

Part Six

Implementation

Innovation and strategy implementation: the key challenge in today's competitive atmosphere

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Introduction

Innovation has taken the modern business world by storm. Any self respecting firm will stress its importance in their mission statement, vision, and other strategy document. In today's volatile business world, innovation is often seen as inevitable; if we do not change our products or services, the way we produce them and deliver them, we will not be able to survive! The hospitality industry does not have a great reputation in the field of innovation. Its conservative nature combined with its capital-intensive structure that requires payback horizons of over 25 years has not been driving innovation.

Most innovation in the hospitality industry has been introduced by outsiders. Individuals who looked at the industry with an outsider's perspective and were not hindered by reigning paradigms.

In this chapter we will look into three innovation concepts that help make the right decisions around innovation: scenario thinking, the innovator's dilemma, and the development of new services. These concepts have been used in industry for many years and have increased product and service sales and profits. They are applicable to the hospitality industry as well.

We will also present a case study of Qbic hotels, a truly innovative concept that was introduced in the European hotel market.

Relevant innovation and strategy concepts

Introducing strategic innovations into practice has long been the subject of study in literature. Many concepts have been published to improve the so called "hairy back end" of innovation, the part after the project is executed and needs to be introduced to the market and the organization, as reviewed by Hultink *et al.* (1997).

However, in the hospitality industry the problem may not only be in the area of the hairy back end but in the entire innovation process or the lack of it. Especially more comprehensive or radical innovations are scarce in the hospitality industry, according to Dialogic (2005).

Many organizations in the hospitality industry are very busy with daily operations, and only very few have distinguishable processes or departments for innovation of the services they offer. When innovations are introduced into the market it is either by large organizations such as hotel chains or by new entrants which have a completely new business model, such as *easyHotel*.

easyHotel

easyHotel is part of the easyGroup of companies based in London which also includes the leading European low cost airline, easyJet. easyHotel opened its first hotel in London in August 2005 and a second one in Switzerland in September 2005. It offers short-stay travellers a safe and quality option at around £40 a night in central London, about half the price of other branded budget hotels. Designed for city centres, it offers consumers a recognized brand that delivers a standardized high quality product and banks on customers accepting small (60 square feet!), no-frills, and simply furnished rooms. All easyHotel bookings are taken by credit card through the easyHotel.com website.

The rest of the market will only embark on innovation when there is no other choice to maintain in business (e.g., internet reservations) or buy innovative solutions from suppliers, which usually focus on improving efficiency and effectiveness (Dialogic, 2005). Most lack the vision on how the future looks and how they can best position themselves in it.

In case this vision is present, the timing of the introduction of the innovation is hard to determine and therefore innovations miss their window or effect. And in case vision and timing are well defined, the innovation does not get to market quickly enough or at all because no processes are used to execute the innovation project and introduction.

To address this issue three mayor innovation theories are used in to review their application to the hospitality industry:

- Scenario thinking by Van der Heijden (2005)
- The innovator's dilemma by Christensen (2006)
- New service development by Johnson *et al.* (2000)

These three theories are chosen because they address the problems stated from different angles: scenario thinking from the point of the future environment, the innovator's dilemma from the point of technological innovation, and new service development from the point of the process. Combining these three perspectives provides a broad and powerful set of tools which enable managers in hospitality to see opportunities for innovation, know when they should embark on an innovation journey, and finally provides insight in how the innovation process should be addressed and executed.

Furthermore, these theories are all built from analysing the daily practice of innovation. Many cases have been studied as input for these theories and they are continuously being deployed and validated in practice. Every sector has its own

preference, e.g., scenario thinking is used widely in the energy business; the innovators dilemma is popular in electronics, and structured innovation processes are common in software and financial industries. Applying the theories to hospitality industry is relatively new; it is interesting to see how they can be applied to implement innovation and strategy.

First each of the theories is described briefly in this section, and then the next section applies the theories to an innovative new offering in the hospitality world: *Qbic hotels*. In this section each of the theories will be reviewed along the following items:

- Definition
- Process
- Focus
- Insight
- Result
- Value for hospitality industry

Scenario thinking

Definition ● ● ●

Scenarios are possible futures. In scenario thinking, the scenarios differ quite strongly to show that the future may have various faces. The scenarios are built along identified uncertainties in the market and society that impact the business substantially. Scenarios are not the result of extrapolated trends or actions, but truly independent. Scenarios focus on creating insight in future circumstances in which the ambition of an organization should be realized.

Process ● ● ●

The process by Van der Heijden is very structured. First focus is placed on the present and past situation of the organization. In this step an analysis of its current issues and determined whether they are intrinsic or extrinsic to the organization. Then the focus is put on the external issues, taking in opportunities and threats of the environment and market of the organization.

Next the ambition or goals of the organization are defined. Amazingly, many organizations struggle with this step. A time period is set at which these goals need to be complied with (anywhere from a few years up to half a century).

Based on the goals and their timeframe, issues, opportunities, and threats are reviewed once more. Those that have a

high uncertainty with regards to where they may end up at the set time are selected. Then these are analysed to determine the impact on the core question. Usually the two uncertainties with highest impact on the goals set are chosen to draw up a scenario space. Examples frequently used in practice are economic prosperity and fierceness of competition.

Then scenarios are developed, first in general terms as in the example of Figure 18.1, then in more detail providing a story about the scenarios, sketching the key developments, positioning of actors, and the impact on the goals that are set.

Now the scenarios are developed, ideas on how to reach the goals set can be developed. This can either be done looking back from each of the scenarios to the present situation of the organization, or by plain brainstorming about how the goals defined can be reached. These ideas are developed into various options the organization can choose from.

Options that are robust, help in realizing the goals in at least 50% of the scenarios and in the remaining 50% they should not have a negative impact, so be at least neutral. To make options more robust, combinations of options are often needed. Eventually the robust options can be translated into innovation plans for the organization. Of course the feasibility of these options or innovation plans needs to be carefully assessed. Those that are most feasible are chosen as a strategy for the company.

Finally, a monitoring system is defined to assess where the defined uncertainties may be going over time. Themes are

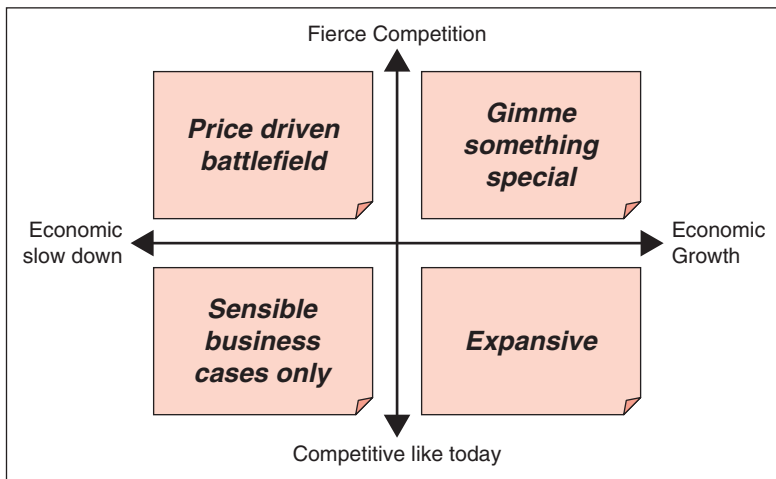


Figure 18.1
Example uncertainties and scenarios.

identified which are being reviewed frequently to see how the future is getting shape. Strategies based on robust options should be able to adapt to the developments in the market and the larger environment or context of the organization.

Focus • • •

Scenarios focus an organization on the future. They do not foretell what is going to happen, but provide different types of futures that an organization should be prepared for. This provides the context in which innovative ideas (options) can be evaluated and ensures that only robust options are developed. This way the scarce resources for innovation, which are even scarcer in the hospitality world, can be put to work on innovations that will be successful in future.

Insight • • •

Scenario thinking provides insight in the future circumstances and into which options for new services to pursue. Scenario thinking is essentially a management tool to assess innovation need and opportunities. Also the option of just doing what we always did can be evaluated. This may result in being a non-robust option, which means a more innovative strategy to providing hospitality is needed.

Result • • •

The result of a scenario thinking exercise is better a vision of the future. Strategies on how to be successful in the future are developed, tested and improved to become robust. Essentially an organization is better prepared to deal with future circumstances and knows which developments to monitor closely.

Value for hospitality industry • • •

The hospitality industry is quite vulnerable to changes in environmental and the market factors, such as the economy, new competitors in its market, and availability of good staff. If a hotel for instance is able to attract guests, employees, etc. even in low times, the chances for success are much higher. Better insight in the kind of opportunities in the future helps in defining what kind of innovations are needed and if they really contribute to the long-term goals of the hotel.

Innovator's dilemma

Definition . . .

The innovator's dilemma is essentially the choice of doing small stepwise innovations (typical for successful incumbents) or deciding that a jump to a radically new idea, technology, concept, etc. is needed (typical for successful new entrants). The innovator's dilemma is especially of interest when new technologies emerge which enable product or service delivery in a different way, but can also be used for new concepts like the one presented in the case study in this chapter.

Process . . .

Performances of various technologies and concepts change over time. When faced with the question if a certain technology or concept should be developed further or that resources should rather be put towards new technologies concepts is the essence of Christensen's theory.

To find out if a certain technology or concept is still viable for further development, its maturity should be reviewed. Mature technologies or concepts develop relatively slowly, where new ones have the potential to outperform the existing ones over time. If the performance of a product or service can radically improve in terms of value for money, the technology or concept below it may be a disruptive one. Figure 18.2 illustrates the disruption (Christensen, 2006).

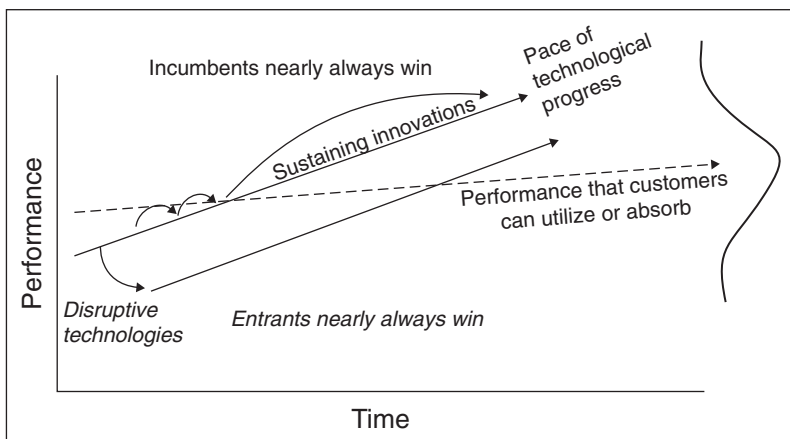


Figure 18.2
Absorption of disruptive technologies.

A good example is how EasyJet and other low cost carriers found their way to the traveller through a new medium: internet. Business processes could radically be redesigned and automated, thus delivering the same value (flight from A to B in economy class) for much less money. Here the internet can be seen as a successful disruptive technology where new entrants are more successful than their incumbent competitors. Market share was lost by the incumbents, but more importantly a new market was addressed, providing flights at such low prices that they were attainable for almost everyone.

Analysis of current and rival technologies to determine their maturity and growth potential is the key process of dealing with the innovator's dilemma. Henderson (Journal of Product Innovation Management, 2006; 23: 5–11) argues that the competencies for being able to identify possibly disruptive technologies (or concepts) and to define appropriate responses to it are scarce and hard to develop when at an incumbent.

Keeping an open mind towards the market and underlying factors, such as technology, is a good start. Quarterly scans of market developments are now being carried out at some incumbents to be able to see changes coming. Educational programmes are adapted to suit these new needs, and consultants are often hired to help out. Most important factor to analyse is the fact how customers can see their needs fulfilled by a certain proposition, which Christensen calls absorption.

Focus • • •

The innovator's dilemma is all about timing. For incumbents this means when to move to a new concept and not to further develop the existing one. Business processes need to be redesigned and take more time than a new design from scratch. However, missing the disruption may cause strong falls in revenues and profits. For new entrants it is a great opportunity as incumbents usually need more time to adopt a new technology. They should however be aware that introducing a new technology or concept too early, will not deliver the required value for money. So timing is key for both.

Insight • • •

The innovator's dilemma provides insight in how new technologies or concepts can change the way we (need to) do

business. Being aware what kind of role you have (incumbent or entrant) and how your business processes may be affected, provides a competitive advantage to competitors.

Result • • •

If the innovator's dilemma is managed well, timing certain radical(ly needed) innovations will be improved. Business processes can be adapted in a timely and controlled manner when incumbent and success for new entrants in the market will be higher. Even the boundaries to enter the market can be lowered or fade away completely if disruptive technologies take hold of the market.

Value for hospitality industry • • •

The hospitality industry is known for its lower levels of innovation. Exaggerating, refurbishment is the most radical innovation done. Usually the concept is not really changed. Therefore the industry is vulnerable to new entrants which have a good timing in moving to new technologies or concepts to deliver value to their guest. Young entrepreneurs can this way really enter when their timing is right and take part of the market by surprise. Developing skills to identify possibly disruptive technologies and concepts may support incumbents to embark on more radical innovation.

New service development

Definition • • •

The process of developing new to the organization services, with four phases:

1. Design (of the concept behind the service)
2. Analysis (of the business viability)
3. Development (of the service derived from the concept)
4. Full launch (of the appropriately tested service)

This process is based on the model by Johnson *et al.* (2000), which was refined by Brackel (2006) as illustrated in Figure 18.3.

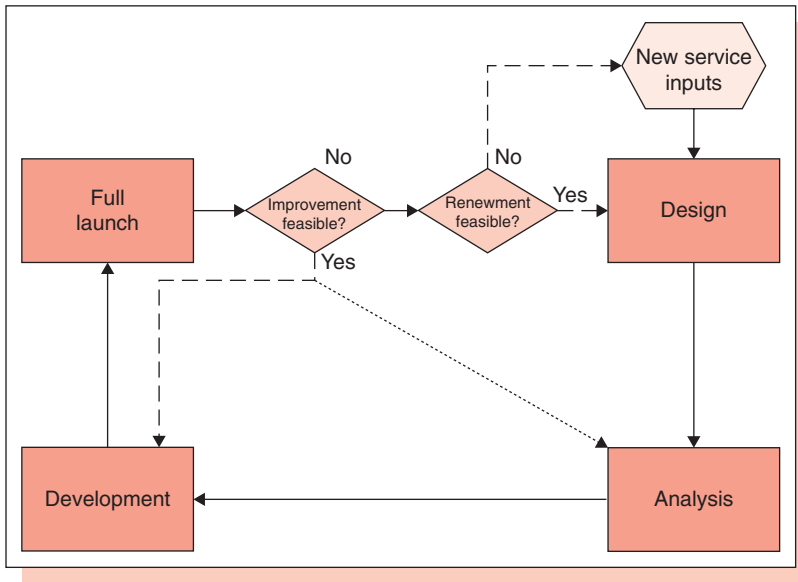


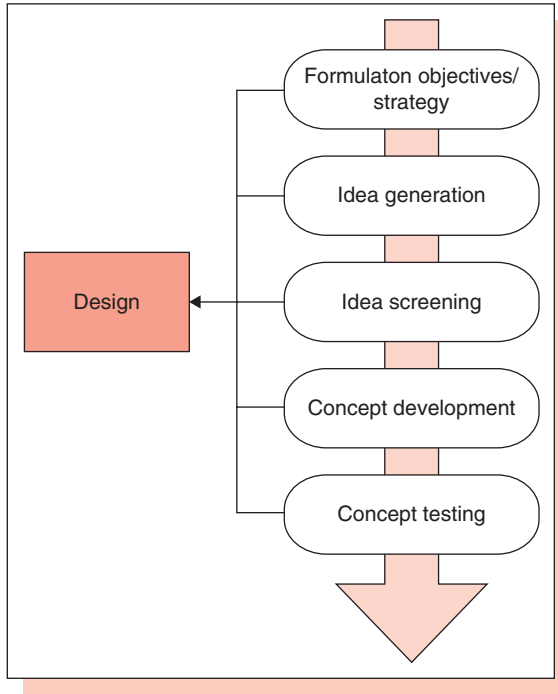
Figure 18.3
New service development flow.

Process . . .

This full process of new service development is adaptable for incremental and radical innovations.

- Incremental innovations are usually executed in the left side of the model above. Launched services are evaluated if they have improvement potential and changes are then implemented through a light weight development process. Sometimes there is a formal analysis of the improvement in case it cannot be done along with the current operational tasks and assigning of resources is necessary.
- For more radical innovations (new services) the design and analysis phases must be executed. If the same approach for incremental innovations is used, the new service can only be successful by chance or luck. The issue here is that concepts for the new service need to be developed first, then compared and possibly combined, and then tested to enable a sensible analysis process. In many service organizations, the left side of the model can be identified, the right side is usually absent, which means that the organization is somehow stuck with the incremental innovations.

All phases are worked out in detail in the work by Brackel (2006). As the focus of this chapter is on the more innovative side of this model, the design phase is illustrated below.



First the outset of a good strategy is needed. This is a major issue in many service organizations, due to their strong operational focus. Scenario thinking as illustrated before may be very helpful in defining a robust strategy. When generating ideas, disruptive technologies and concepts need to be considered. In screening the scenarios can be used again, this time to assess the robustness of the generated ideas. Here combining ideas brings a lot of value. Then, one or more concepts need to be developed. This means the first detailing of the new service starts, and that also the operational processes to provide the service are being designed. Finally, in concept testing, the customers (in case of hospitality many times the guests) are provided the conceptual service to find out how it fits with their needs. This customer involvement is essential for the evaluation of the developed concept, as a service is always created on the spot with the customer. This is one of the essential differences with new product development, where for instance simulations can be used to see how the product performs in practice.

Focus • • •

The focus of new service development is to have a structured process that enables both incremental and more radical

innovations of the service portfolio of an organization. A formalized development process provides support in areas where most operations-oriented organizations do not perform well: tasks that are not directly related to their daily practice. However, using the knowledge and experiences that staff, guests, external experts, etc. can apply in this process, provides a strong advantage over other service companies that are stuck on the left side of the model, not knowing which process to use in a particular situation.

Insight • • •

New service development provides a complete and comprehensive model for innovation in the service sector. The main difference with product development is the required participation of the customer or guest in the process. This is the only way to verify if new innovative concepts will work, and how they will need to be designed both from the customer's and from the organization's perspective.

Result • • •

When a new service development process is deployed, a more mature innovation process is created and successfully introducing new services is a process that can be managed much better. Formalized processes lead to better performing innovations, in terms of time to market, customer satisfaction, and operational effort.

Value for hospitality industry • • •

The new service development model and process provide the hospitality industry with a way to mature their processes regarding innovation. This way they will be able to address more radical innovations if needed to fulfil their strategy. New service development institutionalizes innovation, makes clear what kind of activities need to be executed, and what tools can be used. It provides a framework for the hospitality industry to increase its success through innovation.

Case study

Innovation case study: Qbic hotels

A designer boutique hotel room that assembles in 4h in any empty space and which only requires running water and a

hole in the floor for drainage. No long construction projects; an instant design room at an amazingly low cost. And the best part is: should the owner wish to use the space for a different purpose? The hotel room disassembles even faster. This is the story of Qbic hotels (<http://www.qbichotels.com>), an initiative of innovative Dutch hotel entrepreneur Paul Rinkens. Rinkens has left his mark on the hotel industry with the development of several successful concepts that have one thing in common: innovation is key.

Box 1: the Cubi

The key element of the Qbic design concept consists of the cube-shaped living spaces, appropriately called Cubi (Photo). Each Cubi measures 7m² and features an astonishingly practical configuration, individually designed, and built with attractive materials; "living room," extra long Hästens bed, Philip Starck design bathroom elements, TV, radio, safe and wireless internet, and an ingenious work-and-dine set provide a state-of-the-art living environment.



Innovation and hospitality appear to be natural enemies. Innovation involves taking risks, breaking the “rules” and daring to challenge the status quo. Hospitality operations are about risk avoidance, sticking with the rules, and protecting the status quo. Many hotel chains are experiencing the “innovator’s dilemma” as documented by Clayton Christensen. Christensen tries to explain how it can be that outstanding companies that stay in close touch with their markets, listen to their clients, and invest pro-actively in technology still stand the chance of failing. Christensen shows us that real breakthrough innovation is often initially rejected by customers. And this scares the well-established corporations in the industry. That may explain why most innovation in the hospitality industry is initiated by outsiders. Entrepreneurs that are not stuck in the reigning industry paradigms, but that bend the rules and create new entrepreneurial space. Although Qbic founder Rinkens is a hotelier by profession, he still managed to keep the outsider’s perspective.

Box 2: paradigms

Paradigm is a term from ancient Greek referring to standard models used in certain settings. The Oxford English Dictionary defines paradigm as “a pattern or model, an exemplar. Joel Barker was the first person to popularize the concept of paradigm shifts for the corporate world. Barker defined the term paradigm as any set of rules or regulations that defines boundaries and tells you how to behave within those boundaries.” The fact that people tend to resist change and often appear to be unable to see and accept change is caused by the conclusion that we view the world around us through paradigms. And applying Barker’s definition, we behave accordingly. The hospitality industry is full of paradigms. “The customer is always right” maybe the most powerful one. According to Barker, paradigms are changes. Barker begins by introducing paradigm shifters—the people that bring in the idea for the new paradigm and paradigm pioneers—the people who will have to develop the paradigm. In order to create the much sought after new competitive space, entrepreneurs must shift paradigms.

The Qbic hotel concept is ground breaking in many ways. It bends the rules with regard to all three major stakeholders

in hospitality; the guest, the employee, and the owner. The guest is used to the paradigm that top design and good location come at a high cost. Qbic challenged these principles. Although the concept uses top designer brands like beds from Swedish-based Haestens and bathroom fittings by French designer Philip Starck, the concept is still relatively low cost as the manufacturing of the hotel room can be done in an assembly plant setting, away from the hotel.

In most cities of the world, locations for new hotels are scarce. Empty office buildings on the other hand are a lot easier to find. The solution that allows for hotel rooms to be installed in empty office spaces brings about a whole new world of potential hotel locations without requiring costly refurbishments in the building, and all while maintaining a great amount of flexibility for the owner of the real estate. Should the office market turn out to be more favourable than the hotel market, the spaces can be turned back into office spaces overnight.

This feature is highly beneficial to the owner, who also likes the limited investment cost involved in transforming an office building into a hotel. And last but not the least the employees. For these stakeholders Qbic provides mainly bad news. Apart from a few housekeepers and a host, the hotel hardly requires any human input. Reservations are made online by guests, directly into the reservation system. Check in is possible via unmanned self service kiosks in the hotel lobby. Food and beverage is available via vending machines or by independent entrepreneurs who offer restaurant and bar facilities on the premises.

Many hoteliers condone the concept. Checking in via self service kiosks is unacceptable in the reigning paradigms of the industry. But Qbic has proven to be successful. Its first branch in Amsterdam was fully booked from day one. The internet savvy traveller that so many hotel chains seek to enthruse, appears to embrace the concept, and they are not the only enthusiasts. The concept has drawn the attention of people from all parts of the world including organizing committees of major sports events such as the Olympics. The Qbic concept provides the possibilities to set up state-of-the-art hotel facilities on a temporary basis.

The Qbic hotels case shows us that innovation in hospitality requires breaking through the existing paradigms and overcoming the innovator's dilemma. Companies and individuals that aim for success better create a new competitive space for themselves in which they can become the instant market leader.

Information technology, service reliability, effectiveness, and flexibility are critical factors behind business initiatives. Qbic's

mission is to continually improve the development of systems and global infrastructure.

Analysis

In this section, the three concepts—scenario thinking, The innovator’s dilemma by Christensen, and new service development will be applied to the Qbic case. With regard to scenario thinking, the Qbic case clearly shows how a thorough scan of the environment can help create business innovation. The founders of Qbic took 16- and 17-year-old consumers as their focal point, arguing that this group will produce tomorrow’s traveler. Furthermore they analysed the real estate market, concluding that most European cities experience a great demand for new hotel locations that turn out to be mighty scarce. Faced with this challenge the developers mirrored this challenge and asked themselves what type of real estate was widely available. The answer was found in the office market, a market that experiences a situation of oversupply. In terms of the concept of scenario planning, the developers of Qbic turned the otherwise certainty—the location—into an uncertainty. This helped them in developing a robust solution. Last but not the least the scenario of flexibility—the option to change the purpose of a building in a relatively short time at relatively low cost—proved to be a vital factor in risk reduction which in turn helped tremendously in acquiring the required capital.

When analysing the Qbic hotel case by using the concept of disruptive technology, a number of applied technologies can be identified. Construction of hotel rooms has been replaced with assembly techniques that are commonly found in the manufacturing industry. Factory produced components can be easily assembled in the hotel’s location, saving a considerable amount of time and money. The production method allows for overseas production of components.

In its market approach the Qbic concept uses revenue management systems that allow for optimization of revenue. The system rewards early bookings, while last minute bookings come at a premium which is contrary to the most commonly applied system that awards last minutes.

The application of self service internet and kiosk check in services in a design hotel environment is another innovation that helps in realizing a considerable cost cutting as no staff are required for this otherwise labour-intensive process.

When looking at the Qbic case from the new service development perspective, the concept clearly shows the long-term

perspective that was taken by taking 16–17 year olds as a main focus group. This leads to choices like leaving out workspace and telephone lines, as these travellers are likely to be bringing along their own handheld telecommunication devices that allow for maximum freedom.

The adoption of manufacturing processes as in use in production technology, allowed for a considerably lower initial investment required for establishing the hotel. At the same time this choice of method forced the developers to follow a more structured development process than normally in use in product development in the hotel industry. Last but not the least the concept was tested shortly by a group of randomly chosen travellers who helped in establishing the final design. The industrial design of the Cubi itself allows for opportunities for continuous improvement.

Conclusion

Innovation comes from outside the organization: opportunities, technology, new business concepts, etc. Scenario thinking helps in providing you with views of the future in which you want to realize your strategic goals. Analysing the blocking factors and seeing robust opportunities of overcoming them (i.e., that will work in multiple scenarios and not just one). This is just as applicable to hospitality industry as in other industries. The case of Qbic shows that many opportunities lie there to be taken up and that the way of implementing can be quite straightforward and successful.

Disruptive concepts or technologies are also applicable to the hospitality sector. Providing a combined set of existing technologies and stepping away from the traditional hotel design provides excellent value for money in the Qbic case. Who can reject a €39 deal for a Hästens bed and a Philip Starck bathroom at 3 min walking distance from your business meetings the next morning? Taking adolescents as a starting point, numerous services can be left away, like a phone in the room. Wireless internet and using your own mobile phone are sufficient for the modern day communication needs.

Finally, a structured new service development process provides a valuable framework for knowing what to do when, especially as innovation processes are not as main stream as in other industries. A structured development process will certainly offer support for personnel involved but not working with innovation routinely. It also provides the timing of when to involve potential customers, in this case guests in the

process. Testing the concept, as was done by Qbic by using family and friends is certainly an option, as this enables you to address their findings before the service is completely developed.

Summarizing, the hospitality industry seems to be locked in a position where incumbents do small adaptations to their service portfolio. However, the case shows that radical innovation is a possible and, at times, needed way forward in hospitality. As incumbents still have the major part of the market they may have a lot to loose, when they are not able to apply the concepts illustrated in this chapter in their business processes. Faculty and students in hospitality management universities should therefore review and apply the concepts above whenever applicable. Of course, this is not the only way to success, but it may help them along.

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