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## EUROPEAN TOURISM AND PRODUCT INNOVATION

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### Abstract

*Nowadays, tourism is a dynamic industry that implies continued challenges for the companies in the field. As the tourist experience evolves, technology develops, and the quality of life rises, tourists have more and more sophisticated and complex tastes and needs for tourism products. These new tastes are going to transform themselves in a real trend in the following years. Because of this, tourism products require deep innovation, especially since the competitive focus will be on quality, customer care, and comfort, all of these combined with the uniqueness of the tourism product. A real product innovation requires a change in the companies' policies, as well as in their corresponding strategies. This change would impact the managerial engagement in trans-national strategies, I.T. skill development and the procedures sustaining transnational operations, such as: knowledge and information transfers and awareness of national socio-economical competitiveness policies.*

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**JEL Classification:** I28, M31, M21

The 21<sup>st</sup> century brings profound changes in the international and European tourism markets. According to WTO specialists, Europe will face a series of changes that certainly will generate a new vision and strategy regarding the future among the businesses in the tourism industry.

Among the changes expected to take place in the European market we can mention: an increase in disposable incomes, the need to overcome any potential economic crises, drought, floods, epidemics, the migration of population - with a direct impact on industry employment, the relative decrease in the flow of tourists from the Nordic countries and Eastern Europe and many others.

Regarding the short term policies, the strategy for tourism in Europe drawn up by WTO specialists for the first decade of the 21<sup>st</sup> century focuses on:

- The adjustment of tourism supply to meet the demand, by modifying the content of tourism products and adapting them to the requirements of the sustainable world policies, including the creation of products that meet even the off season demand;
- The specialization of products on different segments of demand, such as those based on age groups (15-24 years old, 25-55, and over 55). Starting from the premise that Europe's population aged 15-24 now stands at 51 million individuals,

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the suppliers of tour packages should include in their bids different types of arrangements based on young people's motivations of consumption and interests (they tend to have more leisure time available, lower-incomes, they are less demanding, and focus more on travel study programs);

- Stimulating the development of social and health tourism, still considered priorities for this period, although the tourism demand for organic and ecological products seems to grow, to the detriment of traditional demand for leisure tourism;

- Repositioning mountain tourism as a result of global warming, which generated a decrease in the layer of snow pack with an important impact on the de-seasonalisation of tourism for skiing, etc..

The changes generated by international trends, which already had an echo among the tourism industry European entrepreneurs are obvious even at the level of the regional and national programs launched, especially after a Gatwick (UK) conference raised the concept of implementation of pan European strategies and "euro tourism" products. Among these new products and concepts we can mention:

- the "eurovillages" in countries such as France, Belgium, Italy, Spain, Switzerland, Portugal, Germany;

- tourism products sold by tour operators, hotels, and airlines as „short-break FIT" (for individual tourists);

- expanding rural tourism products and "holiday club" product types, etc.

In most cases, the base for the development of new markets and new tourism products is represented by the governments of European countries, which, through specific programs, encourage new initiatives through grants, direct financial support, investment incentives, tax exemptions, and lower taxes. For example, countries such as Greece and Spain provide subsidized-interest loans, tax and duty exemptions for the small hotels segment; Switzerland provides subsidies to develop the tourism infrastructure in its under-developed regions and Sweden uses its government budget to subsidize social tourism programs.

In terms of tourist demand, it is noteworthy to recognize that, although at the European level policies of stimulating mass market tourism are still maintained, we can also witness a series of profound mutations and a shift toward segmentation, specialization and diversification of the tourism market, with the main changes being:

- a shortening, fragmentation and diversification of holidays;
- increased movements of people in a globalized world, movements that make tourism comparable to a "global village";

- more and more complex connections and possibilities, increasingly more experienced travelers, increasingly more sophisticated tourists, with new profiles difficult to understand and adapt to.

- increased disequilibrium of natural environment;

- branding in tourism, fancy destinations, online sales, "low-budget" offers, changes in the values of the modern society, lack of leisure time - all these issues are

to be considered when speaking about the performance and specific risks of nowadays European and global market;

- increasing long-haul trips and holidays, with a new motivation – discovering new cultures

From a statistical point of view, the following can be stated:

- more short-break trips (1-3 night trips are becoming more typical, particularly in Northern Europe, while in the South this tendency is less pronounced);
- the share of organized outbound tourism (by country) is as follows: 58% in Belgium, 75% in Denmark, 56% in Germany, 83% in Norway, Sweden, 88% in Finland, etc.;
- compared with Western countries, share departures on holiday in Eastern European countries is lower, falling within the range 45-62%;
- the last decade can be characterized by the fact that of the total European travel, 63% resulted from organized holidays;
- when analyzing the type of transportation used in the Western European countries, car travel is the leader (with a 45% share), followed by plane (33%), bus (19%) and train (11%).

These trends manifested in the European tourism market, and presented by Price Waterhouse Coopers in 2007, make changes in policies necessary, in particular for the segment of small companies, since this segment includes 80 percent of the unbranded hotels from the overall hospitality industry, an industry that is still very fragmented. These issues are pointing to the concept of innovation for the tourism products, issues presented below.

Speaking about tourism, A. Poon considered that “the industry is in metamorphosis –undergoing rapid and radical change. New technology, more experienced consumers, global economic restructuring and environmental limits to growth are only some of the challenges facing the industry.”<sup>1</sup>

Davis & Foray suggest that “the desire to innovate is increasingly enhanced as it becomes the only way in which globalized, highly competitive economies could survive and prosper”<sup>2</sup>. Baumol (2002) also underlines the fact that, in most cases, competition pushes companies to invest in innovation, for fear of risking to lose face in front of their main competitors. Moreover, this survey carried out on 46 major innovations in the field of products (relevant for all economic sectors) proves the very fact that the period of time for which a competitive advantage is secured through innovations has decreased from 33 to 3 years from late 19th century to the early 21st century.

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<sup>1</sup> Poon, A. (1993). *Tourism, Technology, and Competitive Strategies*. Cab Intern., Wallingford, pag. 3.

<sup>2</sup> Knowles T., Diamantis D., El Mourhabi J.B., *The Globalization of Tourism & Hospitality*, Tomson, Printed in Croatia by Zrinski, 2004, pag. 78.

In practice it is actually obvious that innovations are connected to uncertainty, risk and instability. Consequently, the key to entrepreneurs' success on the market currently relies on their ability to innovate and take risks.

Consequently, tourism entrepreneurs must be aware of and anticipate changes in the global tourism market, sometimes even at the risk of losing their market position or losing capital. In order to increase market share or production, they also need innovations backed up by real strategies in order to thus secure competitive advantages.

It is therefore necessary to present the main types of innovation likely to trigger interest among tourism entrepreneurs<sup>3</sup>.

***Incremental/Regular*** – not requiring extraordinary innovations on the market or concerning the technology employed. For instance, increasing the pace at which tourists are driven at by a vehicle in a theme park or updating fixtures in a hotel room.

***Distinctive/Niche*** – these usually need to adapt to consumer behaviour. For instance, installing video equipment in a hotel room or setting up deregulated management structures in theme restaurants that are part of a chain. They involve combining the same products in new ways in order to create a distinctive, new and unique product.

***Extraordinary/Revolutionary*** – these entail a new treatment, a new standpoint on consumer behaviour. As examples, it is worth noting e-commerce for airplane tickets or the first 360 degree run on a rollercoaster. Extraordinary innovations usually bring on significant profits for a business but also involve taking higher associated risks.

***Architectural innovations*** – introduce new structures and redefine relationships to customers and existing markets (for example, black tourism)

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<sup>3</sup> adaptation après Murphy, J., Forest, E.J., Wotring, C.E., Hotel Management and Marketing on the Internet, 1996.

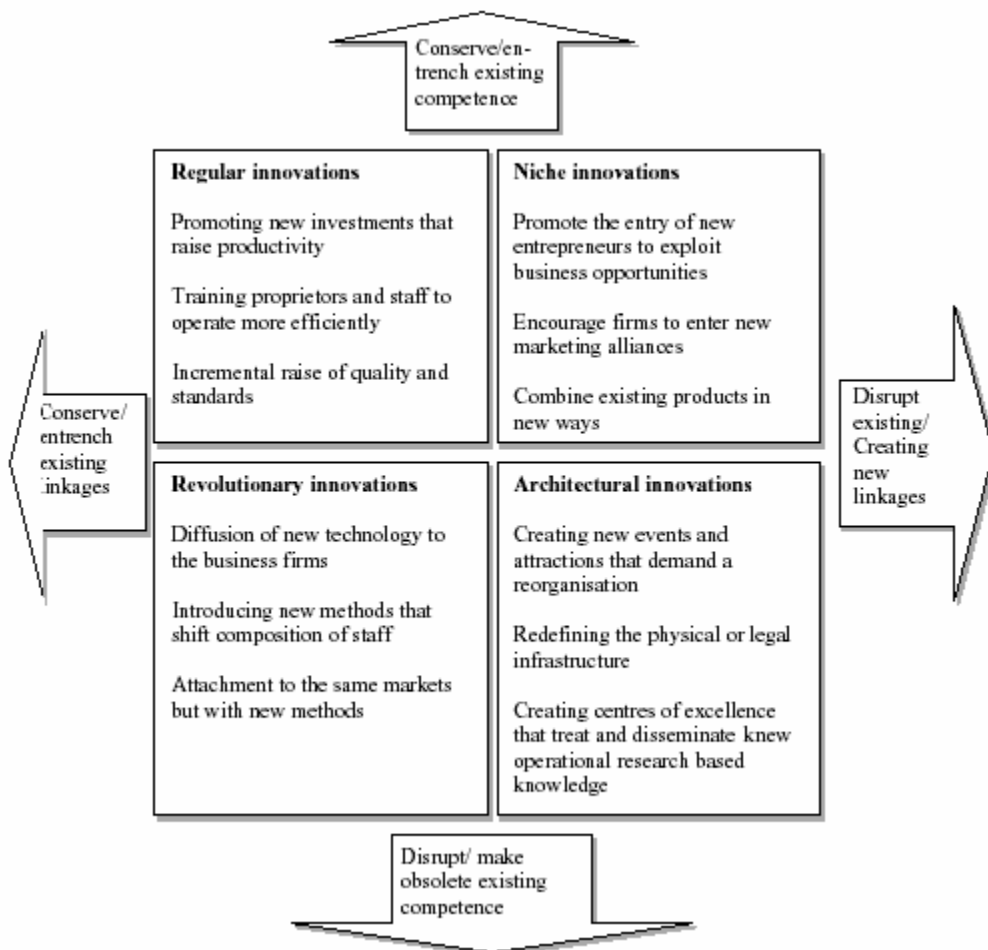


Fig. 1- Innovation types, adopted from Abernathy and Clark, source Hjalager 2002, p. 467

### Product Innovation

The strategies of tourism companies, as far as their scope is concerned, resemble those in other fields of activity. In this situation, one of the following strategies can be chosen:

1. Market size expansion
2. Local market share enhancement
3. Cost cutting
4. Product mix adjustment

As we can notice, strategies are closely connected to product innovation. For instance, the first American tour operator that offered trips to Asia expanded its market share by attracting new customers who hadn't previously considered such an option. The company increased its market share, while at the same time cutting trip costs (by comparison with independent holiday-makers) and diversified its supply by adding a new tourist destination.

Product innovations actually involve the ability to make one's product stand out from those of the competition. The essence of product differentiation resides in the fact that the business supplies original variants as opposed to the competition, at a similar or slightly different price, and thus gaining by this strategy important market scope and benefits to match.

On the contrary, it is worth mentioning that opening the product market towards mass tourism has been significantly influenced by marketing and advertising playing their due parts, but also by investments in new products and technology. For instance, the development of holiday packages from Northern Europe towards the South has been heavily influenced by the technological changes to plane engines and to the expansion of air transport networks, as well as by investments in new products: hotels, holiday villages, events, developing leisure tour offers or them trips.

The above-mentioned examples underline the importance of re-discovering domestic tourist products with a view to exploiting international trends and adapting them to Romanian market specifics. Take for instance the quality crisis of Romanian seaside summer resorts; despite the strategic direction formally laid out in the master plan, they can also take into account restructuring and redefining these resorts, and specializing per market segments. More precisely, it entails setting up core-resorts, defined by a certain degree of comfort, which is likely to reinstall the balance between high quality offers, addressed to select clientele, and mass tourism, comprising average quality services and addressing a middle-income market segment, characterized by a lower comfort level (2-3 star accommodation units).

#### *Process Innovations*

As far as the manufacturing system is concerned, process innovations have been recorded with respect to the length of time. Consequently, we are currently witnessing extremely varied methods of combining work process innovations, aspects eventually leading to increased business competitiveness on the market. For example, we can choose a combination between marketing innovations (direct selling, including online retailing), work process changes (e.g.: seat assignment during boarding, increasing ergonomics during flights) and price-cutting.

Process innovations can be achieved<sup>4</sup>:

1. through exclusively technological changes that are for instance linked to the IT revolution or that are specific to a certain sector/field, such as the introduction of jet engines.

2. by adapting e-commerce technologies to the sales process in tourism agencies

3. through IT innovations with the highest impact on tourism.

IT services change the framework of competition and mostly have an impact on companies, regardless of field of activity, location or size. This technology has an impact especially on competitive advantages, since it sets up price levels or item

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<sup>4</sup> adaptation après Riley, M., *Managing People. A guide for managers in the hotel and catering industry*, Butterworth Heinemann Oxford, 2000.

differentiation. IT services provide businesses with a series of advantages on the market, among which: access barriers on the market (because of hardware/software-generated costs or limited availability of employees with IT skills), product/service differentiation, access limits to distribution channels, pricing policy, cutting down shipping prices and increasing effectiveness. IT technology can become a product in itself, as is the case with virtual tourism. Even if costs generated by this service have displayed a decreasing trend in time, innovations constantly need substantial capital investments, either capital-related or pertaining to work force training.

Therefore, we can conclude that certain risks can be associated to IT innovations, despite technological evolutions.

Information technology not only changes the volume of information transfer but it also influences the long-term relation within the distribution chain and gives rise to new forms of competition. This issue has contributed to the metamorphosis of tourism, from a standardized, rigid mass phenomenon to a more flexible, customer-oriented industry, more sensitive to the latter's needs and expectations, a sustainable and integrated industry. Thus, we can find new ways of coordinating production and of setting up new work methods as businesses are able to gain competitive advantages, following the implementation of increasingly flexible products and processes. Information technology is certainly often deemed one of the factors likely to facilitate the change. At the same time, it also triggers changes in the traditional organization of production and can decrease the level of independence of tourism agencies, since companies can directly sell their products to customers on the internet. In other words, advanced technology has contributed in some cases to the disappearance of relationships with recommendation sources.

From the point of view of information technology use, there are differentiations between tourism service providers. Thus, not necessarily all market actors enjoy equal rights with reference to GDS system access. Small businesses, for instance, are at a disadvantage, since commissions they have to pay can amount to as much as 20-30% from the overall revenues obtained from sales. Moreover, it is perfectly possible that small businesses could experience difficulties in implementing IT forms, due to lack of required technical and management skills.

The issue of relationships with intermediaries, especially with reference to their future implications for holiday planners, has made the object of countless debates. Morrell (1998)<sup>5</sup> analyzed the impact of three types of technological implications: the GDS, airplane trips without ticket-issuing and the Internet. He concludes in his thesis that the trends of cutting out intermediaries will be marked by the following factors:

- customers' ignorance and lack of confidence;

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<sup>5</sup> Knowles T., Diamantis D., El Mourhabi J.B., *The Globalization of Tourism & Hospitality*, Tomson, Printed in Croatia by Zrinski, 2004.

- weak purchase power as compared to travel agencies and customers' immobility (reluctance to personally research the information and purchase various products/services).

Competitive capacity relies not only on the development and implementation of new technologies but also on the capacity of a business to learn and to adapt itself to changes. This problem, in its turn, entails another: competition is not limited to the way in which companies are positioned and perform on the market but also on their cooperation to increase the level of competition.

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