



INNOVATION IS WHAT KEEPS INVESTMENT IN ISLAND TOURISM GOING

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Negative Externalities

- International tourism is still feeling the effects of the recession and living in an atmosphere that is not conducive to consumer spending
- Unlike larger countries the Islands, especially the smaller Islands, suffer most from negative externalities as they can hardly survive on internal tourism.

Definition

- Joseph Schumpeter:
 - Innovation in tourism is “a broad concept encompassing new products, processes, markets, materials and forms of organization.” The common thread between all these changes is that they involve “carrying out new combinations ” which are qualitatively important and introduced by dynamic business leaders or “entrepreneurs’.

Innovation vs Creativity

- Many confuse innovation with creativity.
 - Creativity
 - Production of new ideas, new approaches and inventions
 - Innovation
 - Application of new and creative ideas and the implementation of inventions.

What distinguishes innovation from mere change is that innovation involves discontinuity

Innovation NOT always a positive development for sustainable tourism

- Superstore = decline of small shops
- ICT is disrupting the world of tourism distribution
- Negative environmental impact

Risk

- Risk increases with uncertainty and as innovation becomes more radical
- Risk inherent in innovation inhibits innovation
- Timing in innovation is so important

Identifying innovation in tourism

- Looking for features that are either shared with or distinct from those innovations in other service industries.
- “Experience goods” par excellence.
- Activities that feature proximity to leisure industries

Productivity

- Economically speaking, one of the least productive sectors
 - In Switzerland: tourism productivity per employee is 40% less than that in the machine industry in tourism.
- There is a limit as to how much innovation can vary the capital versus labour ratio in the tourism industry without an upstage of the negative impact on the tourist.
- Innovation in tourism geared primarily at increased labour productivity alone is not the best option

Success in Innovation (1)

- Carl Franklin : “Why Innovation Fails”
 - Successful innovations all had the following features:
 - Moderately new to the market
 - Based on tried and tested technology
 - Saved money
 - Met customers’ needs
 - Supported existing practices
 - The products that failed:
 - Based on cutting-edge or untested technology
 - Created with no defined solution in hand
 - Followed a ‘me-too’ approach

Success in Innovation (2)

– Idea factors:

- Market research ✓✓
- Trend following **X**
- Need spotting ✓
- Solution spotting ✓
- Mental inventions **X**
- Random events ✓✓✓

Dilemma

- Investors must approve and cause the implementation of innovation or allow their business to die
- To innovate they run a considerable risk of failure
- Most investors in an Island economy are small so they cannot afford to make mistakes as they are not big enough to compensate mistakes with successes elsewhere

Collaboration in Innovation

- Technology sharing arrangements and licenses make innovation a routine feature of economic life
- Easier at the level of the large corporate organization.
- Helps account for the unparalleled growth of modern capitalist economies, enabling firms to come closer to economic efficiency than is normal for a single enterprise.
 - Rapid growth of vertical integration and consolidation which began piecemeal among operators in the larger leisure travel groups and in travel agents in the UK

Island resorts

- Innovation practically wiped out the independent, specialist tour operation, a blessing to others who accepted to follow the “trend” of consumerism in mass tourism
- The independent specialist tour operator can only thrive and prosper in highly differentiated market niches In Island resorts.
- The financial structure of small specialists operators is often not strong enough to carry too many risks and each time one small tour operator defaults the damage to island tourism is often great.
- The tourism manager in the Island economy must be able to come forward with new innovative ideas

Consolidation and Vertical Integration

- Brought about lower costs – particularly in the airline sector, giving a tremendous boost to total tourism figures from which many established Island resorts benefited.
- Competition is endless as airlines within the vertical integrated system meet the increasing challenge of the innovation that resulted as a reaction to the whole system and process of consolidation

Competition and adjustment

- Ferocious competition has led to significant pressure to deliver quality at lower prices.
 - Excess supply had prices adjusted downwards
 - Short supply had prices either raised – thus risking uncompetitive prices – or sought to move the risk of filling the hotel to the tour operator.
 - Updating of products

Advancements in tour operation

- The main technological advances were the advent of highly reliable and economical commercial jet airplanes for short haul travel
- Lower price and technological developments in telecommunications and computers have led to lower costs for book keeping
- The internet has passed to consumers a tremendous power – the transparency of comparative prices and information
- Future: one where the tour operator is not dominant
- Not surprising that tour operators big and small seek new destinations

Innovative Solutions

- Recession, terrorism and high cost of fuels has made the search for new innovative solutions to tourism more urgent
- Island destinations seek solutions that bring forth innovations that support cost reductions that affect the overall cost of travel especially air travel
- Marketing Island destinations is much more hazardous than average tourism marketing.

A competitive edge for Island destination

- Marketing strategy needs to be constantly open to innovation
- Infrastructure services require a continuous private/public process of initiatives to sustain regularly upgraded and innovative infrastructural and conservation and development programmes
- Similarly higher levels of performance and technical skills are another resource cannot be taken for granted

Energy

- Marketing for private operators operating from an Island destination will never match the competition within the massive global tourism market unless backed by public funds
- Cost must be under constant control, and energy costs in all tourism establishments can be prohibitive
- Delayed reform and delayed innovation in this sector leads to rapid loss of competitiveness.

Airport infrastructure

- Island airports suffer most as they often cannot gain from the economies of scale of larger destinations
- Airlines are made to pay high fees per passenger thus hitting hard at the competitiveness of island destinations

Conclusion

- Tourism is one economic sector where innovation is a never ending process
- Island destinations need to watch and match the changes that occur in the general tourism market
- Innovation in one sector of the economy alone does not give maximum benefits
- The island economy must respond to the innovation processes occurring in markets on which it depends
- Schumpeter's description of "the creative destruction of existing institutional arrangements and patterns of exchange in order to create new wealth through innovation" is most alive
- Public/private sector dialogue that leads to innovation must be most active and successful



Thank you

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