Uncovering Innovation Processes
In the Hotel Industry

Written by:
Gareth Shaw, AIM Innovation Fellow, University of Exeter Business School
Allan M Williams, AIM Innovation Fellow, Surrey Tourism Research Centre, University of Surrey
Adrian Bailey, Senior Lecturer in Management, University of Exeter Business School
The Advanced Institute of Management Research (AIM) develops UK-based world-class management research. AIM seeks to identify ways to enhance the competitiveness of the UK economy and its infrastructure through research into management and organisational performance in both the private and public sectors.

Acknowledgements
We would like to acknowledge the help given by the project steering group, namely: Mr David Battersby (Best Practice), Mr Martin Couchman (BHA), Mr Danny Pecorelli (Exclusive Hotels), Mr Miles Quest (BHA) from the meeting we had in London. Along with Anna Paraskevopoulou, Eugenia Markova, Heather Makin and Paul Cleave for collecting some of the information. In addition our thanks go to the following organisations for their help: BHA, HALM, Institute of Hospitality, Visit London, Albatross Tours, Google, Profile Recruitment, Revenue by Design, Xn Hotels, Avvio, RateTiger, TravelCLICK, City Inn, Red Carnation, Millennium/Copthorne, NiteNite, Exclusive Hotels, CityEcoHotel, Travelodge, Wyndham Hotel Group, Probooker, Thistle.

Written by:
Gareth Shaw, AIM Innovation Fellow, University of Exeter Business School
Allan M Williams, AIM Innovation Fellow, Surrey Tourism Research Centre, University of Surrey
Adrian Bailey, Senior Lecturer in Management, University of Exeter Business School
AIM consists of:

■ Over 300 AIM Fellows and Scholars – all leading academics in their fields…
■ Working in cooperation with leading international academics and specialists as well as UK policymakers and business leaders…
■ Undertaking a wide range of collaborative research projects on management…
■ Disseminating ideas and shared learning through publications, reports, workshops and events…
■ Fostering new ways of working more effectively with managers and policymakers…
■ To enhance UK competitiveness and productivity.

AIM’s Objectives

Our mission is to significantly increase the contribution of and future capacity for world class UK management research.

Our more specific objectives are to:

■ Conduct research that will identify actions to enhance the UK’s international competitiveness
■ Raise the quality and international standing of UK research on management
■ Expand the size and capacity of the active UK research base on management
■ Engage with practitioners and other users of research within and beyond the UK as co-producers of knowledge about management
Current AIM research projects focus on:

**UK productivity and performance for the 21st century.**
How can UK policymakers evaluate and address concerns surrounding the UK’s performance in relation to other countries?
National productivity has been the concern of economists, government policymakers, and corporate decision-makers for some time. Further research by scholars from a range of disciplines is bringing new voices to the debates about how the productivity gap can be measured, and what the UK can do to improve the effectiveness of UK industry and its supporting public services.

**Sustaining innovation to achieve competitive advantage and high quality public services.**
How can UK managers capture the benefits of innovation while meeting other demands of a competitive and social environment?
Innovation is a key source of competitive advantage and public value through new strategies, products, services and organisational processes. The UK has outstanding exemplars of innovative private and public sector organisations and is investing significantly in its science and skills base to underpin future innovative capacity.

**Adapting promising practices to enhance performance across varied organisational contexts.**
How can UK managers disseminate their experience whilst learning from others?
Improved management practices are identified as important for enhancing productivity and performance. The main focus is on how evidence behind good or promising practices can be systematically assessed, creatively adapted, successfully implemented and knowledge diffused to other organisations that will benefit.
The hotel industry and consumer services innovation

The hotel industry is a valuable contributor to the UK economy. Over 10,000 businesses are engaged in the UK hotel industry which contributes some £18bn to the UK economy. Despite this, however, official measures, such as the UK innovation Survey (UKIS), part of the EU Community Innovation Survey (CIS), present the hotel industry as having very little engagement with all types of innovations.

Our research findings suggest the reality is somewhat different. Few industry sectors could contribute to the economy in this way unless they were highly innovative. The UK hotels sector is no exception. We set out to detail the types of innovation involved in the sector. The report draws on evidence collected from an ESRC-AIM Research project on internationalisation, and innovation in the hotel industry, and highlights the dynamics of the UK hotel industry in terms of its role as a global, lead innovator.

Innovation in large hotel organisations

A variety of types of innovation were associated with major hotel chains:

**New organisational models:** Examples of business model innovation included the asset light sale and lease back strategy, and also the branded budget hotel segment, one of the most dynamic and competitive parts of the UK market.

**Creative design and format changes:** A key innovation by large hotel organisations is format innovation, particularly the growth of branded hotels, and also variations in the budget hotel form, including the low cost microtel.

**Design led innovation:** The primary example of design led innovation is the luxury boutique hotel. Branded boutiques may be created by various strategies whether entrepreneurial leadership, or changes in organisational structure.

**Integration, shared services, and value chain innovation:** Hotel management have used innovative IT approaches to facilitate an improved customer experience through broader systems integration. This type of innovation impacts the wider value chain as it is often outsourced to a range of IT solution providers and experts. Knowledge intensive firms, whether hotel spin-offs or technology start-ups have a significant innovation input in the form of outsourced services provision.

**Knowledge networks and learning environments:** The best innovators in the hotel industry are usually those firms that have the greatest capacity for organisational learning and the exploitation of relevant knowledge networks. This may involve both the movement of experienced professionals throughout the industry and the leveraging of business networks.

**The process of co-creation of value:** Through hi-tech solutions such as hotel room R&D laboratories, or the gathering of customer ideas and feedback through social networking and internet interaction, hotels are looking to engage in conversations with stakeholders. Although our research did suggest that firms could do more in this area of innovation.
Innovation processes in small and medium sized hotels

Our research also reveals that small and medium sized firms, from small independent budget hotels to up-market country house hotels, innovate to varying degrees.

**Environmental innovation:** One particular area of innovation revealed by the survey was in the environmental elements of hotel operations. Good examples include recycling products, and water and energy conservation, whether that is using energy efficient bulbs, or installing solar panels.

**Format changes:** Format changes are an area of innovation, the most important being the rise of the country house hotel and boutique hotel as a riposte to the homogeneity of big hotel chain brands. The growth in country spa hotels, associated with health and well-being and hotels built on the reputation of fine dining and excellent restaurants is another important trend.

**Information technology:** With small hotels much of the innovation in IT has been about making similar types of innovation as the larger hotel business are receiving available to the small hotels, usually at considerably less cost.

**Impacting on small firm innovation**

A range of factors were shown by the research to have an impact on small hotel innovation, either positively or negatively. These factors included: firm size, as it tends to correlate with resource availability; hotel owner and manager motivation, in particular whether running a hotel was a lifestyle choice; proximity to customers, notably with respect to co-creation of value; quality – higher quality hotels have a greater propensity to innovate; ownership, career paths, and human capital, the broader and deeper the relevant pool of knowledge and experience the greater the innovation; competitive environment, the tougher the competition the greater the need to innovate.

Our evidence also suggests that both the larger hotels and smaller hotels can learn from each other with respect to innovation. Large corporations tend to be leaders in respect of systems, processes, back of house investment in IT, and how the business might be marketed. Small businesses are often best learning how hotels respond to customer needs and providing more personalised services.
Research shows that there are significant differences between the innovation model in consumer services and that in manufacturing.

Innovation in consumer services – the hotel industry

Although it is widely recognised that innovation is critical to the competitiveness and success of businesses in the UK economy, with regards to the service sector innovation has traditionally been neglected, certainly in terms of both official statistical measures and at a policy level. This is particularly true of consumer services, including the hotel industry, where there has been a lack of interest by policymakers in examining the scope and importance of service innovations.

Possibly the lack of interest stems from the hotel industry being associated with: weak intellectual property rights regimes; the outsourcing of key technological processes; an emphasis on rather intangible offerings; and the poor image that consumer services have compared with manufacturing with respect to innovation and economic growth.

The hotel industry is a particularly interesting case. It is undoubtedly important to the UK economy, yet little has been written with respect to innovation in this sector. The official measurement of innovation in consumer services, such as the hotel industry does the industry no favours. The UK innovation Survey (UKIS), part of the EU Community Innovation Survey (CIS), presents the hotel industry as one with very little engagement with all types of innovations. Innovation activity recorded by the survey shows hotels as having one of the lowest levels of innovation – just 39% of firms reporting some form of innovation. Add to that the very low-levels of R&D and employee qualifications, highlighted by survey data, and it is not an encouraging picture.

We believe, however, that the UK hotel industry is highly innovative and, furthermore, sets an example to many other service industries in the way that innovates in some areas. Research shows that there are significant differences between the innovation model in consumer services and that in manufacturing. Unfortunately, the UKIS fails to uncover some of the hidden innovations within the hotel industry. And there are other frameworks that can be used to analyse innovation in the hotel industry that provide very different results.

The National Endowment for Science, Technology and the Arts (NESTA) identifies types of hidden service innovation as innovation based on new organisational forms or business models, innovation based on the novel use of combinations of existing technologies and processes, and small-scale, locally based innovations.
The use of open innovation in the hotel industry is also not well recognised. By open innovation we refer to three main processes, namely: the outside-in process; the inside-out process; and the coupled process.

The outside-in process is where companies add to their knowledge through the external sourcing of knowledge, via suppliers and/or customers, increasing the importance of innovation networks – of critical importance in the hotel industry.

The inside-out process embraces the idea of making money by bringing ideas to the marketplace, transferring innovation to other companies. This occurs in organisations that supply hotels, particularly with IT solutions, and often impacts on the hotel industry, directly or indirectly. In both cases their impacts are shaped by whether the hotel is open to fresh ideas and can absorb such knowledge.

The coupled process involves the co-production of innovations with complementary partners often through joint ventures. Joint ventures are not that typical in the hotel industry, however, the coupled process does occur through complementary partners co-producing innovation.

Our report highlights the dynamics of the UK hotel industry in terms of its role as a global, lead innovator. In doing so it draws on evidence collected from a recent ESRC-AIM Research project on internationalisation and innovation in the hotel industry, using information provided by senior hotel management staff during numerous interviews.
The importance of the UK hotel industry

The scale and value of the hotel industry in the UK is difficult to measure accurately due to a lack of reliable statistics. However various estimates put the value of the industry around £15.2bn in 2005 derived from almost 34,000 establishments.

Work on behalf of the British Hospitality Association estimates the value of the hospitality industry to the UK economy at approximately £46bn, and directly contributing some 2.44m jobs. Of course hotels form only part of the hospitality industry and in this context are probably worth between £16-18bn (2010) to UK plc.

The industry is competitive and dynamic. It has a polarised structure with many small enterprises, but also some large global corporations with significant assets. Parts of the industry have seen considerable growth, the most dynamic being branded, budget hotels which have grown by more than 35% between 2008-2011, adding some 20,000 rooms.

Numbers of UK VAT and/or PAYE-Based Enterprises Engaged in the Operation of Hotels by Turnover (Number and %, 2008)

<table>
<thead>
<tr>
<th>Turnover (£000)</th>
<th>No. of Enterprises</th>
<th>2008</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-49</td>
<td>535</td>
<td>490</td>
<td>5.2</td>
</tr>
<tr>
<td>50-99</td>
<td>1,400</td>
<td>1,450</td>
<td>13.7</td>
</tr>
<tr>
<td>100-249</td>
<td>2,840</td>
<td>2,475</td>
<td>27.9</td>
</tr>
<tr>
<td>250-499</td>
<td>2,050</td>
<td>1,820</td>
<td>20.1</td>
</tr>
<tr>
<td>500-999</td>
<td>1,530</td>
<td>1,450</td>
<td>15.0</td>
</tr>
<tr>
<td>1,000-4,999</td>
<td>1,495</td>
<td>1,575</td>
<td>14.7</td>
</tr>
<tr>
<td>5,000+</td>
<td>345</td>
<td>375</td>
<td>3.4</td>
</tr>
<tr>
<td>Total</td>
<td>10,195</td>
<td>9,635</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Keynote 2009 and Keynote 2011
### Top ten companies by turnover 2009/10

<table>
<thead>
<tr>
<th>Company name and third year sales £m</th>
<th>Profit Margin (%)</th>
<th>Asset Utilisation</th>
<th>Total Debt/Net Worth</th>
<th>Sales Growth %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>09/10</td>
<td>07/08</td>
<td>09/10</td>
<td>07/08</td>
</tr>
<tr>
<td>Report Averages</td>
<td>3.6</td>
<td>12.9</td>
<td>0.27</td>
<td>0.30</td>
</tr>
<tr>
<td>Millennium and Copthorne Hotels Plc</td>
<td>12.5</td>
<td>23.5</td>
<td>0.24</td>
<td>0.28</td>
</tr>
<tr>
<td>Premier Inn</td>
<td>503.2</td>
<td></td>
<td>0.20</td>
<td></td>
</tr>
<tr>
<td>Endell Group Holdings</td>
<td>-34.2</td>
<td>-25.9</td>
<td>0.37</td>
<td>0.30</td>
</tr>
<tr>
<td>Travelodge Hotels</td>
<td>-5.2</td>
<td>-1.2</td>
<td>0.32</td>
<td>0.28</td>
</tr>
<tr>
<td>QMH</td>
<td>250.7</td>
<td></td>
<td>0.26</td>
<td>0.26</td>
</tr>
<tr>
<td>Dorchester Group</td>
<td>243.4</td>
<td></td>
<td>0.26</td>
<td>0.26</td>
</tr>
<tr>
<td>Guoman Hotels Holidays</td>
<td>-4.7</td>
<td>0.4</td>
<td>0.26</td>
<td>0.26</td>
</tr>
<tr>
<td>Accor UK Business and LSR Hotels</td>
<td>189.1</td>
<td>87.8</td>
<td>0.64</td>
<td>0.57</td>
</tr>
<tr>
<td>LRG Hotels</td>
<td>175.6</td>
<td>24.2</td>
<td>0.13</td>
<td>0.19</td>
</tr>
<tr>
<td>Marriott Hotels</td>
<td>158.4</td>
<td>0.4</td>
<td>9.53</td>
<td>8.37</td>
</tr>
</tbody>
</table>

Source: Keynote 2009
1 New organisational models: innovation and major hotel chains

Most global hotel organisations operate three main business models; franchising, management and ownership. In recent years, however, large hotel organisations have created innovative new organisational business models, which have impacted on their development strategies.

A particularly significant business model innovation is the so-called ‘asset light’ business model, where large hotel chains sell their properties to help fuel expansion plans.

Both the InterContinental Group and Hilton Hotels Corporation have, for example, disposed of many of their properties on a lease-back basis. This separation of the capital-intensive element of hotel operations from the knowledge-based managerial aspects has fuelled the recent global expansion of many hotel brands. For example, Hilton Hotel International’s recent expansion in budget hotels in the UK, and mid-market Hilton Garden Inns across Turkey, owes much to management deals with hotel property development companies.

Property asset disposal by major hotel corporations has also attracted private equity funds; Hilton Hotels was acquired for £10bn by private equity giant Blackstone in 2007, for example. Budget hotel organisation, Travelodge, is owned by the private equity company, Dubai International Capital, the investment arm of the Dubai Government.

Another area of business model innovation is the branded budget hotel segment, one of the most dynamic and competitive parts of the UK market. Initially innovations concerned pricing models, such as the introduction of flexible pricing by Travelodge in 2004. This mirrored low cost airlines by offering a few very substantially discounted rooms as part of mass marketing campaigns.

Whilst the initial business model for the budget hotel was based on a radical innovation that helped transform the hotel market, recent developments in branded budget hotels have been more incremental. This is a case of moving forward in stages and re-using and modifying existing business strategies, as with Travelodge’s IT innovations, for example (see box).
Travelodge: Success based incremental innovation in IT

Initially, budget hotels like Travelodge were highly dependent on telephone bookings based around large centralised call centres. At one time Travelodge employed 300 people in its call centre, with customers making a booking after a 20 minute phone call.

Today over 87% of reservations are web based using Travelodge.co.uk. This was an important innovation that reduced costs. The web system processed between 10-15,000 customers per day with over 100,000 people logging on to the web site, leaving around 40 people at the call centre.

The business plan is not about competing with the traditional hotel industry. Travelodge is price cutting in an effort to fill hotel rooms, in order to build more hotel capacity – so it is growth through expansion based on incremental innovations.

‘We are very clear about where we are in the market – we’re massively in the budget hotel market and what we’re about doing is processing as efficiently as possible the volume transactions.’

Alex Thomson, director of IT Travelodge (interview 2008)

2 Creative designs and hotel innovations

Another key innovation in the hotel industry is format innovation – new organisational forms and hotel types. A recent trend is the growth of branded hotels, which comprise some 12% of the city’s hotel stock, driven by a rapid growth of the budget hotel sector from the mid 1980s, including Travelodge, Holiday Inn Express, Whitbread’s Premier Inns, and Accor’s Ibis.

This trend is the natural progression of an earlier format innovation when limited service franchise chain motels were introduced in North America during the 1970s (e.g. Budget Host, Econo Lodge, Super 8 Motels), it involved re-working the relative values of products and services as perceived by the hotel industry, in a good example of value innovation.

Today the budget format is one of the most significant growth sectors in the UK with a capacity exceeding 50,000 rooms and growing rapidly.

London has seen the development of recent variations in the budget hotel form. This includes, for example, locating the reception area on the second or third floors of the hotel, enabling prime ground level space to be used for retail or office use – which helps to maximise the return on development costs.

An even more significant development is the growth of the microtel. A key driver here is the growth of low cost air travel – creating greater demand for cheap hotel beds, particularly within London itself (e.g. Easy Hotel, The Hoxton and Citizen M). To facilitate this important innovation changes in design and building construction are critical, including the use of pre-fabricated units and radical building techniques, for example.
Design Innovations: Case Study, NiteNite (Birmingham)

NiteNite (opened in 2008) is a micro hotel developed around three interlocking and co-produced innovations. These were driven by the professional background and experience of co-directors Neil Tibbatt and Denis Connolly. Tibbatt was an expert in architectural design for the leisure and hospitality sectors, operating his own consultancy Tibbatt Associates. Connolly was managing director of Capital Invest, an Irish property investment company involved in capital finance projects in UK regional centres. Both of these areas of expertise and interest were used in the design of the hotel.

The three co-produced innovations were:

■ The development of architectural and design solutions to develop the hotel in a difficult urban space – drawing on the expertise of the director’s specialist leisure design company, which worked closely with the hotel organisation.

■ The use of prefabricated bedroom pods, built off-site and designed to represent the feel of a luxury yacht cabin. The pod idea and its construction came from the directors’ interest in luxury yacht design and property development.

■ The development of a business model and marketing campaign based on affordable luxury (this was the least radical of the three innovations).

Innovation is costly and has to be implemented in viable locations and with appropriate financial discipline. Due to problems with servicing over £3m of debt, NiteNite Holdings and its subsidiary NiteNite (Birmingham) Ltd, went into administration in August 2011.

The business failure relates to a combination of factors, notably: a highly leveraged business; operating in a budget sector where adding value is difficult to achieve; a marginal location (i.e. outside London); competition from established businesses that can sustain lower prices for longer periods to win customers; the untimely death of Neil Tibbatt in 2006, just four months after the hotel opened.

The failure of the NiteNite business model, therefore, is primarily related to under capitalisation. With turnover of around £1m the initial innovation will outlive its pioneers. It remains to be seen whether the innovation can be replicated, a feat which will involve the knowledge residing in networks of designers, architects, property developers and manufacturing SMEs being reconstructed.
3 Design led innovation: the boutique hotel

Another format innovation is the boutique hotel, largely pioneered in London and New York, with its emphasis on design alongside specific operating features. In addition to the emphasis on high quality design the boutique hotel is characterised by location (city centres), quality (design-led) uniqueness (again via interior design and layout) and personalised service. Early developments in London focusing on the high end of the market, such as The Sanderson and The Hempel, have given way to more mainstream and affordable offerings via branded hotels. Two prominent brands are the Hotel du Vin and Malmaison.

One of the first luxury boutique hotels was at The Blakes Hotel, Kensington. It was developed in the late 1970s by Anouska Hempel, who combined celebrity fame and avant-garde interior design in a format unparalleled in its creative approach to shaping customer experience. Other hotels followed during the 1980s, and by the late 2000s many major chains had developed boutique brands including: Starwood Hotels and Resorts – Le Meridien and ‘W’; InterContinental Hotels Group – Indigo; Hilton – Denizen; and Marriott International Edition by Ian Schrager.

Branded boutiques are achieved by various strategies. Entrepreneurial leadership is one example. At Starwood Hotels, for example, CEO Barry Sternlicht was given the freedom to act entrepreneurially in the creation of ‘W’ boutique hotels. Organisational structure – as Kimpton Hotels developed into a chain, it made restaurant and hotel functions separate operating units accountable to the parent organisation in order to drive continual innovation.

Talent is typically recruited from the fashion, art and design industries to continually reinvent design standards and to keep the brand ‘on trend’. The role of knowledge transfer between firms is vitally important and was exposed recently when Hilton agreed a settlement with Starwood after the latter accused Hilton of industrial espionage.
4 Innovating integration: The shared services revolution

Information technology (IT) is central to enabling hotels to create an improved customer experience – a key competitive differentiator in the hotel industry. Since the internet revolution in the late 1990s, IT has become the most critical facilitator of business model innovation, a resource that acts as a system wide integrator, linking front and back office functions. A wide range of information management systems are now integrated, for example, Central Reservation Systems (CRS), Electronic Point of Sale (ePOS), Property Management Systems (PMS), Customer Relationship Management (CRM) and Revenue Management Systems (RMS).

Systemic integration involves the co-ordination and management of physical assets (e.g. hotel), intangible assets (e.g. brand), structural resources (e.g. organisational structures), action resources (e.g. management processes), operations (e.g. all interlocking economic activities), and external resources (e.g. inter firm linkages). The more integrated hotel functions become, the greater the network externalities that arise to add value to the enterprise and maintain brand equity.

Software is the critical component in systemic network integration. Decisions about which software to adopt are made at different stages of the business cycle. While some large scale hotel chains developed software in-house, outsourcing IT functions is more common.

A firm may retain the option to select ‘best of breed’ solutions and assess the compatibility of different systems internally. Alternatively, it may outsource the strategic task of integrating different systems to a third party, who may have proprietary software, reseller contracts or a mixture of both.

Consequently the UK hotel industry supports a range of IT software solution providers, including many SMEs, while in house solutions help support a range of IT experts, as in the case of Travelodge.
## Types of Innovation Sources

<table>
<thead>
<tr>
<th>Source of Innovation</th>
<th>Level of Internal Support</th>
<th>Case Study</th>
</tr>
</thead>
<tbody>
<tr>
<td>Complete In House R&amp;D</td>
<td>Very Intensive</td>
<td>In 2003, Hilton Hotel Corporation launched a $93m proprietary IT program OnQ, connecting all Hilton brands globally. With an annual IT budget of over $200m, Hilton has the capacity to develop integrated software solutions in-house. Hilton has since built upon its IT infrastructure to provide customer relationship management (CRM) functions.</td>
</tr>
<tr>
<td>Partial Outsourced R&amp;D</td>
<td>Intensive</td>
<td>InterContinental Hotels Group (IHG) has its own proprietary HOLiDEX® Plus (CRS) and HIRO (RMS). It outsources PMS functions to Micros Fidelio (Micros Opera and Micros OperaXpress) and Brilliant Hotelsoftware (Brilliant PMpro 2-Way Interface). The majority of its franchise properties use these in-house and outsourced systems. IHGs annual IT budget is approximately $200m, less than its main international rivals.</td>
</tr>
<tr>
<td>Complete Outsourced R&amp;D (Multiple Providers)</td>
<td>Moderate</td>
<td>Travelodge outsources key functions to Micros Fidelio (PMS), Pegasus (CRS) and IDeaS (RMS) and TwentySix London (Web Development). Internal hardware support provided by 20-25 Travelodge engineers and retention of expertise to negotiate with suppliers.</td>
</tr>
<tr>
<td>Complete Outsourced R&amp;D (Single Provider)</td>
<td>Low</td>
<td>Barceló Hotels &amp; Resorts outsources key functions to Xn Hotels (PMS, RMS, CRS, ePOS). Xn Hotel Systems Ltd is a global technology services group that provides integrated solutions by combining its own proprietary software with that developed under reseller arrangements with other technology providers.</td>
</tr>
</tbody>
</table>
Yotel: Design and IT innovations

Yotel is a multi-tax, multi-currency, multi-language undertaking that requires sophisticated technology to manage. Yotel launched its first outlet in 2007, a 46-cabin hotel at Gatwick Airport’s South Terminal in London. The cabins are aimed at travellers and can be booked on a four hourly basis. Cabins comprise a double rotating bed, techno walls, pull-down desk, flat-screen TV and Wi-Fi access.

The entrepreneur behind the venture is Yo! Sushi founder Simon Woodroffe, who fused his experience of minimalist fast food service and British Airways first class cabins to create a new hotel offer. The format is visually innovative, but the key innovation is the technology infrastructure used to integrate the different customer facing services and back office functions.

Keith Rochefort at iControl explained that ‘it is the co-relationships with other companies that has made Yotel a success – but this is all pinned together and made possible by the Probooker system’. According to Mark Elford the programmer and co-founder of Probooker “…much of the coding and IT was already available, but it had not been applied to a system like Probooker before’.

Probooker integrates all hotel functions and provides hourly reservation capabilities. It was the capability to book by the hour that helped Probooker win the contract with Yotel, combined with their ability to integrate other functions, giving Yotel the opportunity to incorporate business partners at different stages of the business development cycle.

The Probooker business model is innovative. The company gives away its Probooker hub, but charges for its compatible PMS. For example, the web design for Yotel was carried out by Works Unit who also designed the software for the self-check in kiosks. Integrated by the Probooker Hub, the kiosks provide check-in and check-out, billing, payments and bookings. Each of these functions connect with other functions via the Probooker PMS. The PMS is a partially open architecture and marketed through resellers, who can tailor the software to meet the needs of clients. Reseller agreements mean that an SME can reach a global market, retain control of their intellectual property and yet provide a flexible offer that is adaptable to diverse hotel enterprises.
5 Hotels as knowledge networks and learning environments

Our survey of UK hotels shows that the most successful innovators have the best capacity for learning as organisations. We also discovered numerous examples which emphasised the importance of networking with other organisations via personal contacts.

Two processes seem to be significant. The first is the fluid movement of high level staff within the hotel industry. As these people move from one firm to another, often between hotel organisations, although not exclusively so, they bring with them large amounts of experience and tacit knowledge.

The impact of learned experience leading to innovation can be seen in the example of City Inn, renamed Mint Hotels in 2010. In this instance the knowledge arrived via a number of co-founders with backgrounds in other parts of the hotel industry.

The second process concerns the importance of business networks. In many cases business networks help shape innovations in the hotel industry. In the case of City Inn, for example, it was a combination of the co-founder’s experience of corporate finance in the hotel industry and architectural practice that made that particular hotel development unique.
City Inn (Mint Hotels): Knowledge networks

City Inn is another example of a hotel innovation that requires a new physical form to contain the new ideas shaping the hospitality offer. That great attention has been focused on the architecture shows just how important the physical property is in delivering the guest experience, over and above any consideration of interior design that can be emulated more easily by competitors.

City Inn was conceived in 1995 and opened a first property in Bristol four years later. The company was co-founded by Sandy Orr (Executive Chairman), Donald MacDonald (Vice Chairman) and David Orr (Chief Executive), with Bill Crerar and was set up as a joint venture with the Bank of Scotland (now ‘Uberior Ventures’ an investment arm of Lloyds). In 2003, it opened in Westminster, providing the first new build London hotel (over 450 rooms) since 1983. After opening a second London hotel in 2010, City Inn was rebranded as Mint hotels and in the year ending March 2010 occupancy stood at 71%, with a turnover of £46.6m. The company now has seven four star hotels – two in London and one each in Bristol, Glasgow, Birmingham, Leeds and Manchester.

A long awaited eighth hotel opened in Amsterdam in 2011, leaving Mint hotels with over £400m of debt. Unlike many asset light hotel enterprises, Mint hotels are managed by investor owners. The group was sold to the private equity company Blackstone in September 2011 and will become part of the upscale full service Hilton Double Tree and the midscale Hilton Garden Inn brands.

Business Contacts and Knowledge

City Inn is dependent upon the business contacts, trustworthy reputation, skills, knowledge and experience of its Directors. Co-founders Sandy Orr and Donald MacDonald have a long standing partnership in developing hotels, working together in the 1980s through their corporate finance company ‘MacDonald-Orr’ to bring the Novotel brand to Scotland. Many of the ideas associated with City Inn were prefigured in Novotel, which was developing new build hotels in joint ventures with companies, such as Marriott Hotels in which it held a 20% stake. Novotel was typically involved in new build (e.g. Sheffield, 1989). Orr is a lawyer and MacDonald a chartered accountant, and both have experience in corporate finance and venture capital. One of their early collaborations was in financing the Edinburgh Sheraton and Travel Inn. In 1990, Orr and MacDonald collaborated to found MacDonald Hotels, together with Donald MacDonald (no relation). In 1999, they develop the first MacDonald joint venture new build hotel, financed by the Royal Bank of Scotland. These connections gave birth to City Inn, with both sitting on the MacDonald board of directors until 2004. Add an architect to the City Inn executive team, in the form of Bill Crerar, the architect responsible for the Glasgow Hilton, and you have the explicit and tacit knowledge not only to replicate previous developments, but to improve upon them. Crerar and Orr both grew up in Oban in the West Highlands of Scotland, and together with MacDonald they all studied at the University of Edinburgh.
## City Inn Growth Pattern

<table>
<thead>
<tr>
<th>Property Location</th>
<th>Date</th>
<th>No. rooms</th>
<th>Cost (£m)</th>
<th>Architect(s)</th>
<th>Developer</th>
<th>Other information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bristol</td>
<td>1999</td>
<td>168</td>
<td>6.5</td>
<td></td>
<td>Shepherd</td>
<td></td>
</tr>
<tr>
<td>Glasgow</td>
<td>2000</td>
<td>168</td>
<td>6.5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Birmingham</td>
<td>2001</td>
<td>238</td>
<td>13</td>
<td>Weedon Partnership (Birmingham)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>London Westminster</td>
<td>2003</td>
<td>480</td>
<td>50</td>
<td>Bennetts Associates (London and Edinburgh)</td>
<td>Carillion</td>
<td>Mace (Project Manager); Oscar Faber (Mechanical and Electrical engineer); Blyth &amp; Blyth (Structural Engineer); Gardiner &amp; Theobald is quantity surveyor</td>
</tr>
<tr>
<td>Manchester</td>
<td>2007</td>
<td>284</td>
<td>30</td>
<td>Crerar and Partners (Edinburgh) / Block 9 (Edinburgh)</td>
<td></td>
<td>Gleeds (cost management)</td>
</tr>
<tr>
<td>Leeds</td>
<td>2009</td>
<td>333</td>
<td>–</td>
<td>Allies &amp; Morrison (London)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>London Tower</td>
<td>2010</td>
<td>583</td>
<td>150</td>
<td>Bennetts Associates (London and Edinburgh)</td>
<td>Laing O'Rourke</td>
<td>Buro Four (Project Manager); Frosts Landscape Construction Ltd (Green Roof Consultant); Faber Maunsell (Design Consultancy); Woods Bagot (Interior Design)</td>
</tr>
<tr>
<td>Amsterdam</td>
<td>2011</td>
<td>533</td>
<td>300</td>
<td>Bennetts Associates (London and Edinburgh); BDG Architecten (Amsterdam)</td>
<td>New Chinatown Amsterdam /Rabo Bouwfonds; Strukton Civil Projects</td>
<td>Jenkins + Clarke/Nick Roozen (landscape Design); Faber Maunsell (Design Consultancy)</td>
</tr>
</tbody>
</table>
Our research revealed numerous examples of such knowledge networks leading to an initial thrust of innovation activity in establishing new hotel businesses. These are usually the product of different business partners with either professional or personal links who come from various backgrounds.

Another example of the way networks facilitate the coming together of different expertise and knowledge is the Green House hotel, located on the south coast of England in Bournemouth. The city eco-hotel is, in reality, another variant of the boutique hotel design, but in this case strongly focused around sustainable products and services.

The concept for this eco-boutique hotel arose through a fusion of ideas from the co-directors of the business who worked together in the corporate travel industry, as well as people in their network who were experts in environmental sustainability and interior design. The combination of business backgrounds together with a design business and sustainability background led to a network that co-produced the hotel’s innovation.

6 Working with customers: the process of co-creation

Many business organisations have demonstrated how a deeper understanding of their customers can help with product and service innovation, especially through the co-creation of products and services together with their customers. This is also true of the most successful hotel organisations.

Our survey data revealed a range of examples where such co-creation had occurred. At one extreme, for example, is Hilton Hotels and its technology room. This fully functioning bedroom R&D laboratory, created in 2005, is used to test all the latest innovations, gathering customer feedback to new and emerging technologies. Other hotels have adopted very different strategies, ranging from basic ways of collecting customer reactions from examining social network sites, blogs and twitters, through to much more detailed processes of co-creation.

Increasing attention is paid to word-of-mouth consumer experiences posted on websites such as TripAdvisor, for example, which has the highest ranking social network site for accommodation on the web in the UK. Web 2.0 and social media technology provide the potential for hotels to interact with their customers. Consumers are looking both for conversations with each other, as well as a degree of interaction with, and influence on, the hotel firms.

Our research suggests that there are a number of hotel companies that do not fully appreciate the significance of these technology facilitated opportunities for the co-creation of value.

In one national hotel group, for example, a revenue manager revealed that the hotel group had recently started to look at comments on TripAdvisor, and respond to negative comments. However, the company has not done much more to interact with their TripAdvisor customers other than to send guests who booked via the website an e-mail from the managing director asking for comments. And even this much was regretted in some corners because of the work that it created.
However, our survey did highlight a number of highly innovative hotels who were actively co-creating new products and experiences with customers and other suppliers. For example, one luxury hotel company uses focus groups drawn from key business clients, flying them to Spain to stay in one of the company’s hotels where a facilitated information gathering and discussion process takes place.

Another example of co-creation of the customer experience in action is illustrated by one client, a leading law firm, who expressed some dissatisfaction with the provision of 24 hour rolling coffee breaks requesting that the hotel ‘make it more funky’.

After detailed discussions with the client the hotel management established that funky translated into three key aspects of service: delivering a ‘Starbucks’ experience in the hotel context; flexibility in the timing and delivery of the service; and an element of fun. Management introduced a ‘sweet shop’ personalised for different clients, complemented by the introduction of technology that enabled the delivery of various types of coffee on demand.

It is worth noting that the managers we spoke to did raise one particular challenge to the co-creation of value with customers. It can, managers pointed out, be difficult to maintain elements of surprise that are deemed essential to maintaining customer satisfaction. As one manager said: “We call them critical non-essentials. So it’s those silly little touches that you go away and say ‘oh wow you’ll never guess what’.”

### 7 Innovations in the value chain

Many of the innovations in the hotel sector come from external companies in the value chain. This is certainly the case with technology. UK hotels support a number of knowledge intensive IT companies that have developed special products to service the needs of all types of hotels. These range from software companies specialising in energy saving innovations, through to front desk systems for check-in.

In the age of the internet, hoteliers are increasingly dependent upon outsourcing marketing and management innovation to partners. These partners are knowledge intensive micro firms, providing evidence based results to hotels through the delivery of specialist technical solutions. Direct website sales are the bread and butter of these firms, but they compete with each other through value added services such as bespoke yield management, innovative web marketing and business planning tools.

These knowledge intensive firms tend to originate in two forms. First, there are hotel spin offs, such as eRevMax (see box), which utilise insider knowledge of hotel marketing to recruit technologists who can deliver the services that corporate chains require. And then there are technology start-ups, such as Avvio (see box), which begin with artisan technologists seeking opportunities to generate revenue wherever opportunities arise. Both are equally successful and scalable given the global utility of the services they provide.

These firms are involved in the disintermediation of the first round of internet travel service providers, such as Expedia.com, marketing themselves as giving control back to hotel managers in the critical areas of distribution and revenue management.
Hotel spin offs: eRevMax

Founded by Andrew Mosi, formerly corporate director of revenue management for Intercontinental Hotels Group, eRevMax provides hotels with a more efficient solution to maximising their revenue and maintaining rate parity across marketing channels.

In 2000, manually adjusting rates across online marketing channels was a considerable cost to hoteliers. Mosi left IHG and teamed up with Reuel Ghosh, a software engineer who had produced customised systems for Dow Jones, AT&T and Avis. Incorporated in 2001, eRevMax launched its first Rate Tiger product using XML technology, as part of a business model in which compatible information management modules were developed for integration with existing hotel systems.

With the aim of disrupting existing GDS products and building trust, the modular approach allows hoteliers to experiment with eRevMax at a relatively low entry cost. Perhaps eRevMax’s most innovative aspect was the recognition that new property management systems coming onto the market in the 1990s were regarded as black boxes by hoteliers, i.e. there was little comprehension by management about how to set parameters within these systems, nor how to utilise the information being processed by these systems for business improvement. The technology had produced new capabilities, but there was demand for results based feedback regarding the use of these systems.

The first eRevMax module, RTShopper, is a benchmarking tool for hoteliers providing information about competitors’ rates. Another module, RTAllocator, automatically updates rates across all channels from a central data point.

Technology start ups: Avvio

In August 2001, Frank Reeves and Brian Reeves, experts in software design and engineering management respectively, chanced upon a press release for Jury’s Hotel, which had just launched Ireland’s first hotel booking engine. Although they had no previous experience of the hotel industry they identified areas where they could improve on Jury’s design and then approached the five star Dromoland Castle Hotel to form an informal arrangement to develop a more holistic online marketing solution.

The duo founded Avvio in 2002. Avvio and Dromoland worked together to develop and hone the firm’s services. The firm made a point of using technology that integrates with legacy systems utilised by its client hotels. The business proved rapidly scalable, soon racking up a list of over 700 clients.
innovation processes in small and medium sized hotels

1 Do small firms innovate?

The stereotypical image of the small hotel – seaside lodging houses or small establishments clustered around railway stations – has done little for perceptions of innovation. If anything small hotels are seen as less innovative than their larger counterparts.

The reality is somewhat different, however. The small hotel sector is very heterogeneous. At one extreme, small hotels battle for business with large hotel chains, especially from the growth of budget hotels. Here the logic of ‘innovate to survive’ is very compelling. Elsewhere in the continuum that runs from the low cost, budget end of the market through to the up-market boutique hotels, innovation exists to varying degrees.

Small hotels are essentially a world of incremental innovation – involving small scale changes to processes or the adoption of ideas already in operation at other hotels. This might involve buying off-the-shelf software for property management systems, changing the decor, the breakfast menu or the website and brochure for the hotel.

They are small but essential changes in an industry where competition is intensified by the high degree of homogeneity on the supply side, and where innovation facilitates both cost cutting and product differentiation. Our study of small hotels in London is typical of this sector – a scattering of boutiques, but also a large sector of hotels competing in terms of prices, leading to squeezed margins.
The Green House, Bournemouth

The Green House is a good example of environmental innovations at work in the hotel sector. According to the firm’s website The Green House is the greenest hotel in Britain: ‘So over the past four years we’ve done over 100 things to make sure everything about the hotel has been designed to spoil you without spoiling anything else’ (website, June 2011).

The hotel hopes to show that being conscious of the environment does not mean compromising on luxury, service or style. The interior design incorporates materials sourced from suppliers utilising recycled products, or products from sustainable sources. Wherever possible, the flooring and furniture are made from sustained materials. The development also uses minimal impact materials with low embodied energy. Soft furnishings are sourced within the United Kingdom, from suppliers of natural toxin free fabrics, bedding and towels. Toiletries only contain natural products. Food is locally sourced. Staff are trained in sustainability, and suppliers are assessed against environmental standards.

None of these changes, individually, is new to the sector, but the combination of ‘over 100 things’ does mark the opening of the hotel as a significant innovation.
3 Format changes in small hotels

Not all innovation in the sector is incremental. There are also radical or discontinuous innovations which can reshape the entire sector. One of the most important is a change in the format of some small hotels, with country house hotels and boutique hotels being marketed as an antidote to the homogeneity of big hotel chain brands.

Julia Hands with Hand Picked Hotels (see box) is one of the best known examples, but there are also other small groups like Elite Hotels or Von Essen Hotels. These achieve relatively high rack rates on the back of innovations which have created a counter brand that proclaims they are not one of the big hotel chains.

Hand Picked Hotels

Hand Picked Hotels is a group which has grown rapidly in a relatively short time span. It draws on the heritage of the country house hotel – ‘We feel a responsibility to the cultural heritage of the fine country houses that make up our collection’ (website June 2011) – coupled with the high design content and individualised service of the boutique hotel. Ultimately, though it is about innovation rather than tradition as the firm is combining classical architectural features and antique furniture with modern comforts, fabrics and technology.

There have also been important innovations in country house hotels associated with spas. With their attractive and tranquil rural settings country house hotels fit in with the notion of spas as centres of well-being. Independent hotels such as Gleneagles or Lucknam Park, Clifton have pioneered growth in this area. One notable example is Pennyhill Park in Bagshot: already a relatively small, well known hotel, it has expanded rapidly in recent years as part of the Exclusive group of four hotels. It combines a golf course, tennis and spa facilities with a Michelin starred restaurant.

The establishment of quality restaurants, often based on local produce, is another significant form of innovation, especially in the last decade. Take the example of Le Manoir Aux Quat’Saisons. Established in 1984, Raymond Blanc’s Le Manoir aux Quat’Saisons in Oxfordshire has long been an icon of the country house hotel where reputation is based, in great part, on the quality of its Michelin starred restaurant.

Since its inception, there have been a number of significant innovations. The enhanced marketing of the direct link between its kitchen and its two acre garden represents an innovation that chimes with growing, if still niche, market awareness of organic and locally produced food.
4 Information technology

The area of innovation which has had most widespread impact is, not surprisingly, information technology. The major IT innovations tend to originate in the large hotel groups or their suppliers. Key innovations have helped to make such technologies accessible and affordable to small hotels. For example, Guest Link has produced a cheaper version of a property management suite of systems, which is far more affordable than the earlier versions purchased by the large groups.

Although IT innovations originating in the supply chain have been one of the more important innovations, there are important differences in terms of exactly which IT innovations are being adopted. Our research revealed that some applications, such as the use of web sites for sales, were found in more than 80% of hotels, while others, such as yield management systems, electronic key cards and revenue forecasting were found in less than 40%. The pace of change – much of it imitative and catch up – is remarkable. As one manager of a small hotel in London commented: ‘The most important change is the introduction of the internet and booking online. When we first introduced internet bookings they were 20% of all bookings, now they are 90%’.

Eveve

Eveve is a British software company, founded in 1997. It identified a knowledge and capacity gap in smaller hotels and restaurants designing a lower cost internet booking system, which it sells mainly to independents, small hotels and restaurants. The firm also provides limited on-site training, recognising that a skills shortage can be a major obstacle to innovation.

Tim Ryan, the firm’s CEO, considers the London internet booking market the most competitive in the world, more so than New York or other major cities in Europe. This has contributed to a high rate of innovation, and, in some areas, global leadership, such as with real time booking. Eveve grew its revenue by 800% in 2007, and within this the fastest growing sub sector has been live restaurant bookings, where the share of the market has increased from 3% to 30%.
Facilitators of, and obstacles to, innovation in small firms

The influence of size on innovation can be either positive or negative, depending on what is the more important determinant of innovation capacity – large scale resources and scale economies, or the flexibility of smaller firms, and responsiveness to new niche markets.

Firm size: Most studies of tourism and hotels have found a positive relationship between size and innovation intensity, indicating that the resource poverty of smaller establishments is often a major obstacle to innovation. They may lack the knowledge, finance, and, or managerial capacity required to implement innovation. The lack of investment is particularly significant. Small hotels often operate on the margin and lack the capital for major investments. This constraint may be reinforced by the owner’s motivations – if they are life style entrepreneurs, drawn as much by the location (usually an attractive coastal or rural area) as by the sector.

In addition, effective harvesting, distribution and utilisation of knowledge requires considerable resources, especially if it is to be on-going – and this may not correspond with the personal and business goals of the lifestyle entrepreneur. Even if the owner is committed to growth or enhanced competitiveness, they may become swamped with the daily routines of operational management in a small enterprise.

Although internal resources can be a significant constraint on innovation capacity, to some extent small hotels can compensate for this through reliance on innovation in the supply chain. This does not mean that they are merely passive actors, and recipients of innovation that takes place further down the supply chain.

<table>
<thead>
<tr>
<th>IT usage in the hotel – IT used for…</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hotels’ website (info only)</td>
<td>83</td>
</tr>
<tr>
<td>Own website (booking)</td>
<td>76</td>
</tr>
<tr>
<td>Selling rooms via other websites</td>
<td>84</td>
</tr>
<tr>
<td>Managing reservations</td>
<td>73</td>
</tr>
<tr>
<td>Key cards</td>
<td>37</td>
</tr>
<tr>
<td>Payroll</td>
<td>53</td>
</tr>
<tr>
<td>Room inventory</td>
<td>45</td>
</tr>
<tr>
<td>Storing data on customers</td>
<td>42</td>
</tr>
<tr>
<td>e-marketing</td>
<td>41</td>
</tr>
<tr>
<td>Billing and accounts</td>
<td>61</td>
</tr>
<tr>
<td>Forecasting revenue</td>
<td>39</td>
</tr>
<tr>
<td>Yield management</td>
<td>35</td>
</tr>
</tbody>
</table>

Source: Authors
Their particular requirements can actively instigate innovation among suppliers, as noted earlier in the cases of Eveve. At the very least, even buying in off the shelf innovations from a supplier is likely to involve process innovation through considerable reorganisation of existing practices, and perhaps of the workforce and the premises.

Small firms also have considerable innovation capacity in respect of their potential to harvest the knowledge of customers, due to the immediacy of their contacts with guests. Larger hotels may have greater capacity to distribute, process and analyse paper and electronic surveys of their guests’ experiences, but smaller establishments have comparative advantage in terms of direct, and especially informal and conversational acquisition of knowledge from guests.

As one manager commented: “They [the small companies] talk to their customers and that’s what some of these bigger corporates don’t do directly, they’ll do it through third party marketing consultants, or through other ways or they’ll do it through very clever use possibly of IT... but I think some of the smaller firms just go out and talk to customers. You’ll find a lot, particularly the proprietors of some of the smaller, boutique type of hotels, ...travel the world and go and see what current world class best practice is.”
Managers in smaller hotels often face considerable barriers to developing a strategic role in respect of innovation, because of the operational time constraints they face.

**Quality:** Not surprisingly, research has shown that higher quality hotels, as measured by their star ratings, are more likely to innovate than lower quality hotels. The pursuit of quality as part of improving star ratings requires innovation, which in turn requires resources. The challenge is to turn a vicious circle of innovation constraint into a virtuous circle of facilitation.

**Ownership:** Ownership also shapes hotel innovation. There is some evidence that, although not widespread in smaller hotels, establishments in international ownership tend to have access to a greater range of knowledge than those in domestic ownership. There is a suggestion that operating in a different country requires superior knowledge – the ability to understand a different cultural and institutional context. Hotels which belong to chains, as opposed to independents, have better access to knowledge outside the local operating environment, and are more likely to be innovative. There are exceptions – boutique hotels, for example. Also, if the chains become too large and bureaucratic it can stifle initiative and innovation at the local level.

**Human capital:** Internal resources and especially human capital, entrepreneurship and leadership, play a key role in determining innovation capacity. Especially as personalised knowledge is often one of the main resources in innovation and in competitive advantage. The key decision maker may be a manager/owner, or if these are separate individuals either, or both.

Managers in smaller hotels often face considerable barriers to developing a strategic role in respect of innovation, because of the operational time constraints they face. “We are a small hotel and I work as the manager, I take the bookings, do the accounts, make the orders, cook breakfast, answer the phone. There is also a part time housekeeper from Philippines who cleans the rooms and vacuum cleans the floors. But I also do some cleaning if we are too busy,” said one manager of a central London hotel that we interviewed.

**Career paths and entry routes:** The route the strategic decisions makers, usually owners and senior managers, take into the hotel industry is another factor that impacts innovation performance in terms of knowledge accumulation and potential knowledge transfer.

Career paths are less clearly defined in small hotels than in larger establishments; many managers are owner managers, have inherited a family business, or have moved into hotel management from outside the industry. In smaller hotels, the management structure is more fragmented and career paths tend to be more dependent upon individual initiatives. As a result, the profession attracts individuals from a range of backgrounds with diverse skills and work experiences, which informs their accumulated knowledge and innovation capacity. This diversity is reflected in the heterogeneous approach of small tourism establishments to business planning, service provision, marketing and promotion.
It is also worth noting that migrant entrepreneurs are an important source of knowledge transfer into the industry. Their mobility means that they often bring different types of knowledge and experiences to non-migrants which can be a source of innovation. Migrants account for an estimated 60% to 80% of the hospitality labour force in London, while our study showed that approximately two thirds of managers were also international migrants.

**Labour supply:** Some hotels face labour supply constraints. Hotels, particularly the lower quality end of the small business sector, tend to pay relatively low wages and attract less skilled workers, while also being reluctant to invest in training because of the high level of turnover in the workforce. This can be a major constraint in implementing those innovations that require a highly trained workforce or additional training.

**Competitive environment:** Another constraint, given the importance of sharing knowledge and of co-operation, lies in the intense competition amongst small hotels, particularly those competing mainly on the basis of price – as is typical in seaside resorts, for example.

There is some cooperation, of course, but that is more likely to be with partners further down the supply chain, rather than with other hotels in the same locality. One reason for this is the difficulty of protecting investments in innovations in tourism. They are relatively easily observable and imitated, which breeds a lack of trust in competitor firms. This is one reason why so many collaborations or partnerships that seek to promote an area, or particular types of themed holiday in an area, are often led by the public sector, via local marketing groups or tourist boards.
Trickle down or trickle up: the flow of innovation between large and small hotels

One of the most intriguing questions in relation to hotel innovations is whether these trickle down from large to small hotels, or trickle up from the small to the large establishments. Perhaps inevitably, both large and small hotels prove to be lead innovators, in different areas of innovation.

The large corporations tend to be the leaders in respect of systems, processes, back of house investment in IT, and how the business might be marketed. Small businesses often take the lead in how hotels respond to customer needs and in providing more personalised services.

Innovation in large corporates can be stifled because individual establishments and managers are locked into corporate systems and procedures. They lack the freedom to innovate, and are required to follow the brand standard and company procedures because that is the way that they are line managed and the way their performances are assessed.

In contrast, small hotels have more freedom to explore new innovations, relatively quickly – in short they are more flexible and responsive to new opportunities for innovations. Small businesses have been not only fleet footed in responding to new market opportunities, but also particularly effective at achieving productivity gains.

Not surprisingly, some of the corporate organisations have been quick to try and learn from smaller hotels, either through observation, transfer and imitation, or through acquisition. Hotel du Vin, for example, was founded in Winchester in 1994 by Gerard Basset and Robin Hutson, who had both previously worked at the Chewton Glen Hotel. They expanded the number of hotels to six before selling out to the large corporate MWB group in 2004, who subsequently rolled out the concept, turning the original highly individual boutique hotel into a significant mini chain of hotels.
The hotel industry not only plays an important role in the UK economy, provides employment for many, and is a continuing source of economic growth. For example, the InterContinental Hotels Group is creating around 3000 jobs in the UK over the next 3-4 years. As their Chief Financial Officer argues: ‘Hotels offer a quick and flexible way to get people back into work’ (British Hospitality website: www.bha.org.uk/policy/employment).

And importantly, as our research demonstrates, far from being a sector characterised by low levels of innovation, it is also an industry that is highly creative and innovative. However, this innovation may not be captured in many conventional measures of innovation – traditional measures such as R&D expenditure or patents – are of little use here, yet innovation in the industry is clearly identified by our research.

Indeed our findings reveal how the hotel sector is a driving force for innovation in the UK in many areas, such as IT. The hotel industry is characterised by its adoption of models of open innovation facilitating co-creation of value, both with suppliers such as IT software companies, and with customers. In addition many new business ventures have been established based on the association of different types of expertise in informal networks.

These appear to be particularly important in the hotel industry and across a range of hotel formats. Many of the large hotel chains have also engaged in significant business model innovation, which in turn has realised capital for ambitious programs of expansion.
These are just a few of the examples of innovation that our in depth research into the industry has uncovered. As we have explained our research has identified a number of key aspects of innovation that have implications for practitioners and implicitly for policymakers. These include:

### Practitioner implications

- Successful hotel developments tend to have a close relationship with their customers. Increasingly this involves not just listening to customers but co-creating products with them.

- Hotels are part of a creative and experience economy and this has implications both for customer care in terms of service as well as enhancing the customer experience. Successful hotel innovations have often been those that engage with such experiences. These can occur in both large hotels and equally can be driven by good management in the smaller-medium hotel sector.

- It is also clear that manager and owners need to cultivate key skills and competences in order to innovate to stay competitive. Many of these relate to being aware of market trends and taking a proactive rather than a reactive approach.

- Such competencies differ between large hotel organisations and small enterprises due to the challenges of scale and the availability of resources.

- However both need to embrace the sense that customers are more likely to listen to other customers rather than the hotels themselves. This has made success reliant on the ability to use social network sites effectively, and to engage in conversations about their experiences and preferences.

### Policy implications

- There has been a gap between the needs of the UK hotel industry and Government policy towards the industry. This in part is due to the failure of government to recognise the importance of the industry to the economy, and that it is innovative.

- The failure to recognise its innovative nature is in part due to the system of official measures, and secondary data, used to identify innovation.

- The hotel industry co-produces many innovations within the value chain. In particular there are strong design and building elements along with a large reliance on external R&D linked to many UK IT companies.

- There is a need to situate innovation in the sector in terms of broader innovation systems. This is a sector where human capital is critical to performance and innovation. This emphasises the need not only, and most obviously, to enhance training and education, but also to address how other policy arenas, such as migration, the environment and transport, influence innovation.

- Tourism tends to have weaker links to non-tourism specific sources of knowledge than many other sectors, and there is scope for government to facilitate greater knowledge leverage from universities and research agencies.

- Given its economic reach it is surprising that the hotel industry is so relatively ignored in Government policy.
AIM Research Reports

Executive Briefings

2011 The Complexity Challenge
How simplifying your business can create value

2011 Using business models to shape business success
For Product-Service Providers

2011 Open Collective Innovation
The power of the many over the few

2011 The Knowledge Management Challenge
Mastering the Softer Side of Knowledge Management

2010 The growth of services
Towards a better understanding of service measurement, performance and innovation

2010 Creating a culture of innovation
Why corporate culture is key to radical innovation in firms

2010 The Uncertain Middle
Innovation lessons for low carbon energy technology from demonstration projects and trials

2010 The Ten Myths of Manufacturing
What does the future hold for UK manufacturing?

2009 Building a strategy toolkit
Lessons from business

2009 Outcome-based contracting
Changing the boundaries of B2B customer relationships

2009 Risk management gets personal
Lessons from the credit crisis

2009 Radical Innovation: Making the Right Bets

2009 Racing For Radical Innovation
How motorsport companies harness network diversity for discontinuous innovation

2009 Capability vs. Productivity
Identifying the weaknesses in the UK Retail Industry

2008 High Value Manufacturing
Delivering on the Promise

2008 Is the UK’s science base performing?

2008 When organisations change
A middle management perspective on getting it right

2008 Leadership of Business Schools
Perceptions, Priorities and Predicaments

2007 Dancing with gorillas
How SMEs can go global by forging links with MNCs

2007 Adapting to the China Challenge
Lessons from experienced multinationals

2007 Twelve search strategies that could save your organisation
Is discontinuous innovation on your corporate radar?
This report is accompanied with a self-assessment booklet

2007 The Future of Business School Faculty

2007 The Future of HR
How Human Resource outsourcing is transforming the HR function

2007 The Importance of Meetings
How the structure of meetings affects strategic change in organisations

2007 The International Success of British Companies
An industry perspective

2007 Making sense of workplace performance

2006 From Modern to Paternalistic
How does your firm type affect your performance?

2006 How does UK retail productivity measure up?

2006 ‘Who does what’ and ‘who gets what’
Capturing the value from innovation

2006 Is Organisational Learning a Myth?

2006 Attention HQ
Strategies for UK subsidiary companies

2006 The Asian Century
Opportunities and challenges for the UK

2006 The Future of Business Schools in the UK
Finding a path to success

2006 Acting on Information
Performance management for the public sector

2006 Signing up for Competitive Advantage
How signature processes beat best practice

2006 Biotech Clusters in the UK
Challenges and opportunities

2006 Give and Take
Understanding attitudes to learning in the collaborative process

2006 Intelligent Design
How managing the design process can boost company performance

2005 Dealing with Discontinuity
How to sharpen up your innovation act

2005 The Ambidextrous Organisation

2005 Leading for Innovation
The impact of leadership on innovation

2005 The Cluster Effect
How clusters policy can make the UK more competitive

2005 Making Best Practice Stick
How UK firms can increase productivity by adopting leading-edge working practices

2005 Offshoring: Myth and Reality
What the global trade in business service means for the UK

2005 Pathways to Value
How UK firms can create more value using innovation strategically

2004 i-works
How high value innovation networks can boost UK productivity

Academic Publications and Working Papers

Academic Publications and Working Papers are also available from our website www.aimresearch.org
AIM – The UK’s research initiative on management

If you are interested in working with AIM Research, require further information or to access the following:

- Full UK programme of AIM workshops, conferences and event listings
- Fellows’ profiles and full research project details
- AIM quarterly Newsletter and press releases
- Research papers and AIM publications available as downloads
- Information for the media

*please visit AIM’s website [www.aimresearch.org](http://www.aimresearch.org)*

For all enquiries please contact:

Advanced Institute of Management Research (AIM)
4th Floor, Stewart House
32 Russell Square
London WC1B 5DN

Tel: +44 (0)870 734 3000
Fax: +44 (0)870 734 3001
Email: aim@wbs.ac.uk
Web: [www.aimresearch.org](http://www.aimresearch.org)

The Advanced Institute of Management Research (AIM) was founded in October 2002. It is a multi council initiative of the UK’s Economic and Social Research Council (ESRC) and Engineering and Physical Sciences Research Council (EPSRC) – with activities at over 180 institutions in the UK and overseas.

ISBN 978-1-906087-41-8

© Gareth Shaw, Allan M Williams and Adrian Bailey 2012