CONCLUSIONS OF THE CONFERENCE ON INNOVATION AND GROWTH IN TOURISM

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Abstract

In Lugano (Switzerland), the OECD Tourism Committee was the first intergovernmental body to examine in-depth the relationship between growth and innovation in the area of tourism. This paper examines the main issues raised during the Lugano Conference:

- Why does tourism in the developed OECD countries urgently need to innovate?
- What factors are preventing the much needed restructuring of the tourism industry?
- How are new tourism structures created?
- Is the tourism sector innovative?
- Are tourism innovations predictable, can they be planned?
- How does the tourism innovation process function at the corporate level?
- Is there a need for an innovation-oriented tourism policy?
- What can do the State to promote innovation?

Growth and productivity problems

Many of the OECD countries with a long tradition in tourism are suffering from growth and production weaknesses. The tourism market share of the developed OECD countries in the world has fallen. Moreover, the part of tourism to gross domestic product has fallen compared to the combined parts of the industrial and services sectors.

Tourism enterprises and industry branches are under tremendous competitive pressures. In a much liberalised world tourism market, they are competing with new destinations that can benefit from resources that are intact or in any case very little exploited, and from very favourable economic conditions including low wages and soft currencies.

The tourism industry has a productivity problem due to its fragmented nature, being made up of predominantly small-to-medium sized enterprises (SMEs) and to its high labour intensity. The tourism industry is, however, already relatively highly rationalised. Even so, core tourism industries, like accommodation and catering, are less productive than other economic sectors due to the personalised nature of their services.

This difference in productivity observed in tourism compared to the rest of the economy has to be reflected in the price, thus reducing tourism's competitiveness and ability to sell its products. The relatively low level of productivity also reduces the competitiveness of the sector in the capital and labour markets.

The urgent need for restructuring the tourism industry

Tourism's growth and production weaknesses have accelerated the restructuring process in the developed OECD economies. No effort should be made to slow this process down. The creative destruction of old structures and their replacement with new ones is essential for economic growth.

Many destinations appear to be nowadays out of fashion. Various products such as downhill skiing in the European Alps have reached the end of their life cycle. The older tourism countries are now paying the price of having been the first ones in the field. Their facilities and installations are becoming obsolescent. If you want to be "state-of-the-art" it is easier to start all over again than to try modernising the old installations.

It is increasingly clear that the small business structure of tourism destinations is a drawback in today's competitive conditions. Companies that are too small inevitably have to pay the price, being unable either to increase revenues or to reduce costs. The great diversity of services available at destination level has a utility value for individual tourists but since each service must be paid for separately, the final price will be extremely high.

The restructuring of the tourism industry has been delayed for too many years in the traditional tourism countries. Moreover, ad hoc State promotional measures contribute to maintain structures whose chances of survival are not very good in the long run. The current regulations are often not well adapted to the situation: under-regulation and over-regulation stimulate growth at a level which is either insufficient or excessive. The process of restructuring cannot be slowed down without serious consequences for the future.

Competition and market structures

Visitors consume a whole package of services which have to be provided by a very large number of suppliers. Tourism is a very heterogeneous industry, which is defined at the time of visitors' consumption. The tourism suppliers compete against one another. But they are also forced to co-operate to a certain extent when customers need additional services or a package of services.

New tourism structures are generated through the competition and cooperation of service providers. Tourism has developed a dual structure which influences to a large degree the level of change and its direction. The international travel and tourism industry makes use of global strategies to get the best out of local potential. It co-exists with small businesses which dominate the industrial structure in destinations and guarantee a great variety of products and services.

The international travel and tourism industry uses industrial methods to channel the increasing flows of visitors. The standardisation of production leads to an increasing return on investment and to important economies of scale, which in turn boost productivity and growth. As the size increases, competitors are forced out of the market, generating a process of concentration. This leads to the creation of quasi oligopolistic structures, as can be seen from the examples of tour operators, airline and cruise ship companies.

At destination level, the tourism industry is very fragmented with many different suppliers. Location-specific attractions and products are the raw materials that differentiate the destination and make it unique and unmistakeable. Since there are major natural, cultural and technical differences between individual locations, no one is truly alike. The competition that exists between destinations can therefore be described as monopolistic.

The power of innovation

Innovation research explains growth and productivity gains with the help of the long waves of the business cycles. These Kondratieff's waves relate to the so-called basic innovations. They lead to major changes and determine not only the direction but also the momentum of change. They usually bring about many so called application innovations. Travel and tourism influence everyday lifestyles. They have left their mark on our modern leisure society. The biggest innovations in tourism occur at the level of applications. Basic innovations in the transport field opened up new horizons for tourism. The inventions of the railway, of the automobile and of the plane revolutionised the industry, rolling back distances and making travel affordable for many. These innovations in transportation have made the creation of tourism growth poles possible and have allowed the development of new markets. The same is true with New Information Technologies (NIT) which have been extensively used by the tourism industries at a relatively early stage; NIT have contributed to a badly needed increase in productivity.

Looking back to history, it becomes clear that the tourism sector can be considered as innovative. As early as the 19th century, Thomas Cook was pioneering package tours, which standardised and industrialised the tourism dream for an ever greater number of visitors. At a later stage, tour operators invented the charter flight as a way of dealing with the inevitable seasonal peaks in air travel and to make flying cheaper. Civil aviation was the first sector to make full use of NIT for its Global Distribution Systems, making life considerably easier in this leading branch of tourism. Destinations stimulated the tourist's dream of an earthly paradise. Thanks to other tourism pioneers this dream took the convenient form of the fin de siècle Grand Hotel.

Destinations have transformed dreams in reality in an attempt to attract potential visitors. After the Grand Hotels of the Côte d'Azur and of the Alps, the industry adapted itself to the more modest dreams of the population at large, satisfying these customers with a variety of "holiday homes". Later on, the hotel chains have taken care of the quite different needs of the business travellers. To occupy the tourists, many sports have been developed and tailor made to the special needs of tourism. A prime example is downhill skiing which became a complex tourism industry in its own right.

Globalisation and the end of the tourism life cycle

Innovations follow the laws of natural growth, *i.e.* they have a life cycle which usually takes the form of a bell-shaped curve. The innovation cycle begins with the arrival of the innovation on the market, continues with the growth phase when turnover tends to rise sharply, and then reaches maturity and its peak value.

In tourism, the fact that innovation cycles have an end as well as a beginning was ignored for a long time. The traditional tourism countries spent the last 50 years developing industrial methods to cope with a growing tourism demand. They have been surprised by the globalisation process, including the internationalisation of tourism demand and the emergence of new competing regions.

A typical example of the life cycle of innovations is the decline of tourism in the Alps. In the last ten years, Alpine tourism has lost much of its market share. The Alps have benefited greatly from the post world war II economic boom and became one of the two largest tourism areas in Europe. A few years ago, the alpine destinations suddenly found themselves to be no longer fashionable and they lost their monopoly of winter tourism. Nowadays, tourists can choose between winter sports in the Alps or swimming and diving in the southern hemisphere. In fact, quality has often been neglected and anticipation to new demand trends has often been too slow.

A good illustration of the life cycle of innovations is downhill skiing. This sector enjoyed a high rate of growth until the 1980s. The cycle came full circle due to substitution competition. Industry suppliers fought back with new ski equipment, designed to make skiing easier and accessible to all-comers. New market niches were developed with the help of snowboards, transforming the ski slopes into a new version of California beaches for a new generation of snow surfers. Even so, the number of skiers did not begin to rise again.

Innovation as a new tourism production factor

Economists use to regard innovations as accidental events. As an exogenous factor, i.e. from the outside, innovations changed the direction of economic growth. This view assumed that innovations cannot be planned and produced at will. Innovation was regarded as the province of the creative entrepreneur who was prepared to take risks, and to devote much of his own time and money to the development of new business ideas. It is true, of course, that those pioneers did play a leading role in the early development of small tourism business in destinations. However, in the more mature economic sectors that depend on tourism, innovative entrepreneurs such as the US founder of the low cost carriers are today a rarity.

In the large tourism industry firms, innovations are a matter of routine. They are no longer a question of a happy accident or a sudden stroke of genius. In general, innovations are programmed by the enterprise. In modern enterprises, innovation is a standard component of corporate decision-making at the level of resource allocation. To make sure that they will not be caught off guard by unexpected innovations, today's companies have made the innovation process part of everyday planning. Innovation has to some extent been domesticated and has become a predictable and controllable bureaucratic process. It is now just one additional production factor.

Innovation in tourism is no longer a question of a giant leap forward. Innovation is more often constituted of a series of small steps that lead to incremental growth. Innovation is a feedback process. One innovation inevitably leads to another one. Innovations improve products and reduce the cost of processes. The innovation process has thus become an investment process. Large companies set aside a significant part of their total budget for research and development. In this regard, investments in innovation are not that different from investments in installations or equipment.

The innovation process does not function in a satisfactory manner in the destination-oriented small-business tourism industry. The main drawback is a lack of staff and funding. Tourism SMEs are above all concerned with the day to day needs of regular customers. They are not in a position to set aside funds for research and development. Moreover, in this field there are no patents that would compensate for the cost of innovation by providing monopoly profits.

The rise and fall of destinations

Tourism is unthinkable without the spatial dimension. It is above all the commoditisation and marketing of attractions. These are the raw materials of tourism. It is with this raw material that the market creates destinations. The visitor chooses the destination that seems to offer the greatest utility. He is willing to pay for destination goods. His willingness to pay increases with the uniqueness of the destination. In most cases these are public goods or common resources such as protected landscapes, or land reserved for agricultural use.

It is the local attractions that give the products of the destination their distinct flavour. They also limit the product innovation possibilities, as these innovations cannot be produced without the incorporation of destination goods. As an example, a seaside resort cannot be transformed into a mountain retreat. A tourism country with a variety of attractions can, however, reposition itself on the market. Spain's tourism industry for example is trying to make better use of the nation's cultural resources, in an effort to diversify a tourism portfolio that has relied too heavily on seaside attractions.

The fate of destinations depends on a great many independent variables. These include the location and potential of source markets as well as the accessibility as expressed in transport and time-related costs. These variables cannot be influenced either by the private or the public sector. Moreover they determine the nature of product innovations to a great extent. The challenge for the local entrepreneur is therefore to create additional customer value with new products.

Destinations have a life cycle like any other product, and it is not always possible to extend this life cycle by simply rejuvenating the products and services. In such situations, the solution is to invest in new economic activities. But there are few examples of successful diversification from tourism. Nonetheless certain regions have managed to somewhat reduce their dependence on tourism, like in the case of the Italian Dolomites through the manufacture of optical products.

The need for an innovation-oriented tourism policy

The future of traditional destinations will depend on a more innovation-oriented tourism policy. Such a policy could help to extend the life cycles of tourism products and services, and to achieve a steady rate of growth. As always, the latter depends on the inputs of capital and labour, of the development of more effective industrial structures and of the cultivation of promising new markets. But growth also requires more investment in training and know-how as well as in research and development.

These factors are seen as innovation creation mechanisms. They can contribute to further development. Properly trained managers, the development of sector-specific know-how and the support of research and development can create the conditions for a more forward looking tourism development, making possible the required innovations at product, process and marketing levels.

There is also the need for an innovation-oriented tourism policy at destination's level. The destinations must become more competitive on the national and international market places. In the context of the destination, better use must be made of the possibilities offered by endogenous growth. The agglomeration effects of existing tourism centres must be incorporated as external economies in tourism products, since in any case they cost companies nothing. Above all tourism companies must make the best possible use of all the advantages of internal growth.

The internal and external Economies of scale of companies increase with the size of the destination. In all traditional tourism regions there is a trend to concentration in the best and biggest locations. These tourism centres cast a shadow on the hinterland and impact negatively on the growth of smaller locations. The latter have to be content with the exploitation of niche markets which, because of constant economies of scale, are of no interest to the bigger destinations.

Innovation creation mechanisms

An innovation-oriented tourism policy requires the adjustment of certain instruments.

Training creates personalised know-how in the form of personalised human capital. The impact is mainly over the long term. Together with other variables like personal commitment and hard work, they can contribute to improve the productivity of labour. This calls into question the current trend towards classroom-based tourism training and a more academic approach to the industry. Learning on the job and through hands-on experience is as important for tourism services as it is to be near the market. Optimum learning is possible at the level of the destination, where there is face-to-face communication between customers, management and those in the field.

Another innovation creation mechanism is the production and diffusion of know-how that is available outside the company. Productivity increases when an enterprise can have access to the pool of sector-specific or macroeconomic know-how. The diffusion of knowledge stimulates innovation and ensures the gradual introduction of innovations.

Another possibility is the creation of an innovation promotion programme. Tourism policy like technology policy can be used to create framework conditions that will help to develop and improve the innovation process. Such programmes can promote both competition and co-operation between suppliers, and accelerate the process of restructuring. They also help to improve the innovation climate among the small businesses that are the backbone of the tourism industry. Due to the special nature of tourism, competition between destinations is increasingly a matter of innovation.