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

Bogdan Rusu\*

*"Gh. Asachi" Technical University of Iași, Bd. D. Mangeron 29, Corp TEX 1, Iași, 700050, Romania*

### 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).

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### 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

\* Corresponding author.

E-mail address: [bmcrusu@yahoo.com](mailto:bmcrusu@yahoo.com)

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

create a new organization (Teece, 2010, p. 186) or alter the existing one through the design and implementation of a new business model which includes the innovations.

## 2.2. *Business models*

Business models (BM) are of exceptional importance to managers (Chesbrough 2010, Johnson et. al 2008) as their design and implementation determines organizational success (Baden-Fuller, Demil, Lecoq, & MacMillan, 2010, p. 143). It is important to analyse both the static (how things are) and the dynamic (how things might be) representations of a BM (Demil & Lecoq, 2010) as organizations must react to forces from external environment by adjusting their resources/capabilities, organizational structures and the value proposition.

Within such a framework a business model may be considered as a “system of interdependent activities” which enables the value creation for the customers (Zott & Amit, 2010) based on the in depth planning of the system design architecture and interrelated activities. It “articulates the logic and provides the data and other evidence that demonstrates how a business creates and delivers value to customers, and outlines the architecture of revenues, costs and profits associated with the business enterprise delivering value” (Teece, 2010, p. 173) and comprises choices and consequences (Casadesus - Masanell & Ricard, 2011)

Zott, Amit, & Massa (2011, p. 1019) made a comprehensive literature research on the business model concept. They argue that it is emerging as a new unit of analysis, emphasize a systematic and holistic approach of “how firms do business”, seek to explain how value is created and not just how is captured and therefore firm activities play important roles in the conceptualization of various business models proposed. The scholars conclude that “scholars need to articulate and define precisely which business model concept they propose to use as a basis of study (Zott, Amit, & Massa, 2011, p. 1038)”.

There are three ways to manifest innovation through business models (Trimi and Berbegal-Mirabent, 2012). Typically the large companies use technology-push to become first mover in the market. Other firms may “modify internal operations to improve efficiency but without altering the product/process delivered (p. 455)” which represents both a new business model and an organizational innovation, and the case where the business model must be updated in order to react to changes from the business environment and new/modified customer needs.

To enable the analysis of complex business in terms of value creation for different customer segments, the interactions between the key processes and actors and facilitate decision making process, new business models had emerge. One of the frameworks developed is the Business Model Generation Canvas, proposed by Osterwalder and Pigneur (2010). This framework was selected in this research as basis for analysis due to its simplicity and intuitive exhibit of interrelations among model’s components. The nine building blocks of the model are Customer segments, Customer Relationships, Channels, Value Proposition, Key Activities, Key Resources, Key Partners, Cost Structure and Revenue Streams (see figure 1).

## 3. Research Method

There is a wide interest for Speleotherapy (inhaling the air from the salt mine) believed to be useful for many respiratory disease (asthma, rhinitis and allergies related). The patients are going in the mine at a depth of 120 m and stays for several hours for a minimum of 10 days. Patients are required to have a doctor’s recommendation for such a treatment.

Data collection for the travel agency case study bases on three sources:

- Data required understanding the context and environment analysis specific to the Salt Mine village bases on recollection of events and bibliographical sources. The entrepreneur was co-owner of a Family Hotel and submitted a report in 2005 when she was the researcher’s student.
- Recollection of events based on site-visit of the researcher in the Salt Mine Village, stay at a guest house and experience with the travel agency
- In depth, semi-structured interview with the owner of the travel agency based on the business model building blocks and explanations of innovations introduced.

Whilst the paper will focus on the “Travel Agency”, the entrepreneur previously owned and operated a family hotel and gained understanding and knowledge on customer needs. The innovations introduced are analysed in conjunction with the business model building blocks.

## 4. Results

### 4.1. Context of the small firm – the “Travel Agency”

There are two important customer segments identified for the salt mine village for the Family Hotel (FH) and subsequently travel agency: medical guests (MG) and occasional visitors (OV).

MG consists of families with children that seek to improve the lung conditions such as asthma that would stay for medium and long periods of time require daily visits in the salt mine and would spend a considerable amount of time inside the mine.

- Lung treatment children (3 to 4 persons) – medium stay – 5 to 7 nights (1 or 2 adults and 1 or 2 children)
- Lung treatment children (3 to 4 persons) – long stay – 8 to 14 nights (1 or 2 adults and 1 or 2 children)

Occasional guests (OG) would have short visits in the salt mine village and may or not visit the salt mine but would not spend long time underground.

- Short stay visitors (2 persons) non salt mine – 1 to 3 nights (hiking, community salt water swimming pool)
- Special events holiday (2 up to groups of 25 to 35 persons) – Christmas, New Year and “Old Style Orthodox” for “Old style” Christmas and New Year

### 4.2. Innovations introduced by the entrepreneur when operating the Travel Agency

Seeking to serve the guests that would like reservations, the entrepreneur identified many FH in the salt mine village that had excess capacity. Therefore, she built upon the knowledge acquired whilst owning and running a FH and continued to innovate when designing a business model for a travel agency focused on incoming tourists. However, only about 40 out of 80 FH from the salt mine village would accept to cooperate with the newly opened travel agency and deliver what they promised (“studios” like accommodation – access to kitchen, rooms and conditions as agreed with customer during reservation process, confidence on positive “conflict resolution” if such issues may occur, etc.)

The entrepreneur introduced further innovations related to product, process, marketing and organizational business practices.

- **Product innovation:** introducing a better matching process between customer needs and accommodation’s attributes based on clear selection criteria determined by customers (such as distance to the salt mine, size of the room, access to kitchen, etc.). Updated information as well as website maintenance contributed to build up trust with both guests and participating FH. Entrepreneur provided MG with the option of special price ticket for access to the salt mine and selected restaurants.
- **Process innovation** – Special attention focused on relationship management with FH, which had to formalize service delivery in order for the customers (MG and OC) to receive the agreed quality of services. Some of the FH received recommendations and training in customer relationship management (CRM) with guests not speaking the FH owners’ mother tongue language. All participating FH agreed to follow a procedure that addressed possible customer’s discontent with the active involvement of the travel agency in the negotiations and conflict resolution. The entrepreneur improved the reservation process introducing a mandatory deposit and a written contract that would secure it.
- **Marketing innovation** – design and developed its own website that includes pictures of available rooms the participating FH, enabling the customers select and choose from alternative available accommodations. During economic crisis, the number of online reservations decreases. Visitors changed their reservation patterns, with a large number of persons that just popping up in the village seeking rooms for rent. Therefore the entrepreneur prepared daily updates with the family hotels that had rooms to let and advertise those close to the bus departures to the salt mine.

- **Organisational innovation** – each guest would be welcomed by the travel agency and together would go to the selected family hotel to ensure that the room and conditions matched those specified in the contract. The travel agency convinced the key partners – participating FH from the salt mine village – to provide the guests with the same room prices that were advertised on the website by the travel agency.

These innovations were also introduced simultaneous as a “package” of interrelated innovations.

<b>Key Partners</b>	<b>Key Activities</b>	<b>Value Proposition</b>	<b>Customer Relationships</b>	<b>Customer Segments</b>
Participating Family Hotels (FH)	Marketing Assure guests on service quality	Superior “matching” process between needs and accommodation specifications for both MG and FH	Intimate personal relationship (MG&FH) Limited concern for OV	Families & children (Medical Guests MG)
Salt mine	Train some FH owners in CRM Platform management			Occasional visitors (OV)
Participating village Restaurants	<b>Key Resources</b> Brand/trust (MG&FH) Transaction platform	Transaction management	<b>Channels</b> Personal network Guests recommendations Transaction platform	Family Hotels (FH)
<b>Cost Structure</b>		<b>Revenue Streams</b>		
Pay services to Family hotels Platform management Salt mine family discount tickets		Management of the interface Guests – FH Salt mine entrance & restaurants coupons Reservations system		

Figure 1. Travel Agency business model; Source: adapted from Osterwalder & Yves, (2010)

#### 4.3. Travel Agency business model

Osterwalder’ business model was selected as basis for analysis due to its simplicity and intuitive exhibit of interrelations among model’s components (Osterwalder and Pigneur, 2010). Figure 1 exhibits the application of the model for the small travel agency.

##### 1. Customer segments

The travel agency addressed three customer segments: Family Hotels (FH) that will accommodate medical guests (MG) – families that come to improve their children’s lung related illnesses and the occasional visitors (OV). Whilst serving all tourists arriving in the salt mine village, the travel agency paid special attention to MG which had both longer stay and larger groups.

Economic crisis reduced the average number of nights from ten in 2009 to five in 2013.

##### 2. The value proposition

Value propositions are customised for each customer segment. Overall, the travel agency designed and maintained a platform where she exhibited FH classified in specific categories such as accommodation conditions, distance to the salt mine, prices and pictures of the rooms, places and spaces in order to provide a superior “matching” process between the needs of the guests and the accommodation specifications. The platform ensured visibility and facilitated the transaction management.

The MG seeks comfort/ convenience, reduced risk and costs considering the number of persons and lengths of stay. Comfort also includes peace of mind in terms of reliable service provided by the FH and a special package that

includes appropriate accommodation for families with children, access to kitchen, reliable services, discounts for salt mine entrance and coupons for selected village restaurants. Sometimes the children may be tired and would not like to wait in the restaurant for food. Considering the large number of people (whole family of grandparents and children or adults with children) and the length of stay determines the strong need to have access to cooking facilities. Some of the guests accept just access to the kitchen and sharing it with other guests whilst others requiring a studio.

The FH seeks guests to fill in their excess capacity and with whom to develop long-term relationships (as MG may return up to three consecutive years in order to improve the children's lung related conditions). Some of the FH owners do not speak the mother tongue language of guests and therefore may occasionally run into communication and relational difficulties.

Occasional visitors (OV) require a different type of accommodation as they may rent the entire property.

Part of them being young and seeking to relax, could prove to be susceptible for damaging part of the rented property, which may put pressure on both the FH and travel agency to find appropriate means to cover for possible compensations. Other OV also seek recreation and leisure but convey no risks to the property. Their visit may be related to religious events, as "Old style" orthodox, and they travel to the salt mine village "off season" to celebrate Easter, Christmas and New Year on a fortnight difference compared to "normal" orthodox guests.

### *3. Customer relationships*

The entrepreneur competitive advantage bases on her ability to develop intimate personal relationships with both MG and FH. Trust was gradually developed with guests through the provision of personal assistance from initial contact and through the reservation process, welcoming them at the agency and introducing them to the FH where they booked their stay. The travel agency had to provide safety and trust of the guests and maintain an ethical behaviour from the partners (deliver what they promised to the guest, not advertising a different price from that provided by the travel agency). This proved relatively difficult on the long run because after staying for 5 nights in one FH, many customers would form emotional bonds with the owners and if returning the next year would call directly the owner of the FM thus shortcircuiting the travel agency.

FH represents key partners as they cooperate with and provide consistent quality of services to guests, as well as "keep their word" in the business relationship with the travel agency (such as keep the booking, solve possible guests complaints through the travel agency, etc.).

### *4. The channels*

The entrepreneur had built up a personal network of both guests and FH based on her previous business experience with owning and running a FH. She developed and implemented service specifications for both MG and occasional visitors enabling her to generate enough personal recommendations of returning customers that she could not host in her own FH. She also gained a good reputation among many FH from the salt mine village that asked her to send more guests to fill up their excess accommodation capacity. Therefore opening up a travel agency seemed a natural development and transformation of the business. It required the introduction and implementation of all previously described innovations based on the website as a transaction platform. The marketing innovations were used to provide information to guests and improved "matching" process based on updated information from FH displayed in order to raise awareness, help MG and occasional visitors evaluate the proposition, purchase and support during their stay.

### *5. Key resources*

Success for a Travel agency requires trust in the quality of services provided to both MG and occasional visitors as well as from FH. Building a brand name may enable it to gain and maintain some competitive advantage. The website used as transaction platform must appear highly professional and work flawless, be up to date and be highly reliable. Therefore, it requires some human and financial support to maintain and update the websites. Growing competition from national and international websites would become an ever-increasing threat to the travel agency in medium and long term as technology and guests' behaviour might change.

### *6. Key partners*

Travel agency could not operate without the FH to which it provides MG and occasional visitors. Other partners include the salt mine, state owned which provide special price tickets for MG visitors and coupons for some

participating restaurants in the village. All key partners require the development of long-term special relationships that must be nurtured and maintained.

#### 7. Key activities

In order to attract incoming tourists the travel agency have to assure them of consistent service quality through formalised service provision from initial contact, securing the reservation through a deposit, welcome guest, manage relationship with FH and up to the management of post visit to salt mine relationships. A significant innovation of the formalised service provision refers to the training of some FH owners (such as those that do not fluently speak the mother tongue's language of guests). The other two important key activities refer to marketing and platform management, previously discussed and which benefited by appropriate innovations implemented by the travel agency owner.

#### 8. Cost structure

The key costs for the travel agency includes the payment of services provided by participating FH (commission based), salt mine discount tickets for MG, website development and maintenance (platform management), Google adds, bank commissions, telephone bills, office rent, travel expenses.

#### 9. Revenue streams

The main revenue stream resides with guest's payments directly to the agency (which would retain a commission) generated using the reservation system, special access to salt mine and restaurant coupons. Some revenue might be generated from ads on the agency's website, but caution should be exerted that the website with ads not to look "cheap".

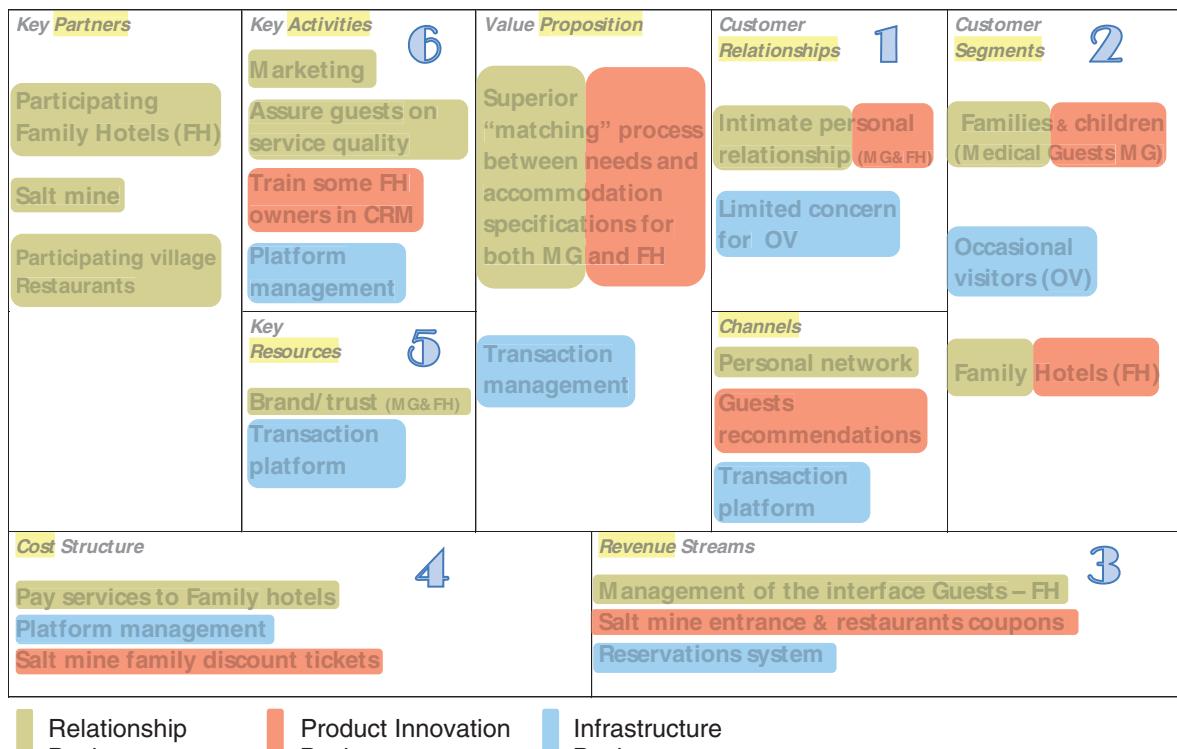


Figure 2. "Unbundling" the Travel Agency business model and its Trade Off decisions; *Source: adapted from Osterwalder & Yves, (2010)*

#### 4.4. “Unbundling” a small firm

Interaction costs are “the money and time that are expended whenever people and companies exchange goods, services or ideas (Hagel and Singer 1999, p.134)” and their importance resides with the urge driving all companies towards minimizing them. SMEs are even more susceptible to identify and implement innovative ways to reduce interaction costs due to their limited access to resources as compared with larger firms.

Further analysis of the small Travel Agency reveals the existence of three kinds of businesses (Hagel and Singer, 1999, p. 134) “a customer relationship business, a product innovation business and an infrastructure business”.

- *Customer relationship* business focuses on finding customers and building relationships with them.
- *Product innovation* function must identify and develop better products (as goods and services) and bring them to market.
- *The infrastructure business* plays the third key role in the organisation. It provides the necessary facilities for “high volume, repetitive operational tasks such as logistics and storage, *service provision* and *communication*” (Hagel and Singer, 1999, p. 134), which for the small travel agency translates into the management of website platform that would enable the company to perform reliable transactions among the travel agency, guests and participating family hotels.

In order depict the intertwining of these three businesses, the model exhibited in figure 1 was “unbundled”: Customer Relationship business (green), Product innovation business (red) and Infrastructure business (blue) (see figure 2).

MG is bicoloured. It is the most valuable customer group, therefore requires and deserves special customer relationship (green). It is also very demanding, hence will benefit from most of the innovations introduced by the entrepreneur (red). FH also require special relationships with the travel agency as these bonds ensure the provision of consistent service quality to visitors, for this reason benefiting from many innovations introduced by the Travel Agency (green and red). Occasional visitors whilst important are far less frequent customers and will use website platform as business infrastructure (blue).

Value propositions follow similar patterns with the entrepreneur providing a superior “matching” process between MG and FH (green and red) using the business infrastructure for transaction management.

The key role played by the website platform is present in all model’s components excepting key partners. It is both a key resource and a key activity that generate costs through its management and revenue due to the reservation system.

All components of the business model include at least one customer relationship. Key partners include FH, salt mine and participating restaurants, the main resource of the travel agency being its brand name based on customer’s trust. The key activity are based on marketing of services and assurance of consistent service quality using intimate personal relationships with FH, MG and OV through entrepreneur’s personal network used both paying FH and revenue stream management of the interface between FH and all the guests (MG and OV) (see figure 2).

Product innovation business is not restricted to goods and services but encompass all four innovation types (including marketing and organizational) depicted and implemented by the travel agency. Innovation is also present I all model’s components excepting key partners and resources.

#### 4.5. Trade Off decision faced by the Travel Agency

Further analysis of the Travel Agency business model reveals some important Trade Offs that have to be dealt with, represented by numbers for convenience (see figure 2).

1. The travel agency serves two different customer segments with significantly different needs and behaviours: large numbers, medium and long stay that generate significant income, MG seek medical treatment and OV with small number of visitors, infrequent, short stay (except religious related guests) that seeks recreation and leisure. Former may return for up to three years but comes mainly during summer holidays. Latter may come in other holidays but also “off season”, some being susceptible to convey risk to propriety. Sometimes it proves a difficult choice as the room being occupied by OV for a couple of nights, the FH would miss a MG that could stay for a week or so and if satisfied may return next year.

2. The travel agency aims to sell its services to both MG and OV in order to increase its revenues, but may create conflict with FH hosting visitors, which could prefer to deny access to OV thus eroding long term trust of the guests in the website platform.
3. The entrepreneur may be pressured to sell restaurant coupons or not provide all MG with discount salt mine entrance tickets. Further conflict may occur due to the management of FH – guests interface, some returning guests trying to shortcut travel agency commission through direct contact with FH.
4. Simple reservations management using the platform conflicts with the development of own website by some FH, coupled with “unfortunate” events such as illnesses of MG that may force termination of visit to the salt mine village prior to the agreed departure date. Compensation negotiation between the entrepreneur, guest and FH could prove difficult.
5. The website used as transaction platform requires scale to drive costs down and serve a large number of FH. Both national and international specialized booking accommodation made the competitiveness market of the travel agency as FH exhibited little if any loyalty.
6. Sometimes unethical price negotiation with customers at the expense of the travel agency and communication difficulties with FH that did not speak the MG or OV mother tongue’s language created conflicts that had to be diffused based on active involvement of the travel agency and agreed procedure.

## 5. Discussion

In order to survive and thrive, the travel agency had to provide superior value to the most profitable customers – MG and to develop special relationships with participating FH that agreed to welcome the guests attracted by the travel agency.

The entrepreneur introduced four categories of innovation: product, process, marketing and organizational, that intertwines in order to provide superior value to both guests and participating FH.

Product innovation refers to the superior value proposition based on “improved” matching process between the needs of the guests and accommodation conditions and specifications for both MG and FH, using the self-developed website platform.

### 5.1. Contributions

Whilst the booking process may be “standard practice” for the large multinational travel agents, the process is a nearly radical innovation for the small travel agency that has limited resources and capabilities. It has to convince both the guests and the participating FH to cooperate, trust and adjust previous “business practices” in order to use the website platform and abide to consistent behaviour which lead to a better customer relationships and service quality.

Innovations were implemented not as “single events” separated in time, but as “packages” with profound impact upon the business model of the travel agency.

Business model analysis uses the nine building blocks model proposed by Osterwalder & Yves (2010).

Business analysis revealed that the travel agency “unbundled” its business model, the results being depicted in figure 2 using the focus on Relationship business (green), Product innovation (red) and Infrastructure business (blue) and the key Trade Off decisions that had to be dealt with.

### 5.2. Limitations

Whilst restrictive due to the particularities of the salt mine village and MG particularities due to pulmonary illnesses and their specific consumer behaviour, the research provides rich data and analysis of the innovation categories introduced by the entrepreneur.

The entrepreneur implemented all innovations as a “package” when she designed the business models for his former FH and current travel agency.

Relationships among business model's building blocks are analysed through "unbundling" the small firm into customer relationship, product innovation and business infrastructure perspective, revealing important trade-offs decisions to be made by the entrepreneur.

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