

**OECD Conference on Innovation and Growth in Tourism**  
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**INTRODUCTION TO THE PROCEEDINGS**

Tourism makes an important and increasing contribution to economic growth and accounts for about 30% of international trade in services in the OECD area. It also represents one of the best opportunities to create income and employment for countries at various stages of development. The growth of tourism, however, cannot be taken for granted.

New forms of tourism are emerging in the place of traditional tourism, including more innovative, specialized, “greener”, customized and experience-oriented forms. Moreover, the expansion of tourism demand, as well as demographic changes (*e.g.* ageing populations), accelerate the segmentation of tourism products and the creation of new types of tourism products.

A main area of change and innovation in tourism concerns the use of information and communication technologies (ICT). The diffusion of ICT in the tourism industry enables consumers to interact directly with tourism providers. For the industry, this might lead to a reduction of transaction costs, leading to a process of disintermediation. Major basic innovations, *e.g.* in transportation, have also largely influenced the growth of the tourism industry.

Governments are reviewing the implications of these new industry practices for their tourism policy initiatives and actions. The primary objective for governments is to ensure that their policy and actions support and encourage innovations that contribute to further development of the tourism industry.

**Dynamics of innovation in the tourism industry**

Innovation in tourism brings new ideas, services and products to the marketplace. Encompassing the whole tourism value chain, innovation does not only mean adapting the tourism industry to the changing tourism patterns with new marketing strategies, but also fostering new and innovative services, products and processes. Innovation in tourism is to be seen as a permanent, global and dynamic process.

***Changing tourism patterns***

New tourism is often defined as a type of tourism segmented and customised to the tourist’s needs. In contrast, old tourism could be, to some extent, characterised as “mass, standardised and rigidly packaged”. New tourism practices are linked to factors such as changing demographics, lifestyles, and holiday and work patterns.

One of the significant changes in the travel marketplace comes from tourists themselves. They increasingly seek tailor-made experiences. Today, the economics of tourism allows suppliers to deal more effectively with the increasing complexity and diversity of consumer requirements. New

technologies allow for flexible and segmented vacations, which are cost-competitive with mass, standardized holidays (Poon, 1993).

Demographic changes are also significantly influencing the tourism industry's future. For example, in many OECD countries, the population is ageing. Senior travellers are playing an increasing role in shaping tourism activity. Moreover, studies indicate that on average, seniors are spending more money than other travellers. However, to draw all the benefits from the senior market, the tourism industry is in need of innovation.

Policy makers and entrepreneurs need to make continuous efforts by launching innovative and flexible strategies according to the changes of the demand in order to survive in global competition.

### ***Changing structure: an engine for innovation***

The tourism industry is largely dominated by small and medium sized enterprises (SMEs). To survive in an increasingly competitive and global environment, tourism enterprises, small ones in particular, have to achieve economies of scale and scope in order to reduce transaction costs, increase productivity and gain market power. Restructuring and co-operation mechanisms help enterprises to adapt to changes and increase their competitiveness.

The forms of restructuring in tourism are very diverse. They include horizontal and vertical integration, but also many flexible structures that encourage product, marketing and organisational innovation. For example, the rapid consolidation of important travel agencies and tour operating networks (*e.g.* TUI and Thomas Cook in Germany or Kuoni in Switzerland) has increased their purchasing power to negotiate with their trade partners and given them a larger dimension, allowing them to invest in research and development and to innovate.

Looking at the aviation sector, the emergence of new airline economics and low-cost air carriers in almost all regions of the world has accelerated the restructuring process of the industry. To a large extent, low-cost air carriers can be seen as a new and successful business model. So-called traditional air carriers have already modified some of their economics, products and services to compete with this new offer. Within the constraints of the international regulatory system, the aviation sector has never been more open or liberal, cheaper, safer, technologically efficient and more universally available and diverse in its history.

More generally, new business opportunities linked to technological change, regulatory reform, market liberalisation and the continuing expansion of tourism will play an important role in the innovation process. Likewise, in other industries, benefits arising from economies of scale and scope will continue to be a major driving force in both the restructuring of the tourism industry and innovation.

### ***Fostering new services and innovative tourism products***

The tourism product is distinct from other industrial products. It displays specific characteristics (*e.g.* simultaneity of production and consumption, it involves the active participation of the consumer, it involves large capital assets such as airlines, hotel chains or car rental firms, etc.) which often pose constraints (*e.g.* cannot be stored) or problems (*e.g.* low profitability) and hence serve as a stepping stone for increasing the value of products through innovation.

A challenge for the industry is therefore to offer new products and services that increase the overall profitability of the sector and further develop the attractiveness and competitiveness of the

destination and/or enterprise, notably by better responding to changing tourism demand. For example, a diversified portfolio of products can be a sensible risk management strategy for destinations or large enterprises. Such a policy extends beyond simply diversifying clients. It also requires a wide range of quality products to cater for the diversity of consumer needs and their propensity to change. “Experience-based tourism”, sustainable tourism and cultural/heritage tourism are some of the strategies that are at the origin of many innovative tourism products today.

Experience-based tourism emerges from the interaction between tourists and destinations. Tourists’ overall experience is composed of numerous small encounters with a variety of people working in the tourism industry. The creation and production of new tourism experiences can be seen as an important innovation.

Increased consumer awareness of environmental issues stimulates tourism businesses to innovate and improve their environmental performance, both in the interaction of tourists with the environment, and in their own environmental performance. In this area, the major products in which innovation can be found are in niche market areas such as eco-tourism and adventure tourism.

Cultural tourism is also a significant and growing sector, attracting relatively affluent and educated visitors. Several countries have undertaken a repositioning of their cultural services and are developing innovations aiming to valorise culture, diversify tourism in the country and increase the length of stays through, for example, better packaging and promotion of available cultural experiences and events. Spanish paradors - a viable infrastructure of multi hotel place products - are an interesting best practice in practical use of culture and heritage in Europe.

### ***Improving the performance of tourism enterprises through process innovation***

The tourism industry has always been very proactive regarding the adoption of new technologies (*e.g.* global distribution systems). Recent advances in telecommunications, networking, databases, data processing and electronic marketing provide many new opportunities for tourism business and are significantly impacting on traditional tourism business models. The use of information and communications technology (ICT) adds value to tourism services and products and supports the development of industry networks and clusters. ICT covers the whole tourism value chain (*e.g.* information on destinations, accommodation, transportation, package tours and services) and displays the actual process and availability of such services.

The wide adoption of ICT in the tourism industry is transforming the role played by tourism actors such as travel agents, tour operators, conference organizers, booking agents, etc. On the one hand, ICT systems provide detailed up-to-date information on the availability and prices of products and contribute to increase sales volume and profits. On the other hand, broad use of the Internet facilitates the direct communication between producers (*e.g.* hoteliers, air carriers) and consumers, putting into question the role to be played by some travel intermediaries. The application of ICT in the tourism industry inevitably leads to a process of disintermediation and contributes to industry restructuring and innovation.

Consumers are becoming increasingly familiar with the use of ICT in their tourism arrangements. They seek flexible, specialized and easily accessible products and would like to communicate directly with tourism producers. Therefore, tourism enterprises inevitably need to adopt innovative methods to enhance their competitiveness. To take advantage of this ICT revolution, entrepreneurs need to re-engineer the entire marketing process of the industry (Buhalis, 1998).

Internet technology offers enterprises and consumers great potential for on-line direct business. ICT is changing the way travel and tourism services are distributed and is also increasing efficiency, quality and flexibility in the marketing and distribution of tourism products and services. While e-tourism remains rather marginal in total tourism turnover for the time being, Internet travel sites demonstrate some of the highest on-line sales performance. Internet distribution of travel and tourism products can generate substantial cost reduction advantages for providers of tourism services but also for consumers. The Internet represents a practical tool for providing the consumer with all the up-to-date tourist information on the destination.

For the economy as a whole, there is no doubt that travel and tourism contribute largely to transform internet into economic growth by creating innovative and profitable e-business tourism models.

### **Developing policy instruments for tourism innovation**

A real challenge for national tourism administrations concerns the most effective way to develop and implement policy instruments supporting tourism innovation without interfering with market dynamics. Country practices tend to indicate that governments should let the market do as much as possible and only intervene when market failures occur. They should let innovating firms achieve economies of scope and seek innovation through co-operative alliances and other forms of networking. The discussion at the Lugano conference highlighted that a most successful and promising vehicle for innovation in tourism industry can be achieved through co-operation, alliances and/or networks in areas such as technology, marketing, distribution, and human resource sharing.

### ***Facilitating networks for innovation of tourism enterprises and destinations***

Several branches of the tourism industry (*e.g.* airlines, hotel chains, tour operators or car rental agencies) are highly concentrated and act as global players. However, small and medium-sized enterprises (SMEs) still constitute the bulk of the tourism industry. Slowing of demand, the emergence of new destinations, globalisation and the progressive deregulation of some sectors have significantly increased competition in all parts of the tourism industry. In tourism, these market conditions enhance process innovation (networking, reservation and yield management systems, etc.) as opposed to product innovation, which can be easily imitated by rival competitors (Weiermair *et al.*, 2002).

To survive in such global competition, tourism firms should try to enter into competition that is constructive rather than destructive. While the former would make the pie bigger, broaden the product platform and finally gain successful product differentiation and innovation for world-class products, the latter would keep firms competing for the same slice of the pie and result in product convergence and price wars. It is therefore important that tourism entrepreneurs know how to co-operate with each other in order for there to be constructive competition.

Tourism entrepreneurs, particularly small ones, are more sensitive to competition from their partners than to the benefits of working together. The conference highlighted that, in the future, the competitive advantages of firms will not be determined primarily by the efficiency of production factors used, but by their ability to exploit available resources in the network/cluster (grouping of firms) in which entrepreneurs operate. In the realm of tourism, a distinction can be made between geographical networks/clusters and activity-based networks/clusters (such as “green” tourism, wine-country tourism, etc.). Networks/clusters can play a major role in the capacity of operators to innovate (*e.g.* lower experimentation costs, increased visibility and better responsiveness to shifting demand).

Innovation in the tourism industry relies as much on co-operation and networks as in other service industries. Co-operation among policy makers and entrepreneurs is also one of the key factors for the constant growth of the tourism industry. While the business sector plays the main role in establishing networks, governments are responsible for the development of infrastructure that enables better co-operation and supports market networks.

### ***Tourism innovation: a new centre of interest and action for OECD governments***

Many OECD countries are concerned by the innovation process of tourism enterprises. Rather few, however, have launched specific policy instruments.

Switzerland has developed an innovation programme called “Innotour”. This programme provides initial assistance for the implementation of innovations on a one-off basis, support for innovation sharing among companies, support for training and education, and support for selective research and development. Its primary aim is to create a competitive climate conducive to innovation.

In November 2003, the Australian government released the Tourism White Paper, “A Medium to Long-Term Strategy for Tourism”, to help develop a sustainable Australian tourism industry and better position it against future shocks by making it more robust and flexible. To enhance innovation and technological development in the tourism sector, the White Paper provides a basis for partnership between the federal, state and territory governments and industry, and encourages the latter to improve the quality of tourism products as well as environmentally and culturally sustainable tourism business practices.

In France, the state plays an important indirect and direct role in supporting tourism innovation. In particular, it contributes to improving the quality and quantity of training provision. The *Agence française de l'ingénierie touristique* also undertakes some specific support actions for product and process innovations.

Discussions at the conference illustrated that there is room for public action in innovation, notably to remove a number of blockages. Particular issues were highlighted, *i.e.* it would be desirable to:

- Improve the internal dynamics of innovation in tourism by pushing firms to adopt a more proactive attitude towards innovation, notably through a shift from simple technology watch to economic intelligence.
- Improve the efficiency of national innovation systems: improve the training of operators and staff, develop the role of public and private agents, and stimulate research (*e.g.* create a genuine multidisciplinary network).
- Improve incentive systems for operators and employees. The extent to which governments can help the business sector become more innovative may be limited. However, they can create favourable framework conditions and encourage business to enhance productivity through innovation.
- Maintain the coherence of the tourism industry and its linkage with society as a whole. It is not possible to consider innovation in tourism without acknowledging the need to mobilise the local population.

Altogether, the role of governments should be reduced to that of facilitators, coaches or incubation partners who turn prototype developments over to the private sector as soon as innovation activities have been carried out.

## **Conclusions**

The tourism industry is changing, driven notably by new consumer requirements and information technologies. A new tourism is emerging - one which takes into account the complexity and segmentation of tourism demand; the greater flexibility of supply, distribution and consumption; and the search for new sources of profitability in the industry.

Tourism entrepreneurs have realized that innovation is becoming a key element to survive and compete in a dynamic and radically changing environment. As for policy decision makers, the aim is to encourage all partners (*e.g.* regions, municipalities and the business community) to co-operate more proactively. So far, it appears that co-operation in tourism is not sufficient, notably in SMEs. For governments, this means that an innovative tourism policy has to promote coherence and synergy.

## **References**

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