CHAPTER 14

Innovation management

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Introduction

No matter which business you are involved in, innovation is important. Innovation is a critical issue for sustaining and growing firms, not only at the corporate level, but also at the small, entrepreneurial level. Much has been written in recent years about innovation and what it represents to countries, businesses and the hospitality industry. Innovation drives a country's economic engine. For example, Britain's weak economic performance in the early 1980s is attributed to its industries' insufficient design and innovation efforts (Ughanwa and Baker 1986). Conversely, Japan's economic strength after World War II was mainly due to the ability of Japanese industries to develop new, high-quality products that satisfied consumer needs (Barclay and Benson 1990). Hence, there is considerable historical evidence for Drucker's (1999) assumption regarding management challenges of the 21st century: that innovation is one core competence that every organization needs.

There are several benefits of innovation, but in the context of business and hospitality, the major benefit of successful innovation is to be, or become, more competitive (Ottenbacher and Gnoth 2005). Every product and service seems to go through a life cycle: it is born, goes through several phases and eventually dies as newer and better products and services come along.[1] Because all products and services eventually decline, organizations must develop new products and services to replace ageing ones. Innovation helps companies keep their product or service portfolio competitive and thereby achieve long-term competitive advantages. Moreover, a significant proportion of revenue and profits is likely to come from innovations introduced in the last few years. Innovations launched during the last five years of a company's existence generated nearly 40% of company sales and could be expected to account for 46% of company profits (Cooper and Kleinschmidt 1995). The less quantifiable benefits of successful innovations include enhancement of a business's reputation and increased loyalty of existing customers.

The innovation challenge

The environment of hospitality organizations is characterized by growing social and governmental constraints, downsizing, restructuring, technological change, competitive pressures,

[1] See also Chapter 15.

mature markets and changing customer demands. These challenging conditions mean that hospitality companies cannot afford to rely on past success; instead, they have to work on new services and nurture an innovative climate. Consequently, hospitality organizations must integrate continuously changing market trends into their portfolio. Hospitality organizations often compete in mature markets; therefore, innovation is important because it supports both growth in market share and growth into new markets. Cooper and Edgett (1999) stated the purpose of hospitality innovation even more vehemently. They argued that hospitality organizations have two choices: succeed at innovation or fail as a company.

The dilemma facing hospitality organizations is that although innovations are critical for the long- and short-term success of a firm, the failure rate of new products and services is high. The failure rate of product innovations is between 25% and 45%, depending on the industry (Cooper 2001). The average success rate for new service projects is 58% (Griffin 1997); in other words, four out of ten new services fail in the marketplace. But these failure rates do not include new product or service projects that were eliminated during the development process and before the launch. The high rate of innovation failure results in wasted time, money and human resources.

Aside from having a high failure rate, innovation can be risky and expensive. Not only small companies have problems in innovation management, but large and usually successful organizations have also had several new service failures. For example, Ford lost US$350 million on its Edsel car, and Texas Instruments lost US$660 million before withdrawing its Selectra Vision videodisc player. In the hospitality industry, McDonald's, with several billion in sales annually, had unsuccessful new menu offerings that had to be removed a short time after their introduction. McLean Deluxe, Arch Deluxe, fajitas and pizza have been marketplace flops for McDonald's restaurants in the past. Not only were these fiascos expensive and resources wasted, but the corporate image was damaged as well.

So what is the 'secret' of successful hospitality innovations? Actually, it is no secret at all; it is the combination of applying some creativity and a high degree of professional innovation management. Creativity is the ability to develop new, useful ideas and to discover new ways of looking at problems and opportunities. Innovation management is the ability to implement creative solutions to those problems and opportunities. Thus, having an innovative idea is not sufficient; converting the idea into a product or service is the critical aspect.

Although service innovation is an important aspect of hospitality management, there is relatively little published research on the topic. The body of literature focusing on innovation in the hospitality industry could still be regarded as being in its infancy. As a result, managers often rely on gut feeling, speculation and their own limited experience about the keys to innovation success. It is obvious that that there exists a need for further research and understanding in this field. Although many hospitality firms recognize the importance of innovation, it is not always clear how to create and design new hospitality services. The objective of this chapter is to increase hospitality managers' knowledge about hospitality innovation. It is hoped that this knowledge will enable managers to focus on innovation more strategically and professionally in order to reduce the high failure rate of new service projects. The following discussion will focus on five important hospitality innovation subjects. First, the term *innovation* will be defined. The next part will present the different types of service innovation by illustrating several classifications of new services. The third section will explain the service innovation process and the extent to which this is the same across all sectors. The fourth section looks at characteristics of innovation management and the factors that make hospitality innovations successful. The final part will focus on the differences between the innovation activities of small, independent hospitality firms versus those of large, chain-affiliated organizations.

Definition of innovation

There is some confusion about what exactly innovation means and what it characterizes. Often the words *invention* and *innovation* are used interchangeably, but although they are related, they have different meanings. Invention is only the beginning of a process of transforming an idea into effective use. Invention is part of innovation or the innovation process. The term *innovation* comes from the Latin *innovare,* meaning to make or create something new (Tidd et al. 1997).

Schumpeter (1934) was one of the first to develop a theory about innovation. He maintained that innovations – new ways of doing things, or unique or better combinations of production factors – are part of the entrepreneur's work. Schumpeter distinguished five areas in which companies can introduce innovations:

(a) generation of new or improved products
(b) introduction of new production processes

(c) development of new sales markets
(d) development of new supply markets
(e) reorganization or restructuring of the company.

According to Drucker (1985), innovation should be viewed and implemented as an opportunity that results in the creation of a new product or service or a change to a different one. An innovation can be an idea, practice, process or product, perceived as new by an individual who then transforms a new problem-solving idea into an application. Innovations are thus 'the outcome of the innovation process, which can be defined as the combined activities leading to new, marketable products and services and/or new production and delivery systems' (Burgelmann and Maidique 1996: 2).

Innovation comprises the two literature streams of new product development (NPD) and new service development (NSD). The NPD field focuses on the development of tangible goods, while NSD concentrates on the development of new service offerings. NSD involves developing new services such as financial, health care, telecommunications, information and leisure and hospitality services (Johne and Storey 1998). NSD is particularly important as developed countries shift from manufacturing to service economies. Service sectors have the highest growth rates, accounting for the greatest proportion of gross domestic product (Froehle et al. 2000), and have the highest levels of innovation (de Brentani 2001). The terms *service innovation* and *new service development* are often used interchangeably.

Classifications of innovation

Lovelock (1983) identified six classifications of service innovations, ranging from major innovations through to style changes. Gadrey et al. (1995) distinguished four types of new financial service developments: innovations in service products, architectural innovations that bundle or unbundle existing service products, modifications of an existing service product, and innovations in processes and organization for existing service products. Debackere et al. (1998) suggested three types of new services: breakthrough projects, platform projects and derivative projects (see Table 14.1).

The most popular classification of new products and services was developed by the consulting firm Booz-Allen and Hamilton (1982). Although Booz-Allen and Hamilton's categories were developed for manufactured goods, these definitions

Table 14.1 Classifications of new service innovation

Author(s)	Type of service innovation
Booz-Allen and Hamilton (1982)	• New to the world products/services • New product/service lines • Additions to existing product/service lines • Improvements in/revisions to existing products/services • Repositionings • Cost reductions
Lovelock (1984)	• Major innovations (new service for markets as yet undefined) • Start-up business (new services for a market that is already served by existing services that meet the same generic needs) • New service for the currently served market (new services that are offered to the firm's existing customers) • Service line extension (represents an augmentation of the existing service line or different way of service) • Service improvements (changes in certain features for existing services currently on offer to the currently served market) • Style changes (highly visible changes to existing services)
Gadrey et al. (1995)	• Innovations in service products • Architectural innovations (bundling–unbundling of existing service products) • Modifications of service products • Innovations in processes and organization for existing service products
Debackere et al. (1998)	• Breakthrough projects (fundamental changes to existing products and processes) • Platform projects (new product lines) • Derivative projects (incremental changes to products and processes)
Avlonitis et al. (2001)	• New to the market services • New to the company services • New delivery processes • Service modifications • Service line extensions • Service repositionings

have been adapted for service innovations. Service innovation can be any of the following:

1. *New-to-the-world services:* new services that are seen to be quite new in the eyes of customers because they are the first of their kind, creating entirely new markets (e.g. the introduction in the UK of the Little Chef Lodge concept, now known as Travelodge);
2. *New service lines:* services that are not new to the marketplace but are new to the firm (e.g. the development of the Courtyard concept by the Marriott hotel group);
3. *Additions to an existing service line:* new services that supplement a company's established service line and are not significantly new to the service producer, but may be new to the customers in the existing market segment (e.g. menu development in restaurant concepts);
4. *Improvements and revisions to an existing service:* new services that provide improved performance or greater perceived value and so replace existing services (e.g. hotel refurbishment, improved food quality);
5. *Repositionings:* existing services that are targeted to new markets or market segments (e.g. repositioning of the Ramada brand in 2004); or
6. *Cost reductions:* new services that provide similar performance at a lower cost of supply (e.g. introduction of buffet breakfast, better productivity).

While hospitality innovations can embrace the whole spectrum of service innovations, from new-to-the-world services to cost reductions, most hospitality-related innovations are modifications of existing services.

The innovation process

Innovation process models are based on NPD models. In the 1960s, the National Aeronautics and Space Administration (NASA) in the United States implemented a product development process for its space programme. These pioneering first-generation processes were largely engineering driven and mostly a measurement and control tool. The processes contained discrete phases, with review points at the end of each phase. However, they were bureaucratic and slow, and dealt mainly with the development phase rather than the entire process from idea to launch (Cooper 2001).

Most of the innovation process models implemented today are second-generation models, which usually involve seven required steps for managing the process effectively and transforming new ideas into new products or services. Third-generation innovation process models have also been developed; these flexible and informal models involve the parallel processing of stages to reduce the development time. However, these are only recommended for very experienced innovation managers or teams, as many hospitality managers have limited knowledge and experience in regard to innovation management. Therefore, second-generation models might be more appropriate for achieving innovation success in the hospitality industry (Cooper 2001).

Differences between NSD and NPD process models

The four characteristics that distinguish services from products – intangibility, heterogeneity, perishability and inseparability – impact on the NSD process (Edgett and Parkinson 1994). Because of the differences between tangible products and services, strategies for NSD can vary considerably from those for developing new tangible products.

Intangibility

The relative intangibility of services influences NSDs in several ways. Because customers have difficulty evaluating the service prior to purchase and comparing competitive service offerings, they have to take a risk by purchasing a promised outcome. To alleviate the evaluation and comparison difficulties of new services, hospitality firms should offer unique characteristics or benefits and build a strong image and unique reputation. One way to make a new service less abstract and the examination easier is to provide some tangible evidence of the service, such as a logo or inclusion in the hotel brochure.

Another implication of intangibility is that new services can be copied quickly. Because new services often require little investment and are not patentable, competitors can copy services easily and without legal barriers, thus destroying the originator's competitive advantage (Atuahene-Gima 1996).

A third operational problem in NSD that evolves from the intangibility of services is the risk of conducting the development too quickly by skipping some stages of the development process. For example, testing new services is difficult, because there are often no physical prototypes to test market, and conducting R&D and quantitative market research is a problem. Therefore, close interaction with customers is necessary in order to get feedback during the development process.

Heterogeneity

Heterogeneity is the inability of service producers to provide consistent performance and quality, because production and delivery of services depend significantly on the staff of the company. Services, especially those with higher labour content, are heterogeneous because the 'performance often varies from producer to producer, from customer to customer and from day to day' (Zeithaml et al. 1990: 16). The extent of heterogeneity depends mainly on the degree to which a service firm controls the system for variation and how the customers and employees impact on the process of the service.

Heterogeneity has several implications for NSDs. Heterogeneity of services contributes to difficulties in concept testing because of the people factor. Each time the service is delivered, different people affect the quality. Furthermore, service companies have to decide what degree of heterogeneity is desirable, because there are positive and negative consequences for both directions. Customized services can respond more effectively to customer needs, but service quality lacks consistency. On the other hand, standardization increases the consistency of processes and output and reduces customer uncertainty, but it can be less effective in satisfying individual customer needs. This means that when developing new services, firms face the dilemma of deciding between efficiency and personalization. The opportunity exists to develop customized services that are tailored to the customer; such services offer potential for unique selling advantages over competing services. On the other hand, a standardized delivery system is of critical importance to service introduction. Through quality control and staff training, it is possible to maintain the consistency of service delivery performance.

Perishability

The third difference between goods and services is that services are produced at the time they are consumed and so cannot be stored, saved, resold or returned (Zeithaml and Bitner 2000). That is, unused capacity cannot be reclaimed, and a revenue opportunity is lost forever. However, some specific services, such as information-based services, can be recorded or stored for later use (Gummesson 2002). Furthermore, because of variations in demand, service companies can incur high costs as a result of under-used capital (e.g. hotel rooms or banquet room) or human resources (employee salaries) during low levels of business, as well as lost revenue when they cannot meet peak demand levels.

Therefore, capacity planning is a significant management task in the service industry. The main implication of this service characteristic for NSD is that the service firm should develop further new services to meet cyclic demand. Hospitality firms can solve the problem of perishability through developing new services that use existing resources in low-demand periods and through diverting demand at peak times. The integration of these new services with existing ones requires more planning and employee training and higher levels of integration among departments, in addition to stronger marketing activities that avoid wasted service capacity. Service firms can also sometimes reduce costs through substituting labour with technology, and the design phase of the development process should therefore include consideration of the appropriate mix of human labour and technology in the delivery of the service.

Inseparability

Authors refer to the fourth characteristic as either simultaneity or inseparability, as services tend to be produced and consumed at the same time in the presence of the user (Zeithaml et al. 1990). Therefore, consumers may take part in the production process, and the outcome may be affected by this interaction. The service providers must ensure that customers understand their role and agree to be involved in this interaction. Meanwhile, not only customers affect the outcome of a service, but the quality of the employees who deliver the service is even more important.

As consumers have direct contact with the service process, they impact the design of new services. Production and delivery become fundamental design elements. Therefore, it is important to have high levels of customer involvement in the different stages of the development process. The simultaneity of production and consumption also means that employees with customer contact are a critical factor in the success of new services, because these employees often represent the delivery system (Shostack 1984). Front-line employees must have technical and interpersonal skills for optimal job performance (Hochschild 1983). Therefore, when developing new services, firms have to put strong emphasis on training, hiring, and performance standards. Furthermore, because employees delivering new services are particularly important to the development process, increased employee involvement in the development process is necessary (Cooper and Edgett 1999).

New service development process models

The NSD process could be defined as a formal blueprint, roadmap or thought process for driving a new service project from the idea stage through to market launch and beyond. These process models, if applied in a disciplined way, can help firms to improve the effectiveness and efficiency of innovations so that scarce resources are not wasted during the development. However, not all the steps of the proposed models may be necessary; the decision will depend on time pressures, resources, the nature of the new service and the characteristics of the target market. The use of NSD process models will not necessarily guarantee success, but the use of a model does increase the chances of success. Service innovation process models are based on NPD models, and these approaches tend to follow the format of Booz-Allen and Hamilton's (1982) model.

As Table 14.2 illustrates, Shostack's (1984) model, the result of an analysis of case studies, outlined 10 stages in designing and developing new services. According to Shostack, the design and control of the process are the key to successful NSD, because control of the process is the critical aspect of controlling output. Bowers's (1989) model was developed through an investigation of how closely banks and health services follow the Booz-Allen and Hamilton (1982) model when developing new services. Therefore, Bowers's eight stages of service development (see Table 14.2) are similar to those for NPD. The main difference between Bowers's stages and those of the Booz-Allen and Hamilton model is that Bowers added one strategy stage (development of a new service strategy) and omitted the screening stage.

Cooper and Edgett (1999) proposed a stage-gate model, which includes a cross-functional team approach and up-front homework as two major ingredients. Between each stage is a gate, a 'quality-control checkpoint' at which a new product/service project has to meet a list of criteria in order to move to the next stage. These criteria contain qualitative components such as risk, strategic role, internal strengths and competition, as well as quantitative aspects such as gross margin minimum, payback period, return on invested capital and return on assets. The stage-gate system prevents managers from skipping certain steps and guides the development in a successive order. Such a system detects early unpromising projects and saves resources that might be necessary for other, more promising projects.

Table 14.2 New service development process models

Shostack (1984)	Bowers (1989)	Cooper and Edgett (1999)
	Business strategy	
	New service strategy	
Service definition	Idea generation	Ideation
Information search and alternatives		Preliminary investigation
Draw boundaries of service	Concept development and evaluation	Detailed investigation
	Business analysis	
Blueprint	Development	Development
Blueprint analysis		
Decision to implement		
Implement service (test)		
Pre-launch marketing activities	Market testing	Testing and validation
Market launch	Commercialization	Full operations and market launch
Post-introduction audit		Post-launch review

Scheuing and Johnson (1989) expanded the development process to 15 stages (see Figure 14.1). Scheuing and Johnson's model – which was based on a review of existing models, conversations with service managers and a survey of 66 financial services – included the complexity of service design and key factors that influence the design process, both internally and externally. This model indicates the unique conditions prevailing in service industries, because it places more emphasis on user and employee involvement and interaction during the development process.

Jones (1996), based on research in the fast food sector (Wan and Jones 1993), flight catering (Jones 1995) and tourism operations (Jones et al. 1997), proposed that the 15-stage process, shown in Figure 14.1, is highly contingent. It should be thought of as a checklist of options rather than as a rigid script

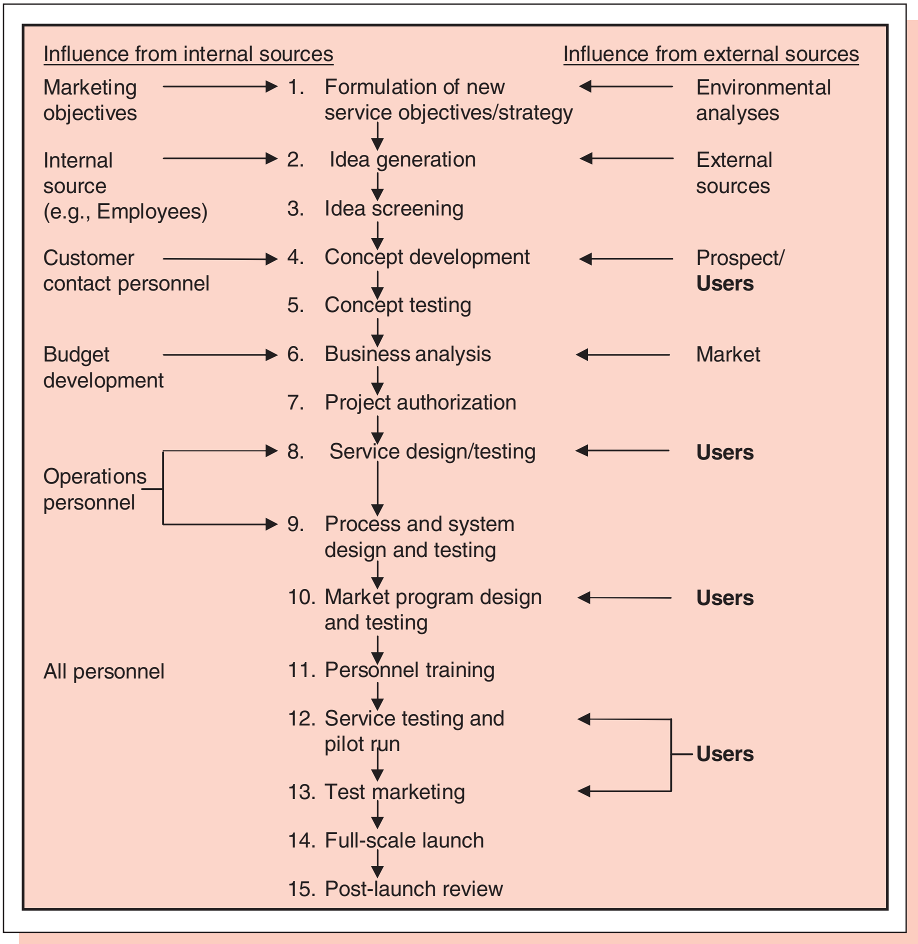

Figure 14.1
NSD process model suggested by Scheuing and Johnson (1989).

to follow. Jones (1996) suggested that a systematic and formal approach to innovation is likely to be adopted when:

- new products, with major process impact, are developed;
- a number of interrelated innovations are being developed simultaneously;
- the new product is protected by a licence or patent;
- product life cycles are long;
- competitors are unlikely to enter the market with a similar product/service;
- the innovation is original or 'new-to-the-world'.

Innovation is likely to follow a shorter, simplified development process when:

- simple modifications are made to existing products or services;
- innovation is not part of a major change programme;
- there is no licence or patent protection;
- competitors are actively innovating;
- the 'new' product is largely a copy of a competitor's product.

Jones (1996) also argues that an organization may create internal conditions that either foster or hinder innovation. Often these are strongly influenced by the external environment. Conditions that may encourage a systematic but rigid approach to innovation are:

- a bureaucratic culture;
- mature marketplace;
- the involvement of external consultants;
- formal research and development departments.

Conditions that encourage a dynamic and flexible approach to innovation are:

- growing supply chain integration;
- an organizational culture founded on innovation;
- industry association sponsorship;
- creative and entrepreneurial leadership;
- deregulated markets.

Whatever the precise nature of the innovation process, NSD can be divided into three major stages: predevelopment, development and launch preparation.

Early stages of the process

The NSD process starts with the clear formulation of objectives and an NSD strategy that leads and directs the entire service development activity. A product innovation chart can be used as a strategy statement, but very few service firms have written NSD strategies. The sources of new service ideas can come from internal or external sources, either formally or informally. External sources of new ideas include customers, competitors, channel members, and trade associations and shows. However, hospitality firms should not rely exclusively on external sources. Front-line staff, because of their understanding of the service operation and customer needs, can be viewed as a logical source of ideas. Unfortunately, hospitality firms seldom have a formal idea-generation process for soliciting ideas (Ottenbacher and Shaw 2002).

Because not all new hospitality ideas can or should be developed, the objective of screening is to eliminate most suggestions and concentrate resources on those ideas that have the best potential for success. Hospitality firms use different screening practices with different degrees of formality. However, hospitality firms should use rigorous screening concepts, because once a new service is introduced, not only is it difficult to withdraw, but financial and human resources are also wasted. Whether an innovation enhances or supports the organization's image is a significant screening criterion, because the new service has to uphold the corporate reputation. Further, screening criteria often include potential competitive advantage, market size, development cost, price, ROI, market share and other predetermined 'must have' or 'would like to have' criteria (Cooper and Edgett 1999).

The business analysis stage includes a detailed investigation that defines the service and what is required to make the project successful. The first part consists of a customer analysis, competitive analysis and market research of potential consumer needs and wants. The second part includes a financial analysis – including details on costs, revenue and internal rate of return – to justify an investment in new resources.

The development stage

The development stage is the translation of an idea into an actual service for the market. It involves three steps:

(a) service concept development, that is, the description of customer needs and wants;
(b) service system development, that is, the resources required for the service, including employees, service environment and administrative structure;
(c) service process development, that is, the service delivery process.

The second and third steps emphasize the importance of operational staff and their training, and the overall cross-functional coordination. All three steps can be combined by the use of service blueprinting, which is one of the most commonly applied techniques for analysing and managing complex service processes in the pursuit of operational efficiency (Shostack 1984). A service blueprint gives meaning and structure to an otherwise partly intangible abstraction.

A service blueprint is a flow chart that shows in a diagrammatic form all the main functions of the service, all possible fail points and the processes in place to correct these, the relationship between the front and back office, and time. The key aspects of blueprinting are to match service specifications to customer expectations and to accurately portray the service system. A service blueprint visually displays the service by simultaneously depicting the process of service delivery, the point of customer contact, and the evidence of service as the customer experiences it. The service blueprint thus allows management and employees to organize and manipulate the entire service system. The main components of the service blueprint are customer actions, contact employee actions, backstage employee actions and support processes. A significant feature of service blueprints, as opposed to product processes, is the inclusion of customers and their views of the process.

Final stage of the process

The final stage of the innovation process is the most expensive and resource intensive. Launch preparation includes the process activities at the final stage of the development process, such as the internal marketing of the project and training of employees. Before the launch, the commercial feasibility of the new service concept is tested and validated. Market testing is often undertaken in an effort to expose potential customers to the new hospitality innovation and test its marketing strategy under near-realistic purchase conditions, in order to find out whether and to what extent customers will actually purchase. This provides the organization with valuable feedback about the new service and its marketing programme. The reluctance of some service organizations to implement market testing may be explained by the difficulty of patenting a service, with innovators fearing that competitors might hear about the new service being tested and copy it. The final stage of the process includes the implementation of the market launch plan, the operations and delivery plan, and a post-launch evaluation of the new service project. With the help of an effective evaluation system that analyses sales, market reactions and problems, managers can benchmark the performance and undertake necessary changes.

Innovation management

In addition to implementation of a formal and well-planned process, success in hospitality innovation depends on the proficiency and ability of management to coordinate the process and harness the necessary resources. Successful projects appear to be guided by a clear, well-communicated strategy and vision, and by managers who strongly and visibly support the project. Furthermore, innovation success depends on getting the necessary commitment and interaction from management and from the different departments and employees, which is accomplished by creating a supportive and innovative environment. Innovations are also significantly affected by outstanding hospitality individuals, 'best practice champions' who have leadership qualities and problem-solving skills and are responsible for guiding the whole project (Enz and Siguaw 2003). Furthermore, failure to understand customers and competitors has been linked to unsuccessful outcomes. Involving employees throughout the process is therefore doubly important, because of their ability to improve service quality and their knowledge of customer demands.

One of the greatest handicaps to innovation is the lack of input by employees, who have the skills and the experience necessary for the development of new services (Johne and Storey 1998). Employees can help to identify customer requirements and how they might be fulfilled. In addition, employees who have been involved in the development will probably treat customers better, thus increasing the chances of successful implementation (Schneider and Bowen 1995). Furthermore, employee involvement in the process helps the organization to focus more strongly on the customer instead of focusing on process efficiencies. However, employees are often hesitant to get involved in NSD activities, because to do so might enlarge their workload. One way to increase employee buy-in is to adequately reward staff for their NSD involvement (de Brentani 1991).

Successful hospitality innovators are effective communicators who can raise customer awareness and convince customers of the benefits of the new service. It is not sufficient simply to create an innovation and announce its existence. Even the best products and services do not sell themselves. Innovations should be supported by a strong marketing communications strategy. An effective marketing communications strategy must include clear targeting, so that the new service will have a distinct position in the marketplace. Because services are often largely or partly intangible, the marketing communication should explain the potential benefits of the service well, as customers cannot try or test the service before purchase. Creating awareness and communicating the service's benefits can be supported by a strong brand image and a unique positioning in the buyers' minds.

Innovation success factors

In addition to disciplined application of a new service process model and effective management of the process, the following eight aspects are also very critical to the success of hospitality innovations.

Tangible quality

The tangible quality of a new product has perhaps the most influence on success in NPD. Because of the simultaneity of production and consumption and the nature of intangibility, the control of perceived quality is more difficult and challenging for service organizations than it is for manufacturing firms. Groenroos (2000) distinguished between technical and functional quality: Whereas the technical quality involves the tangible output dimension of the service (what is received), the functional quality includes the service experience quality (how it is received). Because of the intangible nature of services, customers sometimes have difficulty understanding and evaluating new services; therefore, customers may use tangible cues such as staff and physical evidence to judge the service (Johne and Storey 1998).

New business service projects that incorporated service quality evidence to help buyers make evaluations had significantly greater success rates (de Brentani 1991). Services in the hotel sector are often intangible, and therefore customers may look for tangible and physical representations of the service in order to judge quality. Tangible features and tangible qualities are not only important for new products but are also a key factor for hospitality innovations (Ottenbacher and Gnoth 2005). Tangibles include the reliability, accuracy and consistency of the service product. Additionally, tangibility relates to the quality of the actual implements that are involved, that is, the facility and equipment used. The quality of these tangibles needs to match the quality of commitment required of staff and management.

Service advantage

Relative advantage has been recognized as an important factor in developing new products and new services, even though the level of influence is lower for new services. Successful new hospitality service developments offer a significantly better value than competitive services and offer the customer unique benefits not available elsewhere. Furthermore, successful hospitality services are difficult to copy, significant improvements over those offered by the competition and considered to be more innovative than those of the competition. New business services that offered a service advantage are more than three times as successful as services lacking such advantages (Cooper and de Brentani 1991). Service advantage is very difficult to achieve and sustain, because services can be easily and quickly copied and lack legal protection (Atuahene-Gima 1996). However, new hospitality services should offer a service advantage if possible, even though to do so is more challenging for services than it is for new products.

Innovative technology

Technological advantages are drastically modifying the ways in which many service firms do business, and they also impact NSDs in several ways. In particular, the integration of computers and telecommunications affects many service industries, including hospitality and tourism. Innovative technology can create new markets for new services and aid NSD by making it more cost effective, improving quality, making the use of the service simpler and faster, or providing a competitive advantage. Innovations in technology should be used in NSD not simply to replace labour input and control costs, but mainly as a tool to develop value for the customer and to provide a unique service benefit. Implementation of new technology in NSD can thus be used as an opportunity for differentiation. The creative application of technology, rather than the technology itself, has had an enormous impact on the hospitality industry.

Market responsiveness

Market responsiveness relates to the fit between the new service and the demands of the market. Successful hospitality innovations have a higher level of market responsiveness (Ottenbacher and Gnoth 2005). In the financial industry, service innovations that satisfied clearly identified customer needs and responded to important changes in customer needs and wants were more than five times as successful as those that lacked market responsiveness (Cooper and de Brentani 1991). Such innovations are based on active market research and respond to actual as well as anticipated customer demand. Successful innovations require close customer contact, detailed consumer research and a comprehensive understanding of consumer needs in order to distinguish between fad, fashion and trend (Ottenbacher et al. 2006a). Effective customer responsiveness relies on the ability to comprehend the market, and on competently trained and flexible staff to respond to the challenges of the market. The ability to respond thus underpins market selection.

Market Selection

Market selection turned out to be one of the most important factors in determining the success of new hospitality service developments (Ottenbacher et al. 2006a; Ottenbacher and Gnoth 2005). Both the potential and the attractiveness of the target market are crucial parameters. The potential relates to both the current and the future size of the market. The current market needs to be large enough to promise a worthwhile return. Yet, this is not the only criterion, as the future potential needs to be carefully assessed as well. Because hospitality firms often have to make significant financial investments, managers perceive as successful only those innovations that release an almost immediate ROI as well as promise a long-term volume potential (e.g. building a scenic spa facility on the rooftop). Consequently, hospitality organizations should have a firm understanding of the potential size of the markets they target with their innovations.

Reputation

The image or reputation of a company represents the value that customers, potential customers, lost customers and other groups of people link to the organization (Groenroos 2000). A positive image can be an asset for a service firm, but image impacts NSD in several other ways. A service firm's image also communicates expectations. Additionally, external marketing communications regarding the firm's image influence the perception of the new service's performance and have an impact on employees' attitudes. Successful new hospitality services are more likely to be developed by organizations that have a high reputation for quality and service and whose customers have high levels of confidence in the company and its services. Furthermore, successful new hospitality services are more likely to fit with the current image of the operation. Image and word of mouth are crucially important for hotel organizations and therefore present significant challenges and opportunities for hotels and their service offerings (Kandampully 2002). The emphasis on image is greater in hospitality firms than in other service segments, and hospitality consumers' perceptions of differences in hotel services are often based only on hotel image (Kotler et al. 2006).

Overall synergy

Synergy refers to the fit, position and level of harmony in the product portfolio. Successful hospitality innovations have higher levels of synergy between the project and management expertise and resources, including existing range of services and products, marketing expertise, financial expertise and human resource capabilities. The fit between the innovation, the marketing mix and the capabilities of the firm are especially critical (Ottenbacher and Gnoth 2005). A successful hospitality innovation fits into the existing skills and the product and service mix offered by the hotel. In other words, it is appropriately priced, advertised and delivered. Although there can be no doubt about the need for perfection, managers perceive the gestalt of the service in its totality rather than merely concentrating on perfecting the technical aspects of the service.

Employee management

Because of the intangible nature of services, the simultaneity of production and consumption, and the importance of human factors in service delivery, employees play a more important role in service innovation than in product innovation. The human element in services means that service quality depends heavily on human resource strategies, which are the tools for effective management of employees (Ottenbacher et al. 2006a). Successful innovations are developed by hospitality organizations that implement strategic human resource management practices – which are linked to the organization's strategic business planning – in order to attract excellent staff. Employees are also viewed as a competitive advantage rather than a cost factor. Successful hospitality innovations evaluate front-line employees' performance in relation to customer-oriented behaviours (such as their ability to provide courteous service), rather than specific work-related outcomes such as quotas. Furthermore, successful new hospitality service developments are characterized by an approach in which the organization considers training a high priority and spends a lot of money on systematically structured interpersonal and general skills training. Such firms also transfer responsibilities, provide opportunities for personal initiative, trust their employees and allow them to use their discretion and judgement in solving problems. Wong and Pang (2003) investigate what motivated managers and supervisors to be creative and through factor analysis found five factors that influenced this: training and development, support and motivation from the top, open policy, recognition, and autonomy and flexibility.

Innovation in small versus large businesses

New chain-affiliated hospitality operations have flourished all around the world, and it seems that new hospitality chain operations have mastered the challenging market conditions. Is it their financial strength or their powerful and sophisticated marketing systems, or do they have a more structured approach to innovation? In general, independent hospitality firms are smaller, family-owned operations, while chain hospitality firms are larger organizations. Although larger organizations have shown strong growth, there are also many success stories among small hospitality businesses. The frontrunners of small hospitality firms are entrepreneurs who understand and apply the principles of successful innovation, because there are plenty of opportunities within the areas of change.

Entrepreneurship is driven by an attitude of opportunity and a management style that is innovative, flexible, responsive and efficient (Guth and Ginsberg 1990). Entrepreneurial management tends to be proactive, innovative, risk taking, future oriented and aggressive in the pursuit of business growth (Miles et al. 2000). In addition, entrepreneurial management considers innovation to be a vital and central aspect of strategy (Miller and Friesen 1982).

For large firms, the innovation advantage tends to be in industries that are capital intensive, advertising intensive and highly unionized (Audretsch 2004). The competitiveness of smaller firms' innovation activities is limited by the lack of financial resources, shortfall in marketing and management expertise, lack of access to external information, and weak networks

(Rothwell 1992). However, smaller firms have several advantages. Because of their smaller size, they are more flexible and have closer contact and relationships with their customers. This means that independent firms can be more adaptable to changing conditions and able to respond more quickly to customer needs and problems (Rueckert et al. 1985). Small firms usually have a dynamic and entrepreneurial management style (Rothwell 1992), so innovations can be less expensive. Therefore, innovation in small firms can be more efficient and effective (Vossen 1998).

A recent study (Ottenbacher et al. 2006b) investigated success factors of innovations in corporate versus independent hotels. The results suggested that corporate growth in the hospitality sector has been accompanied by the successful innovation activities of many independent hotels. Therefore, innovation success in the hospitality industry is not only a matter of money and structure. Only two success factors are common to both chain-affiliated and independent hotels: empowerment and market attractiveness. The secret of successful hospitality innovation appears to be that chain-affiliated and independently operated hospitality firms should have different priorities when developing innovations. Hospitality firms should vary their emphasis between market, process and organizational factors in order to develop successful corporate or independent hospitality innovation and offer the quality products and services that their customers demand. The results of the study suggest that, aside from market attractiveness and empowerment, the predictors of success for chain-affiliated hotels are process management and market responsiveness. In independent hotels, the factors of NSD success (other than empowerment and market attractiveness) are effective marketing communication, employee commitment, behaviour-based evaluation, employee training and marketing synergy.

Summary and conclusions

Innovation management may be even more difficult and challenging in the future. Intense competition has led to increasing market fragmentation, so that companies must aim at smaller market segments rather than at the mass market. This results in smaller sales and profits for each product or service. The rapidly changing business environment will also be a substantial challenge for hospitality businesses. The speed of change over the last decade may have been merely a warm-up for the upheaval to come in future years. Hence, innovation management is one of the most important challenges hospitality managers face in the new millennium.

Many hospitality firms still fail with their innovation activities; however, in the past we also saw some very successful innovative hospitality firms. For example, who would have thought 20 years ago that there would be potential for a coffeehouse concept to become so successful? The successful launch and growth of coffeehouse chains such as Starbucks, Second Cup and Costa have not only challenged the hospitality industry, but they have also created a new hospitality segment that did not exist before. Certainly, the developments of these coffee store concepts have lower levels of innovativeness than, for example, new breakthroughs in medicine or technology. However, these coffee shop chain stores have shown that there are still immense opportunities for innovation in the hospitality industry. The idea to create a coffeehouse chain with a large variety of coffee drinks in a comfortable atmosphere was not an outstanding innovative idea. As stated earlier, having an innovative idea is not the important aspect; rather, converting the idea into a product or service is critical.

New-to-the-world innovations are rare in a service environment such as the hospitality industry. Many would argue that most new hospitality services are versions of existing services or copies of competitors' services. Of course, it is important that hospitality firms consistently improve, revise or reposition their services. Unfortunately, however, too many hospitality firms shy away from more innovative categories and focus on low-risk service modifications that do not produce enough new streams of revenue. Hospitality firms should find a balanced innovation portfolio mix that combines highly innovative and low-risk new service projects.

Each year, more hospitality firms are looking to innovation as a weapon in the increasingly competitive environments in which they operate. Companies such as Marriott and McDonald's have installed internal processes to systematically and effectively develop and launch innovations. Most of the hospitality innovation success factors are directly controllable. For example, adoption of a market-oriented development process with a strong emphasis on market research and market knowledge is an aspect missing in many hospitality companies. There are no easy roads to successful innovations in the hospitality industry. Success in hospitality innovation is not the result of competence in one aspect; it is a combination of having many factors in place and doing many things well.

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