

# International Tourism Business

## A Framework for Analyzing Innovation in the Context of Holiday Package Industry

Budeanu, Adriana

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**International tourism business: a framework for analyzing innovation in  
the context of holiday package industry**

**Adriana Budeanu  
(abu.int@cbs.dk)**

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**Copenhagen Business School  
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# **International tourism business: a framework for analyzing innovation in the context of holiday package industry**

## **Abstract**

This paper has the starting point in the acknowledgement that a closer examination of the operational elements related to holiday packages may reveal advanced opportunities for advanced innovation. The investigation confirms that such opportunities exist in the intangible aspects of tourism products and production. Summarizing these findings, the paper proposes a framework that enables better insights into the nature of tourism innovation.

**Keywords:** tourism innovation; holiday package; tour operators

## **Background**

Research on tourism innovation is still in incipient stages (Sundbo et al., 2007), having immature frameworks and debatable definitions (Decelle, 2004). Initial contributions were made by Hjalager (1997), who applied the theoretical model of innovation of Schumpeter to tourism and later the model of Abernathy and Clark (Hjalager, 2002). Her work remains influential for subsequent research such as Nordin (2003), Decelle (2004) and Weiermair (2004), and generated a strong stream of research on innovation of tourism networks and regional systems (European Commission, 2005, Novelli et al., 2006, Sundbo et al., 2007). However, only little contribution was made to develop the models proposed by Hjalager further into frameworks able to capture the significance of the intangible nature of tourism as an experience.

Designing holiday concepts and selecting the services that create expectations and provide experiences, is the incoming challenge for travel and tourism (Kompola, 2006). In the new era of post-modern society, customers seek experiences in every aspect of human life. This shift has a direct reflection on the holiday industry where satisfactory comfort and basic access functions (transport and accommodation) is not sufficient

anymore for securing customer approval of holidays and emotional value of experiences becomes a determinant measure of tourism performances (Otto and Ritchie, 1996, Quan and Wang, 2004, Komppula, 2006).

The slow progress of tourism innovation is reflected by performances of industrial actors. Although the maturity of tourism markets calls for innovative product offers, companies often neglect renewal and development, or engage with minimum effort possible (Jones et al., 1997, Gustafsson and Johnson, 2003). Most creative energy is spent on seeking new locations or marketing strategies rather than developing entirely new products (Mattsson et al., 2005) while major investments go into in the development of information and communication technologies (Decelle, 2004). The low investment in research and development is claimed to have a direct consequence on the low rate of tourism innovation (Hjalager, 1997) and possibly a reason for its superficial transformations (Weiermair, 2004). The high rate of imitation and product homogeneity discourage tourism entrepreneurs.

This paper starts with a review of theoretical concepts on tourism innovation in order to give an understanding of fundamental elements that characterize novelty. Further, such aspects are followed through the exploration of the operations related to holiday production and development. The findings are used to build a framework that conceptualizes the ways holiday packages innovate. The paper concludes with reflections on the current and future of tourism innovation.

## **Tourism innovation**

One approach in the literature on tourism innovation follows the seminal work of Schumpeter, who distinguishes between the transformations suffered by different structural elements and defines innovation as a change of one or a combination of the following five categories: product, process, management, logistics and institutions. By translating Schumpeter's typology to the tourism system, Hjalager (1997) lays a theoretical foundation for discussing the different levels of tourism innovation:

- *Product innovation* is the development of improved tourism products or services, new to the consumers, with performances superior to existing ones. Examples include loyalty programs, event tourism, voluntary tourism, eco-tourism and professional tours.

- *Process innovation* aims to enhance performances of the operational structures of tourism (technology and infrastructures) such as the computerized reservation systems or self-service devices.
- *Management innovations* regard enhancement of competences and empowerment of staff by job enrichment, training and acquisition of new skills.
- *Logistics innovations* refer to reorganization of commercial liaisons associated to flows of materials, information, transactions or customers. Often redefining the position of a firm in supply chains, logistics innovations in tourism include vertical integration, information systems, Internet marketing, etc.
- *Institutional innovations* are new regulations, norms and beliefs that transform the context of tourism activities, such as environmental regulations or building restrictions.

The emphasis on the different levels of tourism structures is useful for analyzing large-scale transformations that involve inter-organizational relations and multi-actor initiatives. However, they are general and do not allow distinctions between different types of tourism products and relationships encountered at the micro levels of tourism organization, the company level. Research on entrepreneurial innovations in tourism concentrate on the analysis of actors and factors that stimulate innovation (Hallenga-Brink and Brezet, 2005) and are preoccupied by technological innovations, but tend to overlook the social and cultural nature of innovation. Experience from other sectors indicate that understanding better the nature of innovation, by exploring interactions and changes inherent to products and processes, reveals less obvious opportunities for renewal.

Another perspective, complementary to the structural approach presented above, emerged from looking at the degree of transformation suffered by each element in the tourism provision system. According to this perspective, innovation is best illustrated by following the evolution of organizational competences and inter-organizational relationships (Abernathy and Clark, 1985). Under external and internal influences, tourism actors and their competences can go through four types of change during innovations (Hjalager, 2002):

- *Regular innovations* are small adjustments that have potential of becoming significant over time, such as the enlargement of tourism facilities, employing technology with higher efficiency, internal training and entering new markets.

- *Niche innovations* are small-scale improvements that alter connections among actors, but not the competence necessary for delivering services. Examples are associations with other businesses (e.g. insurance companies) to complement basic tourism products, new marketing alliances, new combinations of products.
- *Revolutionary innovations* represent changes that do not affect structures but change drastically the competence involved in service delivery, such as the introduction of new kitchen equipment, delivered together with pre-cooked products, eliminates some of the cooking skills.
- *Architectural innovations* are radical changes that affect overall structures and set new rules for the tourism system. Though rare, such examples are found in tourism when exploiting new resources e.g. redefinition of infrastructures as a result of restrictive environmental regulation.

The emphasis on linkages and competences is appropriate for tourism, an industry based on cooperation (Weiermair, 2004), where the success relies on satisfactory performance of all actors involved and no single service provider can raise customer satisfaction without involving the others (Hjalager, 2002, Nordin, 2003). However, tourism is a highly dynamic sector where intense and unpredictable changes are often accompanied by relocation of competences, making it difficult to distinguish between niche and revolutionary innovations. In such volatile contexts, the simpler distinction of Schumpeter between incremental and radical changes may be more useful for describing tourism innovation.

### **A challenge for tourism innovation**

The literature on service innovation thrives on the potential for creating new services by going beyond technological change and consider the social aspect of services (Barras, 1986, Gallouj, 2002). Mentioned by Sundbo (2007), Decelle (2004) and Matsson (2005), the discussion of the nature of innovation in tourism services remains weak, as they concentrate on analyzing determinant factors of innovation diffusion. The individualization of mass tourism (Poon, 1994) and customer involvement, together with the development of information technologies (Weiermair, 2004) give a new spin to innovative action. While studies analyze the inter-organizational dynamics of network innovations (Novelli et al., 2006), the role of consumers as key stakeholders for innovation in tourism is rarely explored. Even then, consumers are regarded as evaluators of the end-result of innovation (Edvardsson, 1997, Faché, 2000) without exploring their involvement in innovation process. The role of customers as users or as developers of tourism products, through

their own values, preferences and expectations, may hold interesting perspectives for innovation (Shove, 2002).

The proximity of customers and producers specific to tourism requires the integration of the views of both in the evaluation of what constitutes tourism innovation. The next section explores technological and non-technological changes of tourism products, processes, and stakeholder interactions associated to the production of holiday packages – the dominant form of tourism product today. For the sake of this discussion, the novelty of changes is evaluated from the perspective of the actors receiving it (consumer, business partner).

## **Holiday products and processes**

The holiday package is an assembly of services that facilitate travel and activities of individuals away from their home environments (Smith, 2004). From a customer perspective, holiday packages offer access to destination experiences, readily available at a one-stop-shop, and at convenient prices lower than individual travel arrangements. Besides access, packages also offer ideas (concepts) for spending holidays. The main function of holiday packages is to secure tourist satisfaction with the quality of access and the overall experience (Novelli et al., 2006). One way to examine the nature of products and services is by following their development, from design to delivery (Edvardsson, 1997, Berchicci and Bodewes, 2005). For holidays this entails the following the product development process of tour operator, which includes the development of holiday concepts, the management of supporting services, and the management of suppliers and customers as part of the production process. The nature of transformations occurring in each of these four steps is investigated in the next section.

### **Holiday products**

*Holiday concepts* are commonly defined by location (away from home), leisure activities (different from work) and the experience (different from daily activities) resulting from enjoying both (Swarbrooke, 2000). Currently, the market offers a large variety of holiday concepts, ranging from passive relaxation in the sun (all-inclusive packages) to active holidays (bicycling tours) or learning experiences (wine trails, history tours).

A safe path for creating variety in tourism products is to follow and match constantly changing tourist motivations for travelling. A worldwide variety of locations and attractions allows for endless formulations of holiday concepts that satisfy tourist curiosity and longing

for adventure, knowledge or entertainment. Moreover, recent technological developments enable the expansion of holiday locations to include virtual reality and even outer space, such as the Space Adventure trips sold in advance for 20 million USD. However, there are also holiday concepts that trigger entirely new motivations for travel, adding the element of surprise to customer satisfaction, or by answering needs different than relaxation, such as self-realization or knowledge acquisition. Creative entrepreneurs provide innovative tourism products by mixing conventional holiday activities with less conventional ones. One example are the recently popular “scalpel safaris” which combine plastic surgery and safari tours in Africa or “voyages of the imagination” where customers play poor immigrants who work to pay their trip to America (Weiermair, 2004). Other innovations are built on changing radically the meaning of “breaks from work” to holidays focused on work, such as “volunteer holidays”. Such radical transformations of holiday concepts expands tourism production to include other trades expanding the scope of tourism businesses; if widely diffused such new concepts may redefine the notion of holiday as we know it today.

*Holiday supporting services* enable tourist access (accommodation, transport) to experiencing destinations in terms of nature, climate, comfort, culture and traditions (entertainment activities, excursions) securing the holiday experience. While access services are vital elements for holiday packages, entertainment services are as variable as customer motivations for traveling (e.g. adventure) and preferences for location, quality, comfort and safety. (Holloway, 1998) The recent technological developments have enabled the service delivery to be more efficient, comfortable and convenient for the customer, and brought a degree of novelty to holidays. Examples include the introduction of new catering products, comfortable hardware in hotel rooms, wellness hardware or flexible (internet-based) reservation systems. (Weiermair, 2004) However, technological improvements are only transition stages in the development of new services (Barras, 1986) and account as incremental innovations until they represent a new experience for the customer (Laws and Scott, 2003). In addition, technology enables also new modes of service provision that radically change the meaning of holiday, such as the introduction of virtual access to tourist attractions, eliminating transport and accommodation and creating an unique experience in itself. Bound to technological developments, service innovation is radical when it affects the provision of access and all the holiday supporting services in a package (accommodation, entertainment and transport) becoming part of the experience (Laws and Scott, 2003).



In summary, holiday products innovate by creating new combinations of locations and activities, accompanied by new technology that secure improved access to holiday experiences. The novelty of such combinations depends on how well they match tourist motivations to travel. Incremental innovations are packages made to fit traditional traveling motivations, such a relaxation and curiosity, delivered using improved technological means. The intangible characteristic of services offers great flexibility to innovate, involving the destination as a stage and service providers as actors, crafting a play for customers, an experience away from home environments (Weiermair, 2004). A radical innovation of holiday products – from a customer perspective – involves providing memorable experiences that trigger a transformation of the meaning that customers give to holidays (Otto and Ritchie, 1996).

### **Holiday processes**

The producers of holiday packages are the tour operators who buy services from primary providers (e.g. airlines, hotels, entertainment and attraction providers) in bulk, assemble them into holiday packages, and sell them at attractive prices (Holloway, 1998). Tour operators do not provide services (accommodation or transport); their role is to secure the best possible prerequisites for the experience, an attractive idea and description of the product, a successful service process and a reliable functioning of the service system (Komppula, 2006). Therefore, processes related to holiday production consists of *managing the base of primary suppliers* (airlines, hotels) and assuring *customer assistance* during the holiday (Budeanu, 2005).

*Supplier management* is a key function for an international tour operator. As tourists buy holidays without the possibility of testing them, maintaining their trust in the tour operator's ability to control and monitor supplier quality is essential for business survival (Laws, 1997). Therefore a great deal of organizational resources of a tour operator is dedicated to selecting and supervising supplier performances (Budeanu, 2005). With the components included in the package (flight, accommodation, land transfer, type of excursions) being decided at the conceptual stage, the focus of the supplier management process is to identify the best available supplier organization and build a relationship that secures an adequate service quality (A. Budeanu, 2009).

Frequently in international tourism, contractual relationships with suppliers are dominated by powerful tour operators (Budeanu, 2005; Budeanu, 2009). Changes in contractual

provisions and even supplier substitution, can take place without altering the underlying power structures. However, there are examples when collaborative networks and alliances replace arm-length relationships, in pursuit of cross-sector goals such as the emergence of new regulation. Based on mutual sharing of risks and benefits, such transformations involve upgrading the role of suppliers from compliant to partner of tour operators, a strong challenge to the power paradigms that dominate the tourism sector (Budeanu, 2007, Sundbo et al., 2007). While contractual alterations may constitute incremental innovations of relationships buyer-supplier relationships, the changes which elevate the role of suppliers may constitute radical innovations, by fundamentally changing the role of suppliers in the tourism system.

*Customer services* consist of all contacts of the tour operator with clients, with the purpose of securing the holiday delivery and facilitate information transfers to tourists. Operator staff has the duty to make sure the service delivery runs smoothly, to avoid and correct potential dissatisfactory events, to provide adequate information and make customers feel welcomed in the destination (Smith, 2004, Komppula, 2006). The content of information is functional (health, safety, logistics, etc) or entertaining (about the destination), and reflects the characteristic demands of the market served. For British tourists, customer service focuses on health and safety aspects, while for Germans and Scandinavians, who expect health and safety aspects to be covered by default, customer service requires additional knowledge on environmental issues (Chafe, 2005).

A common change to customer services is to diversify the assistance provided (insurance, personal guidance, etc) to customers. Adding new services, may involve the upgrade of competences for tour operator staff in terms of legislation, basic medical assistance, local production and destination infrastructure, and may intensify the flow of information to consumers. A more radical transformation is introduced by the customization model (Pine II and Gilmore, 2000), which proposes replacing the passive roles of provider-receiver of information, with an active dialogue between operator staff and the consumer, where advice and opinions are exchanged. Some even consider that in the post-modern era customers ought to take responsibility for the final outcome of their choices (Arussy, 2007). Taking the role of consumers into consideration, incremental transformations to customer service are the ones that affect information flows or the customer assistance, and radical ones that involve active engagement of customers in holiday organization. Such radical

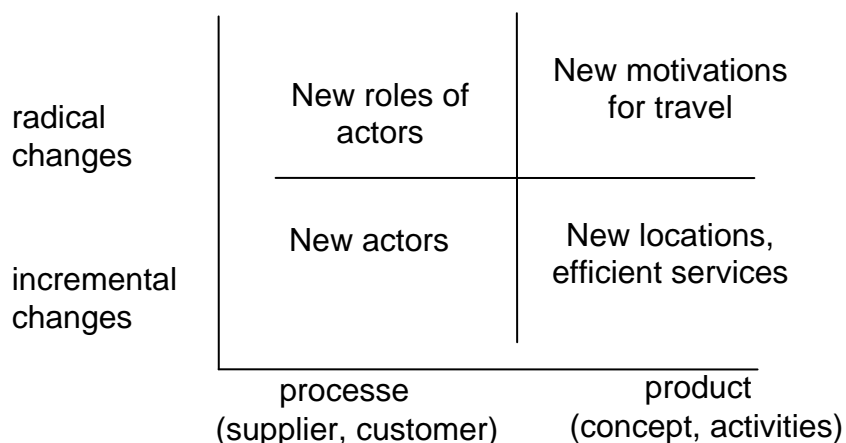
innovation of customer relationships may change the role of tour operators into facilitators of customer choices (Faché, 2000).

The two most important processes involved in holiday production are the supplier management and the customer management. Following the Schumpeterian distinction between incremental and radical innovations, maintaining and improving relations without altering the power structure represent only incremental innovations. In the tourism system, radical changes are the ones that lead to a redistribution of power between actors. Radical innovations of holiday processes can involve the change of institutional partners, and the shift of relationships from powerful domination to shared responsibilities equal roles between actors, including consumers.

### **A framework for the innovation of holiday packages**

The examination of specific aspects of tourism products and processes shows that different elements of the tourism system – product, production processes, institutions – innovate differently and require separate examinations. Radical transformations are the ones entirely new to consumers (for product) and producers (processes), while incremental changes are improvements of existing features. Experience from manufacturing sectors (van den Hoed) indicates that examinations of operational processes at the level of products and processes may give a better understanding of tourism innovation. The investigation of tourism operations confirms that opportunities for innovation can exist in the intangible aspects of tourism products and production. Results of this summary exploration are summarized below (Figure 1).

Figure 1: An innovation framework for holiday packages



The nature of innovation of tourism products resides in the physical element of holidays (location, technology) and in the emotional ones (experiences). Incremental innovation of holiday products includes new concepts, holiday locations or attractions, and delivered by services with improved comfort and convenience. Radically novel tourism products are new to customers, may satisfy unusual motivations and can involve new delivery modes (e.g. virtual holidays). Altogether, holiday products innovate incrementally when they provide mere access to destinations, and radically when new experiences alter the traditional meanings that customers give to holidays. Changes in the holiday production range from changing business partners to the transformation of business relationships. Incremental innovations occur by changing suppliers or improving the informative value of customer service. More radical changes of holiday processes result in changes of roles and power positions of tourism stakeholders.

While tourism literature accounts mostly for physical transformations of products and processes, the innovation framework for holiday packages includes physical and intangible (experiential and relationship) transformations. Looking into the nature of innovation for holiday products and processes the framework enables the analysis of more diverse tourism practices.

## **Concluding thoughts**

This brief investigation applied current knowledge on tourism innovation to deconstruct the production of holiday packages and propose a framework which associates product and process innovations with their consequences on nearby stakeholders, a novel development for tourism innovation. There are clear benefits from using the framework proposed in this paper. One benefit is the introduction of consumer perspectives in defining tourism innovation, by linking the novel character of products to changes of customer lifestyles, attitudes and activities. Signals of increasing customer demands for original holidays suggest great opportunities for adopting soft innovations. The framework also acknowledges a wider range of initiatives currently undertaken by tourism industry, encouraging all levels of contribution and progress. A special emphasis is given to experiential and relational innovations, which are less discussed by current tourism research but are proven to hold chances for innovation in tourism.

The examination of current knowledge also allows for some points for further discussion regarding current status and future scenarios for tourism innovation. Firstly it is worth

noting that most of the current tourism innovations are incremental, and radical innovations are seldom. Certainly such demanding transformations do not rely only on products and process innovations, but also more systemic changes of infrastructure, technology, and institutional frameworks. Secondly, it is important to acknowledge that further opportunities for advancing innovation may reside in the intangible elements of the tourism products and provision. Stimulating radical innovation of tourism products may be done by encouraging learning networks and rewarding the output of such initiatives, enticing tourism companies to engage in innovation. Progress in innovation can be supported by policies that stimulate niche innovations, reduce transaction costs of innovative products, and diminish the risk of adoption for large corporate actors (Masini and Frankl, 2003). Radical innovations based on trust, equity and shared responsibilities, are likely to be found in old destinations with mature products, where businesses have benevolent behaviors towards each other.

Thirdly, it is relevant to discuss tourism innovation from an organizational perspective. Some authors believe that large companies are more likely to innovate, having more resources available for investing in new products or processes (Hjalager, 1998), others consider small companies in niche markets to be more open and flexible enough to innovate (Masini and Frankl, 2003). General models of organizational behavior (Boisot and Child, 1999) seem to confirm the latter opinion, emphasizing that despite the potentially available resources, large companies have high risk aversion and are reluctant to change processes or products (at large scale) until the added value of changes has been proven. This describes more accurately the behavior of large tour operators in Europe, who favor voluntary standards and best practice legitimized by industry associations, but seem less inclined to experiment by innovating their products.

Although qualitative in nature, the framework gives a good indication of what innovation in tourism entails. By discussing the nature of changes in tourism products and production, the arguments presented in this paper oppose the frequent reduction of tourism innovation to technology improvements, and propose that a greater attention should be given to social innovations.

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