough to build a brand, and just as the interviews showed the

supporting services in the touristic sector are underdeveloped, such as entertainment which also limits the customer experience and which may be influenced and further developed by the support of local authorities (Bužančić, 2020).

The supporting services exist and there are those that are in line with the luxury guests needs, but there is a lack in communication between the services and the hotels so guests are unaware of potential options, resulting in once again a limited customer experience. The observations showed that the supporting services are well established and have acceptable customer satisfaction, but there are only a limited number of options which are all similar in design and offer, so there is a lack of individuality which adds on to the perception of a limited experience. Just like the hotel industry there are investments but they are all once again limited to the will of the owner and they do not significantly rely on customer feedback, so the industry can be assessed as developing. Unlike the hotel industry, the supporting services do not strictly rely on tourists so they need to consider the local taste and trends when innovating.

Another issue that arose from the study was that there is not enough entertainment options tailored to the needs of customers that wish to be entertained by something other than clubs and bars. The subject matter expert expressed that the issue of branding clearly implicates a lack in development of identity and as such could add on to the issue of entertainment as the guests simply are unaware of the options provided to them, as most cultural gatherings are developed with a Croatian audience in mind (Bužančić, 2020). According to him, this unclearness in brand identity also contributes to the diversity of the offering, but hurts the potential to build the brand as a luxury brand that could have a long term positive effect in heritage protection.

The data showed that the owners do not still have a clear strategy in mind and are not connected to an appropriate level.

The data also showed that there is a growth in number of competitors which could have a negative impact on cultural preservation, as the Diocletian's palace in Split is also residential and as such could be endangered since people could move out due to touristic development and that culture would cease to exist as such. It is also important to note that the subject matter expert stated that despite the owners not considering there to be too much of a rise in quality of the competition that there is, and that if the old city center is not minded with care for the future, they will most certainly not have the same value of their location as it will drop (Bužančić, 2020).

The UNESCO brand is not utilized to the levels it could be, which negatively impacts branding potential for Split and could help the luxury heritage hotel industry set higher standards when utilized properly and could, in turn, result in a specific brand that would help preserve that same location in the future. If a brand for the Split old town were developed in line with luxury heritage industry guests in mind, it would limit the potential to become a mass tourism destination which could lower the cultural value of the old town due to the number of people impacting the site and the specific location and type of the UNESCO site.

By focusing the branding on the luxury industry the overall amount of guests would be lower in numbers but would not impact the monetary gain in a negative manner due to the rise in value of service sold. By developing a luxury brand the longevity of the industry could be sustained, as the subject matter expert mentioned during the interview due to a lack of clear branding there is a chance that mass tourism will overcome the luxury industry, since the costs of

developing and maintaining a luxury service is more expensive from an investment perspective

(Bužančić, 2020).

5.2. Recommendations

In order to maximize the potential of the location, the first and most important step would

be to develop a brand for the old town of Split that is in line with the luxury industry guest needs

and that includes all services located in that area to create a unified and strong strategy. This is

crucial since Split has to consider how other luxury destinations are able to provide their guests

with options such as and all-inclusive stay, in-house spa as well as privacy and secrecy of

locations.

. The first step in developing a truly unique customer experience is to examine what are

the main differences between the luxury guests in Split, as opposed to luxury guests in the world.

In order to further develop the customer experience it is necessary to further consider customer

feedback and for the industry to become more customer centric. That would greatly impact both

the cultural value of the destination, but would also help protect the current residents of the old

town from being pushed out by the rise in mass tourism. By connecting the luxury hotels and the

supporting services in a structured manner, a more streamlined communication could be

achieved and the developed brand would be more viable in the long term. Another important area

for development in order to support the luxury brand would be entertainment options that would

also account for the needs of guests and not just locals.

The UNESCO aspect of branding has worked for many sites, but the old city center of

Split provides the unique opportunity to experience how a new culture can be developed and

maintained while coexisting with old ideas. This is a big motivator and differentiator for those

businesses located within the palace walls, but there is a chance that mass tourism could threaten

the long-term success of that model, and that is why proper branding and communication is

crucial. Split has a unique opportunity to set a set of standards and become a direct competitor to

Dubrovnik and Hvar both of which have a reputation as luxury destinations in Croatia.

These steps may sound simple, but they require a lot of time and effort and even more

than that, they require training. In order to bring all services inside the walls of the palace on a

higher level to meet the demands of luxury guest, a lot of training needs to be provided from the

service side, not only to impact the service, but well trained staff that is educated on the history

of the palace is more likely to understand the cultural value of the old town. Educating the staff

on the cultural value is the only way to assure proper steps of care are taken for upkeep of the

palace on a visual level, assuring a more open atmosphere and culture.

Another benefit of a well-trained and educated staff is the fact that they are the face of

Split as they are the ones that communicate with the guest and instantly represent the business

and the culture of the town, which could positively impact the customer experience not only for

the guests but for the employees as well.

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Appendix A

Interview

Considering there is not much research examining the topic, open – ended questions were used

as well as a semi structured interview that allows the participants to be as insightful as possible,

and assures that all topics were covered.

In order to gain the most data possible the topics discussed were relating to:

- How are they happy with their current customers

- Have the customers changed in the past 5 years?

- How has the demand changed?

- Are they open all year long

- What would they say the competitive advantage of Split is

- What is the most common type of customer they encounter?

- Who would be their ideal customer?

- Do they communicate with their guests via social media on a regular basis?

- Are they active in social media?

- Do they advertise and if they do, where?

- Do they reach out to customers after their visit?

- Have they invested in the business in the past 5 years, and if yes, how?

- How many full time employees do they have?

- Have they ever had any regulation issues?

- Are they part of an association, if so which?

- Would they say there is a high level of competition?

- What are their long term goals for the business?

- How do they attribute to the offer of Split?

- How do they see the UNESCO status?

- Do they use the UNESCO status as a branding differentiator?

- Do they see the UNESCO status as beneficial to their image?

- Do they feel supported by the local authority?

Appendix B

Observation framework

Time of arrival:

Time of departure:

Number of people inside upon arrival:

Number of people left during stay:

Number of tables/room in location:

Time needed to approach guest:

Total number of people in:

Total number of people out:

Décor:

Repeat for each guest/table of guests

Number of people:

Time arrived:

Time left:

Number of interactions with staff: