Hospitality Review

1-1-2004

Hospitality Innovations: Identifying Successful Practices

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Abstract

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At the start of the 21st Century, hospitality organizations face an unstable and turbulent business environment because of rapid changes in customer needs, fierce competition, globalization, and technical innovations. These challenging business conditions have led many hospitality firms to adopt more sophisticated marketing techniques. In this context, the development of hospitality innovations could be seen as a fundamental marketing activity that many hospitality firms undertake in order to gain a competitive advantage.

The ability to develop and launch successful new hospitality services in the marketplace is not only critical for survival but it also creates a competitive advantage for the organization[1]. Furthermore, a way to ensure long-term stability and profitability for service firms is to constantly develop new services[2]. Although many hospitality firms recognize the importance of innovation, it is not always clear how to create and design new hospitality services.

Failure rate is high

Despite the importance of successfully developing innovations, the failure rate for new service developments is alarming high. The success rate for new service projects is on average 58 percent[3], with four out of 10 new services failing in the marketplace. This results in wasted time, money, and human resources[4]. Being creative is not sufficient for success in new service development[5]. Of greater importance are effectively designed structures and professionally implemented processes[6].

Innovations are "the outcome of the innovation process, which can be defined as the combined activities leading to new, marketable products and services and/or new production and delivery systems[7]." In the broadest sense, the term "innovation" comes from the Latin *innovare*, meaning to make something new[8].

New hospitality service developments range from true innovations, which are totally new-to-the-world services with an entirely new market, to fairly minor modifications of existing company services. Past research[9] suggests that most hospitality-related new services are often modifications of existing services. In this context, the terms innovation and new service development (NSD) will be used interchangeably.

Innovation requires blueprint

According to Cooper and Edgett,[10] the new service development process could be defined as a formal blueprint, road map, or thought process for driving a new service project from idea stage through to market launch and beyond. These process models, if applied in a disciplined way, help firms improve effectiveness and efficiency of innovations so that scarce resources are not wasted[11]. The use of new service process models will not necessarily guarantee success, but the use of a model does increase the chance for success[12]. Service innovation process models[13] are based on new product development models and

these approaches tend to follow the format of the Booz, Allen, and Hamilton model[14] which consists of the following seven steps:

- formulation of new product/service development strategy

- idea generation

- screening and evaluation

- business analysis

- concept development

- concept testing

- commercialization

These steps can be divided into three major innovation stages: pre-development, development, and launch preparation.

Early stage defines strategy

The NSD process starts with the clear formulation of objectives and an NSD strategy, which leads and directs the entire service development activity. A product innovation chart can be used as a strategy statement, but a only few service firms have written NSD strategies[15]. The sources of new service ideas can come from internal or external sources, either formally or informally[16]. External sources of new ideas include customers, competitors, channel members, and trade associations and shows. However, hospitality firms should not rely exclusively on external sources. Front-line staff can be viewed as a logical source of ideas because of their understanding of the service operation and customer needs.

Since not all new hospitality

ideas can and should be developed, the objective of screening is to eliminate most suggestions and concentrate resources on those ideas that have the best potential for success. Because of the intangibility of services, whether an innovation enhances or supports the organization's image is a significant screening criterion because the new service has to uphold the corporate reputation. Further screening criteria often include potential competitive advantage, market size, development cost, price, ROI, market share, and other predetermined "must have" or "would like to have" criteria[17].

The business analysis stage includes a detailed investigation that defines the service and its requirements to become a successful project. The first part consists of a customer analysis, competitive analysis, and market research of potential consumer needs and wants[18]. The second part includes a financial analysis, like details on costs, revenue, and internal rate of return, to justify an investment in new resources[19].

Stage develops service

The development stage is the translation of an idea into an actual service for the market[20]. It involves three steps[21]: first, service concept development, that is, the description of customer needs and wants; second, service system development, that is, resources required for the service, including employees, service environment and administrative structure; and, third, service process development, that is, the

service delivery process. Shostack[22] suggests combining all three steps by the use of a service blueprint, which is a flow chart that shows the main functions of the service, possible fail points and processes to correct these, and the relationship between the front and back office. Blueprints aim to match service specifications to customer expectations and to accurately portray the service system. A service blueprint visually displays the process of service delivery, the point of customer contact, and the evidence of service as the customer experiences it. Customer actions, contact employee actions, "backstage" employee actions, and support processes are highlighted[23].

Final stage involves testing

The final stage of the innovation process is the most expensive and resource-intensive[24]. Before the launch, the commercial feasibility of the new service concept is tested and validated. Market testing is often undertaken in an effort to expose potential customers to the new hospitality innovation and test its marketing strategy under near realistic purchase conditions in order to find out if, and to what extent, customers will actually purchase. This provides the organization valuable feedback about the new service and its marketing program. The reluctance of some service organizations to implement market testing may be explained by the difficulty of patenting a service, with innovators fearing that competitors might hear about the new service being

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tested and copy it[25].

The final stage of the NSD process includes the implementation of the market launch plan, the operations and delivery plan, and a post-launch evaluation of the new service project[26]. With the help of an effective evaluation system, which analyzes sales, market reactions, and problems, managers can benchmark the performance and undertake necessary changes.

Process links to success

In the last two decades, several empirical studies have investigated the success and failure of new service developments[27]. These studies have tended to concentrate on the development process.

The use of a formal, complete, and proficient process is strongly linked to new service success[28]. Good communication among all departments during the development process, the support of top management, and the guidance of an experienced NSD manager are also important[29]. A lack of understanding of customers and competitors has been linked to unsuccessful outcomes[30]. Involving employees throughout the NSD process is therefore doubly important because of their knowledge of customer demands as well as their ability to improve service quality[31]. Successful innovators are effective communicators who can raise customer awareness and convince customers of the benefits of the new service[32].

However, the majority of these studies have concentrated on the financial services sector, while one of the largest industries worldwide, the hospitality industry, has been largely ignored. This study addresses that gap by investigating the successful innovation processes of hospitality services.

Success is defined

The literature review revealed five factors linked to successful new service development processes. These factors are NSD pre-launch activities, employee involvement, NSD process management, launch preparation, and effective marketing communication. A total of 31 items to measure these factors were developed, based on a review of the appropriate literature (see Tables 1 to 5). A questionnaire was then sent to 480 German hotels listed in the 2000 Hotel Guide from the German Hotel and Restaurant Association. The criterion for inclusion in the study was that the organization had developed new hospitality services over the past three years. Like other success studies in NSD,[33] hotels were contacted by telephone to identify potential respondents. The questionnaire was prepared in English and then translated into German, using the parallel-translation/double translation method[34]. The appropriateness of the questionnaire was confirmed through the evaluation of academics knowledgeable about NSD and pretests with hospitality managers in Germany. Completed questionnaires were received from 185 hospitality managers, representing a response rate of 38.5 percent.

The sample of 185 new hotel service projects was split into two groups: successful and less successful new hotel service developments, based on the mean aggregate scores of the measures that examined NSD performance. The literature suggests a cut-off point of 3.5 on a scale of 1 to 5 when defining successful and less successful projects;[35] the natural break in the data supported a 3.5 cut-off. To provide an overall measure of NSD success, the average score on all 12 performance variables was computed. This study measured NSD performance along the following dimensions: total sales, market share, profitability, improved loyalty, improved image, enhanced profitability and sales of other hotel services, new markets, new customers, cost efficiencies, customer satisfaction, positive employee feedback, and competencies of employees. This procedure resulted in 120 (64.9 percent) NSD projects being classified as successful and 65 (35.1 percent) NSD projects being classified as less successful.

T-tests were conducted to assess significant differences in the mean responses on the 31 questionnaire items of successful and less successful NSD[36]. A significance level of .05 was used for all tests.

Planning is critical

The first factor of the NSD process relates to the process-related activities in the earlier stages of the new service development process. The literature suggests developers should conduct market, competitor, and financial studies, screen potential ideas, and assess service elements and procedures. Furthermore, these process activities should be formalized and well structured to reduce the risk of failure[37].

The results of the t-tests confirm that successful new hospitality service developers incorporate research into customers' needs and competitors' strategies. Furthermore, they undertake market studies and a financial analysis, and analyze service elements and procedures before developing the innovations. In addition, successful new service developers professionally plan and execute the whole NSD process. There appear to be no differences between successful and less successful service innovators with regard to screening the project at several stages of the process to decide if the project should be continued. It should be noted that the level of screening overall was quite low. These findings are in line with previous studies in other service sectors[38]. Overall, the results of the t-tests suggest that NSD pre-launch activities are important for the success of new hotel service developments. See Table 1.

A lack of input by employees, who have the skills and the experience in developing new services, is one of the strongest handicaps to innovation[39]. Employees can help to identify customer requirements and needs for new services, and their

Table 1
Comparison of successful and less successful projects on pre-launch activity items

Pre-launch activities	Successful projects		Less successful projects		Difference	
	Mean	SD	Mean	SD	T-value	Sig
Well planned and executed development process	3.94	0.92	3.62	0.99	2.15	.033
Customer needs and competitors strategies were researched	4.02	1.05	3.38	1.26	3.36	.001
Market study was Undertaken	2.74	1.43	2.17	1.30	2.64	.009
Financial analysis was done before the development of the new service	3.37	1.48	2.89	1.46	2.09	.038
Screening at different stages in the process to check if the project should be continued	2.80	1.53	2.37	1.47	1.83	NS
Service concept included a detailed analysis of all service elements and procedures	3.26	1.24	2.80	1.30	2.30	.023

Measured on a five-point scale: 1= not at all; 5 = very well

involvement increases the chance of successful implementation because employees will probably treat customers better[40]. Furthermore, employee involvement in the process also helps to focus more strongly on the customer instead of process efficiencies[41]. However, employees are often hesitant to get involved in NSD activities because this might enlarge their workload[42]. One way to increase employee buy-in is to adequately reward staff for their NSD involvement[43].

The results of this study indicate that successful new hospitality service developers involve employees in the planning and design of the new service, in addi-tion to the launch activities (see Table 2). On the other hand, there are no differences between successful and less successful service developers in regard to involving employees in idea generation or rewarding employees for their involvement in NSD initiatives. It should be noted that the extent to which employees receive rewards for being involved in NSD was quite low for both successful and less successful projects. The above observations suggest that there is moderate support that employee involve-ment will positively impact the performance of new hotel service developments.

Table 2
Comparison of successful and less successful projects on employee involvement in process items

Employee involvement	Successful projects		Less successful projects		Difference	
	Mean	SD	Mean	SD	T-value	Sig
Involve employees in idea generation	3.12	1.48	2.77	1.33	1.57	NS
Involve employees in planning and design of the service	3.75	1.22	3.15	1.19	3.16	.002
Involve employees in launch activities	3.82	1.23	3.30	1.23	2.71	.007
Give rewards to employees involved in the development*	2.25	1.31	1.90	1.22	1.73	NS

*Measured on a five-point scale: 1= not at all; 5 = to a great extent; * measured on a five-point scale: 1= no rewards for employees; 5 = high rewards for employees*

Previous studies suggest that successful new service development depends on getting the necessary commitment from management and employees in different departments by creating a supportive and innovative environment[44]. This includes having a product champion to promote and guide the whole development and a formal team that effectively develops the new service[45]. Successful NSD projects exhibit a high level of coordination and communication[46]. Furthermore, successful projects appear to be guided by a clear, well-communicated strategy and vision, and by management who strongly and visibly support the project[47].

The results of this study suggest that successful hospitality firms are significantly more likely to have good communication and coordination between management and employees and between different departments (see Table 3). Successful innovations are more likely to be guided by a motivated, enthusiastic, and experienced leader and by a clear, well-communicated strategy and vision. Furthermore, successful projects are more likely to occur in an innovative environment that enhances employee involvement and where management provides strong and visible support. Although successful innovators are more likely to utilize a formal development team, it should be noted that the extent to which all hospitality services use this is not particularly high. The results suggest, therefore, that successful new hotel developments benefit from effective process management.

Launch preparation includes activities at the final stage of the development process such as internal marketing of the project, training of employees, final testing, and developing procedures to evaluate the performance of the NSD. Although the literature stresses the

Table 3
Comparison of successful and less successful projects
on process management items

Process management	Successful projects		Less successful projects		Difference	
	Mean	SD	Mean	SD	T-value	Sig
Good communication and coordination between management and employees	4.16	0.91	3.65	1.01	3.46	.001
Good communication and coordination between departments	4.18	0.82	3.55	1.02	4.22	.001
Motivated, enthusiastic and experienced person guided the whole development process	4.15	1.08	3.73	1.27	2.16	.033
Management created an innovative environment to enhance employee involvement	3.63	1.34	3.15	1.07	2.75	.006
Management placed strong and visible support behind the service	4.49	0.88	4.07	0.90	3.04	.003
Service was developed by a formal development team	2.93	1.56	2.28	1.34	2.74	.007
Process was guided by a clear, well-communicated strategy and vision	4.14	0.81	3.47	1.10	4.21	.001

Measured on a five-point scale: 1= not at all; 5 = very well

significance of testing innovations before launch, service firms tend not to do this[48].

Marketing is successful

The results of this study suggest that successful new hospitality service developers have significantly higher levels of employee commitment, motivation, support, and training, and employees are more likely to understand the details of the service (see Table 4). Effective internal marketing to employees supports these higher levels of commitment and motivation. Furthermore,

successful new service developers are more likely have procedures to evaluate the performance of the project. On the other hand, there appear to be no differences between successful and less successful innovators in terms of developing a formal launch plan and testing the service before the launch. It should be noted that the extent to which a formal launch plan is developed and the new service is finally tested was not particularly high for both successful and less successful projects. Based on these results, it can be concluded that launch preparation is moderately impor-

Table 4
Comparison of successful and less successful projects
on launch preparation items

Pre-launch activities	Successful projects Mean	SD	Less successful projects Mean	SD	Difference T-value	Sig
Employees understand and support the new service when launched (1)	4.18	0.72	3.83	0.92	2.82	.005
Commitment of employees when launching new service (2)	4.27	0.69	3.77	0.83	4.36	.001
Motivation of employees when launching new service (3)	4.28	0.74	3.80	0.82	4.00	.001
Extensive training of employees involved in the new service	3.74	1.14	3.07	1.16	3.77	.001
Internal marketing of new service to employees	4.18	0.98	3.75	0.89	2.84	.005
Final Testing	3.10	1.39	2.75	1.31	1.65	NS
Development of a formal launch program	3.28	1.29	2.92	1.25	1.81	NS
Procedures that evaluate performance of the service	3.12	1.31	2.45	1.21	3.33	.001

Measured on a five-point scale: 1= not at all; 5 = very well; (1) measured on a five-point scale: 1= not at all; 5 = to a great extent; (2) measured on a five-point scale: 1= low commitment; 5= high commitment; (3) measured on a five-point scale: 1= low motivation; 5= high motivation

tant for successful new hospitality service developments.

Marketing is necessary

It is not sufficient to create a new service and announce it exists. Even the best products and services don't sell themselves, which means NSD should be supported by a strong marketing communication strategy to create awareness and interest among potential customers. Advertising and promotion must be well targeted so the new service has a distinctive position in the targeted market[49]. Because services are largely intangible, the potential benefits have to be clearly explained, as customers cannot try or test the service before they purchase it[50].

The research results suggest that successful new hospitality service developers have a more distinctive position in the market thanks to well-targeted advertising and promotion (see Table 5). Furthermore, their campaigns are more effective than competitors' and are significantly better at informing journalists, guides, and magazines about the project. Successful communicators are

Table 5
Comparison of successful and less successful projects
on effective marketing communication items

Effective marketing communication	Successful projects		Less successful projects		Difference	
	Mean	SD	Mean	SD	T-value	Sig
Advertising/promotion was well targeted	3.46	1.25	2.82	1.21	3.30	.001
Advert./promo. Campaign was more effective than for services from competitors	3.01	1.27	2.38	1.25	3.14	.002
New service had a distinct position	3.54	1.23	2.55	1.20	5.19	.001
Inform hospitality journalists/ guides/magazine	3.29	1.52	2.67	1.28	2.90	.004
Customer awareness of the service was raised	3.64	1.10	3.15	1.20	2.75	.007
Benefits of the service were well explained to the customers	3.94	1.12	3.43	1.14	3.40	.001

Measured on a five-point scale: 1= not at all; 5 = very well

also more likely to raise customer awareness and explain the benefits of the service.

Success can be improved

The primary goal of this study has been to gain a better understanding of how successful new hospitality innovations are developed. This has been accomplished by investigating the development activities of German hotels. The results provide a number of implications for hospitality scholars and for hospitality managers involved in innovation projects.

Hospitality firms are not immune to the high failure rates of NSD; however, this study has identified ingredients in the development process that can help improve success. As demon-

strated by the t-tests, hotels with a more market-led and formalized process tend to be more successful at developing and launching new hospitality services. Thus, the results emphasize the need for a planned, systematic, and well-executed hospitality development process. This NSD process should include the following:

• realistic analyses of the environment and potential project before developing the new hospitality service

• incorporation of employees from different departments and levels in the innovation process

• a supportive and innovative corporate environment

• staff training and internal marketing so that employees are highly committed and motivated to

support the new service offer when it is launched

• effective communication of new service benefits to target customers, because even the best hospitality services don't sell themselves.

This investigation has shown that success and failure in new hospitality service developments is not the result of managing one or two activities of the development process. Rather, successful new hospitality projects appear to result from a more holistic, systematic, and professional approach to the innovation process. Another major implication for hospitality managers is that research from other service sectors might offer valuable insights that could help to increase the success rate of hospitality innovations.

Although this study has shown the importance of process-related activities in the development of successful new hospitality services, it does have limitations. The study has been conducted in only one national context, Germany. In addition, the research included only managers' perspectives. Future research should investigate if the findings from this study are applicable to other countries and should explore the views of employees or customers.

The major implication for service innovation theory is that the findings from the financial services sector appear to have some relevance to the hospitality sector. In particular, process activities

such as pre-launch activities, process management, launch preparation, and effective communication are critical activities for both financial and hospitality innovators. Additional research is needed to assess whether the results are unique to the German hospitality industry or apply in other national country contexts.

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