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DRIVERS OF INNOVATIONS IN TOURISM: SOME THEORETICAL AND PRACTICAL ASPECTS

SUMMARY: Despite general opinion that services are non - innovative or at least innovations in services are less frequently occurring, innovations in tourism are numerous and more complex than in some other sectors or industries. The purpose of this article is to critically asses the four major issues of drivers of innovation in tourism: tourists themselves, tour operating companies, technology changes and competition. Tourists are characterised by their diverse and plural characteristics of experiences. Thus, experience has become nucleus of holidays. Since tour operating companies are market-oriented companies their major drivers of innovations are tourists and competition. ICT drives innovations in tourism and enables companies to be more efficient as well as more competitive. Competition on the global level increasingly forces tourism destinations to innovations.

KEYWORDS: tourism innovations, drivers of innovations, tour operators, competition

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1. INTRODUCTION

The research in the field of tourism innovation can still be considered as limited (Weiermeir & Peters, 2002; Hjalager, 1997, 2002, and 2010; OECD, 2004; Ottenbacher, Gnoth, 2005; Novelli, Smitz & Spences, 2006; Keller, 2006; Hall & Williams, 2008; Weidenfeld, Williams & Butler, 2010; Williams & Shaw, 2010), although it has intensified after Hjalager's research on *Dynamic innovation in the tourist industry,* published in 1994. The reasons can be attributed to "an ideological paradigm that sees manufacturing as the dynamic motor of the economy" (Williams & Show, 2010) and to a prevailing general opinion that services are non-innovative (Nordin, 2003:26), or at least innovations in services are less frequently occurring. Another reason could be the fact that services are sometimes taking on different features making them harder to detect. However, the software boom of the 1980s has greatly facilitated the recognition of service industries for their measurable innovative potentials. Despite the increased interest in this research field, studies in tourism innovations still rely on explorative and qualitative cases that investigate and explain the phenomenon from a number of angles and offer less prevalently rigid (Hjalager 2010).

Since changes drive to innovations, is it not more than logical that tourism can be considered as innovative? Looking back to the past just in the field of organised travel we can come across many examples of innovation in tourism. Let us mention just a few of them: Thomas Cook inventions and innovations in organised tourism travel, the first travel agency, the first charter flight, the first tour operator, *Travelocity* as a new breed of travel agencies, new forms of tourism with more innovative products, etc.

Since tourism is a complex system innovations in tourism can be considered as even more complex than in some other sectors or industries. Innovations in tourism do not represent a "cosmetic change" or extension of product lines or a new component in a product. Innovation in tourism has to be profitable for the company and increase the value of tourism product as well as tourist's experience (Weiermair, 2004). It encompasses the entire tourism value chain fostering new and innovative products and processes. Using the sports terminology, *It takes one to score a goal but a team to win the game!*

2. THEORETICAL BACKGROUND ON DEFINITION AND TYPES OF INNOVATIONS

To define innovation in tourism a broader theoretical perspective is needed. First of all it is necessary to discriminate between inventions and innovations. According to Schumpeter (1939) inventions are major scientific and technological developments without any specified industrial use. On the other hand, innovations are further developments of inventions or just bright general ideas for making inventions into useful products (Hjalager, 2002:465). The concepts of "invention" and "innovation" are differentiated by the adaptation to the markets and production system. Hjalager (1997) distinguishes two different success criteria, the technical for inventions and the commercial for innovation, and quotes Burgelman that the link between those two concepts lies in the entrepreneurial capability of an individual and/or an organisation. Innovation can be also used to denote minor adaptations of the existing products and services (Hjalager, 2002:465).

Hjalager (1997; 2002; 2010), inspired by Schumpeter's early works, divided innovations into several categories: product or service innovations, process innovations, managerial innovations, management innovations, logistics innovations and institutional innovations. "**Product or service innovations** refer to changes directly observed by the customer and regarded as new (either in the sense of never seen before, or new to particular enterprise or destination). This kind of innovations is perceptible to tourists to such an extent that they may well become factor in the purchase decision" (2010:2). **Process innovations** usually depend on new or improved technology and manifest themselves in the company's better performance, productivity, efficiency and flexibility. Many process innovations in tourism can be accounted to Information and Communication Technology. **Managerial innovations** are preoccupied with collaborative structures "directing and empowering staff, building careers and compensating work with pay and benefits (Ottenbacher & Gnoth, 2005 in Hjalager, 2010:3). **Management innovations** relate to communication and co-operation with different people involved both in the production as well as in the consumption of tourism products. **Logistics innovations** refer to external commercial liaisons and therefore might affect the position of an individual enterprise in the value chain (Hjalager, 2002:466). **Institutional innovations,** on the other hand, represent collaborative and regulatory structures that can foster business through all or some parts of tourism value chain.

Four platforms essential to the understanding of innovations in tourism have been identified by Hall and Williams (2008): the first refers to changes in the organisation of work, leisure time and absolute and relative income distribution, the second is technology, the third recognizes firm behaviour and the fourth platform is placed in the retailing sector (Laws, 2009:935).

3. RELATIONSHIP BETWEEN GROWTH AND INNOVATION IN TOURISM

Tourism generates and is credited with important economic and social effects. The UNWTO exclaims that tourism boosts economies and enterprises, trade and the development, communities and the lives "millions of travellers spending billions of dollars creating millions of jobs – every day enrich the planet and its people" (2006:3). Tourism has been among the fastest growing activities of the world economy for more than 60 years. In the past decades the world economy has undergone significant changes and so has the business of tourism. According to the UNWTO data, "the substantial growth of tourism clearly marks it as one of the most remarkable economic and social phenomena of the past century" (UNWTO 2006). The number of international arrivals shows an evolution from a mere 25 million arrivals in 1950 to 919 million in 2008. Under the impact of worldwide financial crisis and following the economic recession, international tourist arrivals declined by 4.2% in 2009 to 880 million (UNWTO, 2010:2). The fact that growth returned in the last quarter of 2009, after 14 months of negative results is worth pointing out as a proof of relatively fast recovery and adjustments to new circumstances on the tourism market. Furthermore, based on preliminary data collected by UNWTO for some 140 destination countries available at the end of August 2010, international tourist arrivals were estimated to have grown by 7% in the first half of 2010. Speaking in terms of expenditure, international tourism receipts have grown from US $ 2.1 billion in 1950 to US $ 852 billion in 2009. The peak was in 2008 when they reached US $ 941 billion. In absolute terms, international tourism receipts in 2009 decreased by US $ 89 billion. Comparison of the trends in receipts and arrivals shows that the difference between them is fairly narrow. UNWTO claims that "slowdown in receipts in 2009 is mostly linked to the dip in arrivals rather than to reduced expenditure." (2010:4). UNWTO forecasts 1.6 billion of international tourist arrivals by the year 2020. The enormous growth potential of tourism globally offers many opportunities but also poses tremendous challenges (Cole and Rozak, 2009:338).

The question can be raised if there is a correlation between tourism growth and innovation and what the role of tour operating companies is in fostering this growth? Hall and Williams (2008:23) argue that innovation is relational activity. Indeed it is! Naturally, development is always identified by a process or a complex of changes which is logical, or which shows certain rules of development, or at least is regular enough to enable us to come to reasonable or generally valid conclusions. Paraphrasing Pearce (1989), if we start from the belief that, globally speaking, it is possible to view the development of an event from five basic standpoints, or through five basic fields – development as economic growth, as modernisation, as fair distribution, as a socio-economic transformation, and as special reorganisation – it is clear that, in using each of these fields as a criterion for contemplating this issue, there will be different categorisations also in innovations in tourism, and consequently, different interpretations. However, the constant denominator of all mentioned standpoints of development is the process of **change** or a whole **complex of changes.** The fact that tourism is highly dynamic system makes it subject to many changes. To be able to adjust to changes it is necessary to be innovative.

The innovation in the field of organised travel was brought up by skilful entrepreneurs who found a way of organising holiday travel at prices affordable to a large number of consumers, since the concept of the business was set up on economics of scale and an enlarged scope of operations. In a relatively short period of time the new concept of "manufacturing" inclusive tours moved tourism development from being an evolutionary process into a revolutionary process (Čavlek, 2005:119). The key role of tour operators in changing/innovating the previous forms of the tourism phenomenon manifested itself in initiating the mass participation of the so-called middle economic stratum of the population in travelling on holidays abroad and therefore have helped bring about very dynamic changes in tourism demand and supply. Although the business of tour operators started in Europe and has developed mostly in Europe, their influence on international tourism development, especially since the beginning of the 1980s, goes far beyond European borders. The tremendous development of air-passenger traffic and the favourable package holidays offered to consumers by tour operators have undoubtedly caused rapid development in international tourism (Čavlek, 2000a:325).

The correlation between growth and innovation in tourism can also be analysed through the effects of crises. Over the past six decades tourism has passed through many different types of crisis ranging from economic, environmental, political, health related, etc. Crises certainly force at least one positive outcome that already Schumpeter marked as "creative destruction" and the result of this "creative destruction" has led to innovation of business models, organisation structures, and many other positive outcomes.

However, this paper analyses only the following four major issues as drivers of innovation in tourism: tourists themselves, tour operating companies, technology changes and competition.

4. DRIVERS OF INNOVATIONS IN TOURISM

Tourist as drivers of innovation

Tourist preferences as well as interests, values and experiences have changed due to postmodern times. The conceptualization of the tourist experience has been a key research issue since its early days during the 60s (Uriely 2005:199). The literature on the topics including the definitions of the tourist role, typologies, authenticity and postmodern tourism reveals a few developments in research of the tourist phenomenon. As Uriely noticed there has been "a shift from homogenizing portrayals of the tourist as a general type to pluralizing depictions that capture the multiplicity of the experience; and a shifted focus from the displayed objects provided by the industry to the subjective negotiation of meanings as a determinant of the experience" (Uriely, 2005:200). In the early works of tourism theory, tourists had homogenizing portrayals as a general type (Boorstin, 1964; MacCannell, 1973; Turner, 1973) and conceptualizations were not concerned with the variety of meanings and motivations (Uriely, 2005). This notion was challenged by Cohen who among the first to claim that "different kinds of people may desire different modes of tourist experiences" (Cohen 1979:180). He developed a typology of five modes of tourist experiences: recreational, diversionary, experiential, experimental and existential (Cohen 1979:183) and a four-fold tourist typology (drifter, explorer, individual mass and organized mass) which divided tourists in two main groups, noninstitutionalized and institutionalized tourists (Cohen 1972).

Since 1990s the research interest changed towards new issues in tourism reffering to the concerns with levels of carrying capacity and sustainability and types of tourist lifestyle and behaviour experiences (Mazanec et al. 1998). The emergence of typologies marks changes of the tourist experience towards its diverse and plural characteristics.

Recent studies deconstruct well established typologies by stressing the diversity within each of the existing categories. Within the categories there are different, as Wickens calls them, micro-types which has to be identified and examined specifically to the study's particular situation (Wickens, 2002). For example, according to the study of British holidaymakers in Chalkidiki, the individual mass tourist type was further classified into five subtypes in accordance with the dominant motivations: placing the strong emphasis on the local culture, searching for sensual and hedonistic pleasures, whishing for the romantic experience, questing for sunshine and hot climate, and enjoying the familiarity provided in the destination to which they return on an annual basis (Wickens, 2002 in Uriely, 2005:205). Other recent studies point toward the multiplicity of experiences among noninstitutionalized tourists (Uriely et al., 2002).

This simply means that today's tourists are characterized by highly diversified patterns of interest and activities. People have started to expect more from holidays and travelling as they have become a part of lifestyle and a part of human culture. What has changed in the evolution of tourism is the fact that experience has become a nucleus of holidays. It has become more important for tourists to contemplate HOW to spend unforgettable holiday than WHERE to spend it (Čavlek, 2000b:301). Tourists demand products which are fuller in content and richer in quality, regardless of location of tourism destination. This is exactly why tourists are seen as one of the major drivers of innovations in tourism since they force innovations throughout the whole value chain.

Tour Operators as drivers of innovation

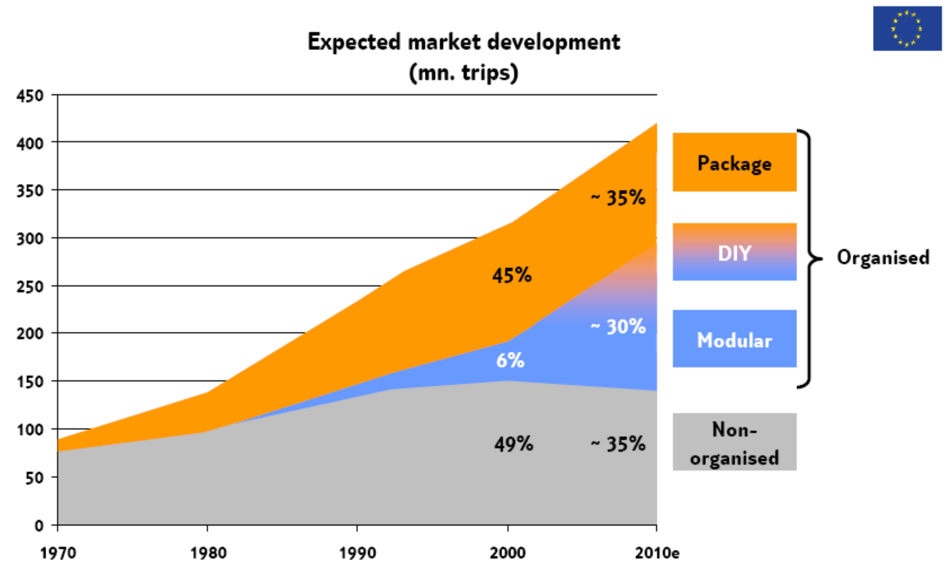
Tourism has become a big business, and is nowadays increasingly controlled by big business. Just as the world economy has undergone radical changes in the past six decades, so has the business of tourism. The majority of tourism theoreticians who analyse international tourism development since 1950 claim that the main feature of these movements is their mass character (Cooper et al. 2008; Goeldner et al., 2000). Since nobody denies the fact that tour operators have become a synonym for mass tourism, a conclusion could be drown that such an exceptionally high growth in international tourist arrivals can largely be attributed to the flourishing of the tour operating business in the leading European tourism generating markets. Indeed, tour operators, more than any other entity, have helped to move tourism from being a luxury item into a commodity and towards being a necessity (Čavlek, 2005:119). This has resulted in the process of restructuring of international tourism traffic in favour of tour operators who have been strongly directing international flows towards destinations of their choice.

Since tour operating companies are market-oriented companies their major drivers of innovations are customers/tourists and competition. To survive in a competitive market tour operators are constantly trying to find new ways of reducing costs, to increase productivity and to gain market power. Despite the predictions made by so-called tourism "experts" that travel agencies and tour operators will disappear from the market, and with them cheap package holidays, the practice of travel and tourism intermediaries, and market analyses (MORI, Reiseanlyse, Worldtravel Monitor) prove quite the opposite. How can this be explained?

Speaking in terms of "mass market", package holidays of 1970's and 1980's were standardised with fixed itineraries, inflexible dates and limited options, i.e. they produced their products according to similar pattern, from the means of travel, the time, manner and site of the holiday, to various holiday activities. As international tourism environment is vast, companies involved in tourism business must change and adapt their strategic development plan respecting the movements on the global tourism market more than companies involved in other sectors (Čavlek, 2002:40). Even before the turn of the new millennium market share of mass packages has reached the stage of saturation and in the years that followed other types of packaged tours started to emerge. What has kept the holiday products of tour operators at the centre of international demand is, to name just some, the ability of tour operators to adapt to the changing need of tourism demand, the ability to innovate and create new products, to introduce flexible package holidays that respect more the individual wishes of tourists, to change their organisational structure, to innovate marketing strategies, etc.

Tour operators started to customise products - moving from standardised to customised and tailor-made experience. Contemporary market requests flexibility, customisation, unique and special experiences that are characterized as "Dynamic", independent, custom packages. These structural changes are illustrated on the graph 1.

Graph 1. Structural Changes in Organised Tourism Travel



Source: Thies Rheinsberg, Ensuring the Competitiveness of Destinations, presentation at the UNWTO Conference, Budapaest, 7th Feb. 2007.

The market analyses lead to conclusion that organised travel will not disappear from the market due to innovations in ICT and an increase in individual travel and direct bookings. On the contrary! Without going into deeper elaboration of such market behaviour, just the main reason might be mentioned here and this is the safety and security risk. Tour operators are considered liable both for the non-performance or improper performance of the services involved and for physical injury of their clients if this could be in any way linked to their negligence, or even to their service providers (Perez and East, 1991). Therefore, tour operators are protecting their clients during their travel and while on holiday. On the other hand, if problem occurs to somebody who travels on his/her own, he/she remains on his/her own.

Since tour operating companies are profit led companies, and at the same time their net-profit margins are very low, they are constantly searching for innovations that should result with higher profit margins. This has led to tremendous structural change on tourism market. Consolidation process across Europe has become the main mega trend in Europ's travel distribution. The result of horizontal and vertical integrations is already visible in less fragmented marketplace, innovative products/services, innovative organisational structures, competitive cost advantages, new business models, innovative marketing strategies, etc. Even a superficial analysis of tour operators' offer on the leading tourism generating markets leads to conclusion that tourism offer has never been wider, that prices are more competitive than ever, and that customer protection has become a competitive advantage. Research in the field of consolidation processes proved that the process also helped tour operators to increase their negotiating and purchasing power and to dictate their business terms to their business partners both in generating as well as in receiving tourism markets - not vice versa (Čavlek, 2002:46).

Above mentioned changes can best be illustrated by the example of two European largest tour operating companies that are now part of huge leisure travel concerns called TUI Travel PLC and Thomas Cook PLC.

Table 1. Comparison of two largest tour operating companies in Europe

TUI	**Thomas Cook**
No. 1 in the world	No. 2 in the world
30 mill. customers	19 mill. customers
Present on 20 markets	In 17 countries
Over 80 TO brands	33 TO brands
Cca. 4.000 retail shops	cca. 3,000 retail shops
37 incoming agencies	-
Cca 160 aircraft	97 aircraft
157.000 hotel beds	80 hotels

Source: TUI Travel PLC- www.tui.com i Thomas Cook PLC, www.thomascook.com, 15.10. 2010

The product portfolio of the leading leisure travel concerns consists of the mainstream sector, which refers to classic tour operating business that still accounts for 80% of its business, followed by the specialist sector offering exclusive products with the strong local brands, the activity sector that offers lifestyle products with market-leading brands, and the online destination sector which cares for online accommodation and services at destinations.

Such organisational structure enables clients to choose from a wide range of products: flights, accommodation, transfers, car-hire, excursions, entertainment and similar (TUI, 2010). However, the innovation is not dominantly in mentioned core components of the product, but in added value and expertise that integrated leisure travel concern provides to clients. Flexibility for clients is enabled through self selection of individual components, through self selection of components that clients package themselves (dynamic packaging), through specially created package holiday according to clients unique requests (tailor-made holidays). Flexibility ranges from traditional standardised packages to exclusive differentiated holidays. Moreover, a very important part of flexibility for the clients is also provided within the buying process. ICT has enabled innovations in this domain as well by offering clients to choose opportunities for online purchases of tour operators' products, through call centre or by using the traditional retail network.

It could be concluded that innovations in tour operating business appear in four areas that have become their strategic imperatives:

- Product and content – from strictly standardised to differentiated and specialised products that ensure a new form of tourism experience
- Distribution and brands – implementing direct distribution and creating a strong brand portfolio
- Business model and people – using synergy of established tourism value chain (innovations resulting in efficiency improvement, improvement in capacity management, leadership and structure)
- Growth and capital allocation – innovation in acquisition programme, implementation of yield management in tour operating business.

Technology as driver of innovation

Some argue that the main area of change and innovation in tourism concerns the use of information and communication technologies (ICT) (OECD, 2004). Poon (1993) rightly pointed out that ICT allows more flexible and segmented holiday which are cost-competitive with standardised package-holidays. "Since the 1980-ies, ICTs have been transforming tourism globally" (Buhalis & Law, 2008:609). Development of ICTs has undoubtedly changed business practices and strategies as well as industry structures (Porter, 2001), and has significantly influenced all aspects of business, especially the distribution channels. "Different distribution channels are known to have their own strengths and weaknesses in delivering various types of services or products" (Huang, Chen & Wu, 2000:734). The appearance and development of Internet as distribution channel has significantly influenced traditional distribution channels in tourism. Tour operators and travel agents were forced to carry out constant changes and implementation of new technologies in order to improve their business, keep their position on the market and to satisfy tourism demand. On the other hand, the ignorance of ICTs and avoidance of their implementation in all aspects of business has created negative impacts and increased competitive advantage of competition. According to Buhalis (1998; 2003), there are also a few ITs facilitated factors on the demand side, which enhance consumer satisfaction, namely: consumers have more information and enjoy a greater choice; the reduction of bureaucracy and paperwork effectively frees time for customer service; customizing the product and establishing "one-to-one" marketing by using intelligence collected by loyalty schemes; providing new services, entertainment, office facilities and information; facilitating operational tasks; personalized services; better integration of departments and functions of organizations towards better service. It is also important to mention that IT covers entire tourism value chain and supports tourism networks, clusters, etc (OECD, 2004). "The choice of a cluster approach is justified by the fact that this can be one of the best tools available in fostering economic growth and tourism development" (Novelli, Schmitz & Spencer, 2006:1143).

Competition as driver of innovation

One of the main characteristics of contemporary tourism is the harsh competition between tourism destinations, not only within the particular tourism region to which the destination belongs to, but even more so at the global level. Deregulation of air traffic and the emergence of low-cost carriers has radically changed the strategies of both airline companies and tourism destinations. This has allowed new destinations to become fiercely price competitors in relation to traditional destinations.

In the century of strong competition and constant changes, several important trends can be identified. With the process of globalisation, generating markets have become highly concentrated and dominated by global players. Another important trend is that demand is rising at slower rate than supply, especially in Mediterranean destinations. Knowels and Curtis (1999) have classified destinations in three generations. The first generation European mass tourist resorts include destinations developed in the north of continent, while the second generation includes high density tourist areas that emerged in the Mediterranean in the 1960s. The third generation includes mass market resorts that emerged in 1980s, mostly situated in the developing world. According to Knowels and Curtis (1999), the second generation destinations have shorter life-cycle, about 30 years, which means that they have come to the end and that they have to find a strategy to survive, which is not the case with the first and the third generation destinations. Mass tourism, which has been the key orientation of the second generation destinations, "requires the shifting of large volumes in order to work, with quality and differentiation being sacrificed for low prices" (Knowels & Curtis, 1999:90), which is not possible in the future. Tourists have become more and more demanding and unsatisfied with mass tourism offer, which has lead to negative growth in tourist arrivals in destinations like Greece and Tunisia in 2009. A destination should act as an "experience provider" and be innovative in order to attract tourists and to be different from competition. "Knowledge transfer is a key element in the innovation process" (Weidenfeld, Williams & Butler, 2010:605).

"The greater our knowledge on the trends underpinning tourism development is, the greater is the capacity of destination managers and tourism operators to formulate strategies to achieve competitive advantage for their organizations" (Dwyer, Edwards, Mistilis, Roman & Scott, 2009:63). Destinations should also be aware of the fact that the more unique they are, and thus they can become more appealing to visitors. However, still a large number of tourism destinations have a very similar tourism product – that of sun, sea and sand formula which drives to conclusion that on the global tourism market there are still more imitations than innovations in tourism because of the lack of trust and fear of change. Competition on the global level will increasingly force tourism destinations to innovations. They will seek for tourism products with specific profile that will make them recognisable on the market and less able to be substituted by competitive products.

5. CONCLUSION

Despite the scepticism expressed in the past about tourism's ability to be innovative, there is a growing evidence of innovation in tourism. The analysis of the drivers of innovation in tourism clearly demonstrates that due to the internationalisation of business in tourism, strong competition on tourism markets and constantly changing needs of tourism demand, tourism is a highly dynamic system that requires all parts of its value chain to adapt constantly. Since changes lead to innovations, innovations in products, processes and in applications of the ICT, innovations have become like a routine for tourism companies. However, where there is still much to be done it is the tourism destinations. Since destinations with matured holiday products or those with a poor "value for money ratios" do not seem appealing to experienced travellers, destinations will increasingly be pressured to offer products appropriate to diverse and plural characteristics and expectations of tourists, which means to deliver a unique experience.

As the business practice of tour operators has proved, tour operators cannot diversify their products without the involvement of the destinations themselves. Therefore it is in the interest of both sides to foster innovation, diversification and specialisation. Tourism is and will remain one of the main ways to assure prosperity in Europe in the next decades. If Croatia wants to participate in this process, it has to streamline its goals towards innovation, offer value advantage to tourists and add value rather than give discounts. It is necessary to find new ways to confront challenges. Innovations will be crucial in producing and delivering quality experience. In the future tourists will stay in control, technology will remain the key factor and package holidays will not disappear but will re-appear in innovative forms.

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