INNOVATION PROCESS FOR A SPECIFIC PROVIDER OF ACCOMMODATION SERVICES

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Abstract
This article presents the results of the ''The New Face of Hotel Stein'' project, which was carried out as part of the grant title ''Innovation Vouchers'' for a public tender in research, experimental development and innovation in the Karlovy Vary Region in the Czech Republic. The main objective of the proposed project was to reduce the effects of seasonal fluctuations and increase the competitiveness of Hotel Stein. The article presents an analysis of the project results, and contains a number of methods that can be taken as an approach to be used also by other businesses. The first section is the theoretical framework, and deals with conditions for the innovation process in the Czech Republic, as well as the innovation process through innovation of services and further issue of knowledge management as a challenge for innovation. After a brief introduction of the project, there is a detailed examination of the methods used for each of the outputs, which are then included in the results section. The recommendations section comprises a proposal for a new package and a new product at Hotel Stein, as well as a business plan that includes specific proposals for innovation of processes, products and services.

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Keywords
Innovation process, knowledge management, small and medium enterprise, tourism

Introduction

The issue of innovation in tourism in relation to service providers in the public and private sectors came to the fore at the end of the first decade of the 21st century. The tourism industry has been experiencing both hyper-competition among individual tourist destinations and an economic recession (financial crisis). With innovations it is necessary to stay ahead of the trends in superstructure (accommodation and catering facilities), and tourism infrastructure (e.g. tourist information centers, tourist transport, sports and cultural facilities), as well as in human resources and marketing activities (Ministerstvo pro místní rozvoj, 2010).

1.Review of the scientific literature

In order to survive in the market place, service organizations have no other choice than to successfully develop new services. However, the failure rate for new service projects is high, because the knowledge about how new services should be developed is limited (Ottenbacher, 2011). Bolwijn and Kumpe (1990) described four patterns of competition among companies in developed economies. They are the result of significant changes in the nature of business that put different demands on management over time. In the 1990s, when the business environment became very complex in nature, especially because of the rapid acceleration in the speed of the chase, the fourth form of competition become important – **under the pressure of innovativeness.**

According to Baković (2010), the two most commonly used types of innovation are radical and incremental innovations. The first type is associated with doing new things, and they represent the true advantage of a company at the national level. The second type is often described as doing things better and means working on maximizing the effectiveness of a system or a company. Radical innovations are often realized through product innovation while incremental innovations in most cases take the form of process innovations. Innovation in services is a relatively new field of analysis, but one which is not to be disregarded because of its increasing role and importance in the world economy. Among service industries, tourism and hospitality can be considered as a crucial sector, as it is one of the fastest growing areas of the global economy (Yucelen and Yigitabas, 2010). In the hospitality industry, contemporary organizations are facing increased social and economic change, changes in customer needs, increased competition among hotels, and technological innovations that are occurring very rapidly. Dealing with these challenges requires looking for ways of cutting costs, improving quality and reputation, gaining flexibility, and becoming more innovative. Innovation is the companies` proactive response to a changing business environment, and continuous renewal and adaptation is required to stay in business. In the hospitality industry, the success of new services does not depend only on the functional aspects of service delivery but also on the investments of time and effort that create the personality of a hospitality organization. This perspective underlines the necessity of an effective human resources management which accompanies the process of the introduction of new services in the hospitality industry (Radu, Vasile, 2007). A study conducted by Ottenbacher (2011) investigates the factors, which have an impact on success and failure in new service developments (NSD) in the hospitality sector. The exploratory study in the hospitality industry showed that most NSD are improvements and revisions of existing services. Another study, dealing with service innovation, emphasizes the role of marketing. Hariandja (2011) created a conceptual model that relates service innovation and marketing communication by involving the intensity of both aspects in the hotel industry. His study deals with empirical research on the involvement of the marketing communication mix in service innovation, specifically studying the hospitality industry and focusing on integration of the marketing communication component.

In an economy where the only certainty is uncertainty, the one sure source of lasting competitive advantage is knowledge (Bartlett, Ghoshal and Birkinshaw, 2004). Knowledge management has been found to have an important influence on service innovation performance. This is meaningful because managing knowledge is also a process which links individuals, teams, departments and organizations through knowledge sharing in order to achieve organizational learning. Learning is an integral part of innovation as it provides a knowledge base on which skills and competencies necessary for innovativeness can be built (Yucelen and Yigitabas, 2010). The rising significance of service and the accelerated rate of change mean that service innovation is now a major challenge to practitioners in business and government as well as to academics in education and research. A better

understanding of service systems is required. Researchers must therefore work with practitioners to create data sets to better understand the nature and behavior of service systems and create modeling and simulations tools for service systems (IfM and IBM, 2008). Although tourism research has unquestionably grown in recent years, it has largely been a market driven with tactical short-term objectives being the focus of attention. This is not surprising, considering tourism has traditionally been service and product based and, with the exception of the distribution system and business administration, most tourism enterprises have been either unaware of, or slow to take up, the opportunities on offer from tourism research. In addition, the tourism sector is dominated by small-to-medium sized enterprises, which are traditionally research averse. As a result, tourism research has not been subject to a knowledge management approach and the sector is not as competitive as it could be. As with other sectors, knowledge will become the fundamental factor underpinning successful tourism organizations. Compared to other fields, the transfer of knowledge management concepts to the tourism sector has been slow, particularly in those sectors that have a strong service tradition. In contrast, the successful adoption of the knowledge management approach has become apparent in certain tourism sectors, including transport and distribution, where rapid advances have been made in the use of information technology and the development of applications (Cooper and Ruhanen, 2004).

2.Research methodology
The first phase of the project concerns an analysis of potential in the area of hotel innovations using the cross-case analysis, following the procedure of Carlsen et al. (2008). Partial results have been compiled according to selected indicators for each of the specific groups. According to Thorburn (2005), the role of employees in tourism businesses is limited. This is due to a high proportion of short-term employed workers with low qualifications and basic training that tend to be employed in these businesses for only short periods of time.
The guest profile for Hotel Stein is based on information collected through a standardized questionnaire survey.
A company which is able to analyze demand (see "typical customer" of Hotel Stein on the basis of the questionnaire survey) may proceed to market segmentation. Segmentation means looking for the relationship between the needs of consumers (customers) and the marketing activities of the provider (Příbová et al., 1996). Segmentation involves two steps – from the market to the company and from the company to the market. Well conducted segmentation minimizes the risk of dissatisfaction (difference between the interests of guests and the services offered) and prevents the wasting of resources (offering services that customers are not interested in). According to Payne (1996) for the hotel management, the selection of suitable bases for segmentation of the market is, to a large extent, a creative process, because it is not easy to offer the same product to different market segments.

3.Results and discussion

a.   Results of the Cross-case Analysis – Innovation Potential
    1.   Driving mechanism – innovation
The analysis showed that the owner and top management at Hotel Stein had the highest innovation potential towards initiating and implementing innovation. Over the last several years since the establishment of the hotel, they themselves have introduced several innovations (certification as an eco-farm in 2008; expansion of the accommodation capacity of the hotel in 2009; introduction of a package of new products in 2012). Due to the small size of the business, and simple organizational structure, the level of sharing and transferring information is good. Weaknesses in this area are mainly a lack of innovative

implementation strategies, lack of knowledge about analytical work (e.g. assessing the feedback from customers – questionnaires), and short-term experience with managing the hotel.

2. Barriers to innovation – internal, external

Internal: There are many internal barriers, but the most important relates to the field of human resources – finding enough qualified personnel in the region. Hotel Stein is located in a region with a high unemployment rate. It is also a region no longer focusing on traditional industries (textiles, glass and ceramics industry, coal mining), and where the potential human resources freed up from these industries has not undergone sufficient and adequate retraining. Another major problem is the lack of knowledge and experience in analytical work, such as the processing and evaluation of a questionnaire survey, which has a direct impact on the development of appropriate innovation. From a financial perspective, the owner is willing to invest in the innovation process and therefore this type of internal barrier is deeemed less significant.

External: Low innovation potential still dominates in the region, caused by the demise of traditional regional production (see above). Another reason is the location in a region near the border and historical issues related to its development (Sudetenland).

3. Innovation Process

At Hotel Stein there is potential for permanent innovation and the ability to implement it, but profit is not growing adequately, primarily due to the lack of a suitable marketing plan.

4. Innovation networks

Potential to create innovation networks in the region is at a very low level, which is the result of several factors – the lack of universities or other tertiary education institutions, innovation, research and technology centers in the region, low interest from the private sector and local community regarding innovation, and the lack of tourism destination management. The above facts show that with the exception of the spa sector, low interest from the private sector and local communities dominates in the in the West Bohemian spa triangle region regarding the emergence of innovation networks also active in the field of sustainable tourism.

b.   *Questionnaire survey results*

The typical customer at Hotel Stein is a woman (this figure may be distorted depending on who filled in the questionnaire for the family or couple) aged 31-50 years. In most cases, she is employed in the private sector and earns an average wage (25 thousand CZK). In terms of lifestyle, she is considered more of a practical person who normally spends her leisure time in nature and sitting with friends. She comes from either the Czech Republic or from the Federal Republic of Germany (less often from the "old" federal states of Bavaria and Baden-Württemberg, and more from the "new" federal states of Saxony, Saxony-Anhalt and Thuringia). The typical customer is at Hotel Stein for the first time and the main source of information was the hotel's web site. The typical customer's expectations for their stay at the Hotel Stein include primarily rest in a peaceful rural setting, which corresponds to the main themes for Hotel Stein, which are rest, relaxation and calm. The greatest interest for the typical customer was for the "Family Weekend" product package, followed by the "Wellbeing Week" package. A high number of customers are not interested in any package.

As for the quality of services, the typical customer was satisfied with the reservation process and found the hotel easily. The best marks were given to work at reception, with the lowest going to wi-fi connectivity. The average mark for overall assessment of the quality of the services offered at Hotel Stein is 1.7, with the expections of the typical customer met at a rate of 87.3 %. The typical customer is most satisfied with the accommodation and catering, and least satisfied with the attractions in the surroundings of the hotel. The typical customer spends 74 % of their expenditure on basic services in the Hotel Stein (hotels and restaurants), 16.5 % for other services offered by the hotel and the rest, 9.5 %, for services outside the Hotel Stein.

The high potential customer is a German guest over the age of 50 years, who comes to Hotel Stein for wellness services, peace and quiet. He does not intend to seek other services outside the hotel complex. From the packages offered, he prefers the Wellbeing weekend/week, but is not interested in the "Family Weekend" package. There is a general lack of interest in the packages offered, with the exception of the "Western" package, which has potential for these clients in the future.

d. Results of the analysis of the competition

The analysis of competitors in the Czech Republic showed some important and interesting facts. First of all, most three-star providers are located in cities (Cheb, Františkovy Lázně) or in their close proximity. Only one of the subjects competes directly with Hotel Stein with its location. An advantage of Hotel Stein, in comparison with the majority of the subjects studied, is that it has greater room capacity, specifically for the purpose of organizing conferences, seminars, team building or weddings in an attractive setting with outdoor activities. Another great advantage of the hotel is that it has its own range of possibilities for meals and a wide range of other services. Hotel Stein was able to maximize the benefits from the proximity of the Skalka reservoir, bike trails and its proximity to other natural formations, and also increased its added value by investing in the construction of a playground, horse stables and the purchase of their own bikes. Another barrier is the high price for a double room in high season - 54 EUR (1 378 CZK) as compared to those in the urban and suburban areas - 50 EUR (1 284 CZK) in Cheb and 45 EUR (1 148 CZK) in Františkovy Lázně, with an overall average of 45 EUR (1 148 CZK).

The analysis of competitors in Bavaria at a distance of up to 22 km from Hotel Stein revealed some interesting facts. Lodging facilities are dominated by hotels (max. 3stars) and guest houses, or holiday apartments. The advantage of most of these lodging facilities is their location near busy roads. Also, only 4 of the 21 monitored hotels and guest houses can compete with the capacity of Hotel Stein. The opposite situation applies to pricing, where only two accommodation facilities on the Bavarian border have a higher rack rate than Hotel Stein for a double room.

e. Economic results for the hotel

The revenues for Hotel Stein grew from 2008 to 2010, with the peak recorded in August 2010. Revenues in 2011 developed very positively, but during the high season did not reach such a peak as in the previous year. The same can be said for 2012. Operating costs were highest in 2009, as a result of investment in expansion of capacity from 12 to 33 rooms. This had a positive effect on profit. Using the trend function for the development of sales and operating expenses for the last two years for which we have comprehensive data, i.e. 2010 and 2011, it is clear that in 2010 the costs and revenues evolved according to the principles of profitability, i.e. costs remained at a constant level, while sales increased. The difference between costs and revenues increased, so the owner achieved a higher profit.

This positive trend did not continue, however, in 2011. Costs and revenues move on the same slope. In January 2012, the management of Hotel Stein introduced product packages, 13 of which were program packages, 7 thematic packages and 8 classic packages, for a total of 28 packages. At the same time, however, the economic situation in neighboring Germany worsened, and the hotel management decided to sell packaged stays on discount portals. Thus, no profit was earned, despite favorable occupancy numbers that were as high as expected.

The highest hotel occupancy rate is, for all years, consistently during the summer holidays. During the off season, we can then note the start and end of the year. A surprising decline or stagnation (except for in 2011) occurs in the months of May and June, a period which is favorable for corporate meetings, on which Hotel Stein also focuses.

f.   Results of market segmentation

Hotel Stein has long performed targeted marketing, which, however, has not been based on systematic market research and customer feedback, but mostly from the practical experience of management. The risk of this approach is the subjectivity of their judgement, but the risk has been offset by the sum of knowledge of the management.

Information obtained from previous research suggests that the hotel Stein maintains three customer groups – families (including individuals), groups of friends and corporate clients. Using demographic, psychological and sociological factors, hypothetical segments were identified, which will be the subject of further analysis and verification:

- the "relaxation and nature lover" segment – these visitors are interested in using their free time. They are usually good partners and elderly guests, but this also includes families with children;
- the "laid back" segment – these people watch their health. They use the relaxation and sport services of the hotel;
- the "bon vivant" segment – these are customers who can enjoy life, which is a source of joy for them, and most of them are not sensitive to price;
- the "cautious conservative" segment – they rely on previous positive experiences with the Hotel Stein and repeatedly return to visit;
- the "mobile pragmatists" segment – they can be described as flighty hedonists who never have been and never will be satisfied, because they are constantly looking for new benefits.

In terms of time was distinguished the following segments:

- guests who took advantage of an opportunity to visit the hotel. This type of guest currently comprises cca 75 % of the customers. Maximum attention should be focused on these clientele to convince them of the benefits of repeat purchase;
- intensive users of hotel services (cca 25 %);
- entrepreneurs and executives who come to Cheb and the surrounding area for business meetings are also considered as potential clients. Hotel Stein could serve as a "temporary office" in which one could conduct negotiations with clients;
- up until now, Hotel Stein has used a differentiation strategy, which simultaneously targets several market segments. For each of the segments, a different marketing mix is prepared (see the package offer). An aggregation of all visitors to Hotel Stein leads to the conclusion that the management of the company is targeting solvent (richer), adventurous and confident consumers who enjoy leisure and take care of their health. The product range has been focused on its properties, not on the benefits to customers.

Conclusions

Today, in the rapidly changing tourism market mainly influenced by the increase in the intensity of individualization demands and increasing demands for service quality, innovation is an important and often necessary part of business management. In order to support innovation processes in the tourism market, support tools and resources are developing in the public sphere eg. innovation vouchers. The necesary knowledge and experience for SMEs to innovate are crucial factors. This knowledge may be provided by another entity which has this knowledge, then there is a transfer of knowledge. Entities providing knowledge can be research centers, innovation incubators, but also universities and colleges.

Recommendations

- Narrow down the number of accommodation packages on the basis of demand in the first year and reconsider the division of packages into three categories, which often do not match the contents of the package.
- Create packages related to hotel occupancy in the high and low seasons. Focus more on the end and the beginning of the year, the months of May and June, or weekdays.
- Accept the market segmentation in the Czech Republic and Germany, the two major source markets, with offers of package deals.
- Set the packages so as to increase their market potential, i.e. consider including additional services, which have the ability to persuade potential customers to purchase the package.
- Create and develop, as a follow-up to the newly created packages, a marketing plan for one year in order to identify the main elements of the marketing and communication mix for the segments.

Based on the analyses, a new package called the "Meeting Package" was proposed for Hotel Stein specifying a particular segment of customers, the content of the package, price and objectives, demands on provision, and appropriate marketing. Another proposal concerns a new product called "Country wellness", specifying the core of the product, the actual product, and an extended product.

A business plan was drawn up in the form of proposals for: **Process innovations** (for example conduct mystery shopping, develop a marketing plan), **Service innovation** (for example, improve the quality of services offered - relationship of price x quantity x quality) and **Production innovation** (reduce the number of packages offered). This proposal was accompanied by an analysis of the risks that may be associated with the implementation of particular activities, including the potential impact, the degree of risk and the possibilities for elimination.

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