



# HOSPITALITY INNOVATION INDUSTRY REPORT

BY CARLOS MARTIN-RIOS

# FOREWORD

Hotels are increasingly challenged by emerging competitors and shifting customer demands and expectations; Airbnb being just one example of the former and Millennials of the latter. It is becoming clear that all of the 'traditional' players in hospitality will need to innovate in order to meet these challenges. While some hotels recognize this, and even welcome it, others do not. Their conclusions can be summarized briefly as: "The only way that hotels can prosper in a more diverse economy is to cut costs relentlessly and accept lower profit margins."

Yes, the challenges are significant. But I couldn't disagree more with that opinion. At the same time, there are a number of outstanding examples of innovative hotels, that have developed new businesses, created new services, adopted new management practices, engaged in collaborative and open innovation initiatives with customers, academic institutions and even competitors. Not to be forgotten, green, eco-innovations are increasingly popular.

Overall, there is a lot of interest among hoteliers and academics to ascertain how technological innovations and these so-called "non-technological innovations" contribute to new and profitable revenue streams, and a competitive advantage. Very few academic studies have helped hotels better understand the current state of hospitality innovation strategies – and evaluate how complex innovations affect the firm's overall utility, despite the critical importance of these issues. These are some of the issues addressed in this report.

Almost 4% of the EU Gross Domestic Product is generated by the hospitality industry (EY, 2013)—such as hotels, restaurants and food service providers—and roughly one in ten of the EU working population is employed in this industry. These numbers are roughly the same in other parts of the world.

Hospitality is also considered among the most competitive businesses in the world. Despite the widely acknowledged importance of the activity,

*The only way that hotels can prosper in a more diverse economy is to invest in series of innovations to create competitiveness.*

it is one of the least studied and understood industries of the economy. Research to identify and investigate the relevance of novel forms of innovation for hospitality to remain competitive is still needed. Investigating and responding to this research gap is of paramount importance.

Data from this report is the result of a research project sponsored by the Ecole hôtelière de Lausanne (EHL) and the HES-SO, the University of Applied Sciences Western Switzerland. EHL is considered by the industry to be the world's best hospitality management school. Between October 2016 and December 2017, over 2500 hotel professionals ranging from CEOs to hotel General Managers were contacted. We obtained a +/- 12% response rate. Data analysis has resulted in a series of academic articles, professional publications as well as in working papers published by EHL.



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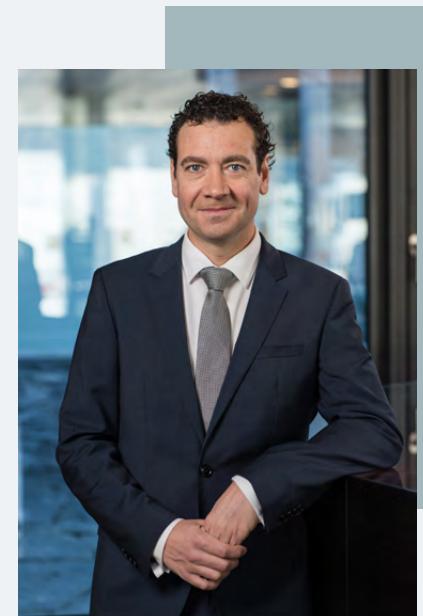
# AUTHOR'S BIOGRAPHY

## CARLOS MARTIN-RIOS

Carlos Martin-Rios (PhD, Rutgers University) is an Associate professor of Human Resources and Organizational Behavior, active in the field of innovation at the Ecole hôtelière de Lausanne (EHL, Switzerland)

He performs research that aims to understand and predict the factors that determine innovation strategies in knowledge-intensive service firms at large and, in particular, hospitality firms. Prof. Martin-Rios is the author or co-author of over 40 peer-reviewed journal publications, over 15 articles in professional journals, 55 conference reports and 19 invited talks, lectures and conference chairs.

Prof. Martin-Rios has worked and lived in the United States, Latin America, and Europe and has been active in both institutional and private entrepreneurial activities, having served as an advisor in launching innovation management programs and two consulting companies.



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# EXECUTIVE SUMMARY

Carlos Martin-Rios, professor at the Ecole hôtelière de Lausanne, has been tracking hospitality innovation for the past three years, surveying hundreds of managers and interviewing more than 50 executives and thought leaders to produce this annual report. The key objective is to increase knowledge about the adoption of innovative practices by global hospitality businesses and to support the integration of innovation strategy into hospitality business strategy.

Despite significant progress, hospitality innovation has arrived at a crossroads. On one hand, hospitality corporate leaders in innovation remain a minority, and are unevenly distributed across geographies and ownership structures. On the other hand, a few standout companies are demonstrating that innovation can be a driver of renewal, efficiency and lasting business value. It's one of **the central dilemmas of hospitality innovation: few disagree with it in principle, but why doesn't it happen more often?**

Many independent hotel owners believe they do not have the resources to develop their own innovation strategies. Several international multibrand firms are better prepared to develop innovation strategies and to implement a variety of innovative solutions.

Short-term strategic thinking and cost-driven management practices represent hurdles to a broader implementation of innovation management in hotels.

Fortunately, the path to value creation through innovation has become substantially clearer in recent years. Based on our multi-year research on hospitality innovation, **we have identified seven evidence-based factors that drive innovative business practices, regardless of size, ownership structure or region.**

## SEVEN EVIDENCE-BASED FACTORS that drive innovative business practices

- 1 VISION**  
Develop a practical innovation vision and framework that lays the foundation for new innovation practices.
- 2 BUSINESS CASE**  
Prepare a clear business case for innovation in your organization.
- 3 VALUE-CREATION**  
Communicate an innovative value-creation story to your shareholders.
- 4 STAKEHOLDERS**  
Collaborate with a variety of stakeholders to mobilize resources, acquire new knowledge and ideas, and drive strategic change.
- 5 QUANTIFIABLE**  
Identify and prioritize quantifiable concerns and opportunities to focus resources.
- 6 EMBEDDEDNESS**  
Embed innovation organizationally through the establishment of innovation managers, cross-functional teams, and clear targets.
- 7 MULTIPLE DIMENSIONS**  
Innovate on multiple dimensions of the firm's business model and processes: technology, service, organization, sustainable management and marketing.

## Future scenarios

In terms of future scenarios, hospitality firms that will invest on a range of innovations will be better suited to increase competitiveness and reduce their productivity gap. **The simple adoption of technological innovations alone is not sufficient to gain competitiveness**; the full benefit of those technologies is only achieved if they are accompanied by a cluster of related innovations in organization, customer and supplier relationships, and a redesign of existing business models. Still, many companies will find it difficult to get the creativity skills and innovation mechanisms they need. Companies for which innovation remains elusive will find it difficult to obtain good results and to handle the innovation requirements.

*With an ever increasing pace of competition in a highly convoluted industry, the costs of inaction will be considerably higher than initially believed. The choice hotels need to make is to innovate or face the painful process of obsolescence and irrelevancy.*

There is an excellent opportunity for a formal innovation strategy for hotels worldwide. In the short to medium term, innovation is what will determine the productivity performance and competitiveness of hospitality companies, whether independent hotels or national or multinational hotel chains. With an ever increasing pace of competition in a highly convoluted industry, the costs of inaction will be considerably higher than initially believed. The choice hotels need to make is to innovate or face the painful process of obsolescence and irrelevancy.

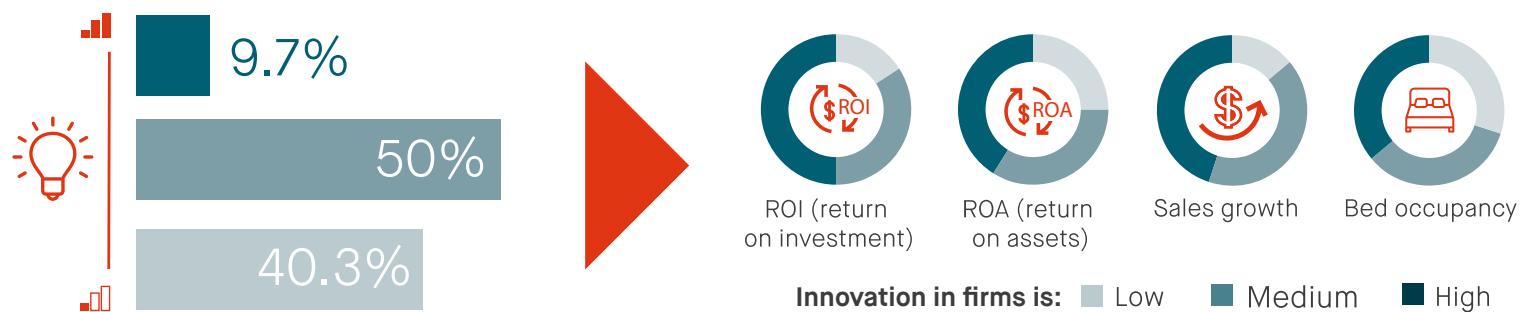
# KEY FACTS

## Survey respondents:



## High vs low innovative firms 2011-2016:

High innovative firms report significantly positive differences in ROI, ROA, sales growth and occupancy rates.



## HOSPITALITY INNOVATION - BEST PRACTICES



### SECTION 1. INNOVATION STRATEGIES AND BEST PRACTICES

# INNOVATION STRATEGIES AND BEST PRACTICES IN INNOVATION

Hospitality innovation management is one of the most salient topics in international hospitality, tourism and travel management, both at the academic and practitioner level.

For many, innovation is equated with technology, and only scientists and engineers bring new technologies to life. Yet, innovation can occur in many avenues that have little or nothing to do with technology or science. Service firms, including hospitality firms, can and often do innovate their service offerings, customer experiences and business processes and models.

The most comprehensive and widely accepted definitions of innovation are offered by the Organization for Economic Co-operation and Development (OECD) and the U.S. Department of Commerce. These definitions make reference to complex forms of innovation. It is important to note that innovation is not necessarily successful and tied to growth. According to the Oslo Manual (OECD, Statistical Office of the European Union) innovative firms often fail to generate economic returns from their innovations.

**“** An **innovation** is the implementation of a new or significantly improved product (good or service), or process, a new marketing method, or a new organisational method in business practices, workplace organisation or external relations. **”**

OECD Oslo, 2005

In Peter Druker's words “**Unexpected failure may be an equally important source of innovation opportunities**”.

Most innovative firms, however, especially the successful ones, put in play a conscious, purposeful innovation strategy that combines different innovation practices.

According to Schumpeter's theory of innovation, a firm's innovation strategy and, hence, its innovation intensity covers both technological and non-technological areas. Our definition of **innovation strategy** in hospitality firms includes combinations of a range of innovative activities encompassing technological innovations—including service, technology and process innovations, as well as non-technological innovations—management methods, organization, strategic and marketing innovations.

Firms with a formally defined innovation strategy often attempt complex forms of innovation, which results in high **innovation intensity**.

**“** The design, invention, development and/or implementation of new or altered products, services, processes, **systems, organisational structures, or business models** for the purpose of creating **new value** for customers and financial returns for the firm. **”**

DOC, 2010

Most **innovative firms**, especially the successful ones, put in play a conscious, purposeful innovation strategy that combines different innovation practices.



Despite the importance of the relationship between different combinations of innovation initiatives and organizational effectiveness, innovation strategy and innovation intensity have not been the focus of much research in the hospitality field.

- **How and to what extent is innovation activity the response to changes in the external environment?**
- **How and to what extent do different innovation strategies take place internally in hospitality firms?**
- **Do hospitality firms differ in their capacity to foster and implement innovation activity?**

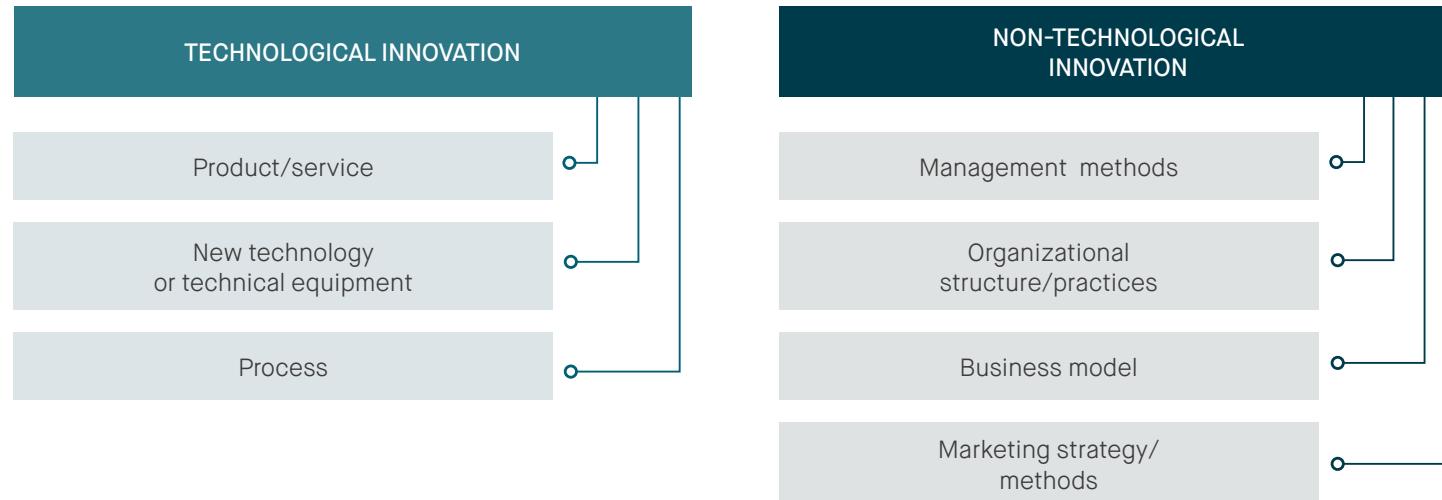
## Innovation Intensity

Innovation intensity is a composite measure of innovation initiatives and is used to rank hospitality firms according to their innovativeness. We calculated overall innovation intensity for each participating firm.

It reflects the extent to which hospitality firms have a well-defined and ambitious innovation strategy in place (firms with high innovation intensity) or a less-defined, more modest innovation strategy (firms with medium innovation strategy).

Just under 10% of firms in our study have high innovation intensity. The vast majority of firms have low (40%) and medium (50%) levels of innovation intensity.

Innovation intensity ranges by ownership structure from 6.3% among independent firms to 2.5% for corporate ones and just 0.4% for leased and franchised ones. Among innovators alone, innovation intensity is naturally higher, but especially among independent firms (65%) and corporate firms (26%) compared to just 4.3% for leased and franchise ones.



## Components of innovation strategy

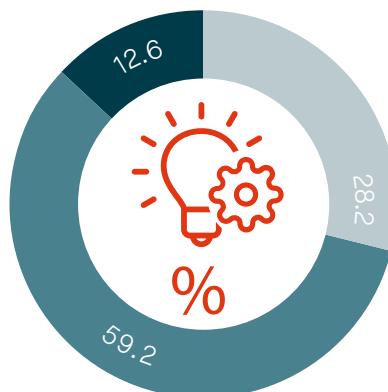
This section contributes to the ongoing discussion on what impact, if any, innovation strategies and practices (technological and non-technological) might have on long-term hotel performance and competitive advantage. It also provides important insights for future studies on hospitality and open, collaborative innovation and hospitality and sustainable, eco-innovation.

In addition, results are of interest to both practitioners and academics and its output serves both audiences. Identification of the role of various forms of innovation and their impact on innovation returns and firm performance provides valuable decision-making information for hotel managers.

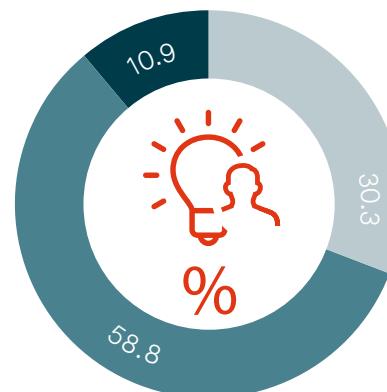
In particular, results show that **helping hospitality firms to address the challenges of complex innovation strategies allows them to efficiently manage their sources of competitive advantage.**

Over half the companies pursue a medium-intensity technological and non-technological innovation strategy. A somewhat higher proportion of firms pursue a high-intensity technological innovation strategy than a high-intensity non-technological innovation strategy. Regarding new innovations, the bulk of companies follow a low-intensity or medium-intensity strategy.

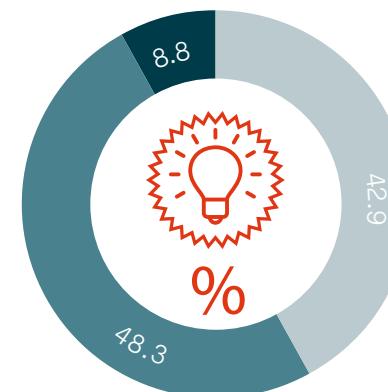
## COMPONENTS OF INNOVATION STRATEGY



Technological innovation strategy



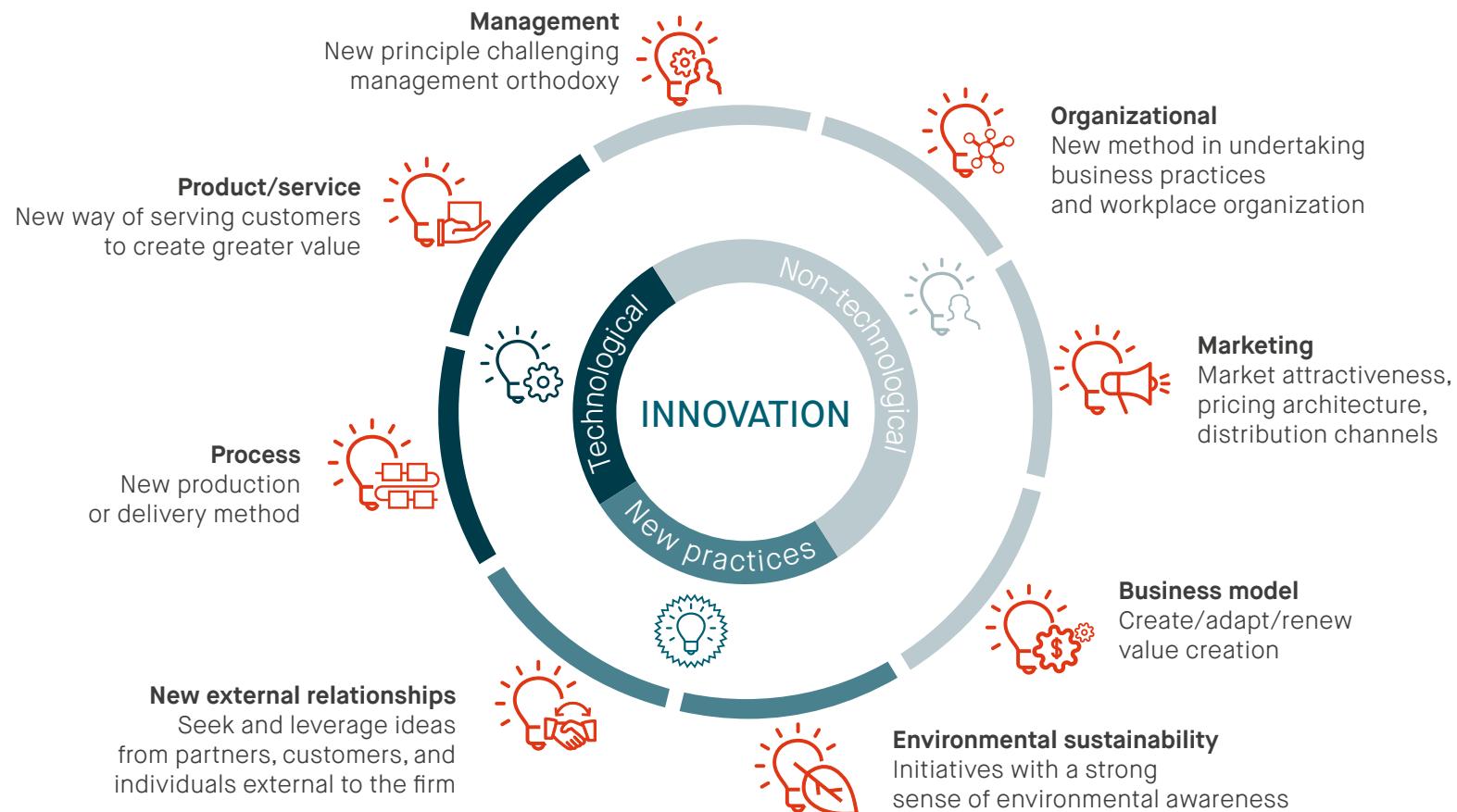
Non-technological innovation strategy



New innovation strategy

Innovation in firms is:  Low  Medium  High

## THE DIFFERENT TYPES OF INNOVATION



## BEST PRACTICES: TECHNOLOGICAL INNOVATION

### Moving hospitality companies forward

There is a clear and positive relationship between overall high-intensity innovation strategy and high-intensity technological innovation in hospitality. Results show that technological innovations are prominent in hospitality firms. Close to 72% of executives report to have implemented a considerable proportion of innovations in the technological domain during the period 2011-2016.

In terms of organizational outcomes, firms high in technological innovation outperform firms low in technological innovation in all of the six subjective measures of performance. Particularly positive and statistically significant differences include: ROI, overall customer retention, sales growth and average bed occupancy.



- New technology or technical equipment**  
hardware and software
- New or significantly improved services**  
with respect to its capabilities, user friendliness, components or sub-systems
- Substantial renewal of administrative processes**  
such as maintenance systems, operations for purchasing, accounting, computing or logistics

## New technology or technical equipment (hardware and software)

Innovation for a large majority of hospitality firms is about developing new technology or technical competency. Firms heavily investing in new technologies and technical capabilities obtain higher performance returns.

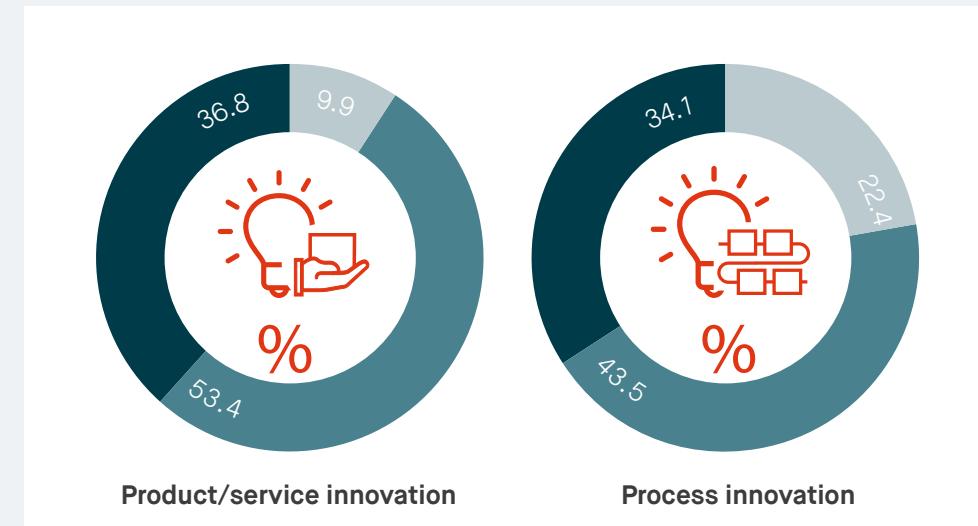
Top executives and senior managers agree on the need to strengthen the industry's ability to continuously adapt and innovate by facilitating investment in new technologies and continuously adapting to new technological capabilities.

Despite the importance of technology advancement, these firms do not obtain significantly higher results in overall customer retention and average bed occupancy rate. Investment in new technologies should be strengthened through a combination of several forms of innovation. **New technology or technical solutions are useless unless guests are informed as to their availability and the most effective way of using them.**

### Product/service innovation

Service innovation is prominent among successful hospitality firms. As recent research suggests, the nature of services and the pace of change have shifted dramatically in recent years, and mastering the traditional aspects of service delivery is no longer enough (McKinsey, 2015).

**Our research shows that one of the keys to profitability in new service development is launching unique, superior services with a compelling value proposition.**



Innovation in firms is: ■ Low ■ Medium ■ High

**Product innovation:** *introduction of a good or service that is new or significantly improved with respect to its characteristics or intended uses. This includes significant improvement in technical specifications, components and materials, incorporated software, user friendliness or other functional characteristics.*

**Process innovation:** *implementation of a new or significantly improved production or delivery method. This includes significant changes in techniques, equipment and/or software.*

# BEST PRACTICES: NON-TECHNOLOGICAL INNOVATION

## The last frontier of competitive advantage

With regard to non-technological innovation, two main findings stand out. First, non-technological innovation encompasses several forms of innovation. According to the statistical results, organizational innovation is a new method in a hotel's business practices, workplace organization, marketing strategy or business model. It aims to optimize a hotel's performance by cutting administrative and transaction costs, increasing workplace satisfaction, accessing non-tradeable assets, or reducing supplies.

Moreover, two types of non-technological innovation can be distinguished: organizational innovations and managerial innovations. Organizational innovations deal with the organizational setting of the firm and the division of labor within it, whereas management innovations involve the operations and

procedures by which the firm organizes its activities (i.e., HR, information flows).

According to the degree of innovation in new service development, **about a third of the companies pursue an innovation strategy that includes a high degree of new management, marketing and business model capabilities.**

The following sections highlight the wide range of relationships between technology innovation and non-technological innovation in practice.

In hospitality, the innovation does not necessarily relate to the novelty of the technology itself but it often lies in the non-technological areas.



### Innovation in hospitality

Innovation does not necessarily relate to the novelty of the technology itself but to the non-technological areas surrounding it.

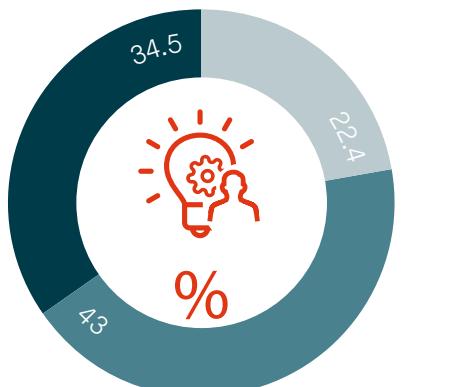


1. Implementation of new kinds of management methods to achieve targets and objectives
2. New or overhauled work structures or practices (team work, decentralization, new system of employee responsibilities, etc.)
3. New or overhauled marketing methods or strategy
4. New or overhauled business models

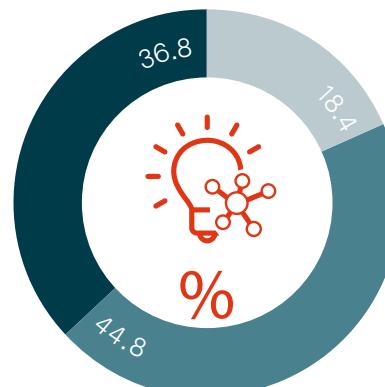
## Management methods

Management innovation is anything that substantially alters the way in which the work of management is carried out, or significantly modifies customary organizational forms, and, by doing so, advances organizational goals (Birkinshaw and Mol, 2006).

Results show that the different management innovations play an important role, not only in their innovation outcomes but also in their capacity to develop, implement and monitor the progress of distinctive strategies to boost their competitiveness. **Management innovations have become more prominent in many of these companies and, combined with other sources of innovation (technological, non-technological, and open), may lead to an increase in expertise, responsiveness and excellence.**



Management innovation



Organizational innovation

Innovation in firms is:  Low  Medium  High

## Organizational innovation

Organizational innovations are becoming widespread among hospitality firms. Results highlight their increasing reliance on organizational innovation for strategic transformation. Not surprisingly, these forms of innovation have experienced mounting interest in recent years. One important driver of this trend is the need for continuous adaptation to stay competitive, which might lead hospitality firms to search for and to implement a variety of innovative solutions at the organizational level.

**About 37% of hospitality firms report high levels of organizational innovation.** There is a significant relationship between pursuing organizational solutions and managerial innovations. Moreover, **results suggest a strong association between organizational innovation, business model innovation and overall organizational effectiveness of a firm.**

**Organizational innovation:**  
*the introduction of a new management practice, process, structure, or technique into the organization that tends to improve effectiveness or performance of that organization.*

## Marketing methods or strategy

Marketing innovation is the most prevalent form of non-technological innovation among companies in the study. Close to 40% of all firms have heavily invested in their marketing innovation strategy. The term “experience economy” famously coined by Pine and Gilmore (1998) describes the economic value generated by staging experiences that create lasting memories for the consumer. Consumers increasingly desire unique, memorable and immersive experiences when it comes to acquiring services. Hospitality companies face the opportunity to revamp their marketing strategies by offering unique service and engagement of customers in a manner that creates indelible experiences.

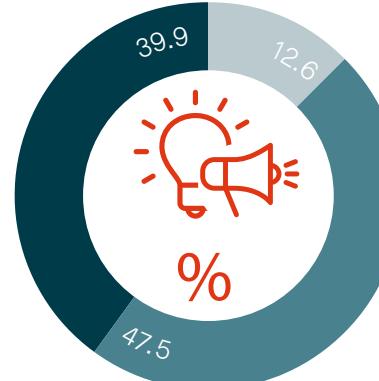
## Business model innovation

Strategic innovations consist of critical innovations that relate to the formulation of a business model. According to the Harvard Business Review (HBR) article «Reinventing your business model,» authored by Christensen, Johnson and Kagermann, these innovative actions refer to the economic architecture, business planning and execution, customer segments, customer relations and the market development for value added end-products.

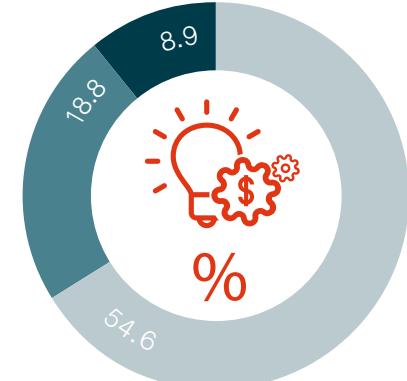
Business model innovation has the potential to significantly improve the environment and economic impact as well as addressing the barriers of limited growth and slow scaling processes. Yet, as pointed out in a recent article from McKinsey, this kind of innovation is notoriously hard for established firms as they face barriers when attempting to disrupt traditional ways of doing business.

Not surprisingly, the business model innovation has the lowest proportion of respondents in the category of high intensity. As a matter of fact, only 19% of the companies pursue a medium intensive innovation strategy regarding their formulation of a business model.

In contrast, **firms actively innovating their business offering are also the companies with the most complex innovation strategy and the highest**



Marketing innovation



Business model innovation

Innovation in firms is: ■ Low ■ Medium ■ High

**Marketing innovation:** implementation of a new marketing method involving significant changes in product design or packaging, product placement, product promotion or pricing.

**innovation intensity.** There is a strong positive relationship between business model innovation and all performance indicators except average bed occupancy rate, because seasonal fluctuations and external socio-economic factors have significant economic implications for hotels.

# BEST PRACTICES: NEW INNOVATION PRACTICES

## Open innovation and sustainable eco-innovation

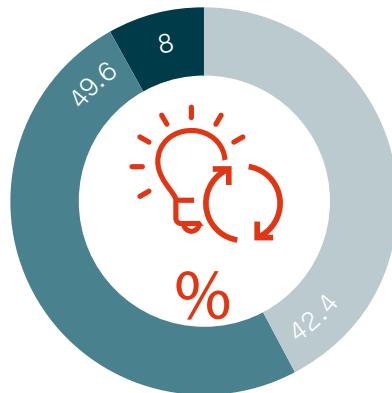
Although sustainability and open innovation are not part of the innovation strategy of many hospitality firms, our results illustrate how certain hospitality firms are engaging in these novel forms of redesigning the consumer experience and developing broad networks of relationships to generate innovation returns and firm performance.

There is a positive relationship between devoting resources to novel forms of innovation and the other two strategic dimensions (technological and non-technological innovation) in firms with strong innovation intensity.

## New external relations

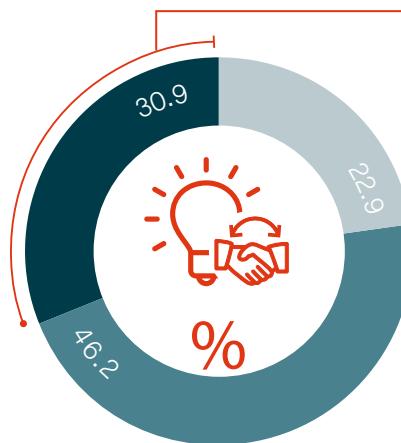
A considerable proportion of executives consider that the implementation of new methods of organizing external relations with stakeholders have an important impact on their business performance.

As research has shown, a firm's engagement in the establishment of external relationships helps them obtain, combine and exchange critical knowledge, which is directly related to its economic activity and strategic business priorities (Martin-Rios & Erhardt, 2016).



New innovation practices

Innovation in firms is: ■ Low ■ Medium ■ High



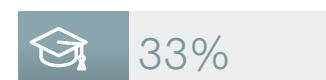
External relations innovation



Suppliers of equipment, materials, components, or software



Other companies within their corporate group



Universities or other higher education institutions

## Innovative external relationships

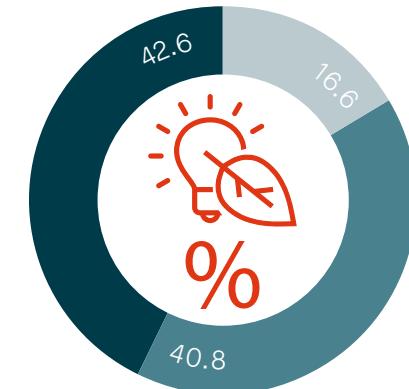
Between 2011-2016, 31% of firms invested heavily in developing innovative external relationships

## Environmental sustainability

Environmental sustainable innovation encompasses sustainable values, management of sustainable development, eco-innovation, new management and technologies of environmental sustainability (conservation, saving energy/water, recycling, green growth, etc.).

There is a considerable proportion of firms reporting a strong investment in eco-innovation. **Some 80% of firms indicated that they were investing heavily in eco-innovation.** Developing sustainable business is an ecological, economic and social issue.

This also holds true for sustainability innovations as firms seek cost-reduction and soft-performance (image, brand and reputation) benefits. These drivers might hamper the implementation of certain forms of environmental innovations, particularly, innovations perceived to be expensive and having only indirect soft-performance benefits.

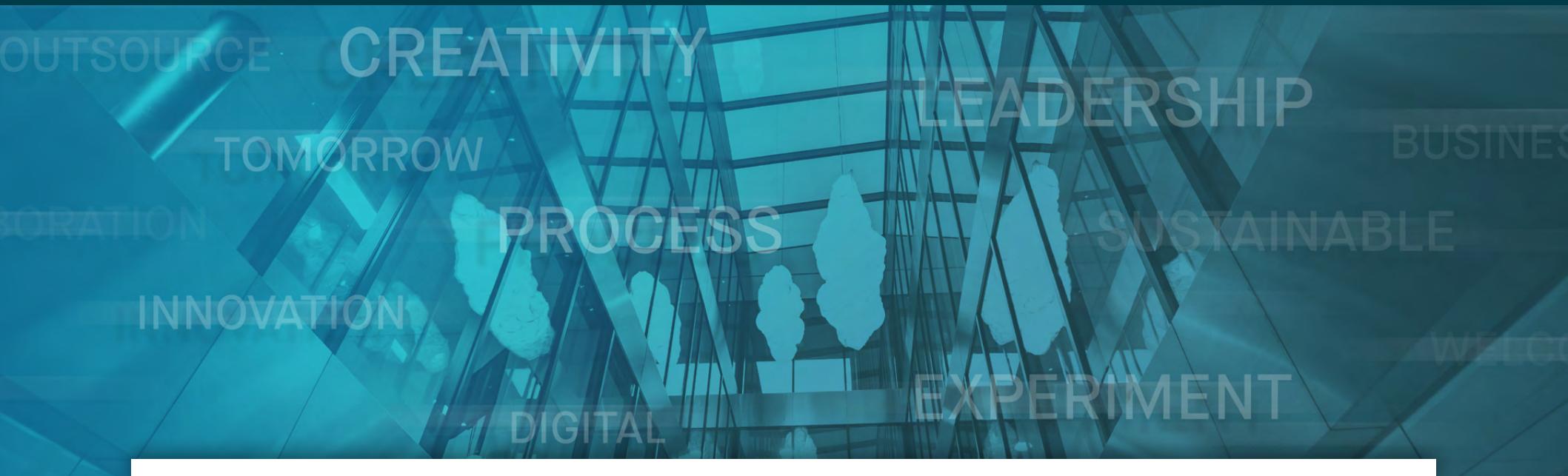


**Sustainable eco-innovation**

**Innovation in firms is:** ■ Low ■ Medium ■ High



## HOSPITALITY INNOVATION - FUTURE SCENARIOS



## SECTION 2

### SIX HURDLES TO HOSPITALITY INNOVATION

# SIX HURDLES TO HOSPITALITY INNOVATION

## Hospitality innovation scenarios at a glance

This section provides an analysis of the main innovation issues and trends impacting and influencing the industry. We asked executives to assess the extent to which the following six innovation scenarios were more likely to take place in their organizations in the next three to five years.

**Innovation needs to be more strategic. This was the overwhelming conclusion drawn from our study.** This also implies investment in technological innovations and the so-called 'creative workspaces' where employees are empowered to develop new ideas and test new concepts. Non-technological innovation is also perceived as a central element of the future innovation system.

There is an excellent opportunity for a formal innovation strategy. **In the short-medium term, innovation is what will determine the productivity performance and competitiveness of hospitality companies**, whether independent hotels or national or multinational chain hotels.

In contrast, a considerable proportion of executives consider that innovation strategy will remain one of the most elusive dimensions of organizational routines and performance. Interestingly enough, a quarter of leaders surveyed believe that innovation activities will be outsourced to third-party businesses and/or organizations.

A majority of independent hotel owners believe they do not have the necessary resources within the company to develop their own innovation strategies. International multibrand hospitality firms seem to be better prepared to develop innovation strategies and to deal with long-term conditions. In a certain way, this result confirms Schumpeter's hypothesis that large firms innovate more because they have the resources and financial freedom needed to invest in innovation.

## WHICH OF THE 6 INNOVATION SCENARIOS WILL TAKE PLACE IN THE NEAR FUTURE?



**Scenario 1:**  
Innovation will become more strategic in nature.



**Scenario 2:**  
Technological innovations will become more prominent.



**Scenario 3:**  
Non-technological (organizational and management) innovations will become more prominent.



**Scenario 4:**  
Organization will become more creative and more inspiring workplaces for individual employees & teams.



**Scenario 5:**  
Innovation will remain an elusive goal.



**Scenario 6:**  
Innovation will be handled by external businesses.

## STRATEGIC PLANS



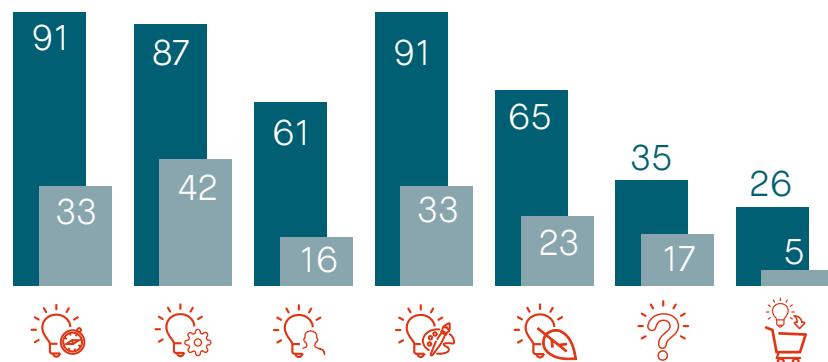
## OPERATIONAL PLANS

Despite their lack of investment in innovation, roughly half the non-innovators still expect that innovation will not be problematic in the future. Yet, close to 30% of these firms believe that in the future they will engage even less than currently in non-technological innovation and green, sustainable innovations.

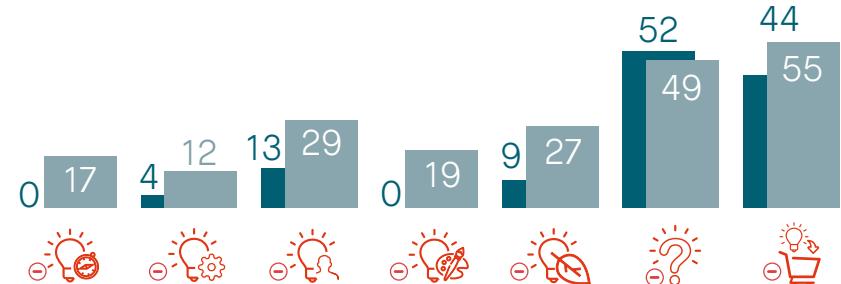
In contrast, companies taking a bolder, more far-sighted approach to innovation are on the opposite trajectory: aligning the organization around the requirements for success. Their balanced portfolio of innovative efforts – including technological, non-technological and sometimes green, eco-innovations – reinforces their innovation strategy.

Although **there is a degree of consensus among executives that outsourcing of innovation activities will not be relevant for the industry**, opinions may be divided about the underlying reasons. Top innovators may favor in-house innovation regardless of cost, whereas in the case of non-innovators it might be due to the lack of formal innovation strategy and practices.

**A closer look at the differences in perception between the most innovative firms and the non-innovators regarding the six scenarios shows positive statistically significant differences in all six future scenarios.**



High likeliness of occurrence (%)



High unlikeliness of occurrence (%)

■ High innovators ■ Non-innovators

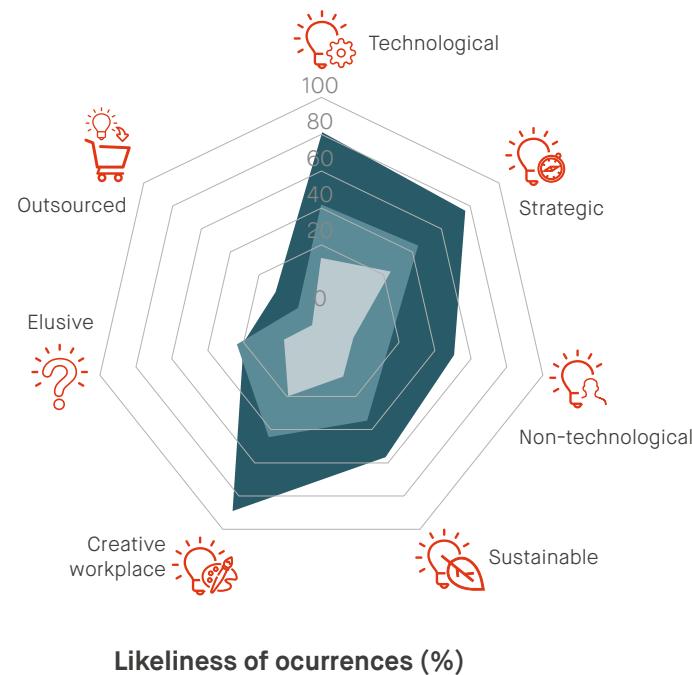
Scenario = Strategic Technological Non-technological

Sustainable Creative workplace

Elusive Outsourced

## Likeliness of occurrence

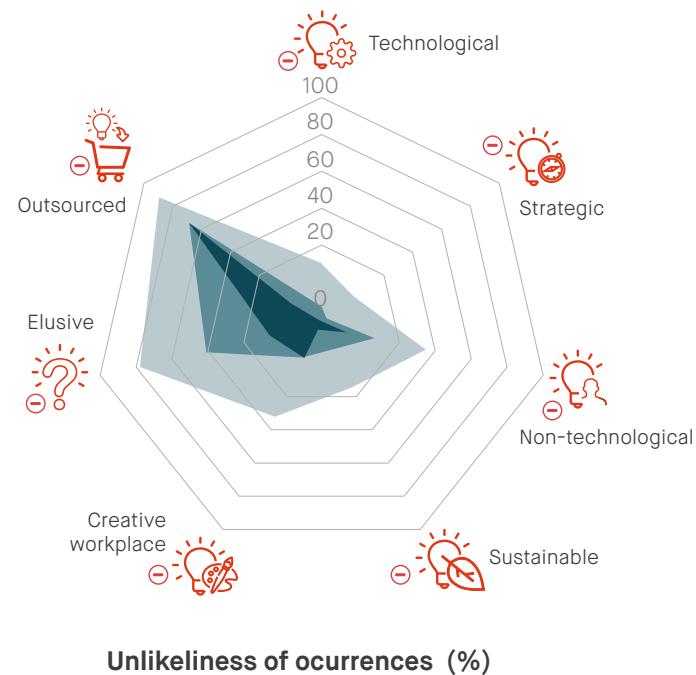
The most innovative firms, we found, emphasize strategic innovation and creative workplaces. Mid-innovative firms appear to place equal emphasis on the technical side as well as on the social side of innovation. This group of firms consider the uncertainties of the environment on the firm's innovation strategy and practices to be highly important. Finally, the less innovative firms remain static: neither develop their business strategy nor outsource it.



Innovation in firms is: ■ Low ■ Medium ■ High

## Unlikeliness of occurrence

High innovators place a big premium on a varied portfolio of innovation activities. By a margin of almost 3-to-1, using a complex innovation strategy (including technological, non-technological and new innovations) to face the future challenges separates high innovators from lagging innovators.



Unlikeliness of occurrences (%)

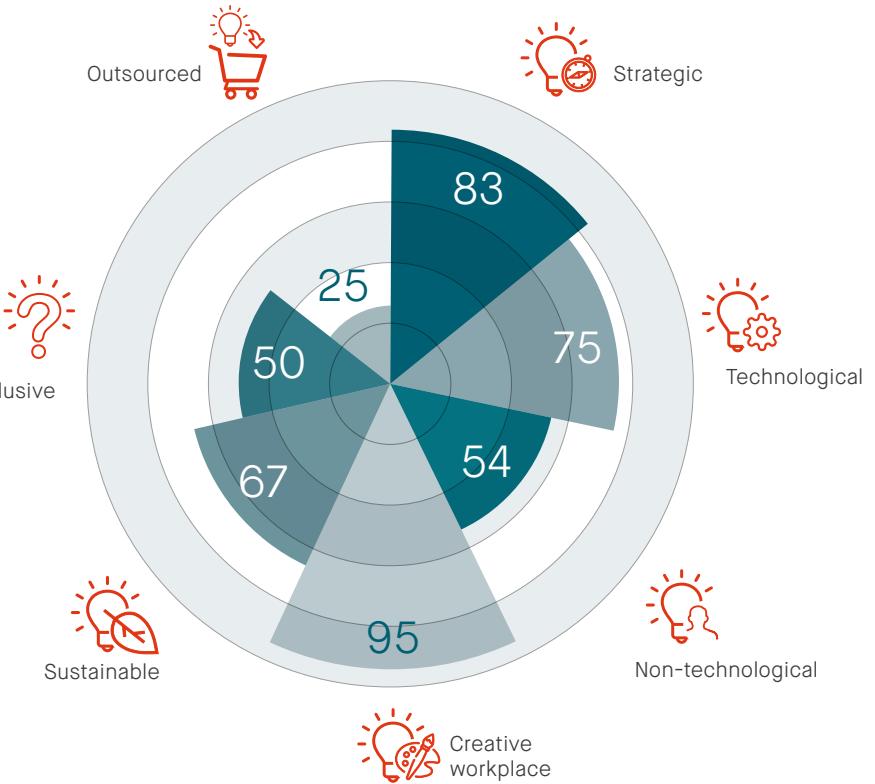
Results are particularly revealing regarding firms engaged in business model innovation. Although only 19% of the companies are currently reformulating their business model, as seen in the previous section, they are also the companies with the most complex innovation strategy

and the highest innovation intensity. Not surprisingly, companies actively engaged in business model innovation have the highest scores in every single innovation activity.

## Six questions about business model innovation:

- 1 What customer needs will the new business model address?
  - 2 What novel activities could help satisfy those needs?
  - 3 How could the activities be linked in novel ways?
  - 4 Who should perform the activities? What novel governance arrangements can be found?
  - 5 How will value be created for each stakeholder?
  - 6 What revenue models can be adopted to complement the business model?
- Source: Amit, R. & Zott, C. (2012) Creating value through business model innovation. *Sloan Management Review*, Spring.

## Most likely future scenarios of innovation for business model innovators (%)



# A SNEAK PEEK AT THE RESULTS



### Scenario 1. Strategic innovation

Over 75% of executives think innovation will be more strategic in the future. One leading factor: In terms of innovation activities, highly innovative firms have typically engaged in non-technological innovation.

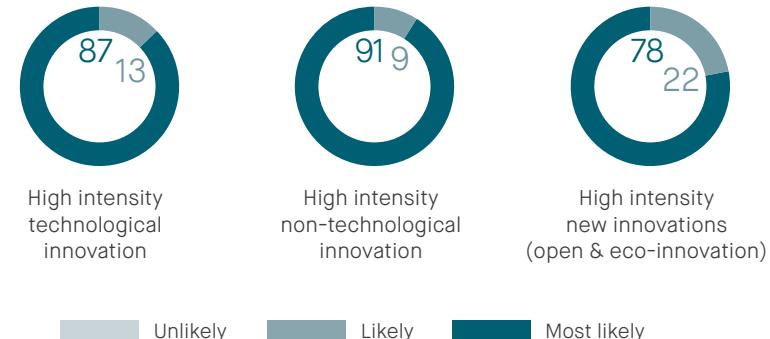


### Scenario 2. Technological innovation

Building capabilities based on technological innovation is considered essential in the future for over two thirds of the executives.

The hospitality industry is one of the most challenging, as it's an assembly line inside a retail business. Most technological solutions for this industry relate to the need to manage cash flow, inventory and sales data. Technology will do a great job of using personalization to improve experiences.

Strategic innovation scenario (%)



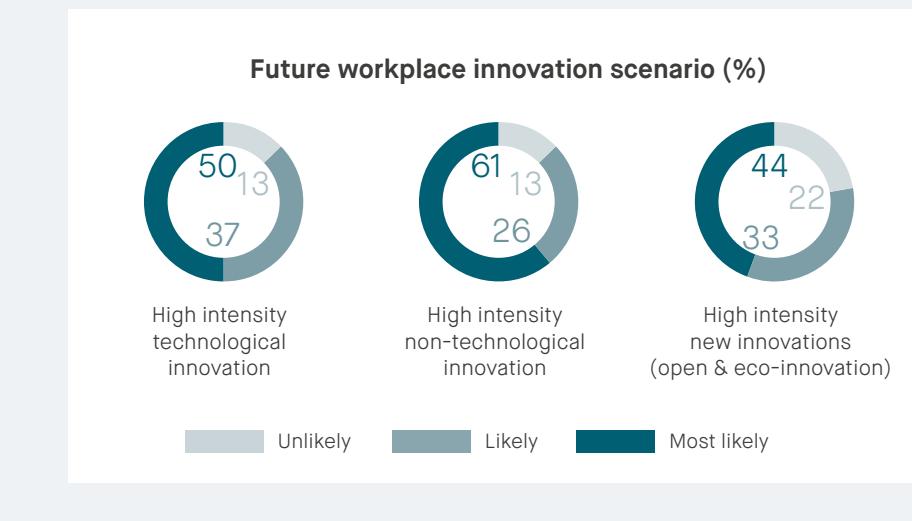
Building capabilities based on technological innovation (%)





## Scenario 3. Non-technological innovation

Future workplace innovations are of the highest importance for innovative hotels currently engaged in such innovations. Interestingly, companies who scored high on technological innovation – where firms introduce more new processes or technologies – are also companies where more restructuring or reorganization takes place.



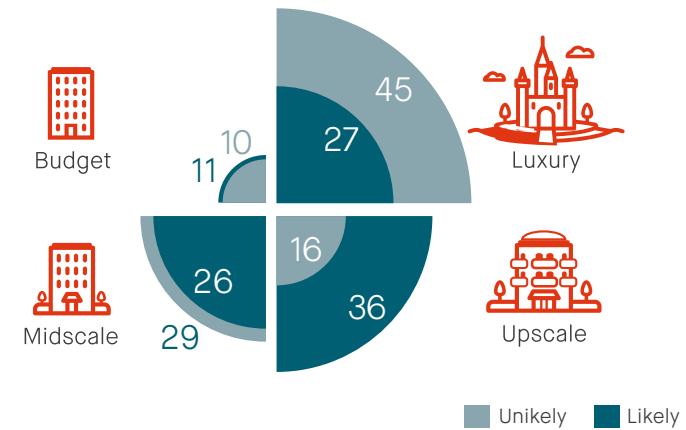


## Scenario 4. Innovative workplaces

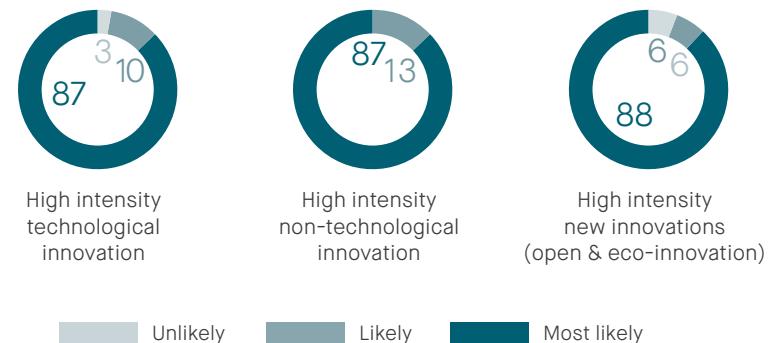
Upscale hotels seem prompt to spark on-demand creativity in their workplaces. Alternatively, luxury hotels struggle to cultivate creative employees and workplaces at large. It's no secret that fostering creative thinking within the workplace is vital to improving productivity. Yet, to boost creativity it is important to foster a culture of open and ongoing communication. Luxury and budget hotels alike seem to fail to take full advantage of innovative cultures and work practices to tap into the creativity of their smart people working on the same problem: providing the best customer service.

A decisive factor explaining why the creativity of employees and workplaces should be fostered is innovation strategy and intensity. The three innovation activities—technological, non-technological and new forms of innovation, show similar levels of acceptance about increasing creativity in the workplace. All differences are positive and statistically significant for each of the six scenarios for the future.

Building innovative workplaces (%)



Creative workplaces innovation scenario (%)



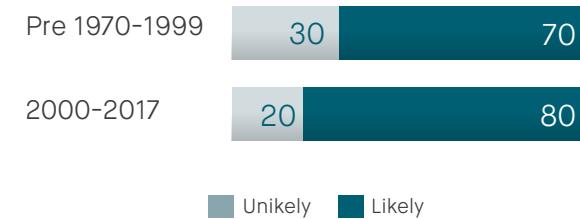


## Scenario 5. Elusive innovation

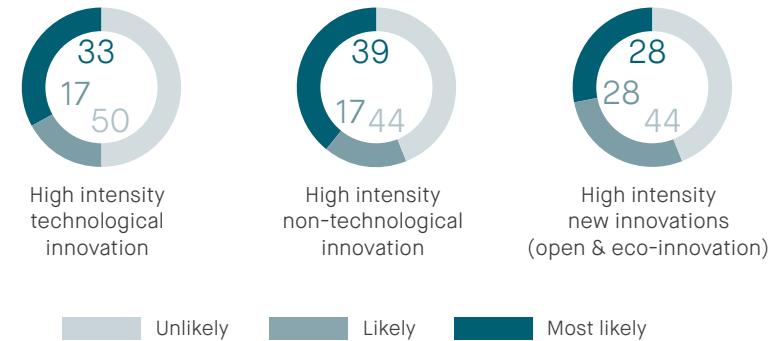
For mature organizations, innovation remains difficult. These hotels must figure out how to budget resources devoted to innovation, who encourage innovative thinkers, break away from the main operations, find new solutions and test concepts.

Close to 70% of hospitality firms report low or moderate levels of uncertainty regarding the future of innovation in their organizations. There is a significant relationship between pursuing innovative solutions and uncertainty toward innovation. Moreover, results suggest a strong association between organizational innovation, business model innovation and overall uncertainty about innovation in the future.

**Elusive innovation and firm's age (%)**



**Innovation will remain elusive (%)**





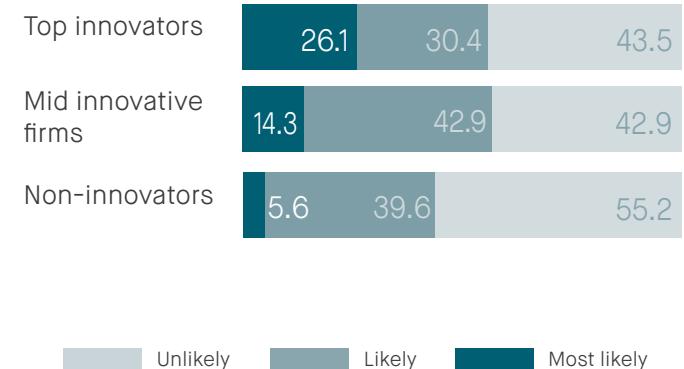
## Scenario 6. Outsourcing innovation

There is not a clear sense of urgency among executives for outsourcing innovation activities.

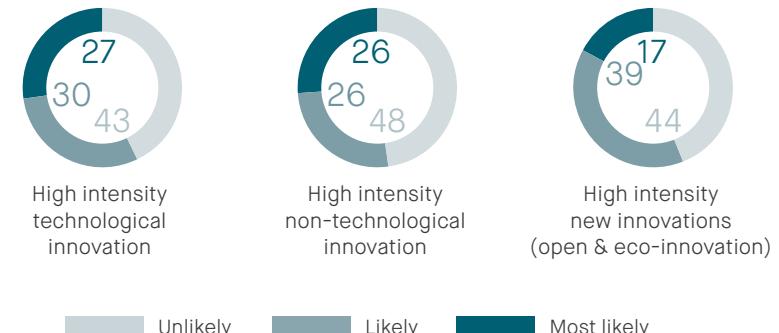
The more innovation they do, the higher their likeliness to outsource any innovation activity in the future. Outsourcing is more related to technological innovation. More precisely, close to 70% of firms doing technological innovation answered positively to the question of whether they will engage in innovation outsourcing in the future.

*Executives are not rushing to outsource innovation activities*

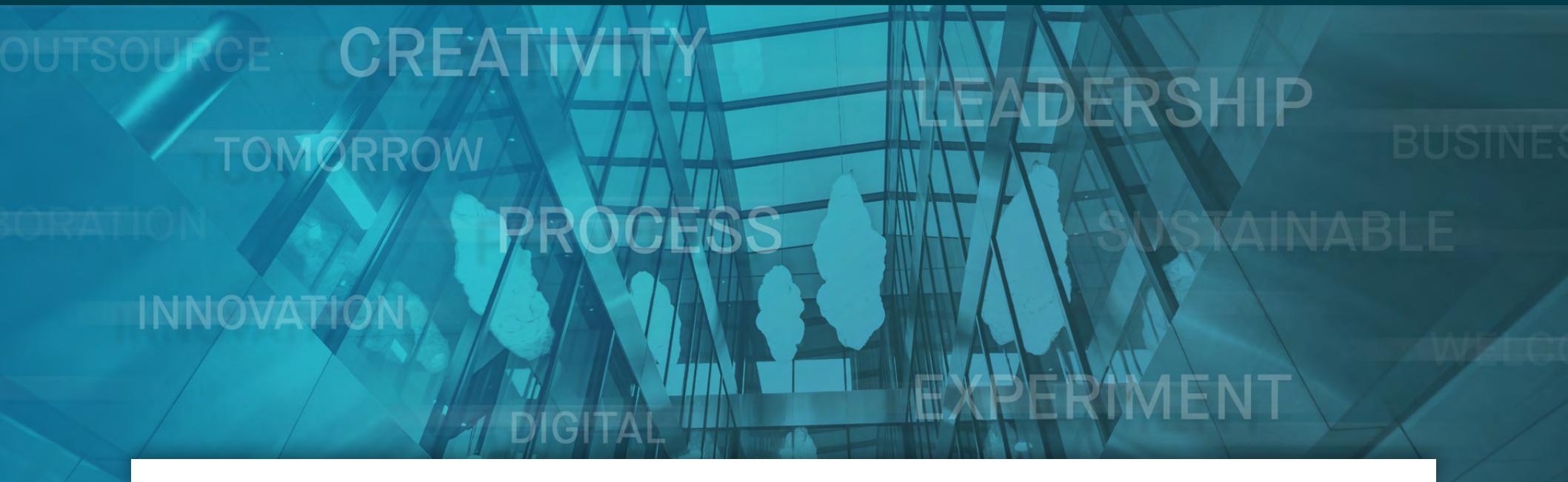
**Future outsourcing innovations (%)**



**Outsourcing scenario (%)**



## HOSPITALITY INNOVATION - TODAY



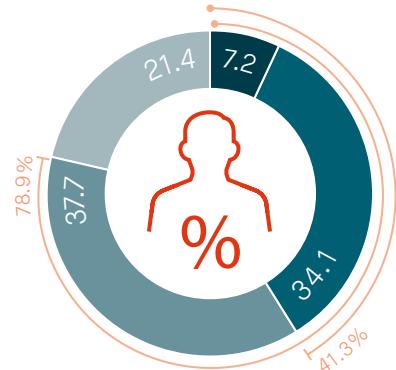
## SECTION 3

### HOSPITALITY INDUSTRY TODAY

## MAIN CHARACTERISTICS

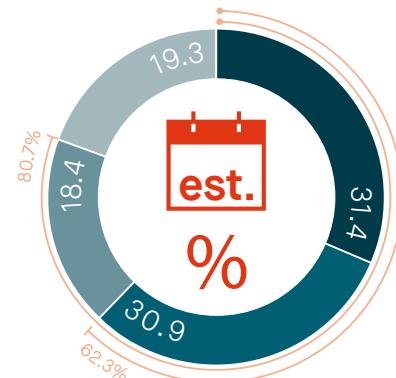
### Professional profil

- Board member
- CEO
- Area or business division Director
- Hotel General Manager / Director of a Department



### Year of establishment

- Pre 1970
- 1970-1999
- 2000-2009
- 2010-2017



### Type of property



34.1%



30.5%



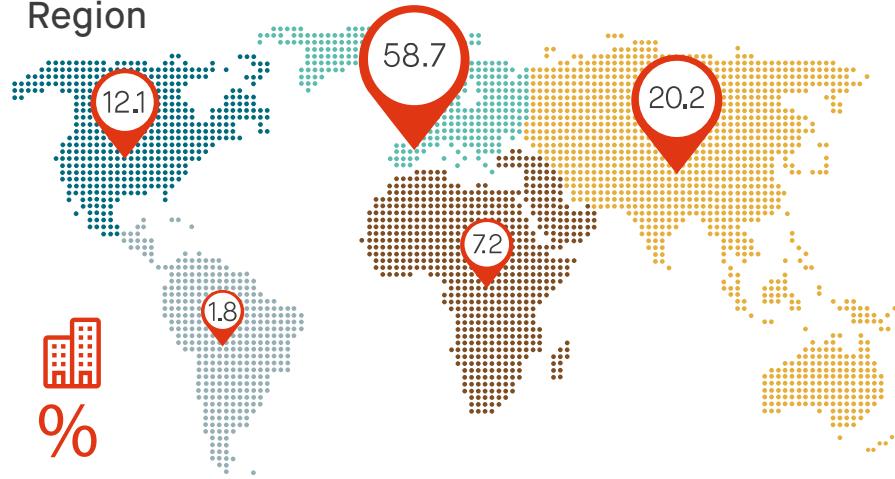
25.1%



10.3%

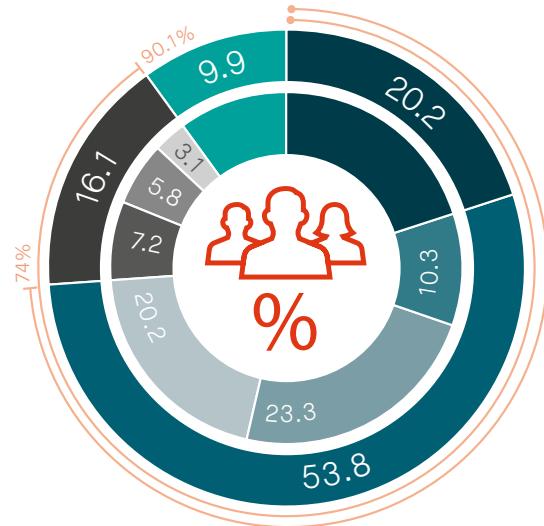
64.6% 89.7% 100%

### Region



### Number of employees

- < 49
- 50-499
- 500-999
- 1000-2499
- 2500-4999
- >5000



## FIRM PERFORMANCE AND SUCCESS FACTORS

We used subjective performance measures to assess firm performance and success factors, including ROI, ROA, customer retention, sales growth and bed occupancy rate. About 50% of top and senior managers in the study reported return on investment (ROI) greater than approximately 45% of all competitors in their main market segment and return on assets (ROA)

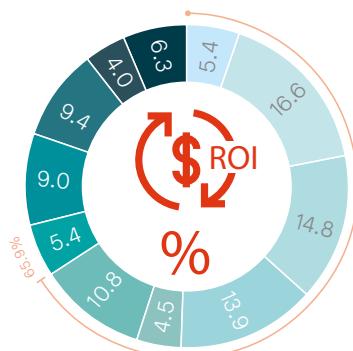
that was 20% higher than that of their competitors. Close to 15% are in the fourth quartile with customer retention and ROI exceeding 75% of all competitors. Only 5% of executives report their firm's ROI is less than that of their competitors.

Please rate how well your company has performed relative to all other competitors in the main market segment over the last year:

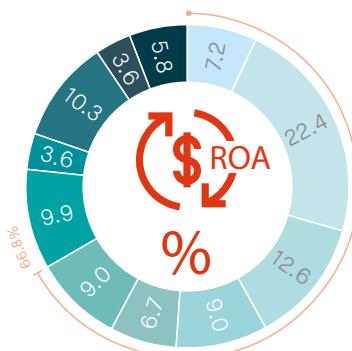
**Example:** If you believe that your sales growth is greater than approximately 45% of all competitors in your principal served market segment, rate yourself a 5 for the sales growth.

0%	1-10%	11-20%	21-30%	31-40%	41-50%	51-60%	61-70%	71-80%	81-90%	91-100%
0	1	2	3	4	5	6	7	8	9	10

### Subjective performance measures



Return on investment  
(ROI)



Return on assets  
(ROA)



Overall customer  
retention



Sales growth



Average bed  
occupancy rate

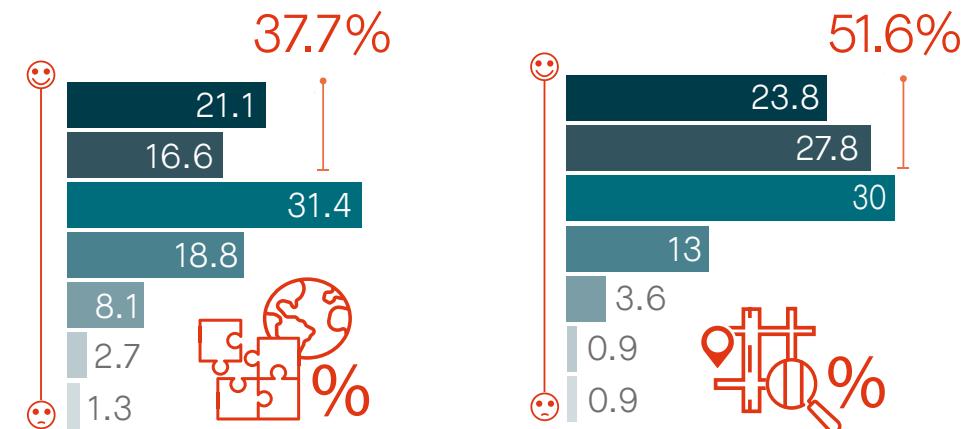
0%	1-10%	11-20%	21-30%	31-40%	41-50%	51-60%	61-70%	71-80%	81-90%	91-100%
0	1	2	3	4	5	6	7	8	9	10

## MARKET STRATEGY

Over half the companies operate in international markets, 36% in national markets and 25% in local markets. In terms of their global strategy, companies roughly split with regard to global integration or local adaptation of activities: 37% focus on global integration and 52% on local adaptation or responsiveness – the ability to adapt to the local environment, to adjust to cultural differences and to meet the specific needs of local customers.

*More than half the companies operate in international markets and follow a local adaptation strategy*

### Markets 2014-2016



Company commitment to global integration of activities is high

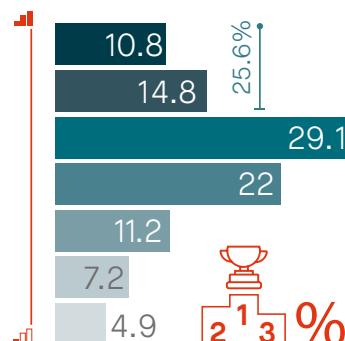
Company commitment to local adaptation of activities is high

## COMPETITIVE ENVIRONMENT

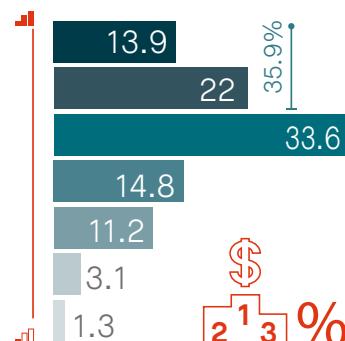
Hospitality firms face increasing disruption from competitors, intermediaries, technological firms, and customers themselves. As the industry embarks on a highly uncertain decade it is important to understand the causes and solutions to these recent disruptive forces.

By understanding the forces affecting the industry and the alternative solutions coming from innovative practices, hospitality firms will be able to make more informed decisions. For senior management in the hospitality industry it helps to better understand and evaluate not only hospitality companies but also the way competitors (OTAs, collaborative economy firms, other stakeholders) deal with disruption.

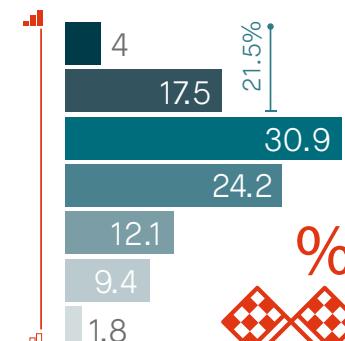
We asked executives to rate how much they disagree or agree with six elements characterizing the business environment and conditions in the primary markets they serve, including market competitive intensity, price competition, competitive moves or market dynamism, the collaborative economy (including increased competition from firms such as Airbnb), competition from OTAs (web-based distribution channels and search engine companies), technological turbulence and, finally, new generational turbulence related to younger customers' (millennial generation) tendency to have service-related needs that are different from existing customers.



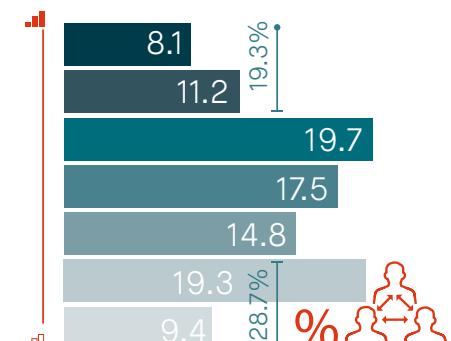
**Competitive intensity:**  
“Competition in our industry is cutthroat”



**Price competition:**  
“Price competition is a hallmark of our industry”



**Market dynamism:**  
“One hears of a new competitive move almost every day”



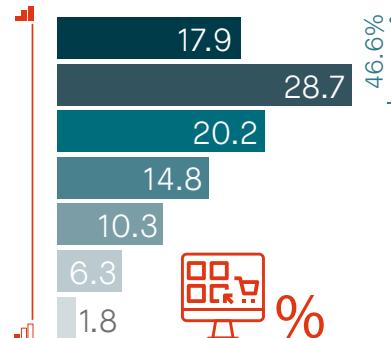
**Collaborative economy:**  
“Increased competition from collaborative firms such as Airbnb has a negative impact on our operations and profitability”

How much people agree with the statement? Disagree ■ 0% ■ 1% ■ 2% ■ 3% ■ 4% ■ 5% ■ 6% ■ 7% ■ 8% ■ 9% ■ 100% Totally agree

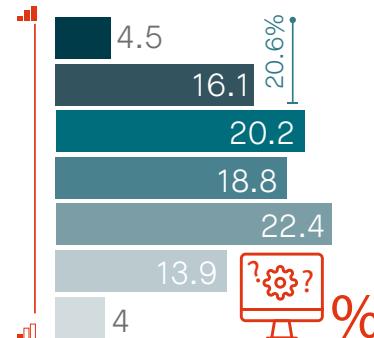
**Executives in our study agree very strongly with the negative effect of technological turbulence, OTAs and the so-called 'Millennial effect' on their sources of competitive advantage.** Price competition is also perceived as an extremely important source of disruption. In contrast, a large proportion of executives consider that market dynamism and industry-level competitive intensity have lower impact on their business environment.

Interestingly enough, **only three out of every ten leaders surveyed believe that increased competition from collaborative firms such as Airbnb has a negative impact** on their operations and profitability. Overall, only 4% of senior

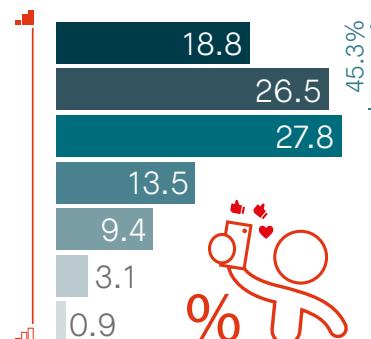
and top managers view the global environment favorably. Close to 70% of senior business leaders describe the competitive environment as somewhat disruptive. Finally, slightly over 25% of them rank the global environment as highly disruptive and uncertain.



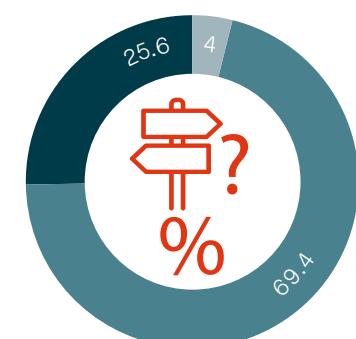
**OTAs:**  
“Competition from web-based distribution channels and search engine companies reduce traffic to our own distribution channels”



**Technological turbulence:**  
“It is very difficult to forecast where the technology in hospitality will be in the next two to three years”



**Millennial generation:**  
“Younger customers tend  
to have service-related needs  
that are different from  
those of our existing customers”



## Uncertainty of global competitive environment

How much people agree with the statement?  Disagree  <img alt="Small bar icon" data

■ Low ■ Medium ■ High

# CONCLUDING REMARKS

This industry report has offered insight into several important aspects of the challenges facing the hospitality industry.

Designing sound innovation strategies and deploying practical innovation activities is key to a healthy hospitality economy –and we believe that hotels have to reach higher maturity levels to advance this discussion.

What this innovation strategy will look like is very much an open question. Nevertheless, our research shows that it has to be demand-led, inclusive, sustainable, and open to external collaborations. By harnessing the potential of both technological and non-technological forms of innovation, hotels can develop a strategy that is, technically-speaking everything it needs to be (see: [rebrand.ly/Hospinnov-03](http://rebrand.ly/Hospinnov-03)).

We are also confident that with the right level of commitment and collaboration, the journey towards a professionalization of the innovation activity in hotels is feasible, economically viable and managerially possible. Furthermore, we believe there is an opportunity to create a new market for innovation collaboration among businesses and external partners—consulting firms, universities, research institutes, and entrepreneurial ventures—that does not exist today.

Yet, the increasing importance of a structured innovation process (see: [rebrand.ly/disrupinnov](http://rebrand.ly/disrupinnov)) and driving greater speed in translating innovation into new services are not fully appreciated. Addressing these shortcomings will require a determined and coordinated effort by both public actors and private businesses.

This is the rationale of this Industry Report, the Workshops on Hospitality Innovation held at EHL and the academic and professional articles published. At these events, and through the corresponding white papers, we bring together leaders and experts from around the world to look at how innovation strategy and innovation practices may play out in general, and in hospitality services in particular.

We hope you have found this paper useful, and would be delighted to continue the discussion.

*By harnessing the potential of both technological and non-technological forms of innovation, hotels can develop a strategy that is, technically-speaking, everything it needs to be.*

For more information, please [click here](#) 

or write an email to [Carlos.MARTIN-RIOS@ehl.ch](mailto:Carlos.MARTIN-RIOS@ehl.ch)

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## Recommended further reading on the topic of innovation for hospitality professionals:

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### **Innovation in luxury hotels**

ehotelier.com | [rebrand.ly/luxHotel-innov](https://rebrand.ly/luxHotel-innov)

### **New forms of innovation in hospitality**

ehotelier.com | [rebrand.ly/Hospinnov-02](https://rebrand.ly/Hospinnov-02)

### **Non-technological innovation in services (hotels and foodservice)**

ehl.edu | [rebrand.ly/Hospinnov-03](https://rebrand.ly/Hospinnov-03)

### **Hospitality innovation**

ehl.edu | [rebrand.ly/Hospinnov-04](https://rebrand.ly/Hospinnov-04)

### **Organizational innovation in hospitality**

ehotelier.com | [rebrand.ly/Hospinnov-05](https://rebrand.ly/Hospinnov-05)

### **Management innovation in hospitality**

hospitalitynet.org | [rebrand.ly/Hospinnov-06](https://rebrand.ly/Hospinnov-06)

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Also, in March 2017, a Workshop on Hospitality Innovation led by Professor Martin-Rios was conducted at the Ecole hôtelière de Lausanne that included the following international leaders from the global strategic and innovation

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**Ms. Marie Forestier**, Hotel Bon Rivage

**Mr. Oscar Herrera**, CIO Lopesan Group

**Mr. Mathieu Jaton**, CEO Montreux Jazz Festival Foundation

**Mr. Alain Kropf**, Hotel Royal Savoy

**Mr. Jean-Philippe Lallement**, EPFL Innovation Park Foundation

**Mr. Frank Lavey**, Senior VP Global Operations Hyatt Hotels

**Mr. Eugenio Minvielle**, President and Founder INNIT International

**Ms. Anne Sophie Pic**, Chef Maison Pic

**Mr. Fernando Polo**, CEO Territorio Creativo

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## OPPORTUNITIES FOR COLLABORATION WITH EHL



COLLABORATE FOR SUCCESS  
TAILORED OPPORTUNITIES & STRONG TALENTS

# A WIDE RANGE OF TAILORED OPPORTUNITIES

EHL prides itself on possessing and continuing to expand a large network of partnerships with key strategic actors in education and the hospitality industry. EHL does this in a variety of ways, most importantly through collaborative opportunities for companies and organizations to become actively engaged with the deep pool of talent that EHL enjoys through its existing students and faculty, as well as via its vast external network.

For additional details on collaboration opportunities and to find out more about how EHL can tailor projects and opportunities to your specific needs contact us:

 [partnership@ehl.ch](mailto:partnership@ehl.ch)



ACCESS THE BEST TALENT  
FOR YOUR RECRUITMENT NEEDS



RAISE YOUR BRAND'S  
PROFILE AND VISIBILITY



GAIN ACCESS TO VALUABLE  
KNOWLEDGE, INNOVATION  
AND RELEVANT SOLUTIONS



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Your valuable source of talent for interns and more experienced employees.



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EHL is dedicated to supporting and driving the continued growth and innovation in the hospitality industry. Working alongside the industry to develop knowledge and address practical issues faced by today's professionals, EHL is committed to making an active contribution to the regeneration of the industry. EHL offers numerous opportunities for your organization to tap into the vast experience and

expertise of our faculty to support your projects and talent development needs. Faculty members are consistently among the best in their respective fields, with PhDs from top universities, strong industry relations and experience, and they are regularly recognized with awards and honors from external institutions.



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## SUBMIT YOUR PROJECT:

### Current research themes:

- Hospitality innovation and sustainability
- Finance & real estate
- Human resources & leadership
- Consumer behavior
- Strategy
- Women in leadership
- Social media marketing
- Revenue management
- Hotel or restaurant concepts
- Customer loyalty programs
- Sustainable businesses, events or products
- Financial feasibility studies
- Flagship boutique concepts

### Student projects & business cases:

- Business plans and market research
- Marketing & sales strategies
- Restaurant digitalization projects
- Digitalization of processes or customer touchpoints