

# Market-oriented innovations in tourism

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Innovations are the key elements that boost the economy in a given sector. Particularly, the tourism sector requires different types of innovations, as it is one of the most competitive ones. This paper discusses the role of innovations in the tourism sector in a market-oriented environment, where competition is the fundamental source of the market dynamic. First, the paper will introduce the types of innovations in the current literature. Then it moves to argue the four impacts of innovations in tourism. These are increasing the existing capacity, survival of the tourism sector itself, overcoming the possible negative effects, and opening up saturated markets. Each type of innovation is considered to be related to one impact, and they will be explained further by using real-world examples. At the end of paper, there will also be a model presented in order to measure the impact of innovations on the basis of quality of life (of both tourists and service providers) and revenues received by the stakeholders who participate in the tourism market by investing. In conclusion, this paper argues that innovations are the crucial aspect of the current economic system and agencies in the tourism sector should focus on innovating more and more if they seek to benefit from the market industry and even maintain their position in the tourism market.

**Keywords:** tourism, innovation, market-oriented, competition

## Introduction

In the current market-driven economy, competition is the fundamental driving force of the system since there are lots of people who are able to produce instead of actual producers, and there are numerous consumers who may be willing to give the same amount of money for a particular good or service. For example, let the price of a raw material be the same for two companies which produce within the same sector. If one of these companies finds a way to reduce the cost of production (such as a different path for transportation), then this company will gain a comparative advantage in the face of the other firms within the market. Similarly, in the consumption sphere, there will be competition among consumers as the supplied goods or services are limited and people who are willing to pay more money will be more likely to consume that particular good or service. Hence, ongoing competition on the basis of cost minimisation and profit maximisation among suppliers and consumers is the key factor that creates, shapes and conducts the rules of these interactions.

Like in all sectors in the economy, competition takes place in the tourism industry. There are infinitely many touristic destinations with various services and offers on a global scale. In order to highlight a destination and lure the targeted and newly created groups of tourists to the particular destination, market-oriented innovations are the requirements for creating, reinventing and improving such destinations. In general, the tourism industry requires innovative services and products (Pechlaner et al., 2006). Local or worldwide trends, sustainability, economic and sociocultural values and changes are some of the factors that are needed to be considered while carrying out such innovations.

It is obvious that the transition towards sustainable tourism requires innovations in both the technological and institutional sense (Van Wijk et al., 2015). Among these innovations, institutional innovation is defined as “a new, embracing collaborative/organizational structure or legal framework that efficiently redirects or enhances the business in certain fields of tourism” (Hjalager, 2010). Considering the examples of institutional innovations regarding sustainable tourism, eco-labels and standards may be included as the new forms of regulations (e.g. Font, 2002; Chan & Wong, 2006). Furthermore, social enterprises can be considered as another example, namely novel organisational forms which substantially differ from conventional businesses in terms of their focus on achieving social and environmental goals (Von der Weppen & Cochrane, 2012). Institutional innovations may also include partnerships since they allow the creation of new interaction patterns and means of communication among the actors who have not presented before (Maguire et al., 2004), including those who have emerged in the tourism sector (Selin, 1999). Although the institutional innovations for sustainable tourism are widespread, scholars have not paid attention to their emergence adequately.

Moreover, product and service innovations are another aspect of innovations with respect to the tourism sector. Research has shown that firms which successfully apply new service development (NSD) and new product development (NPD) share a strong commitment to innovation, have well-structured innovation efforts, and allocate substantial resources to their innovation efforts (e.g. Brown & Eisenhardt, 1995; Griffin, 1997; Ernst, 2002; Tidd & Bodley, 2002). Nevertheless, there are still some debates on the similarity and differences between

product innovations and services innovations (Nijssen et al., 2006), based on their specific characteristics (Zeithaml et al., 1985; Lovelock & Gummesson, 2004; Vargo & Lusch, 2004).

Regarding different types of innovations, this paper will investigate the role of innovations in tourism according to their effectiveness in terms of four main functions. First, the impact of innovations in increasing the existing capacity of the tourism industry will be analysed, and then their significance in the survival of the tourism sector will be considered. Moreover, the role of innovations in minimising the negative effects of a crisis will be argued. And the last point will be the effect of innovations in opening new opportunities when the market is saturated. After completing the argument on the functions of innovations, a naive model will be presented which captures the interplay among the impact of innovations, changes in quality of life and revenue received by the stakeholders.

Since the aim of the paper is to explore the relationship between innovation types and their application in the tourism industry within the market structure, this paper will be dealing with the question: "How do the stakeholders in the tourism sector benefit from these innovations, as they are the main actors of competition within the tourism industry?" In other terms, given the competitive nature of the market, how do

actors in the tourism sector benefit from the various innovation types, when it is applicable.

### Types of innovations

Abernathy and Clark (1985) have developed a model and applied it to innovations in tourism sector. According to the model, there are four types of innovations, which are regular, revolutionary, niche and architectural. A summary of the model can be found in Figure 1.

The vertical axis in the model implies the knowledge and competence that is used for the production of goods and services. It is intuitive that old qualifications and ideas sometimes need to be replaced and further development of existing structures can be the only requirement in other times. On the other hand, the horizontal axis implies whether particular innovations make current business linkages outdated or whether they result in an entrenchment for the existing ones (Nordin, 2003).

Radical innovations can be considered as the least radical innovations among these four types. However, their effect over a long-term period may lead to considerable outcomes. They can lead to several smaller innovations (Sundbo, 2001),

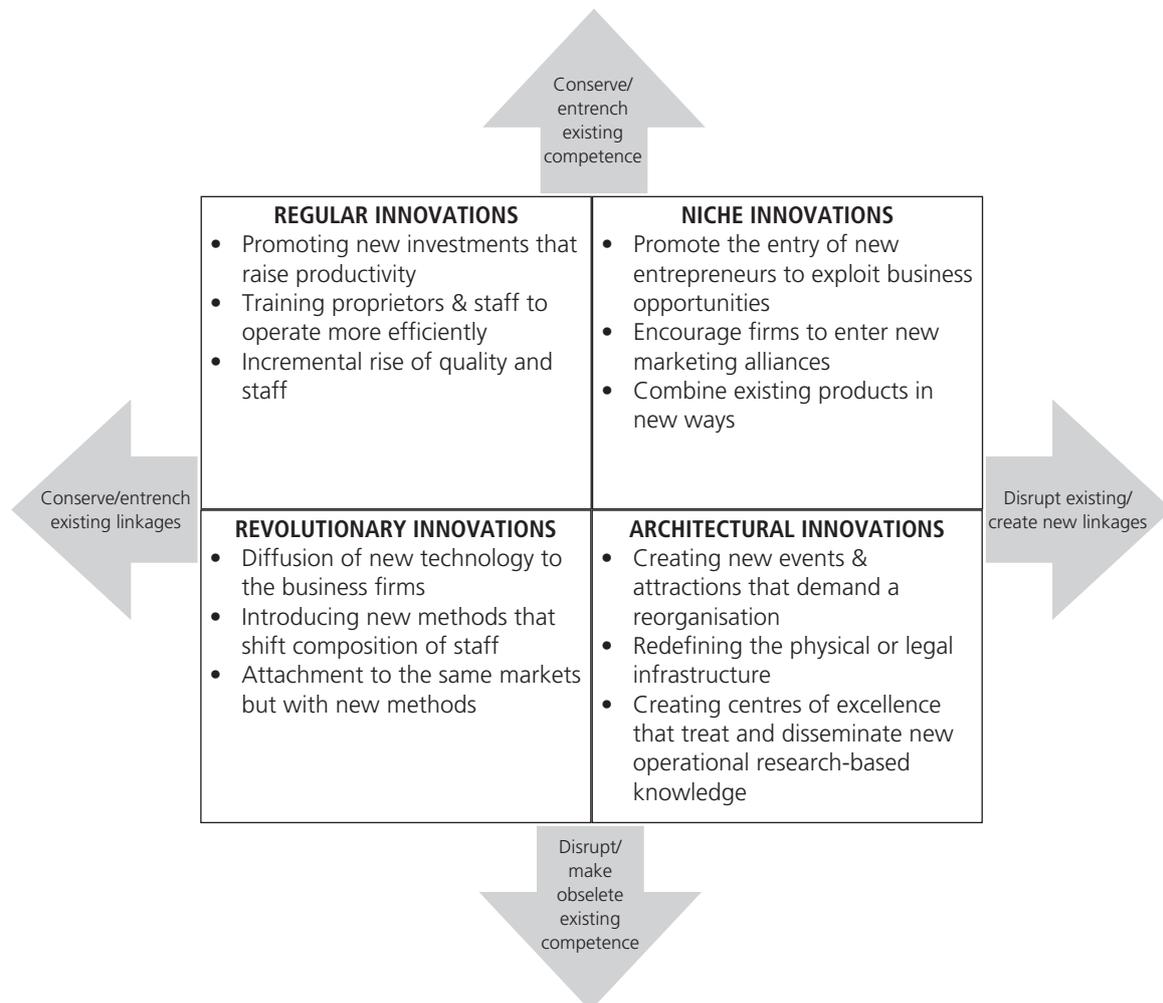


Figure 1: The Abernathy and Clark (1985) approach to tourism innovations

plus they can surface as technological revolutions that consist of a group of innovations which have a greater impact as a sum (Fagerberg, 2005). Secondly, niche innovations challenge collaborative structures most of the time, despite not having basic competence and knowledge (Nordin, 2003). Revolutionary innovations are inclined to create a radical impact on competence but keep the external structures unchanged. Lastly, architectural innovations focus on changing overall structures as well as establishing new rules which are capable of remodelling the concept of tourism.

Although this model has been criticised for being too descriptive and static, it provides a framework for a better understanding of the nature of specific innovations in the tourism sector.

### Increasing the existing capacity by innovations

Extending the existing capacity in tourism is one of the fundamental features of innovations. A particular destination may increase its capacity in order to lure more tourists and, as a result, increases the revenues received by the tourism industry. To achieve this, product and service innovations as well as process innovations are key elements which will increase the quality and variety of products and services, and furthermore will reduce the time necessary for providing touristic services.

Starting with the product and service innovations, we find that they indicate the changes which are directly observed by the customers of that company, and are considered to be new with respect to that particular enterprise (Maráková & Medved'ová, 2016). From the standpoint of hotels, these innovations may include innovations in food and beverage, animation, wellness and so on. For instance, when hotels add traditional dishes to their à la carte menu with a new presentation, or unusual tastes which are not present in other hotels, the likelihood of a tourist preferring this hotel will increase, since gastronomy is an integral part of touristic activity. Furthermore, innovative services such as extra facilities for tourist comfort or alternative night shows and animations will be helpful for both tourists to maximise their satisfaction with diverse opportunities, and enterprises to host more tourists and increase their profits. A summary of service innovations can be found in Table 1. In general, innovations in products and services affect the buying behaviour of customers, which in turn have an impact on revenues of enterprises in the tourism sector.

Various activities and methods in the service sector, in particular the tourism sector, focus on innovative and creative solutions for better meeting the demands of their customers. These solutions, in turn, help to improve the bonds between customers and producers and to establish a harmonious relationship between these two parties (Genç, 2014). Hence the practices in the tourism sector take into account the diversity of customers and their demands by promoting innovative solutions, providing unforgettable tourism experiences for their visitors, and improving the service quality. Moreover, as Weiermair (2006) argues, "promotion of innovation" in the tourism sector mainly focuses on encouraging market entry for the agents, and the target of these innovations is not related to changing the structure or product offerings at the level of enterprises or touristic destinations.

Tourism products are generally distinct from industrial

**Table 1:** Service innovations

Service innovations are often small adjustments of procedures and thus incremental and rarely radical. Service innovation processes are normally very practical.	Sundbo and Gallouj (1999)
Service innovation is, by definition, multidimensional. Compared to, for example, manufacturing, service innovation is characterised by much more emphasis on the organisational dimension of innovation (new service concepts, new client interface and new delivery systems) relative to the technological options.	Van Ark et al. (2003)
Service innovation is mainly an incremental process, which includes two components: – A non-technological component, dependent on the intangible human resources, organisational structure and factors that can add value to customer service (marketing, distribution channels, etc.); – A technological component, nowadays inseparable from the first component, that depends on technology, especially Information and Communication Technologies (ICT).	Carvalho (2008)

Source: Carvalho and Costa (2011)

products in terms of their production and marketing, and they display particular characteristics that are capable of posing constraints and challenges and therefore they can be considered as stepping stones for increasing the value of products through innovations. In the tourism sector, products are produced and sold in the form of product bundles, for instance intangible products such as experiences, or products that cannot be stored due to the simultaneity of production and consumption, or products that require active participation of consumers (i.e. prosumers), or products that require large capital assets such as airlines, hotel chains, and car rental firms, or products that require interaction personnel, such as travel agencies, restaurants, coaches, at the intermediation, distribution and final consumption stage (Weiermair, 2006).

Typically when a tourist spends her/his holidays in a destination, s/he consumes a bundle of services as a whole rather than consuming the product of only one supplier (Kaspar, 1991). Numerous different service suppliers are involved in the creation of a touristic experience. Thus, vertical co-operation is required, as the overall quality assessment of tourists depends on cumulative quality perception (Koch, 1998). When the tourist is the main concern, the product covers the overall experience from the time s/he leaves home to the time s/he returns to it.

On the other hand, process innovations could be considered as innovations that are oriented towards productivity and efficiency. The essential part of this type of innovation is investment in technology, combined with a re-engineering of organisational structures. As Buhalis and Law (2008) mention, information and communication technologies (ICT) are fundamental for various process innovations and many research subjects. Through the implementation of information and communication technologies (ICT), the productivity and efficiency of tourism enterprises may be improved. The application of ICT, combined with the other

strategic and managerial parameters have a strong impact on the advancement of skills and human resources management. Figure 2 summarises the relationship among goals, movers, barriers and innovation in tourism, and how product and process innovations are differentiated.

As a result, these technologies allow the implementation of better and faster preparation techniques, saving labour power and human energy, reducing waste, providing faster services and more flexibility (Maráková & Medved'ová, 2016).

### Survival of the tourism sector

Another important function of innovations takes place in the survival of the tourism sector. The role of government along with private entrepreneurs is highly crucial for the maintenance of tourism, as the survival of the tourism sector provides benefits for the national economy. The survival of the tourism sector is mainly ensured by institutional innovations.

Institutional innovation is defined as a new organisational structure that highlights the principle of cooperation on the basis of a new organisational structure in a particular destination. These innovations include building business networks and forming new alliances as well as determining the standards for company certification which allows the allocation of quality marks, checking and promotion (Maráková & Medved'ová, 2016).

In accordance with the market-oriented perspective, scholars agree on the point that government should not subsidise outright innovation with respect to opportunism or rent-seeking behaviour. Moreover, government should try to let the market

function freely and intervene only when there is market failure. Rather than dominating the innovation process, governments should also allow the innovating through cooperative alliances and other forms of networking. As a result, scholars advise the reduction of government's role to a facilitator, coach or incubation partner, which "turns prototype developments over to the private sector as soon as innovation activities have been carried out" (Weiermair, 2006). For instance, the development of the travel reservation and information systems in Ireland through the Irish Tourism Board, or the development of diverse new tourism products such as family wellness holidays in Tyrol or Alpine areas through the Tyrol Tourism Board and through the Future Foundation Tyrol in Austria.

### Overcoming negative effects

Innovations also play a significant role in terms of overcoming negative effects related to the tourism sector. Specifically, tourism demand is sensitive to concerns about health and security (Blake & Sinclair, 2003), as well as changes in the international political conditions, natural disasters and epidemics (Sönmez, 1998; Ioannides & Apostolopoulos, 1999; Sönmez et al., 1999; Cavlek, 2002; Richter, 2003). Events that have devastating local or global impact may happen at any time, therefore organisations must be ready to overcome these effects if they want to maintain their positions in the competitive environment of markets. To do so, companies must act creatively and be open to innovations that would save their revenues under particular crisis conditions. There are two main examples, one local and one global, which have

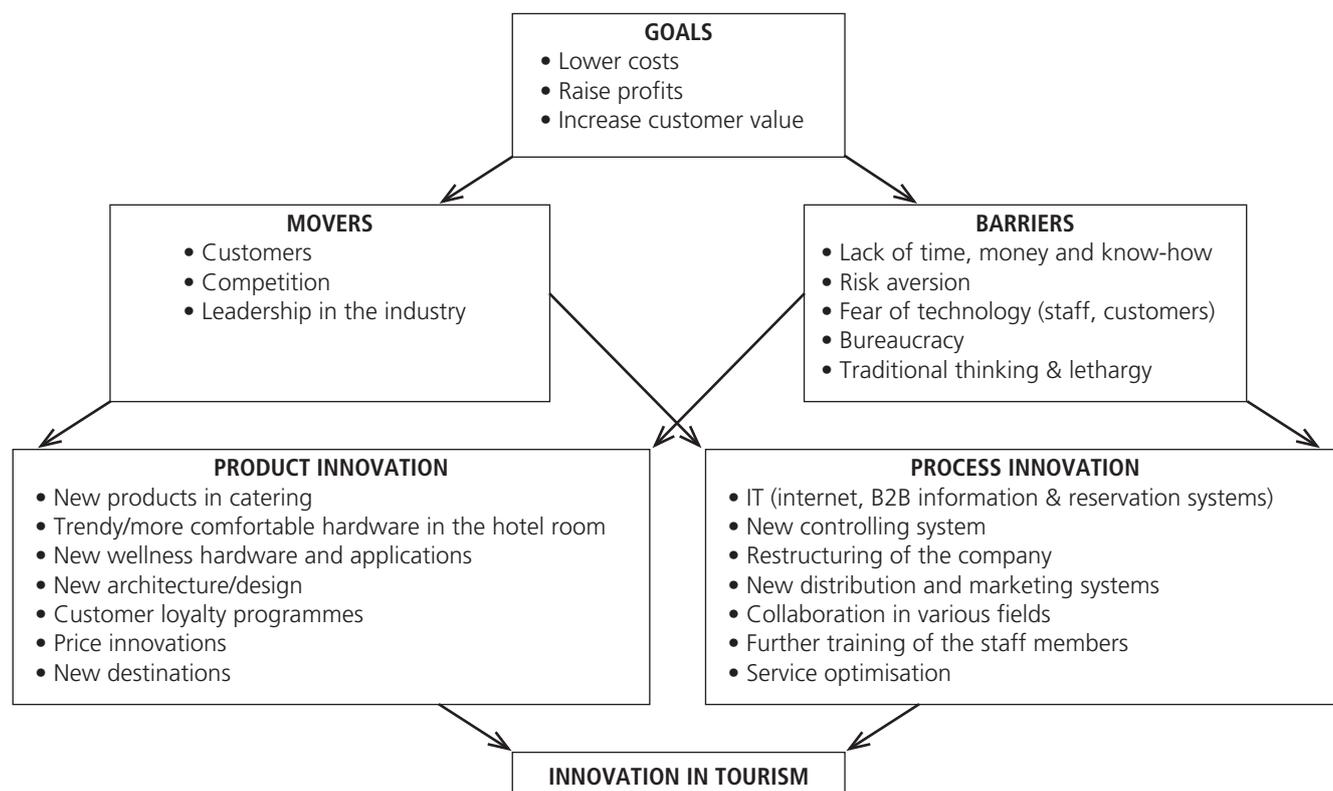


Figure 2: Product and process innovations. Source: Weiermair (2006)

challenged the innovative capabilities of organisations and as a result, have led to a greater impact on the actors within the market.

To begin with the local example, after the devastating bombing attacks in Istanbul, especially the attack at Istanbul Atatürk Airport, there follows a crisis in the tourism industry. Flight companies have cancelled their flights to Istanbul and also tourism agencies have warned their customers not to visit touristic facilities in and around Istanbul for security reasons. At this point, innovations could be helpful in finding solutions to the negative effects of the crisis. For instance, hotels can collaborate with domestic flight companies to lure tourists with special offers and discounts. Moreover, they can work on some creative advertisements which emphasise the security of particular accommodation facilities in order to overcome with propaganda. These innovations may also be considered with the help of other local agencies since the revenues derived from tourism are generally distributed to multiple actors in a touristic destination and other agencies may well benefit from the gains of the tourism sector.

Another example is more global when compared to the Istanbul example. In 2003, the emergence and spread of the severe acute respiratory syndrome (SARS) virus caused a crisis in the tourism industry in various locations in Asia, and it led to panic throughout the world (Henderson, 2004). Considering the pre-SARS period from 2001 to February 2003, the number of tourists visiting Hong Kong and Taiwan for the purpose of recreation has averaged around 20 000 per month. However, Hong Kong and Taiwan were hit badly by SARS from mid-March until the end of the northern summer of 2003. The number of flights between Hong Kong and Taiwan had been cut by 45% by mid-April. As an outcome of the sharp decline, the number of Hong Kong tourist arrivals fell by 61.6%, from 22 345 in March to 8 582 in April. In May, the number of flights further declined by 63%, plus the number of tourist arrivals from Hong Kong dropped to 105, the lowest that has ever recorded (Mao et al., 2010). In order to overcome the negative impacts of such a disastrous epidemic, organisations must be innovative and enhance their offers to attract tourists even in that kind of adverse situation. Although it may be pretty hard to achieve short-run gains, companies may find alternative markets or set long-term targets to maintain their profits.

### Opening up saturated markets

Last but not the least, innovations are crucial for opening up saturated markets. Markets inherently tend to be saturated, that is, when all agents sufficiently meet their demands, there will be no extra gain for suppliers. There are different reasons for market saturation, such as changes in interests, changes in fashion, improvements in technology, and so on.

Touristic destinations are also subject to innovation cycles. For instance, the Alpine region, which is Europe's second largest recreation area, has gone "out of fashion" and lost much of its market share in the past ten years. Despite the efforts of the regional planning authority as well as destination managers, the reality is that tourists choose destinations that they find attractive and which offer the greatest utility; and it is the market which decides whether or not a destination is worth a visit (OECD, 2009).

Therefore, rather than ordinary regional planning bodies or destination managers, agents in the market need to develop innovative solutions in order to arrange themselves to meet the current, varied demands of tourists. By altering the conventional strategies for attracting tourists, innovative acts will provide service suppliers to allure more tourists to their destinations and increase the quality of time that tourists will spend at this particular destination. Considering the fact that an innovation developed in a particular sector will easily spread to other sectors, multiple agents will benefit from these innovations since demand will increase in a large part of the market, allowing suppliers to gain more revenue.

### Modelling the role of innovations

The impact of innovations can be measured on the basis of changes in overall life quality of tourists and service providers, and revenue received by the stakeholders who are involved in innovative strategies. Moreover, as Schumpeter (1934) argues, there is a "creative destruction" in the markets, that is, agents in the market need to innovate persistently or else they will vanish. Therefore, the impact of creative destruction needs to be taken into consideration for modelling the long-term effects of innovations.

Adding these three variables, the model will be as following:

$$IN = \beta_1 QL + \beta_2 RS - d^t + \varepsilon$$

Where,

IN implies *impact of innovations*,

QL implies *quality of life* (both for tourists and service providers)

RS implies *revenues received by stakeholders*

d implies *the impact of destruction* due to the creativity requirement of markets

t implies *time* (or periods/seasons in which touristic markets work)

$\beta_1$  and  $\beta_2$  imply coefficients

$\varepsilon$  implies residual

According to this model, the impact of innovations is measured through two main variables, these are: quality of life and revenues of stakeholders. First of all, quality of life is a crucial factor since innovations are mainly targeted to increase the satisfaction that tourists receive from their touristic experiences. There are two main indicators for measuring the term quality of life, these are objective and subjective measures. In accordance with the scientific purposes, we need to focus on objective indicators, such as economic indices (Gross Domestic Product, poverty rate, etc.), social indicators (unemployment rate, school attendance rate), life expectancy and literacy rate (Genç, 2012, p. 151). Secondly, entrepreneurs innovate in order to increase their share or maintain their position in the market. Thus, revenues received by stakeholders will be a good indicator for measuring the impact of innovations. These two variables, quality of life and revenues of stakeholders are assumed to increase linearly with the coefficients  $\beta_1$  and  $\beta_2$ , respectively.

On the other hand, the destructive capability of the market increases exponentially, that is, actors in the market must innovate even more as time passes. Therefore representing the possible destruction with respect to time is another aspect that needs to be considered.

Furthermore, there may be other variables which have a significant impact on measuring the effect of innovations,

hence they are represented with  $\varepsilon$ . Although the model has not been tested on real variables, it will be useful to focus on a quantitative analysis in order to measure the impact of innovations through a scientific basis.

### Concluding remarks

In conclusion, market-oriented innovations are essential in the tourism sector, since they increase the existing capacity of the tourism market, take part in the survival of tourism, are useful for overcoming negative effects and play a key role in opening up saturated markets. Considering the competitive nature of global markets, touristic destinations which are involved in more innovative developments will be more likely to be preferred by tourists, since demands of tourists are even more varied when compared to past years.

Therefore travel and tourism companies are required to be actively innovative in mature economies which remain large and profitable despite slower growth rates, and on the other hand, they need to be focused on developing economies which have a faster growth rate (Andrew et al., 2010). Although creating this balance will be challenging, companies which successfully manage to develop innovative strategies in both markets will gain vast monetary rewards. All in all, innovation is the only source that keeps tourism companies alive in the competitive market environment.

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