

BUSINESS MODEL IN THE HOSPITALITY INDUSTRY, FROM TRADITIONAL TO OPEN INNOVATION

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Abstract: *The paper highlights the importance of information and communication technology in valorising the behavior of the tourism consumer by including it in new business models. The business model is considered a form of innovation to gain value for all stakeholders in the hospitality industry. On the basis of the very rich specialty literature, the paper presents the particularities of the model of hospitality industry, both the traditional model and the innovative business model*

Keywords: Business model, Hospitality industry, Open innovation, e-Commerce, e-Tourism.

JEL Classification Codes: M15, M16, O32, O35.

1. INTRODUCTION

The tourism industry has undergone through a variety of changes over the past decades. One of the main reasons for steady development is ICT, and in particular the emergence of the Internet in 1990, which has had a tremendous impact on business models. The online world has led to the development of many e-business and e-commerce, which in turn led to an important change in business management. Globalization is one of the factors that made it easier to access information and new opportunities for travelers. The emergence of the Internet and the so-called ICT (Information and Communication Technologies), websites and management information systems allow customers to easily access information and make reservations in an easy and fast way. E-tourism supports a more interactive relationship between tour operators and tourists and leads to new ways of developing tourism products and getting value for business. Tourism consumer behavior has changed, customers have higher expectations, looking for flexible, personalized offers that enable the tourist to become more involved in identifying new experiences. Contemporary tourist has the financial resources he allocates to the purchase of tourist products several times in a calendar year, but he is confronted with a lack of free time.

That is why he is interested in identifying a holiday that offers advantages for both personal and professional development. Due to changing customer behavior, the tourism industry has to adopt innovative business models to bring value to both customers and partners involved in creating and delivering the travel product. Developing networked organizations, new channels of communication and distribution at the customers' had, based on the use of the Internet

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represents necessities that determine the need to identify new business models where virtual space, technology have a strategic place.

The tourism industry is considered to be one of the most important industries that uses the Internet as a tool for product, process innovation, etc. Furthermore, based on literature review, we provide an overview of the features of the business model in the hospitality industry, both the traditional and innovative business model.

2. THE PARTICULARITIES OF THE BUSINESS MODEL IN THE HOSPITALITY INDUSTRY

The hospitality industry is one of the fastest growing industries in the world. The hospitality industry supports the development of the economy, the emergence of new jobs and the development of the social environment. Hospitality is one of the service branches with the longest life. In Oxford English Dictionary, hospitality is defined as the friendly and generous reception of visitors and providing entertainment for guests (Barrows and colab. 2012). According to Walker (2013), the concept of hospitality is from the old French language with the meaning of "providing travelers with care and shelter", therefore offering services.

The hospitality industry is a component of the service industry that includes accommodation and catering services as well as travel agency services, clubs, casinos, resorts, events, entertainment.

The changes in the economic and social environment have stimulated the emergence of new aspects regarding the concept of the hospitality industry in the sense that hospitality is increasingly associated with the involvement of clients in joint activities with the hospitality service providers.

Many authors, such as Crick and Spencer (2011), Barrows et al. (2012), Walker (2013), Wood (2013) say that the hospitality industry has several key components: a polite and benevolent encounter, greeting by name use, anticipating customer needs, polite behavior with customers, tolerance towards requests, engaging clients in various activities and polite goodbye.

According to Kandampully and colab. (2014), in the hospitality industry the most important aspect is the interaction between employees and customers, based on the emotional side, warmth and generosity. Business success in the hospitality industry is grounded in creating value for customers, innovation in service delivery processes, in the relationship with other partners in the industry.

The essential factors that influence success in the hospitality services industry are (N. Langvinienea, I Daunoraviþinjtob, 2015, p.908):

- Innovation – due to innovation, hospitality businesses could improve product quality as well as services, reduce costs, better meet customer changing needs, ensure profit growth, gain competitive advantage. Product and administrative innovation can be translated into new ideas for services and products.
- Employee empowerment – competent managers should empower employees to provide the highest quality services in order to maintain and attract new customers.
- Customer relationship management – in the hospitality industry, a particular attention must be paid to customers as the success of hospitality businesses depends largely on customers and their needs.
- Technology – improving the interaction and the communication with the customers, in order to reduce the operating costs, to create strategic opportunities and to maximize the profits could help the hospitality industry. Using recent technologies in hospitality services will allow a pleasant experience for their customers.

- Marketing activity - helps businesses learn and understand the attitude of their customers towards the services they deliver in order to identify new opportunities for developing hospitality services.
- The proposed value – this factor should focus on customer needs and ensure the differentiation of the organization from the competition. It is essential in the hospitality industry to clarify the needs and requirements of the client in order to identify the balance between customer wishes and the possibilities of service providers.

The specialized literature offers a wealth of business models that have been taken over and adapted to the hospitality industry (tab no.1)

Table no. 1. The elements provided by different business models, and their taking over by the hospitality industry

Author, year	The elements, provided in business model	Business model elements for the hospitality industry
Ballon (2007)	Combination of assets, vertical integration, customer ownership, modularity, distribution of intelligence, interoperability, cost sharing model, revenue model, revenue sharing model, positioning, customer involvement, intendant value	Positioning, customer involvement, intendant value
Aziz et al. (2008)	Value network, target market, value proposition, company's competences, cost elements, strategy, processes and activities, revenue and price consideration, competitors, customer relationships, etc	Target market, value proposition
Laudon, Traver (2008)	Value proposition, revenue model, market opportunities, competitive environment, competitive advantage, marketing strategy, development of organisation, management team – competent managers	Management team – competent managers
Johnson (2010)	Customer value proposition, profit formulas, key resources, key process	Key process
Osterwalder, Pigneur (2010)	Customer segments, value proposition, channels, customer relationships, revenue streams, key activities, key partnerships, cost structures	Customer relationships
Al-Debei, Avison (2010)	Value proposition, value network, value architecture, value finance	Value proposition
Bocken et al. (2014)	Value proposition (product/service, customer segments and relationships), value creation and delivery (key activities, resources, channels, partners, and technology), value capture (cost structure, revenue streams)	Technology
Drakulevski, Nakov (2014)	Value proposition, target customer, customer handling/distribution channel, customer interfaces/relationship, value configuration, capability/ core	Value proposition

	competency, partner network, and cost structure, revenue model	
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Source: Langvinienea, N.*, Ingrida Daunoravipinjtoþ, I. (2015, p 907)

Most researchers agree that market and customer orientation is needed to ensure business development and improved services in the hospitality industry. The communication with the market, employees and customers should also be accompanied by feedback from them. Kandampully (2006), in the customer-centered business model he proposed, he has identified key factors for the hospitality industry business model that supports hospitality companies to operate efficiently: technology, market orientation, value, products, efficiency, relationship, employee empowerment, uniqueness, networks, services, internal coordination.

Their customer-centric business model is becoming more and more suggested and more important due to the growing competition and constant changes in customer needs. Litos et al. (2011), he developed a business excellence model for the hospitality industry that includes as elements: customer satisfaction, leadership, human resources management, people's results, and exploitation results.

3. INFORMATION TECHNOLOGY, OPEN INNOVATION AND INNOVATIVE BUSINESS MODELS IN THE OSPITALITY INDUSTRY

The use of modern information technology, especially the Internet, has favorably influenced the development of the tourism sector, e-tourism today being one of the most important sectors of the business world as it revolutionizes the distribution of tourism information and products. The tourism industry is heavily influenced by technological and social factors, as new ICTs and the emergence of the Internet have turned customers into active customers, directly involved in creating the tourism product and supporting the value proposed through the adopted business model.

Information technology offers the possibility of improving tourism and travel activity, being an interesting field of application but also of research-innovation to create new business opportunities. Electronic commerce is the process of buying and selling or exchange of products, services and information through communication networks. E-commerce and e-tourism are now considered to be the most important business sectors. E-Commerce studies in the tourism industry have emerged as a "frontier zone" for information technology. In E-Commerce is being implemented new and efficient business models on the Internet. (Table no. 2)

Table no. 2. New and efficient business models in eTourism

Business models	Model characterization
Business to client model (B&C)	is the most popular model in E-Commerce, based on the direct sale by the provider of tourist services to the client and the communication is made directly with the tourist.
Business to Business model (B&B)	the direct suppliers of tourist services (airlines, hotels) sell their products to tour operators (expedia.com) and offer tourist packages to individual customers.
Client to client model (C&C)	is based on virtual tourists' communication (forums, blogs, e-mail groups) and on the creation of packages of tourist services as a result of community support.
Business to Business to Customer model (B&B&C)	consists in selling products, travel services by direct providers to other companies who, in turn sell to the consumers via the internet.

	Essentially, it's about selling a product or a tourist service using another business as an intermediary.
Government-operator in tourism-client model (G&B&C)	tourism service providers / tour operators play the central role. The Government provides the necessary support to tourism service providers / operators (B) in order to work smoothly (security, promotion, visa issuance, etc) and, furthermore, service providers promote tourism and offer better services to tourists (C).

Sursa: M. A. Kabir s.a, - *Business Model of E-Tourism for Developing Countries*, 2012, p.30

The business model is viewed by F Rustico (2015) as a form of innovation to create value for consumers and organizations offering tourist products.

ICT development has had a major impact on the development of the tourism industry by providing to those interested new marketing, communication and distribution tools that have in turn led to the influence the behavior of tourism organizations and consumers and the emergence of new business models.

The first technological innovations emerged in the 1970s by developing computerized reservation systems, CRSs, which aimed to build a global distribution network for airlines. Linking travel agencies to CRSs was the beginning of the automation process of tourism distribution that brings together a growing number of tour operators, carriers, car rental companies, hotels, hotel chains.

The next step was developing the GDS (Global Distribution Systems) which has allowed intermediates and customers to access tourist services of all kinds, more flexible and personalized. The access of travel agencies to GDS has determined the need for travel agencies to learn specific terminology and acquire new technical and technological skills. This tourism business model has led to global business focusing through the network of agreements with local operators of the four major operators, Amadeus, Galileo, Sabre and Wordspan.

After 1990, the use of the Internet brought news about the distribution system of the tourist product. Potential customers had the opportunity to obtain information independently to organize their own tourist products. The Internet has encouraged new types of organizations to join tourism operators and develop new strategies. E-market outlets have been created by setting up own websites by tour operators that have given customers the opportunity to get information and then started selling direct tourist services. The IT revolution has significantly changed the traditional distribution structure in the tourism industry, tourism operators have had to revise and update their services and how to operate them.

Numerous studies show that IT and, in particular, the Internet has transformed the distribution structure of the tourism product into a more complex way through the entry of online operators into the tourism industry, by creating new channels and by increasing the options offered to customers to inform or provide tourism services with the help of Internet reservation systems. Other implications of the inclusion of the on-line environment in tourism business are related to increased competition due to the reduction of geographical barriers and entry barriers in the system, but also the satisfying of the needs of the clients in a flexible and efficient way, where the volume of required investments is lower.

The on-line environment offers the opportunity for e-intermediaries to hold more positions and to develop categories of web agencies (E. Livi, 2008, p 4). The roles played by these are: research tools, that is, search engines that provide consumers with links containing the information, information brokers that provide information links and initial contact between the agency and tourist, web agencies that allow the entire online product selection and acquisition process, social networks, such as user groups sharing information and opinions in order to influence the purchasing decision. The web agencies that have shaped themselves over time are: "generalists" gateways, meaning large agencies providing a wide and varied range of services;

„specialty gateways“, meaning the online agencies specialized in specific products, mainly hotel reservations and "online agencies" specialized in offering low-priced tourist products according to the tourist budget and his leisure needs.

In the literature, business models have been classified according to the range of products and services offered (Jarvela, Loikkanen, Tinnila, Tuunainen 1999, E.Livi, 2008, p.6). From this point of view there are: *Information Providers*, which give only information; *Electronic Booking Services*, which also perform direct booking functions; *Electronic Travel Agents*, which let customers complete the whole transaction on the web, including payment; *Electronic Marketplaces*, which offer a wide variety of services and also provide after-sales services on line; and *Flexible Comparison Shopping Services*, which are “generalist” gateways supported by research tools to help customers make their choices.

The advantages of the e-business models applicable to the tourism industry through the use of the virtual environment are: low investment and human resource requirements, access to the global tourism market, larger added value for customers as a result of the change in the value creation process itself (quick access to information, availability of an appreciable amount of information 24 hours / day, 7 days / week, full picture of available options, online purchase and transactions, tourist products created by involving many actors from different places and different times, customer involvement in defining and creating the tourist product).

The emergence of the Internet, along with globalization, has led to the development of electronic business models that have revolutionized the way this industry makes money (Osterwalder, 2004). Unlike the business models of traditional travel agencies in which they have served as distributors, the adoption of information and Internet technology has led to new ways to make money online and to integrate suppliers and customers into the process of value creation (Osterwalder, 2004). Companies like Tripadvisor can reach their customers through a variety of channels thanks to the Internet and IT can sell their travel products directly. Users can get instant information and can book hotels directly from websites without the need of consulting traditional travel agencies.

The business model of the travel agency has evolved over time by integrating the technological innovations of the CRS and GDS and subsequently the Internet in the 1990s, currently reaching the online travel agency. This has become a threat to the traditional travel agency, eliminating the role of the intermediary played by offline travel agencies.

In Nidumolu, R., Prahalad, C.K., & Rangaswami, M.R. opinion (2009) the innovative business model is based on the development of a delivery technology that changes the value chain through the combination of physical and digital environment.

Chesbrough (2003, p.43) talks about Open Innovation, which he describes as: “means that valuable ideas can come from inside or outside the company and can go to market from inside or outside the company as well. This approach places external ideas and external paths to market on the same level of importance as that reserved for internal ideas and paths to market during the Closed Innovation”. In Chesbrough opinion (2003, p. 63), Open Innovation organizations combine internal research with external ideas, then implements these ideas both within their own business and through the business of other organizations (companies). The key to success lies in the way of combining, integrating internal research and technological potential with ideas taken from the outside and obtaining new systems and new architectures, which in economic terms means business model. Enterprises can create and capture value from their new technologies or by integrating technology in their businesses, either by licensing the technology to other companies or by creating new businesses that exploit the technology in new business areas.

The economic value of a technology becomes viable when it reaches the market, that is, it is marketed within an income architecture, or a business model capable of capturing value in exploiting technology.

Chesbrough together with R. Rosenbloom (2003, p 64) described the functions of a business model through specific technology approach, respectively:

- setting the proposed value as the value created for users through the technology-based offer;
- identifying the segment of users to whom technology is applied and determining the purpose for which it can be used;
- defining the company's value chain structure in which it is necessary to create and distribute the offer and determine the complementary assets needed to support the position of the company within this chain;
- establishing the revenue generating mechanisms for the firm, estimating the cost structure, the output produced considering the proposed value and the structure of the chosen value chain;
- describing the company's position within the value network made up of suppliers, customers, complementary companies and competitors;
- formulating a competitive strategy through which the company will value innovation and gain competitive advantage.

So Open Innovation involves the development of a network of technology-based firms, customers, suppliers, and even competitors in which the innovation process ensures the integration of all actors and the achievement of value-added growth.

Open Innovation is also applied in the field of tourism industry. Globalization, information technology and changing customer behaviors have affected how to do business in the tourism sector. Maintaining the relationship between the firm, customers and suppliers is becoming increasingly important and integrated into the business process. Open Innovation recognizes the importance of including these external factors within the value chain along with the concern to focus on customer needs. Tripadvisor is the best example in the tourism industry of a company that has met Open Innovation: changing the role of passive clients in an active role, users contributing to providing consultancy and other partners logged on to the Tripadvisor platform. Advertisers, service providers and business owners in tourism are all linked to Tripadvisor, due to Tripadvisor's ability to capture many customers, generate traffic and revenue.

4. CONCLUSIONS

The business model in the tourism industry has evolved over time due to the influence of technological, economic and social factors. The social factor, the change in customer behavior had the greatest impact in terms of the evolution of the business model towards the innovative business model.

The development of new technologies has become a means of ensuring success as it offers the possibility of expanding distribution channels, reduces the processing time of reservations, and creates networks of organizations involved in maintaining the value chain. To meet increased buyer negotiation power and competition, tourism organizations need to constantly innovate in order to maintain their position on the market.

Customers' requirements are constantly changing, and this change is often triggered by new technologies. Because the society is constantly assaulted by the results of ICT implementation, the customer expectations towards service providers are increasingly complex, so companies need to use their resources for complex market analysis to identify current trends in customer behavior and technology, which might support competitive advantage in the future.

The innovative business model is a concept that becomes relevant in a world where consumers have access to a wide range of products and services, but also for the situation where the tour operator has built the best product, this is no longer enough to guarantee success if it does not try to capitalize the benefits of ICT and the network of tourism organizations.

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