SERVICE INNOVATION:
IN HIGHLY COMPETITIVE OF HOTEL INDUSTRY

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Abstract

Service innovation is a new or significantly improved service concept that is taken into practice. It can be for example a new customer interaction channel, a distribution system or a technological concept or a combination of them. A service innovation always includes replicable elements that can be identified and systematically reproduced in other cases or environments. The replicable element can be the service outcome or the service process as such or a part of them.(Finland, 2009)

Being developed for centuries, Hotel Industry has been in its maturity period for a long time. Confronted with fierce competition and the current global economic crisis, it becomes a hot topic in Hotel Industry how to maintain and raise revenues. By shifting focus from „Goods-Dominant Logic" to „Service-Dominant Logic", Service Science presents a new perspective on value creation and service experience. In this new perspective, value is co-created by various roles, experienced and evaluated by customers. However, the problem is how to implement theories in a specific industry.

The purposeofthis researchisto discuss the importance of using service innovationin hotel industry in order to win acompetition in this highly competitive industry .

Keywords: Service Innovation, Highly Competitive,Hotel Industry

1. INTRODUCTION

Innovation is considered a major source of competitive advantage and economic growth (Porter &Ketels,2003), and research about innovation is plentiful and diverse. The majority of the business studies in innovation todate, however, have focused on the manufacturing sector. Researchers have pointed to the dearth of studies in theservices sector relative to manufacturing (Prajogo, 2006) and some have hypothesized the difficulties in applyingproduct development theories to services (Gallouj, 2002). Growth in western economies since World War II hasbeen characterized by increases in services and declines in the manufacturing sector, yet innovation research inservice businesses are still in their infancy. Hospitality and tourism is one of the largest service industries in theworld: the World Tourism Organization estimates there will be one billion tourists a year by 2010 (WTO, 2006).

Clearly, there is an opportunity to research innovation in this global service industry that is characterized by theintangible, experiential nature of its products and services, yet there have been few recently published academicstudies in hospitality innovation. The opportunity to advance the innovation research in the services sector is broad.The research opportunities for academics studying innovation in hospitality are wide open.

Knowledge and its management is increasingly being perceived as an indispensable source of competitive advantage in contemporary business literature. During the past decade, the importance of the effective management of knowledge has been a matter of scrutiny on the part of scholars and professionals alike. Innovation has also become a buzzword in academic as well as business circles. Although it is considered as an extremely popular field of analysis and source of competitive advantage, it has traditionally suffered from being largely associated with the manufacturing sector. 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.

2. RESEARCH METHODOLOGY

This research uses descriptive method and was done by collecting data from books, papers, journals and internet database resources

## 3. RESULTS AND DISCUSSIONS

Innovation in Services

The general understanding is that service-sector firms in general are less likely to innovate than manufacturing firms, but in fact they are becoming more innovative and knowledge-intensive (Hu et al., 2009; Sipe and Testa, 2009; Hjalager, 2010). Current academic literature on innovation in the services sector ranges from the troublesome definition and intangibility of innovation, to the lack of adequate qualitative and quantitative analyses concerning services and to the difficulties in measuring the end results of services innovation in comparison to manufacturing. Statistical evidence supports the notion that services are increasingly knowledge-based, innovative and drivers of economic growth. Innovation surveys suggest that service-sector firms innovate to increase market share, to improve service quality and to expand product or service range (Scott and Bruce, 1994; Enz and Siguaw, 2003). However, how innovation occurs in the service sector is less well understood. Most innovations in the service sector appear to be non-technical and incremental changes in processes and procedures (Ottenbacher and Gnoth, 2005).

An important aspect of innovation in practice seems to be the effective perception of the diversity in customer needs, wants and expectations in order to better attract and satisfy them. On the other hand, the perception of these notions may not be adequate as various obstacles stemming from the lack of time, money, human resources, know-how or bureaucracy can stifle the actual development and execution of innovative services. Innovation in services can be executed on the service and process dimensions. On the service or product dimension, innovation can be carried out in the form of new and impressive buildings, catering new products, incorporating new technologies in hotel rooms, opening SPAs and wellness centers, or creating new tourism destinations. Innovation on the process dimension includes developing internet-based operations such as e-booking, using web-based social networking sites as an effective marketing tool, developing new quality, process and financial control systems, working with full-time personnel and providing training and personal development opportunities and developing inter-industrial cooperative ventures with businesses in other sectors.

The surge for globalizing products and services has hit hard many sectors. Arguably, tourism is one of the sectors which are most prone to economic, political, social and natural fluctuations on a global scale. Successful innovation in the tourism industry can thus simply be defined as increasing the value of touristic experience or of the service offering. In this sector customer satisfaction and benefit are a function of the received service quality vis-à-vis the price paid for the service. With relation to successful innovation, this means increasing the quality of the service or decreasing the price for it.

Although it is obvious that technology often plays an important role in industrial innovation and services innovation can equally benefit from this, it is not mandatory to base innovation in tourism services on technological innovation. As the above discussion demonstrates, most innovation in this sector is performed on existent technological bases and is of an intangible form, meant to create economic value and increase customer satisfaction through the introduction of new concepts. This may seem straightforward and relatively easy compared to inventing breakthroughs in the technological field, but it actually is not. First, the tourism industry is heavily based on human interaction and satisfaction which need an almost perfect understanding of human nature, behavior and attitudes. Second, it involves physically moving people all over the world, pointing to the need for an efficient, dependable and flawless infrastructure. Third, it is always easier to generate and idea or a strategy in comparison with its actual implementation. All these notions point to the fact that the tourism sector is worthy of investigation on the bases of knowledge management and service innovation.

Table 1
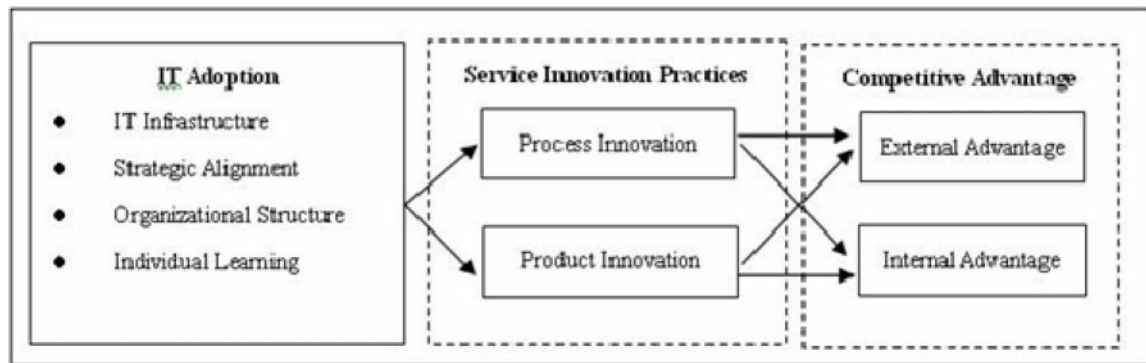
Source: Miles 2006

Service Science

Service related research was a part of product-centric theory until 1970s. After several decades" development, Service Science, which covers a wide range of fields now, including service economics, service marketing, service operations, service management, service engineering, service computing, service human resources management, service sourcing, service design, and so on (University of Cambridge, 2007). Service(s) are defined from different angles, which nevertheless sometimes have similar implication. Vargo and Lusch (2004) defined service as "the application of specialized competences (knowledge and skills) through deeds, processes, and performances for the benefit of another entity or the entity itself". Grönroos (2006) defined services as "processes that consist of a set of activities which take place in interactions between a customer and people, goods and other physical resources, systems and/or infrastructures representing the service provider and possibly involving other customers, which aim at solving customers" problems". Edvardsson summarized service(s) in three dimensions as "in time and space linked activities and interactions provided as solutions to customer problems. The service is most often co-produced by the customer. Customers define service on the basis of value-in-use and the resulting customer experiences".

Pursuant to the above mentioned definitions, some common characteristics about service can be identified, despite being described in different ways. Firstly, service involves processes and resources to benefit customers, and more than a final output. Secondly, service entails a co-creation model of value creation, and not a creation-consumption model. Thirdly, service is not a simply exchange activity, but represents an interaction between providers, customers and other parties and resources.

Dominant logics in business

The shift from Goods-Dominant Logic to Service-Dominant Logic is an essential part of Service Science. Vargo and Lusch (2004) introduced the evolution of dominant logic in business in their article, saying the logic "has moved from a goods-dominant view, in which tangible output and discrete transactions were central, to a service-dominant view, in which intangibility, exchange processes, and relationships are central". Grönroos (2006), a representative of the Nordic School, declared that the "service logic fits best the context of most goods producing business today". Although Nordic School"s view is not exactly same as Vargo and Lusch"s Service-Dominant Logic, many common features are shared between them. In addition, other schools or scholars have their own understanding of this new logic (though sometimes they do not mention the term of "logic"), which has been an international topic in the last few years. Attention should be paid to those different implications from different scholars" perspectives. However, this paper focuses on the common features, rather than difference, in order to facilitate understanding the tendency of shifting from Goods-Dominant Logic to Service-Dominant Logic.

Goods-Dominant Logic

Goods-Dominant Logic has been the mainstream theory for centuries. It defines value is produced during manufacturing process and embedded in the final "goods". Unlike normal goods, services in Goods-Dominant Logic are viewed either as the restricted type (intangible, heterogeneous, inseparable and perishable) of goods, or as add-ons to enhance the value of goods (Vargo and Lusch, 2008). Under the Goods-Dominant Logic, value is considered as "exchange-value" (Vargo and Lusch, 2004). In other words, companies receive profits not when products are produced, but when products are bought by

consumers. Therefore, Vargo and Lusch (2004) suggested the firm "set all decision variables at a level that enables it to maximize the profit from the sale of output".

In order to achieve at maximum profit, goods-based business strives to supply standardized and inventoriable goods. Goods-Dominant Logic regards customers as isolated entities (Vargo and Lusch, 2004). Value is solely produced by suppliers, bought by customers and destroyed during the consumption process.

Vargo and Lusch introduced the concepts of operand and operant resource in their article in 2004. Operand resources are defined as resources on which operation is performed to produce an effect. They are usually tangible and static. Operant resources refer to those resources which are employed to act on operand resources or other operant resources, which usually are intangible and dynamic. Based on Goods-Dominant Logic, firm resources are primarily operand and customers are also type of operand resources, and it criticizes that Goods-Dominant Logic disregards the interaction in consumption. Since consumption is a black box for marketers, they are reluctant to know what and how consumers are doing with the goods (Grönroos, 2006).

Service-Dominant Logic

Service-Dominant Logic emerges along with the flourish of service economy. Under this new logic, value is viewed as co-created by different partners with various resources through an interaction process. Grönroos (2008) suggested value emerges in customers‟ sphere as value-in-use in their value generating process. Similarly, Vargo and Lusch (2004) also considered companies produce value through service experiences and relationships, especially in the co-creation and sharing of resources with customers, partners and suppliers, including skills and knowledge. Unlike Goods-Dominant Logic, the new logic largely focuses on operant resources, mainly intangible sources such as skills and knowledge, where value is co-created by consumers in an interactive way (Vargo and Lusch 2004). As mentioned above, Goods-Dominant Logic does not pay attention to the application of knowledge and skills provided by the customer when goods and services are used. In contrast, Service-Dominant Logic emphasizes the role of customers in value-creating processes. Vargo and Lusch (2004) regarded providers as value creators and customers acting as co-creators of value. However, Grönroos (2008) suggested the creators of value should be customers, and providers performed the role of value co-creators, who provided the necessary resources to help customers to create value. Based on replies from 11 academic experts, Edvardsson, Gustafsson and Roos (2005) concluded to look at "service as a perspective on value creation through the lens of customer".

Services in Goods-Dominant Logic are viewed as either the restricted type (intangible, heterogeneous, inseparable and perishable) of goods, or add-ons to enhance the value of goods (Vargo and Lusch, 2008). On the contrary, Service-Dominant Logic considers goods as appliances for service delivery. Goods and services are both provided to customers as resources to assist them with their own value creating processes (Grönroos, 2008). In the new logic, service, rather than goods, is the focus of economic and social exchange. Furthermore, based a reconsideration of the common nature of goods and services in value co-creation process, Service-Dominant Logic implies all economies are service economies, all business are service business.

Case Study: **The Innovation of the Hotel Industry with Social Media**

"I suspect we are in the same position that we were with online marketing 20 years ago, the only difference is that it won't take 20 years, it will take 5 to 10 years until we really see the impact of interactive communication among consumers." says Bill Carroll (2011), a senior lecturer at the School of Hotel Administration at Cornell University.

Unlike many modern industries, most of what a hotel does needs to happen offline. It's hard to deliver room service or make beds with a click. But hotels are experimenting with plenty of other ways to improve service and connect with customers using social media. Many of their ideas have serious potential.

Six ways that social media could make that impact on the hotel industry:
1. Extending Concierge Services

A concierge with a Twitter feed could be a powerful thing. Instead of making a single stop at the concierge desk to collect brochures, guests could ask questions before they get to the hotel, from their rooms, or while they're out exploring. They would also have easy access to the questions other guests asked and past recommendations. Several tourism bureaus have already figured out this strategy. Hotels are for the most part still experimenting.

For example, UK hotel chain Premier Inn launched a trial of a Twitter concierge program. Customers can send an inquiry to the concierge via Tweeter. The hotel encouraged its customers to Tweet questions "on anything from local activities for the kids, karaoke bars in the area, directions to the local theatre or even where to find an emergency dentist."

2. On-Site Merchandising

The biggest on-site opportunity for social media in the hospitality industry is located at the intersection of social media and mobile. If mobile geolocation features alert a hotel that customers are in the building, it creates the opportunity for them to pitch relevant services. Perhaps when customers arrive, for instance, management will encourage them to come down to the bar and enjoy a complimentary cocktail. When Foursquare users check into the Wynn Hotel & Casino Las Vegas, for example, they unlock a special that earns them a complimentary glass of champagne at the hotel's nightclubs.

Location-based services such as Foursquare and Facebook Places have brought a new level of how people demonstrate that they want to be associated with where they are, and that they are interested in communicating with people in the same place.

3. Customer Service and Recovery

Interacting with customers using Facebook and Twitter can improve customer service. The idea of personalized customer service was also possible with a telephone number. But it's vastly easier with social media.This strategy has successfully recovered previously dissatisfied customers. It also gives the hotel the ability to solve problems for customers as they arise.

4. Last-Minute Deals

Picture 1

Source: www.mashable.com

Fairmont and Omni Hotels & Resorts are two examples of chains that tweet or Facebook last-minute special offers in hopes of unloading their unbooked inventory.

Inoqo, for example, is a service that streamlined this process by creating a Twitter feed on which all hotels in a city could advertise their excess inventory, didn't go as well as expected and eventually took its site down.

5. Facilitating Guest Communities

Within the intersection of mobile and social media, there is the opportunity for hotels to help facilitate guest communities. Reward members are another group that hotels are starting to connect with via social media. Marriott, for instance, launched a beta version of an online community for its reward members called Marriott Rewards Insiders. Marriott's 33 million active reward members can share travel tips and stories as well as get the insider scoop from Marriott's own people.Hyatt has also built a Facebook community around its Gold Passport reward program.

6. Emphasizing Unique Properties

Social media can make it easier for both large brands and small independent hotels to tell their stories. In the case of large brands, hotels have the opportunity to highlight individual properties. Potential Hilton guests, for instance, can check out videos of each Caribbean hotel on YouTube.

Smaller companies can use social media to reach their customers without a national advertising budget. Many hotels use Twitter, for instance, to communicate promotions and remind customers what they're about.

4. CONCLUSION

Service innovation has been constantly studied to serve customers better. However, as one of the oldest industries, it is hard to innovate in hotel industry with traditional methods. Fortunately, an emerging discipline called Service Science, and information technology - an outstanding representative of modern civilization, give a good chance to innovate services in a new way. Knowledge management and innovation have become buzzwords in the global business arena, but with good reason; both of them are indispensable sources of competitive advantage and they are also closely linked to each other.

According to Service-Dominant Logic, service innovation through cooperation of business participants, making use of „operant" resources and focusing on value co-creation with customers can bring new opportunities to grow and develop of hotel industry.

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