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Procedia Social and Behavioral Sciences

Procedia - Social and Behavioral Sciences 221 (2016) 166 – 175

SIM 2015 / 13th International Symposium in Management

The Impact of Innovations on the Business Model: Exploratory Analysis of a Small Travel Agency

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Abstract

The objective of this exploratory paper is to analyse the innovations introduced by a small travel agency and their impact on the firm's business model in the specific context of a salt mine in Romania. In particular, the purpose of this paper is to analyse the business model of the small firm that did not introduce a single innovation. A case study provides rich data on "unbundling" made by the entrepreneur and the trade-offs decisions that affect the business model. The paper highlights the implications of the entrepreneur's decision to implement in a short period of time a "package" of product, process, marketing and organizational innovations and their impact upon the business model, and describes the transformation of the company due to changes in the environment (content and relationships among the building blocks of the business model).

Peer-review under responsibility of SIM 2015 / 13th International Symposium in Management

Keywords: Business model, innovation, case study, small firm, tourism industry;

1. Introduction

The economic crisis hit earnings and made consumers raise their expectations regarding value for money in terms of both quality and overall service experience, which determined companies to strive to satisfy customers' needs and demands for better value. Innovation is a source of competitive advantage for all companies from the tourism industry (Den Hertog, Gallouj, & Segers, 2011; Tang, Wang, & Tang, 2015; Victorino & Verma, 2005) including SMEs. In order to survive and prosper, successful companies introduced innovations, which generate changes within

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Peer-review under responsibility of SIM 2015 / 13th International Symposium in Management
doi:10.1016/j.sbspro.2016.05.103

the firms through implementation processes and consequences upon their business model that enabled profit generation.

Romania is one of the modest innovators (European Union, 2013), a fact that was consistent for the last several years. Tourism is an important industrial sector, which is underperforming. Whilst there are some significant factors that influence the sector's performance such as infrastructure and government policy, identifying successful innovators and analysing their behaviour could provide important insight and theoretical models that may be useful to design better policies and support other entrepreneurs and family hotel owners to become more competitive.

We wanted to analyse the innovations introduced by a small business travel agency within the context of a salt mine village resort in order to better understand how it provided better value to customers and the impact of such innovation on the companies' business model.

2. Literature review

2.1. Categories of innovation

Eurostat (2014) defines innovation as „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. Innovations should be new to the enterprise concerned: for product innovations, they do not necessarily have to be new to the market and, for process innovations, the enterprise does not necessarily have to be the first one to have introduced the process".

- ***Product innovation*** – "is the market introduction of a new or a significantly improved good or service with respect to its characteristics or intended uses. This includes significant improvements in technical specifications, components and materials, incorporated software, user friendliness or other functional characteristics." (Eurostat, 2014)
- ***Process innovation*** – "is the implementation of a new or significantly improved production process, distribution method or support activity for goods or services. This includes changes in technique, equipment and/or software" (Eurostat, 2014)
- ***Marketing innovation*** – "is the implementation of a new marketing method involving significant changes in product design or packaging, product placement, product promotion or pricing. These are aimed at better addressing customer needs, opening new markets on newly positioning a firm's product on the market with the objective of increasing the firm's sales. The distinguishing feature is the implementation of a marketing method not previously used by the firm." (Eurostat, 2014)
- ***Organisational innovation*** – "is the implementation of a new organisational method in the firm's business practices, workplace organisation or external relations. These can be intended to increase a firm's performance by reducing costs (administrative, transaction or supplies), improving workplace satisfaction or gaining access to non-tradable assets (such as non-codified external knowledge). The distinguishing feature is the implementation of an organisational method not previously used by the firm and that is the result of strategic decision taken by management." (Eurostat, 2014)

It is the organizational innovation which opens the analysis of the firm using business models.

Hjalager (2010) proposed three more innovation categories in Tourism, beyond the product and process innovations used by Eurostat: "Managerial, management and Institutional innovations". In order to focus on the innovations introduced by the firm from the case-study and their impact upon the business model, this research considered only the four Eurostat categories: product, process, marketing and organizational.

Same four categories of innovations were used in a study of sources of information supporting innovations in food industry (Lefebvre, De Steur, & Gellynck, 2015) and focuses on the types of knowledge associated with various types of innovations. The authors reported several studies where companies introduced innovations in the food industry (product, process and marketing or all four categories). Such studies were not related with the organizational transformation analysed using business models, thus highlighting the relevance of our study.

To stay competitive, a business should strive to include innovations: introducing new technologies design and manufacture enhanced products and services, augment business processes and marketing activities, or reform and