

INNOVATION PROCESS IN CANADIAN AND US HOTELS

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ABSTRACT

This study explores the innovation (NSD) process in hotels. We review the existing NSD models and investigate if they explain the innovation process in hotels both in Canada and the US. Six new services are identified and examined closely. Based on the results we find distinct differences in the innovation process in hotels from other service industries and propose an activity based innovation process model for hotels. The study also attempts to understand if the development process is an informal or a formal one and reveals that it is as much systematic as it is creative. The study provides a guideline for managers to adopt, in implementing an NSD process.

INTRODUCTION

The innovation and new product development literature is rich with numerous studies spanning the last four decades. However, the attention has always been on the manufacturing sector. Studies of the same in the service sector to date are sparse (Stevens and Dimitriadis, 2005; Alam and Perry, 2002; Edvardsson and Olsson, 1996; de Brentani, 1993). It is now recognized that the service sector is clearly growing at an explosive rate, particularly in comparison to manufacturing (Atuahene-Gima, 1996) and that it accounts for 70% of the GNP and of the employment in most developed countries (Stevens and Dimitriadis 2005).

Furthermore, the value of innovation has been clearly recognized as a vital strategic tool for competitive advantage (Bowers 1989) making a study of the new service development (NSD) process of major importance for both academics and practitioners.

Tourism is considered a core service industry and has become one of the major international trade categories. The export income generated by international tourism ranks fourth; after fuels, chemicals and automotive products. From 1950 to 2007, international tourist arrivals grew from 25 million to 903 million according to the UNWTO 2008 edition of tourism highlights report. The global hotel, restaurants and leisure industry generated total revenues of \$2.3 trillion in 2007 according to the Datamonitor industry market research (2008)

The overall export income generated by these arrivals (international tourism receipts and passengers transport) grew at a similar pace, outgrowing the world economy, exceeding US\$ 1 trillion in 2007, or almost US\$ 3 billion a day. North America accounts for 95.3 million international travelers (UNWTO, 2008). According to the Canadian Tourism Commission's 2007 annual report the total tourism revenue in 2007 reached \$70.2 billion for Canada. Hotels and lodging plays a pivotal part in the tourism industry we find it necessary to study the sector from the innovation perspective. Of the studies to date in service innovation process the emphasis has been mostly on the financial sector. Given the turbulent nature of the industry (Ottenbacher and Gnoth, 2005) the firms in the industry are continuously forced to innovate in all aspects of operation.

This study reviews the existing models that explain the NSD process (NSD Process and Innovation process are used interchangeably in this study) and applies the two models that Alam and Perry (2002)

propose based on case studies of twelve financial institutions to hotels. The case study methodology is used to ascertain the transferability of either model to hotels.

In this study we briefly discuss the existing new service development models followed by the methodology. We then discuss the NSD case study in two independent hotels one in Canada and the other in the United States, leading to the NSD model. In the last section we provide conclusions and managerial implications.

LITERATURE REVIEW AND EXISTING MODELS

Some attempts have been made to develop a NSD model (Bowers, 1989; Scheuing and Johnson, 1989) based on the product development format (Booz et al., 1982) and its subsequent application to the hospitality industry (Jones 1995; 1996).

Bowers proposed a normative model of new service development with eight distinct stages, namely; (1) Develop a Business Strategy, (2) Develop a New Service Strategy, (3) Idea Generation, (4) Concept Development and Evaluation, (5) Business Analysis, (6) Service Development and Evaluation, (7) Market Testing and (8) Commercialization.

The empirical study based on banks, hospitals and insurance companies, concludes that the responding firms in the study tend not to engage in formalized idea generation (stage 3), market testing (stage 7) or product development and testing as outlined by Booz *et al.*, (1982). The study suggests that service organizations employ a process of new service development that is not open to market influences and concludes that the path to developing better new products lies in a systematic process of NSD that is sensitive to external changes and incorporates consumer reaction and criticism.

Table 1: Scheuing and Johnson Model

Formulation	Objectives and Strategy Structure Idea Generation And Screening
Development	Concept development Concept testing Business analysis Project Authorization
Testing	Product or service design testing Process and system design testing Marketing-program and design testing
Evaluation	Personnel training Product or service testing Test-marketing Launch Post Launch review

Scheuing and Johnson's 15 step innovation process for NSD.

Scheuing and Johnson (1989) proposed a 15-step innovation process for NSD (Table 1) and their study of the financial sector revealed NSD was undeveloped and unsystematic (Scheuing and Johnson 1989).

Jones (1995) also observes that the NSD was undeveloped and unsystematic when he tested the model on the flight catering sector. Subsequently he applied the same model to the hospitality industry, studying four cases. He recommends the 15-step process be used as a checklist rather than a script. He also concludes that the innovation process is unsystematic in general and least systematic for smaller firms in the hospitality industry. The choice of firms in the study - although part of the hospitality industry - does not fall into the lodging industry, namely hotels.

The literature presents another model, that is cyclic in nature, (Johnson et al., 2000), represented in Table 2, describing the NSD sequence that identifies four broad stages and 13 tasks that must be conducted to launch a new service as well as the components of the organization, which are involved in the process.

Table2 : NSD Cyclic Model (Johnson *et al.* 2000)

STAGES	TASKS
Design	Formulation of new services objectives/strategy Idea generation
Analysis	Concept development and testing Business analysis Project authorization
Development	Service design and testing Process & system design & testing Marketing program design and testing Personnel training
Full Launch	Service testing and pilot run Test marketing Full-scale launch Post-launch review

Cyclic NSD model that identifies four broad stages and 13 tasks that are to be conducted to launch a new service.

Some academics (Menor *et al.* 2002) observe that the NSD process cycle represents a progression of planning, analysis and execution activities and that the cyclic nature is meant to suggest the highly iterative and non-linear process typically employed in most NSD efforts. In their study of new service development and proposing new research opportunities the authors opine that the NSD process cycle recognizes the fundamental NSD stages revolve around the design and configuration of service concept elements and that resources such as development teams and tools play an enabling function in the development process.

Alam and Perry (2002) in their study argue the need for customer interaction in the NSD process and proceed to develop NSD models for new financial service development that included various stages in the NSD process. Based on twelve case studies in the financial sector the authors suggest two models applicable for small and large firms.

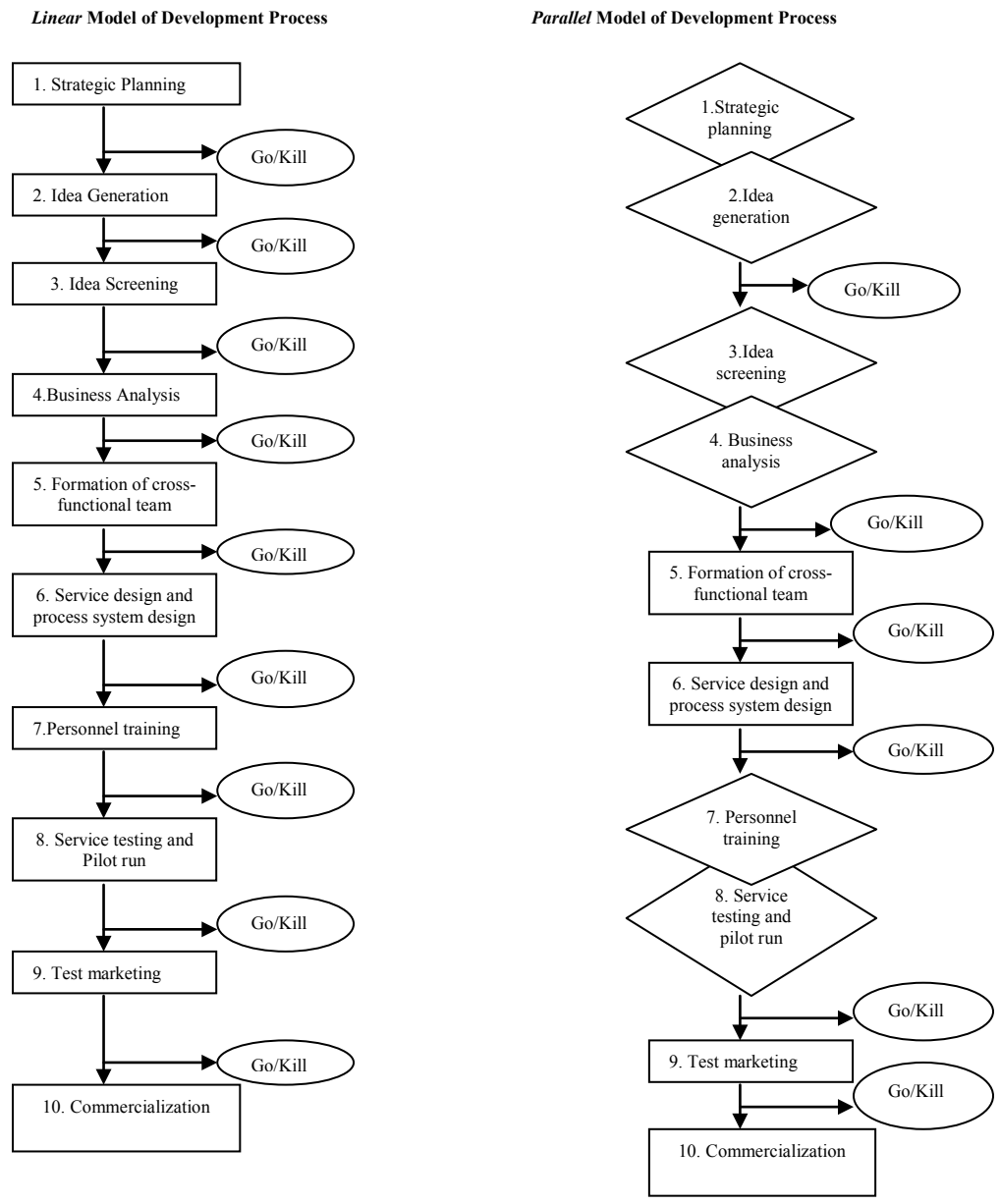
The models (Figure 1) identify ten stages with one being linear and containing some concurrent stages. The authors refer to the two models evident in the literature – both the eight-stage model (Bower, 1989) and the 15-stage model (Scheuing and Johnson, 1989) – and observe that the ten stages they report are found in one form or another in the existing service development studies.

Our search has not revealed the application of any of the aforementioned models in the context of hotels. It appears that there is limited research in new service development process in hotels. The purpose of this study is to explore the NSD process with an objective to identify the activities involved in the development of new service in independent hotels. The study will also ascertain if the innovation process is systematic or creative in nature. We are also motivated to learn if the process amongst different size hotels in Canada and the United States. We adopt the case study approach to understand the process.

DATA AND METHODOLOGY

Given that there is a dearth of material in this field and with no grounded theory to date to which we can refer to; leads us to employ the qualitative technique. Academics (Westgren and Zering 1998) draw on Yin’s (1994) argument that case research and survey methods are better suited than other techniques for analyzing contemporary events. Westgren and Zering (1998) opine that case research is superior to survey methods at answering the “whys” and the “hows” because case analysis can delve more deeply into motivations and actions than structured surveys.

Figure 1: Two Models of New Service



Rectangle box: sequential stages; diamond box: overlapping/ parallel stage
 Source: Alam and Perry (2002) p525

As decision making and initiative is invariably from senior managers we used the “elite” interview method to understand the process. All interviews were recorded and transcribed. For our Canadian hotel we identified an independent resort style hotel with conference and convention facilities that was recognized and rated by the CAA (Canadian Automobile Association) in a major Canadian metropolitan city. The criteria for our selection were also based on, independence of property from any chain affiliation, introduction of new services in the past three years and the willingness of key executives to provide detailed information regarding the NSD process.

The property has an average daily rate (ADR) of C\$99.00, 88 rooms with one restaurant and convention facilities to accommodate 150 guests. The restaurant offers fine dining and Canadian Heritage Cuisine. Our first round of interviews was to identify the new services that were introduced in the past three years. Our primary contact was with the Director Sales and Marketing (DSM). After a detailed discussion with the DSM and the Director Food and Beverage (DFB) we learnt of three new services that were introduced at the Canadian Hotel and Resort. All three services (Table 3) were introduced after the DFB joined the property 3 years earlier. Detailed discussions led to clear identification of the services and an overview of the activities taken during the NSD process.

The second hotel of our study is located in a major city in the US. The property is styled as a hotel and spa with 234 rooms with an ADR of US\$132 (printed rates US \$179- \$189). The hotel has one restaurant and a conference center with a capacity of 250 people and three breakout rooms. The hotel also has a nine-hole golf course. It is independently owned, with a management company operating it. The restaurant offers fine dining with a wide selection of wine. We conducted our interview with the DSM who had first hand information for most of the services. Our initial interview was conducted over the phone and we were able to identify three new services that were introduced in the past three years.

In our second round of interviews we gathered information using a structured questionnaire and open-ended questions. We outlined all possible NSD process steps (fifteen) identified in the literature with detailed explanation of each, as defined by Scheuing and Johnson (1989) in their study and asked key executives to indicate the steps taken for each new service. We chose to employ all the 15 steps to ensure the list was exhaustive. We also sought the sequence of steps taken and comments regarding activities for each step. One key open-ended question we asked was if any of the steps were taken concurrently. Following this, we prepared a schematic representation of the NSD process based on the information received and discussed the steps in our third round of interviews with the key executives. We discussed each step and once the key executives were satisfied of the exact representation of the process we concluded our fieldwork.

With the US hotel we had asked for blueprints, memos, and any other relevant information relating to the development of the new services during our phone interview. The DSM was able to gather all relevant information for all three services. She was prepared with description, facts and figures related to the three services. She had gathered all relevant information from various sources to provide a complete picture of the innovation process. During the interview, she was able to call other members of management involved in the innovation process for clarification. At one point, another member of management joined the interview and provided us with some data. We did not conduct a third round interview with the US hotel as we were able to show a schematic representation of the NSD process, sometime after the interview, based on the information we received.

RESULTS

Table 3 represents the new services that were introduced at the two properties. We have also indicated the time taken from idea to launch as well as the level of success as determined by the managers. We were not able to collect any figures on the costs associated with the new services at the Canadian Hotel and resort as the hotel did not maintain exact records of expenses directly associated with each new service.

Canadian Hotel and Resort

Dinner and Dance: The dinner and dance with live music was an extension of the earlier version the hotel had only during summer on their patio. The idea was to introduce a service that would be available throughout the year and cater to a niche market. The hotel's primary research indicated a need for an exclusive dance club for the 40-65 year old age group. No testing of the concept was necessary as such, as

the hotel felt it had correctly identified a market and could exclusively cater to them. One senior manager informed “we went about it instinctively, we knew it would work”. They then contracted a local singer with his own radio program who had a 50,000 plus listening audience that were of the identified target group. Part of the agreement with the entertainer was that he would promote the dinner-dance offering of the hotel on his show. Once the business analysis was completed the Director Food and Beverage (DFB) who was leading the effort took authorization from the GM. Operational details of the service including the delivery process, menus (sit down dinner), appropriate selection of wine were worked out. Staffs were provided with training, particularly on wine as this was an item that they would have to sell during the evening. The entire process was then tested. Appropriate marketing strategies were outlined and implemented, including offering free dinners, gift vouchers, etc. on the entertainer’s radio show. Guests and clients were invited to experience the evening as guest of the General Manager and Director Food and

Table 3: The New Services Offered

The New Service	Description	Department Responsible	Time from Idea to Launch	Level of Success
1. Dinner and Dance with live music, well known performer in the city (1).	Fixed dinner menu, live band, celebrated local singer, Friday and Sunday nights. 150 seating capacity with additional 100 patio seating in summer.	Food and Beverage (F&B)	18 months	- increased revenue in F&B - enhanced image - market awareness
2. La Bodega Restaurant	Fine Dining and Canadian Heritage Cuisine (CHC) with largest contingent of Canadian wine	Food and Beverage	10 weeks	-VQA award -Increase in rating by CAA (in process) - created public awareness in CHC and Canadian products - recognition and support from government - increased revenue
3. Gondola Rides	Rides on the historic Rideau River	Front Office and Administration (Gondolas outsourced from local firm)	6 months	- greater guest appreciation - added feature to resort style property
4. Spa (2)	Convert 10 rooms to install a spa	Spearheaded by GM with support from owner, Sales and Marketing actively involved.	2 years	-After the first year, increased revenue. -Increase in ADR from \$126 to \$132 - Increase in demand, needs to add two more treatment rooms. -Improvement in overall image -Occupancy rate increased from 59% to 65%
5. Wireless	Introduce wireless connection service throughout the hotel.	IT	6 months	-Improved service for guests - Met guests’ requirements in keeping with current standard hotel service
6. Website Optimization	Improve the hotel website to include online reservation and offer online store to sell hotel gift cards.	Sales& Marketing	6 months	Online reservation increased by 27%

Table represents a snapshot of the various services offered at the two hotels.. (1)Services 1-3 were introduced at the Canadian Hotel and Resort (2)Services 4-6 were introduced at the US hotel and Spa

Beverage. When satisfied with all aspects of the service it was launched. The service is continuously reviewed based on sales data and feedback from guests.

La Bodega La Bodega in Spanish means “Wine Cellar” and the idea generated at the time of introducing the Dinner and Dance concept when the hotel was introducing fine cuisine. The idea was to convert the existing cellar to a restaurant that would offer a large selection of wine complemented with Canadian

Heritage Cuisine (CHC). CHC is defined as consisting of all foodstuff of Canadian origin. The DFB while searching for a Master Sommelier to train the staff learnt about a government grant that provided free training for promoting Canadian products in the Tourism industry. This also led to including 65% of over 100 different types of wine to be of Canadian origin.

The initial screening of the new service was simply a discussion with other senior members of management. The site for the restaurant required renovation in keeping with the style and theme of the restaurant. Staff received training from the Executive Chef for the food, delivery process and such as well as from the Master Sommelier on wine. Prior to officially launching the restaurant a pilot run was conducted by offering the service to local elite and guests to experience the full concept.

Gondola Rides: The hotel is located along the banks of the Rideau River on five acres of land and the management thought it appropriate to introduce Gondola rides. It is the only hotel in the city that offers this service. A local company was contracted to provide the Gondolas and the hotel built a dock as well as implemented a system of making reservations and ensuring a smooth operation of the service for the guests. The service was not to generate revenue but to maintain the image of a resort that the hotel identified itself with. The service was offered on the hotel's webpage and promotional materials were developed for in-house guests. The service was first offered when the hotel held a reception to celebrate the 15th anniversary.

US Hotel and Spa

Spa: The area in which the hotel is located is considered an upscale area of the city with a number of spas catering to the needs of the locals. The owners conducted extensive market research, conducted over eighteen months, on spas in the area and the findings suggested an additional revenue stream should they introduce it in the hotel. Thus, they converted ten rooms on the second floor to construct the spa. The hotel hired a spa director who was an expert in the field, the general manager took the lead on the project and the DSM was actively involved throughout the process. Construction took about four months and it took a total of two years from the time of conception till launch. In terms of "killing" the project that was a possibility after the business analysis was conducted. However, after further review and analysis of the figures and with the financial support secured from the bank the project was revived. During the process they have sought feedback from their employees, customers, senior members of management and their family members at different stages of the innovation process. The hotel went on a "phone blitz" to reach customers to introduce the service. They also targeted their customers with advertising and promotion on both electronic and print media. Billboards were strategically placed to ensure visibility. The introduction of the spa resulted in changing the name of the hotel from a "Lodge" to a "Hotel and Spa". The post launch review is an ongoing process and they are currently considering adding two more treatment rooms. The DSM attributes the increase in ADR from US\$126 to US\$132 and the increase in occupancy rate from 59% to 65% to the introduction of the spa. The initial cost estimate was US\$750,000 and eventually they had spent US\$1.5 million. First year revenue was about US\$ 0.5 million and by the third year, revenue increased to US\$650,000.

Wireless: In keeping with the times and the need for guests to stay "connected" the hotel felt it was necessary to introduce wireless connection throughout the property. "It is one of the new services that was never a No-Go, although the business analysis stage is when we would normally decide if we are to continue, shelve for now or discontinue" states the DSM. It cost the hotel US\$46,000 to introduce the service and fully installed in six months. The wireless service was added phase wise to each floor and took six to eight weeks to complete all rooms. Thus no full scale launch as such was conducted. The service was available as soon as the installation in the area was complete. The service provider selected in a major company catering to hotels all over the United States. In order to provide better service the guests

could call a 1-800 number to reach customer support to ensure quality service with the wireless connection.

Website Optimization: In their bid to offer new services in keeping with current guests' needs the hotel thought it necessary to improve the website. The website optimization was introduced to provide easier access to reservation. The online reservation option has led to an increase of over 27% in bookings. The website also introduced an option for guests to buy gift cards that were redeemable for any service the hotel provides. The DSM was the lead member of management for this service. The website was included in all marketing and promotional materials, including prominent mention on the hotel's radio advertisements.

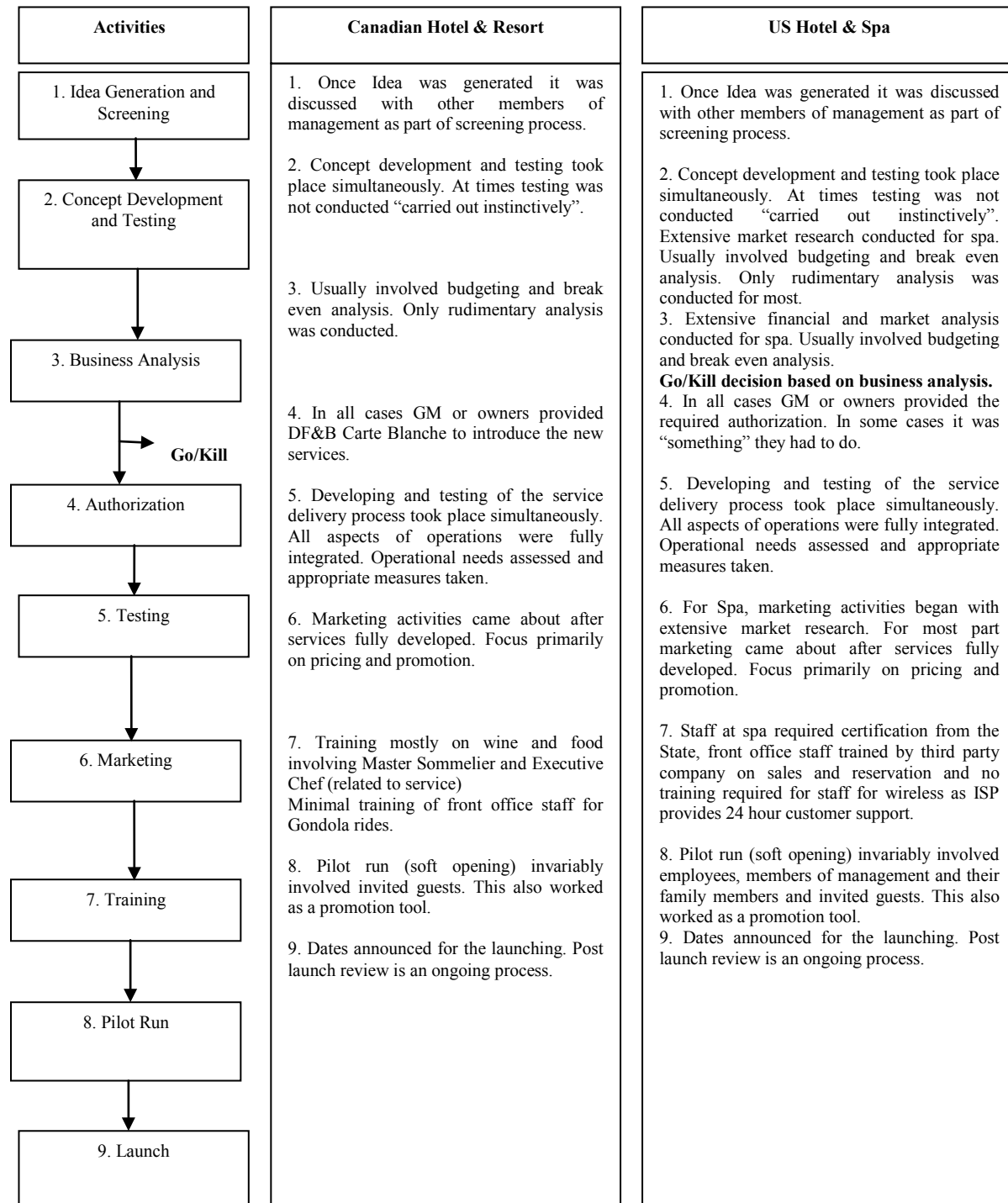
Resulting Model of NSD

In all cases it was pointed out to us that the strategic planning stage is part of the overall hotel strategy. The distinct stage from which the service development process began was with the idea. In all these cases the ideas were generated by the members of management. It was also pointed out that the initial idea screening, which consisted of brainstorming with other members of management, took place at the same time and was almost inseparable from the idea generation. The testing of the concept was not necessary according to the managers as they went about it instinctively. Business analysis consisted of some basic and rudimentary calculations such as approximate overhead cost and breakeven. The only deviation from that was with the introduction of the spa at the US hotel where extensive financial and market analysis was conducted. This was necessary as it involved a substantial amount of investment and essential for securing bank financing. Authorization came from the General Manager or owners of the property. It is at this stage that the "Go/Kill" decision is made. There was a possibility of "killing" the spa project had the business analysis suggested poor ROI. Design of the delivery system was not in any formal format. Most of it took place in the form of verbal communication and interoffice memorandums. For the marketing strategy, pricing and promotion strategies were the main focus. Competitive pricing was used for the spa at the US Hotel and price of entrée at La Bodega ranged from \$19 to \$36. Promotion at the US hotel entailed print and electronic advertising, telemarketing and billboards. The hotel's website was included in all marketing and promotional materials, including prominent mention on the hotel's radio advertisements.

At the Canadian hotel promotion involved in-house advertising for all services, outside signage as property was on a major road in the city. Dinner dance was also promoted through Entertainer on his radio show. The pilot runs akin to "soft opening" were also used as a promotional tool as clients, elite of the society and loyal guests were entertained by senior members of management. After launch the sales and guest comments are tracked and continuously reviewed.

As one senior manager, in the beginning of the interview emphasized, NSD to be an instinctive and creative process we asked at the end of our interview how they felt about the process we had outlined. They were of the opinion the process was just as much systematic as it was creative. The steps identified are more activities than stages that were carried out in the overall operation of the hotel. The only critical point when the project is "killed" is if the authorization is not approved. One argument for the steps that were identified in the NSD process was that it was just the normal course of operation in the hotel that they never labeled in the past. Figure 2 below provides the activities that took place in the development of new services in the hotels we investigated.

Figure 2: Activity Based Innovation Process in Hotels



The figure maps the activities that took place from idea to launch of a new service.

MANAGERIAL IMPLICATIONS AND CONCLUSION

Although this study is subject to further testing and refinement, it does however, have implications for the managers. Hoteliers may find this systematic process of new service development to yield better results,

remain competitive and be recognized as an innovative property in the market. Implementation of a NSD process will motivate and aid the manager to periodically introduce new services. The activities outlined here are a guideline for managers to adopt. It can be used as a checklist when developing a new service.

This study investigates only two hotels, both independently owned and of varying sizes. However, with the six new services that they launched we were able to explore the innovation process. Our findings suggest that NSD process is both a combination of structured steps as well as one that involves a creative process. Although we are unable to generalize the findings based on our study, we find distinct differences in the NSD in hotels from other service industries. We have used both the linear and parallel models to compare and understand, and find that they are not transferable. Although some steps were taken simultaneously we find the activities involved were more or less linear in approach. We also find the “go/kill” decision as only a one time critical decision. Thus, once the new service idea and concept is approved it is seen to fruition. The only exception is when the investment for the new service is substantial and may require financing as was evident in the introduction of the spa. The study reveals that the pilot run is also a means to promote the new service. Clients are selected and invited based on loyalty and prospective business value to sample the new services. The study also reveals that the process is the same for both Canadian and US hotels and that the size or class of the property did not have an effect. Although this study does not investigate a sizeable sample to generalize the results we find that this exploratory study has provided us with some insights to further test our findings on other hotels of varying size and class, leading to an acceptable NSD process model. This suggests that further studies be conducted on a larger sample to fully understand the innovation process in hotels. Further research could also be conducted to ascertain the success of the new services.

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