

BUSINESS DEVELOPMENT IN TOURISM AND TECHNOLOGY

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Abstract:

The paper presents the relationship between the development of tourism business and the technology developed through the concept of innovative business model, as illustrated in the literature as a particularly important concept in the world where technological change presents new ways to do business and as an instrument to obtain the competitive advantage. It is presented the structure of the business model for the traditional tourism operator and for the online tourism operator based on the Canvas Business Model introduced by Osterwalder and Pigneur.

The paper illustrates the influence of new technologies in building innovative business models in the tourism sector by considering the impact of the social and technological factors. Touroperators need to constantly innovate to meet the needs of increasingly experienced customers and to maintain themselves in a strong competitive market. From the case studies presented, namely the business model of a traditional agency - Thomas Cook and an online agency -Expedia Inc., it follows that the development of on-line tourism business facilitates the convergence between the business model of traditional agencies and online travel agencies

Key words: *innovative business model, Canvas Business Model, traditional travel agency, online travel agency- OTA*

JEL Classification Codes: M15, M16, O32, O35

1. INTRODUCTION

Under the current conditions, each industry is influenced by external and internal factors that play an important role in organizing the companies' activities from the respective business sector. Competition in the tourist sector nowadays is extremely fierce due to the tourists' consumer experience, the increase in the number of trips for tourism purposes and the reduction of the time available for documentation in order to identify the tourist product adapted to personal needs, but also due to the emergence of the Internet, which has changed the dynamics in the tourism industry and has influenced the level of costs. New technologies allow customers to easily get information and compare prices. The business models promoted by economic agents in tourism have evolved as a result of the influence of social and technological factors.

Many articles highlight the relationship between the business model and the competitive advantage. From the perspective of historians, the business model is seen as a way of combining the activities of different economic agents into networks that have led to progress. Other authors relate the concept of business model to the ecosystem one (Adner and Kapoor, 2010)

The essence of the model business concept can be highlighted by analyzing its two components, namely the model defined as a symbolic representation, or a simplified version of a system, structure or aspect of the real world and the business that involves the exchange of goods and / or services made by an organization for profit. An in-depth analysis of the business model makes it possible to understand each component and their interrelation, making the business model a useful tool for management to take better decisions (Hacklin and Wallnöfer, 2012).

Innovative business model is particularly important in a world where technological change presents new ways to do business and competition is fierce. The innovative business model is based on the development of a technology that changes the value chain, the combination of the digital and physical framework, the transformation of products into

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services. The Economist Intelligence Unit, after conducting a survey of sources of significant competitive advantage over the coming years, concluded that “the way in which the companies do business will often be the same or more important than what they do” (The Economist Intelligence Unit, 2005, p.9). Business models have been seen as a source of innovation since current market actors have begun to connect in new ways and have introduced new transaction processes.

The development of new ICTs, and in particular the emergence of the Internet, has affected the tourism industry to a large extent and the constant online growth can not be ignored. Moreover, it is important to note that new ICT technologies have enabled tourists to easily obtain information and compare prices, increased travelers' desire for personalized holidays, and this has intensified the competition. In addition, the Internet has facilitated the accelerated development of the tourism industry, reducing market entry barriers, a greater transparency in terms of price levels, distribution channels, lower transfer costs, increasing the efficiency of tourism production, giving companies the chance to grow their business on a challenging market.

2. THE BUSINESS MODEL - A CHALLENGE TO OBTAIN COMPETITIVE ADVANTAGE

The concept of business model has been extensively discussed in the literature, with a multitude of points of view related to this subject. Chesbrough și Rosenbloom (2002) show that a simple search on the Internet of the term "business model" led to 107,000 references. The first idea about the business model appeared in an academic article from 1957 (Bellman, Clark, Malcom Craft & Ricciardi, 1957). The business model as a term was first used by Peter Drucker, in 1954, which he defined as an instrument capable of answering to the following questions: (1) “who is the customer and what does the customer value?” Drucker's definition was later used by other authors to describe the concept of business model.

Most authors, however, state that the term "business model" in the management literature has only begun to be widely used since 1990. (Ballon, 2007; Demil, Lecocq, 2010; Kinderis, 2012, Trkman, 2014). The authors also noted that this term is commonly wrongly used in public, because the development of the term business model was promoted primarily by practitioners and then conceptualized by scientists..

Definitions of the business model in specialized literature

DaSilva, Trkman, 2014	The term "business model" is commonly used as a synonym for strategy, as a business concept, revenue model, economic model, business model, business modeling
Bocken et al. 2014	The essence of business model is in defining the manner by which the enterprise delivers the value to the customers and entices customers to pay for the value and converts this into profit
Ghezzi 2014	The strategic analysis, based only on the business model, is doomed to failure
Weill și Vitale, 2013	The business model is brand, offer variety, price-value equation, and full consolidation in a single point of contact
Fuller, Mangematin 2013,	The business model is a cognitive tool that incorporates causal links between the traditional elements of the organization and the external environment. The typology of business models include four elements: client segments, customer engagement (customer proposals), money generation or value chain and link architecture or chain of governance. Each of these elements are considering either creating value or capitalization value, or both.
Soda and Furnari 2012	The business models can be seen as those configurations that give the essence of the cause-effect relationship that can help managers think about how to achieve success and for researchers to develop new theories
Kinderis, 2012	Thanks to the business model, enterprises are able to commercialize new ideas, stand and create new value, meet customer needs better.

Fiss 2011	The business model should capture the essence of cause and effect relationships between customers, organization and money, being a configuration of these.
Adner and Kapoor, 2010	The concept of business model to the ecosystem one
Alexander Osterwalder and Yves Pigneur,2010	The business model is "the rationale of being, the way in which it creates an organization, offers and captures value. They propose Canvas business model which is a "common language for describing, visualizing, evaluating and changing business models". Canvas itself consists of nine building blocks (customer segment, customer relationship, proposed value, channels, key partners, key activities, key resources, revenue streams and cost structure) and 4 pillars: product, customer interface, infrastructure management and financial aspects (Osterwalder & Pigneur, 2005), which can be compared to the four perspectives of Balanced Scorecard Norton and Kaplan (2001).
Jucevicius & Uus, 2008	Every business model consists of corresponding costs and revenue model – how enterprise optimally distributes the costs in its value creation chain and what mechanisms are used in order to get incomes from conducted activity
Osterwalder ,2004	The business model as a network made of: business architecture, ICT and strategy
Magretta,2002	The business model is a story about an organization responding to the questions raised by Peter Drucker (1995): who is the client? What is the value for the client?" Magretta argued that a business model should answer questions about how the organization's activity is assessed by customers and how the organization can achieve value throughout processes that are designed to meet customer needs. Therefore, in the definition of a business model, it associates a two-part value chain: „one part includes all the activities associated with doing something: designing it, purchasing raw materials, manufacturing, etc. Part two covers all activities associated with the sale: identifying and reaching customers, closing the deal, distributing the product or providing the service. A new business model can start from designing a new product to an unmet need or innovating a process“.

3. INFORMATION TECHNOLOGY AND INNOVATIVE BUSINESS MODELS

Information technology is defined as the technology that involves the development, maintenance and use of information systems, software and networks for the processing and distribution of data.

The emergence of the Internet and other technological advances has allowed businesses to exploit new payment sources, deploy cost-effective structures, and also reduce transaction costs. Specifically, the emergence of information technology has allowed new business models to emerge. In fact, it was one of the factors of the innovative business model. More and more companies are present on the internet totally or partially and this gives them the opportunity to have new sales channels, new means of research for customers and especially the possibility to co-create with customers (Vine și Berniker, 2008).

Technology plays an important role in the practice of any field, as its constant growth creates great opportunities for improvement of offers, creates the possibility of continuous business innovations in the form of new products as well as effective and efficient processes. The dynamics of the business model is influenced by external factors. Each field of activity is confronted with challenges determined by the political, economic, social, legal, technological, and environmental factor.

Teece states that companies that develop the innovative business model from their own initiative and not as a result of outside events have greater advantages (Teece, 2010).

Amit and Zott, (2010) consider the fact that the innovative business model is not related to what is offered on the market but to the way it is offered. A business model is innovative as it exploits new technologies such as Internet or social networks that allow organizations to interact in new ways with their partners, customers and sellers in an

innovative way. An innovative business model should not necessarily involve large amounts of research and development resources to discover new technologies.

Chesbrough and Rosenbloom associate technology and business model to an intertwined process defined as the “heuristic logic that connects technical potential with the realization of economic value (2002). Business model “translates between the technical and the social domains, selecting and filtering technologies, packaging them into particular configurations to be offered to the market. They divide the business model in six functions:

- the proposed value - the way in which the technology used helps to create value for users;
- the market segment - the categories of customers who will benefit from the technology and the reasons that support the revenue mechanism for each market segment;
- chain value - the steps needed to provide value and the assets used to achieve value in the chain;
- cost structure and potential profit - estimation of costs that will be incurred by the company to produce and deliver the proposed value and the potential profits that can be obtained;
- network value - the value obtained by networking customers, suppliers and competitors and the impact of their activities on the value;
- Competitive strategy – the formula by which the company will gain a competitive advantage.

Amit and Zott emphasize e-business and describe the business model as “the content, structure and governance of transactions designed so as to create value through the exploitation of business opportunities Amit and Zott 2010, p.219). In their opinion, an effective business model is one that makes it possible to obtain value for each party involved in the process through greater negotiating power determined by the size of the business and the parties involved in the process.

Designing the activity system as part of the business model is ensured by including new activities, new ways of managing activities, by capturing and holding customers using external networks or transfer costs by grouping activities within the system to achieve a higher value than by their separate approach, streamlining by reducing transaction costs.

Therefore, the *innovative business model* can be defined as the process by which an organization redefines the value of its offer to its customers and how it will obtain a new source of profit.

In Amit and Zott opinion (2010) business model innovation may accompany product, service, process and position innovation and also create new opportunities to exploit existing markets or even create new ones. *Services innovation* – is defined as a new concept, a highly refined service that is carried out by organizations. This concept can be linked to different functions within the firm, such as a customer interaction channel, a distribution system, or a combination of technology concepts that enable the firm to deliver a new product or service to the market and to favor the society to acquire new capabilities, n human, technological and organizational dimensions. *Services innovation* could be a result of marketing activity, staff training, and how to use the organization's specific resources and competencies. *The process innovation* consists in creating a new or improved production or delivery method. This requires changes to the techniques, software and equipment used to deliver the products. The purpose of process innovations is to reduce production or delivery costs, or to increase the quality of delivered products. *Position innovation* is simply the process through which new products, concepts, or technologies are conceived and communicated in different contexts. It is redefining how a product or technology can be used by the user, new channels through which users can exploit opportunities and knowledge. Often, customers are not able to perceive the benefits that a technology or a product can have in a different context because they cannot know the benefits they can get. Companies are able to position products, concepts and technologies in different contexts when a certain need has already been identified. The American theorist, Henry Chesbrough, supported the closed innovation, namely achieving a

competitive advantage by funding research and development by large companies that improve technologies which become the core of new products. This is a paradigm of the late 20th century. Towards the end of the 20th century, business landscape factors began to change, and gave birth to Open Innovation. *Technological innovation* is simply the activity through which new or improved technologies in the form of products, services and processes are developed and introduced into the market.

4. BUSINESS MODELS IN TRADITIONAL AND MODERN TRAVEL AGENCIES.CASE STUDY

Tourism intermediaries have decided to adopt new business models based on information technology. With the help of IT, tourism operators can build contacts, can combine in an innovative way different types of products and services to provide customers with flexible and personalized solutions and to meet the needs of growing market segments. Due to the growing of Internet users, there are now business models that ensure getting value for all stakeholders in tourism activity.

Online tourism agencies are developing increasingly complex business models and their operations are based on a virtual structure, not a physical one. In the literature, business models were classified according to the range of products and services offered: *Electronic Booking Services*- information providers conducting direct booking services; *Flexible Comparison Shopping Services* - „generalists“, gateways supported by research tools to help customers make choices.

Starting from Canvas Business Model introduced by Alexander Osterwalder and Yves Pigneur, the business model of the traditional tourism agency, with the integration of CRS and GDS, can be described as such:

1. Customer segments – are represented by traditional travel agencies as an intermediary between the tourist services provider and the travel consumers (tourists who travel for business or leisure, as well as tour operators: hotels, restaurants, etc.);

2. Customer relationship – the travel agency establishes relationships with each of the customer segments. Initially, he had a face-to-face relationship with tourists in the holiday booking process and a direct relationship with tourism providers through partnerships, CRS and GDS.

3. Channels

4. The proposed value - clients select travel agencies to book their vacation and get an "expert" advice, advice on suggested places, personalized holidays, etc.;

5. Key partners - travel agencies that have partnerships with tour operators deal with all the details needed to book a trip, and with service suppliers providing access to accommodation and transport databases;

6. Key activities - in order to achieve the proposed value, travel agencies have access to CRS and GDS for pricing options. They had partnerships with tour operators also for services provided.

7. Key resources - to create value for customers, they had resources such as holiday location knowledge, exclusive deals and customer service to offer a perfect holiday planned at the last detail;

8. Cost structure - Fixed and variable costs of travel agencies consisted of: rent, travel agent wages, platform acquisition / development, CRS and GDS;

9. Revenue sources - revenue from the sale of tourist products provided by service suppliers for for tourists, commission from service suppliers and an increase for customer service.

Internet development has helped move to an online travel agency (OTA), and the business model is the following:

1. Customer Segments - OTA acts as an intermediary between service providers and travelers. Thus, their customer segments are tourists traveling either for business or leisure, as well as tourism providers, thus service, hotels, restaurants providers, etc.

2. Customer Relationships - they only have online relationships between OTA and their customers.
3. Channels - distribution is done only through online channels by OTA.
4. The proposed value - OTA allows tourists to personalize their vacations, offering accommodation, transport and complementary service options in a more independent and flexible manner, thanks to the ability to access OTA at any time of the day.
5. Key partners - OTA has partnerships with service providers such as hotels, transport companies and complementary service providers.
6. Key activities - OTA travel agencies have a network with service providers.
7. Key resources - to create value for customers, OTA offers low prices, personalization of vacation and Internet access at any time.
8. Cost Structure - OTA has to cover its costs of development and maintenance platform.
9. Income sources - Income from booking fees, by buying at a low price and selling at a premium price.

Thus, the value chain in the tourism sector can be represented as follows: the travel agent serves as a "retailer", linking to the travel service providers (wholesalers) by controlling the flow of information in the value chain and the sale of passenger information (Liu, 2005). Online travel agencies, such as Expedia, have achieved high value for the chain of activities through the implementation of the Internet.

Canvas business model – Traditional travel agency - Thomas Cook

Thomas Cook Group was founded in 1842 when it offered its first organized tour (Thomas Cook Group, 2014a). Over time, the company had to cope with several challenges caused by changing technology and the influence of other market factors.

"We must continue to innovate and change, offering holidays that inspire and delight our customers. Our progress in the last 12 months gives me the confidence that we are doing all the right things to position us for many years to come, to the benefit of our customers, our people and our shareholders." (P. Fankhauser chief executive officer, 2016)

The good reputation in terms of delivering value to the tourist is an important reason why the company has been successful for more than 100 years. Compared with the main competitors, they promise customers "value, flexibility and choice", and continuously innovations to meet the future needs of the tourist (Thomas Cook, 2014c). The organization's infrastructure consists of a regularly expanded partnership network, including companies like Neckermann, Ving, Spies and Tjäreborg (Thomas Cook Group, 2013). Based on experience, they have been able to develop good expertise in market management, risk and modern management methods. Regarding the financial aspects of the company, their business model concept as a travel agent suggests working with commissions paid by a third party provider. The main external factors for the evolution of Thomas Cook's business model are technological, social and economic factors. Therefore, the company has expanded its distribution channel from off-line travel agencies to on-line websites and call centers in order to provide customers with a variety of options that match their personal purchasing behavior. Thomas Cook is a perfect example for a traditional tourism company that has set up a business model based on business realignment. The organization has retained its original business model as a tourism operator, but tries to incorporate new technologies and expand their scope in order to meet the needs of their customers and in turn to remain profitable in the long term. To overcome the competitive pressure degraded by the new trend towards low-cost air travel, Thomas Cook has adjusted infrastructure management in several ways. He created a corporation with Accenture, which will set up an IT infrastructure that integrates European travel services into a group organization (Hatter, 2011). This collaboration should reduce the costs and, implicitly, the prices for the customer. Moreover, Thomas Cook invested in their own airline company (Condor), which allows them to maintain a certain degree of independence (Thomas Cook Group, 2013). The social aspect, namely changing consumer

behavior, turning tourists into more exigent customers in terms of experience and personalized holidays, has prompted the company to rethink its strategy by offering mainly pre-packaged holidays. It was inevitable to launch new product offers such as independent flights as well as a selection of financial services and other travel related services such as Thomas Cook. Therefore, the organization needs constant innovation to counter the threat of new entrants and maintain its strong position on the market.

Although the company has a long history of success with their business model as a tourism operator, it has made several adjustments to meet the challenges of the industry. Thomas Cook is particularly influenced by technological, economic and social factors. But the social factor had the biggest impact on the company's innovative business model. The development of new technologies has become a means of achieving a goal, offering the possibility of expanding the distribution channel and reducing the processing time of reservations.

Canvas business model -Online travel agency - Expedia Inc.

Expedia Inc was founded in 1996 and is one of the first online travel agencies. The company offers a unique online planning tool that allows customers to reserve airline tickets, hotel bookings and car rental as well as other complementary services (Expedia Inc, 2013a). The variety of different options allows the user to create his own personalized holiday package which increases satisfaction compared to product offerings conventional mass tourism. However, even if Expedia Inc has managed to establish a strong market position in the online tourism industry, they are also affected by external factors that stimulate the need for business model adjustments. The Canvas business model is structured on the four pillars: (Osterwalder & Pigneur, 2005): Product • Travel products in the form of flights, accommodation as well as complementary service offers; Customer interface only through the online channel for leisure customers or business travelers; Infrastructure Management • Expanded portfolio offering some of the world's leading online tourism brands covering virtually all aspects of research, planning and travel booking; Financial aspects • Offers a trader and a new agent model (ETP program).

Expedia Inc offers a variety of product values such as airline tickets, accommodation and additional services. Thus, those targeted are customers looking for travel products that cover both business and leisure purposes. The organization places a particular emphasis on the proposed value, namely "the revolution of the journey through the power of technology" (Expedia Inc, 2014a). In this regard, they have developed a service concept that incorporates three main aspects: the best price guarantee, a travel guide that provides valuable customer information on the destination and the local people's recommendations in the form of itineraries adapted to the length of stay (Expedia Inc., 2014c). Third, the company launched the so-called Expedia Promise, a variety of promises to the customer in terms of the best value, honesty as well as easy-to-use and security services (Expedia Inc., 2014d). However, thanks to the limited online distribution channel, Expedia Inc can only address customers with an Internet access experience. Important partners include hotels.com, eLong.com covering almost every holiday aspect (Expedia Inc., 2013a). In addition, the company has established a new financial structure that incorporates both a merchant model and an agent model. The first is a common distribution strategy in the tourism industry and indicates that a hotel room is sold with the help of the website. They use a program called Expedia Traveler Preference (ETP) that gives the customer the choice to pay his hotel room directly online or later when the customer arrives at his destination (O'Neill, 2012a). Competition in the market is supported by online travel agencies like Orbitz, Travelocity, priceline.com și booking.com (Schofield, 2011). The emergence of the Internet has increased rivalry due to a variety of factors, such as low switching costs, low product differentiation level and the perishability of travel products. Current competition is based on more personalized and differentiated offers. Introduced new concepts such as the best guaranteed price (Expedia Inc., 2014b), as well as

Personal Travel Guide (Expedia Inc., 2014c). There is still that customer reluctance with regard to potential security issues, especially with regard to online payment. As a result, they introduced a new pricing mechanism in the form of an agent model called the Expedia Traveler Program -ETP (O'Neill, 2012a). This program allows the customer to decide when the trip is paid. The company provides access to its own data base through an off-line channel in the form of collaborations with traditional agencies (Expedia Inc., 2013b). As far as the financial aspects are concerned, it can be seen that the company is trying to carry out different pricing structures simultaneously in order to offer their customers with more options that fit their individual preferences.

For Expedia Inc., the main factors that require change are the economic ones in the form of the low-cost airline threat, then the political factor in terms of potential security issues and last, but not least, the behavior of the customer. The most striking aspect is the social influence, as it is a precondition for the innovation business model for Expedia Inc. The more demanding, inspired and motivated, the customer requires the company to launch new programs to meet the needs of travelers.

4. CONCLUSIONS

To meet buyer requirements, to monitor competition, tourism organizations constantly need to innovate in order to stay in the market. In the tourism industry, traditional tourism operators, for example, Thomas Cook, should not rely on their past success but should actively engage in strategic experiments, while new entrants, such as online travel agencies, for example Expedia Inc., must create an attractive business model to support the purchasing behavior of tourists.

However, even if there is an increase in interest in identifying a journey using virtual space, the business model based on modern technology will not be a dominant business model in the near future, as traditional travel agencies still enjoy a high reputation in terms of customer service and personal involvement. Due to the current demographic features, the offline channel will still be preferred by the older generation due to the lack of digital competences. On the other hand, as the evolution of the business model of case studies demonstrates, for example, Expedia Inc.'s collaboration with offline travel agencies and Thomas Cook, with an on-line presence, the rupture between the two business models is steadily decreasing. Thus, in order to remain competitive in the tourism industry, it is important to invest sufficient resources in market analysis and in innovative business models. In addition, the trend towards online distribution is noteworthy, and the affinity to the Internet will favor the development of innovative business models of tourism. The changes in customer behavior and the emergence of new technologies create conditions for the tourism sector to become an attractive business sector for new start-ups and to challenge existing firms to maintain their market share.

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