Innovative Practice in the Spanish Hotel Industry

Mar Vila
Ramon Llull University

Cathy A. Enz
Cornell University, cae4@cornell.edu

Gerard Costa
Ramon Llull University

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Disciplines
Hospitality Administration and Management | International Business

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Innovative Practices in the Spanish Hotel Industry

Mar Vila¹, Cathy Enz², and Gerard Costa¹

Abstract
A survey of corporate-level senior research and development managers in twenty-seven of Spain’s largest hotel chains found a general bias toward innovation, as the majority have formal R&D departments and offer rewards for innovative concepts. Considering a framework that includes four types of innovation (i.e., product innovations, process innovations, enhanced knowledge of market, and management innovations), the survey found that the chains focused the greatest innovation efforts on improving management. However, the innovations most frequently mentioned involve enhanced knowledge of the market, including the use of new sales channels and communication improvements. Case studies of four hotel concepts depict innovations intended to be singular, that is, hard to duplicate. NH Hoteles uses its customer data center to segment customers and create targeted communications and special offers; Hoteles Hesperia has allied with Michelin-rated chefs to upgrade its hotel restaurants both in terms of menu and image; Chic&Basic has installed modest-price but high-quality inns in center-city locations that usually host luxury hotels or poor quality guest accommodations; and Marqués de Riscal has developed City of Wine, in the Rioja region of Spain, complete with a Frank Gehry–designed hotel operated by the Starwood Luxury Collection.

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Motivated by increasing competitive pressures and challenging economic times, the Spanish hotel industry has since 2004 embarked on a course of innovation in response to the changing competitive landscape. Based on the survey of major hotel chains in Spain presented here, we found that more innovations have been seen in urban settings than in holiday destinations, especially in the underdeveloped luxury segment, but innovations have also flourished in the limited-service segment. Faced with increasing competition and a lack of differentiation, midmarket hotels also have made efforts to innovate. At all levels, the introduction of innovative practices enabled Spanish hotels to increase both prices and occupancy rates and may be the necessary investment to help the industry when an economic recovery appears.

In this article, we present the results of a study of innovation practices among Spain’s hotel chains, and we offer four extended examples of innovators (following the example of Siguaw et al. 2009; Kimes et al. 2010; Enz et al. 2010; and earlier best practice research conducted by Dubé et al. 1999). The four hotel innovators we feature in this article are notable for their ability to create customized service innovations, often in partnership with other businesses. In all cases, our featured innovators focus on clearly targeted customers with elements of what Chesbrough (2011) calls open service innovation. New products, systems, and processes that combine internal and external ideas to create additional value are the hallmark of open service innovation. These are by no means the only innovative firms in Spain, nor are the innovations that we mention the only innovations from these chains, but they are noteworthy for their singular elements, which make them difficult to duplicate.

The Importance of Innovation
Developing and applying new ideas that add value to a service is no easy task, particularly when hotel competitors seek to duplicate any innovation they detect. The resource-based view of firm differentiation argues that some businesses persistently outperform others because they are able to develop distinctive competencies (Barney 1991). Using

¹ESADE, Ramon Llull University, Barcelona, Spain
²Cornell University School of Hotel Administration, Ithaca, NY, USA

Corresponding Author:
Mar Vila, Ramon Llull University, Av. Pedralbes, 60-62, E-08034, Barcelona, Spain
Email: mar.vila@esade.edu
A Framework of Innovation Types

Innovation may focus on business models, products, services, processes, or marketing channels (Enz and Harrison 2008). Perhaps the most common distinction within the innovation literature is between product innovations, which create or improve on products, and process innovations, which address how an organization does its business, including external processes and service enhancements. Within tourism services these two types of innovation have been further subdivided by theorists who have sought to refine a typology for the service sector. Hjalager (1997), for example, includes management, institutional, and information-handling innovations separately in her typology of service innovation. Her framework is adopted by others, notably Novelli, Schmitz, and Spencer (2006), and is adapted here to include four types of tourism innovation as follows:

- Product innovations: products, services, and their attributes;
- Processes innovations: operational processes;
- Knowledge of the market: distribution channels, web-based communication, customer loyalty, information sharing, and marketing innovations; and
- Management innovations: changes in organizational structures, policies, nonoperational processes, and the informal culture.

In our exploratory study, senior executives of the largest Spanish hotel chains are surveyed to determine their attitudes and use of innovation, based on these four types of innovation. Then we profile four firms’ specific innovations, outlining the singular nature of their innovations. First, to provide a context for understanding our study and the case studies, we turn to a brief overview of the Spanish hotel industry.

The Hotel Industry in Spain

Spain has approximately 7,600 hotels offering a total of 1.2 million beds. More than half of this supply consists of mid-range (three- or four-star) hotels, with five-star hotels making up just 5 percent of the total, despite continuous growth...
Vila et al.

in this segment aimed at filling the void. Spain’s hotel industry is characterized primarily by independent and small establishments, with about 20 percent of the hotels (approximately 1,500) run by chains, and 10 percent of the properties (some 750) belong to the ten largest chains. Sixty-one percent of Spain’s hotels are owned and operated either by hotel groups or property developers, while 27 percent are leased, 9 percent have a management contract, and 3 percent are franchises (INE 2010; Hosteltur 2010; IREA 2008).

After decades of steady growth, the profitability of Spain’s hotels began to fade at the turn of the century. Supply has grown continuously. For example, from 1970 to 2000, the number of hotels doubled and the number of beds more than tripled. In recent years, supply growth has often outstripped demand, especially in large cities, where profits have not risen in proportion to the increase in supply. Between 2001 and 2004, average hotel prices started to show signs of dropping—something that had never happened before. In addition to an excess in supply, the drop in room prices was due to the emergence of new marketing channels and technologies and the increasing popularity of competing destinations.

Between 2005 and 2007, due in part to the innovative processes detailed here, the industry enjoyed a certain degree of recovery. This nascent recovery was all but swept away with the onset of the financial crisis in 2008, resulting in price wars and changes in ownership.

One ownership change that occurred starting in 2008 was that real estate firms that had long owned a major part of the country’s hotel inventory sold off many of their holdings to larger hotel groups. This occurred despite lending restrictions. Other hotels have been repossessed by banks that subsequently rented out the properties to hotel companies, with the option to buy. After a rough 2008 and 2009, the industry saw some improvement in 2010 and is hoping to have a slight recovery in 2011 (MKG 2011). To understand this pattern by hotel segment, Exhibit 1 shows the changes in revenue per available room (RevPAR) from 2006 through 2010; Exhibit 2 shows the general situation from 2000 through 2009.

The Innovation Survey

The purpose of our descriptive survey of corporate-level senior research and development managers in large hotel chains was to capture overall impressions of the industry’s innovation process from those responsible for implementing that innovation. In keeping with the framework described above, the survey was divided into four sections, covering the importance of innovation, the process for generating innovation, resource allocation choices for selecting innovations, and the measurement of innovation outcomes (Montaña 2001).

We surveyed twenty-seven hotel chains, which we selected from among Spain’s largest (based on room inventory) (Hostelmarket 2006), which operated a total of 614 hotels and 157,000 rooms. Large hotel chains’ economies of scale promote service innovation based on the increased knowledge that comes with more transactions and usage (Chesbrough 2011). Furthermore, the chains in our study could be considered the most important for capturing data on innovation in the Spanish hotel industry because of their stated commitment to innovation. Exhibit 3 provides a profile of the respondent hotel chains, including their line of business (i.e., urban vs. holiday), size, ranking category, and extent of international focus. The responding chains constituted a mix of urban and holiday hotels primarily in the three- and four-star category. The largest single category of survey hotels (42 percent) comprised between 100 and 250 rooms, 35 percent were fewer than 100 rooms, and the remaining 23 percent were more than 250 rooms. Three-quarters of the chains operated only domestic hotels, and the remainder operated hotels located both inside and outside of Spain.


Exhibit 2:
Changes in revenue per available room (RevPAR) and GDP (2000-2009)

Source: MKG 2011

Exhibit 3:
Profile of Respondent Hotels

<table>
<thead>
<tr>
<th>Category</th>
<th>Frequency (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Line of business</td>
<td></td>
</tr>
<tr>
<td>Holiday</td>
<td>42</td>
</tr>
<tr>
<td>Urban</td>
<td>35</td>
</tr>
<tr>
<td>Both</td>
<td>23</td>
</tr>
<tr>
<td>Category</td>
<td></td>
</tr>
<tr>
<td>3 and 4 stars</td>
<td>89</td>
</tr>
<tr>
<td>4 and 5 stars</td>
<td>11</td>
</tr>
<tr>
<td>Size</td>
<td></td>
</tr>
<tr>
<td>Small (&lt;99 rooms per hotel)</td>
<td>35</td>
</tr>
<tr>
<td>Medium (100-250 rooms per hotel)</td>
<td>42</td>
</tr>
<tr>
<td>Large (&gt;251 rooms per hotel)</td>
<td>23</td>
</tr>
<tr>
<td>International focus</td>
<td></td>
</tr>
<tr>
<td>No hotels abroad</td>
<td>74</td>
</tr>
<tr>
<td>Some hotels abroad</td>
<td>26</td>
</tr>
</tbody>
</table>

Source: Compiled by the authors.

Preliminary Survey Results

The survey was sent to the executive responsible for research and development in each chain, asking a total of nineteen questions. These questions explored the importance of innovation to the firm’s strategy; the formal process for generating innovation proposals, the types of innovation on which the chain focuses its efforts using the typology discussed previously, the use of rewards for innovation proposals and the measurement of the innovation efforts, the role of implementer, and the existence of measurement systems. The frequencies of responses to these items are summarized in Exhibit 4.

Recognition of Strategic Importance

Seventy-four percent of the survey respondents felt that innovation was an important or very important factor in the chain’s strategy. Although saying that innovation is important does not necessarily make a company innovative, we do get a feel for the respondents’ attitudes toward innovation. Fewer than 4 percent said innovation was not important to their chain’s strategy.

Promotion of Innovation

Consistent with manufacturing firms (Terziovski 2010), 78 percent of respondents reported that their hotel chains maintained formal processes and specific departments for promoting innovation. This included R&D departments that report to the general manager, the marketing department, or the operations department; specific interdepartmental groups dedicated to innovation; or simply specific processes for promoting innovation. Nevertheless, responsibility for innovation in Spanish hotel chains tends to be scattered throughout the organization. Some chains have created a specific R&D department, but this practice has not become widespread. In fact, some hotels created an R&D department, only to shut it down a short time later.

When it comes to allocating resources for identifying and proposing innovations, the chains focused most of their efforts on innovations related to management, followed by product innovation and by knowledge of market innovations and process innovations. We should note that these categories are not mutually exclusive, and some respondents cited more than one category.

Sixty-nine percent said their firms gave some sort of reward for innovation proposals: 42 percent said the reward
was recognition, and 8 percent each said the reward was noneconomic or that the reward was economic; the remainder said they used a combination of economic and noneconomic rewards.

Most of the chains surveyed (85 percent) kept track of the effort dedicated to innovation, using euros dedicated to R&D, euros dedicated to specific training, number of employees dedicated to R&D, and number of innovation projects (in descending order). The remaining 15 percent said they intuitively tracked the proposals generated. However, it seems that the failure to measure these efforts makes it difficult to evaluate any innovations.

### Provision of Resources and Implementation

Many of the respondents (72 percent) said that innovation decisions were made directly by the general manager, whether in response to a proposal by a department, a group, or an individual.

### Measurement Systems

Except for the “intuitive” respondents, the hotel chains used various systems for measuring the effectiveness or profitability of innovations. The most common systems are based on improvements in service quality, sales increases, GOP increases, or increasing number of clients.

### The Most Innovative Chains

In contrast to the promotion of management innovations, taking into account the number and types of innovations declared by respondents, the most frequently implemented innovations in the hotel chains studied were, in order of importance, (1) knowledge of the market innovations with 37 percent of the total innovations declared, (2) product innovations (26 percent), (3) process innovations (20 percent), and (4) management innovations (17 percent).

It appears that there may be an imbalance between effort devoted to a given innovation type and the type of innovation actually implemented. It is interesting that about 60 percent of the reported innovations involved new technologies.

In light of these results, we classified the hotel chains by level of innovation, based on the number of innovations reported, as follows: high, thirteen or more innovations; medium, eight to twelve innovations; and low, fewer than eight innovations. Based on this criterion, 34 percent of the chains had a high level of innovation, 44 percent had a medium level of innovation, and 22 percent had a low level of innovation.

To further understand the use of various types of innovations, we focused on chains that had reported the largest number of innovative activities, which operate hotels in both urban areas and at holiday destinations. They are medium-sized in terms of number of hotels, and they are mostly in the three- to four-star category. Exhibit 5 summarizes the characteristics of these chains.

As was true of the entire sample, the most innovative Spanish hotels believe innovation is important or very important to the company’s strategy. These chains are the most likely to have formal processes for promoting innovation. Most of these chains measure their innovation-related efforts, most commonly by gauging improvement in service quality (100 percent) and increase in sales (77 percent). They have specific processes or departments for developing innovations, which usually report to the general manager.
Exhibit 5: Characterization of the Most Innovative Chains

<table>
<thead>
<tr>
<th>Type of business</th>
<th>Frequency (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Urban</td>
<td>25</td>
</tr>
<tr>
<td>Holiday</td>
<td>37.5</td>
</tr>
<tr>
<td>Mixed</td>
<td>37.5</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Size</th>
<th>Frequency (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large</td>
<td>67</td>
</tr>
<tr>
<td>Medium</td>
<td>11</td>
</tr>
<tr>
<td>Small</td>
<td>22</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Innovation efforts</th>
<th>Frequency (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management</td>
<td>100</td>
</tr>
<tr>
<td>Processes</td>
<td>66</td>
</tr>
<tr>
<td>Product</td>
<td>55</td>
</tr>
<tr>
<td>Market</td>
<td>44</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Category</th>
<th>Frequency (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>3- to 4- star</td>
<td>72</td>
</tr>
<tr>
<td>4- to 5-star</td>
<td>28</td>
</tr>
</tbody>
</table>

Source: Compiled by the authors

Exhibit 6: Hotel Chains That Innovate in Market Knowledge

<table>
<thead>
<tr>
<th>Types of Innovation in Market Knowledge</th>
<th>% of all chains</th>
<th>% without ICTs</th>
<th>% with ICTs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improvements in customer service</td>
<td>57</td>
<td>27</td>
<td>30</td>
</tr>
<tr>
<td>New segments</td>
<td>57</td>
<td>30</td>
<td>27</td>
</tr>
<tr>
<td>Communication activities</td>
<td>81</td>
<td>35</td>
<td>46</td>
</tr>
<tr>
<td>Activities aimed at increasing customer loyalty</td>
<td>77</td>
<td>27</td>
<td>50</td>
</tr>
<tr>
<td>Marketing activities</td>
<td>69</td>
<td>8</td>
<td>61</td>
</tr>
<tr>
<td>Sales channels</td>
<td>85</td>
<td>11</td>
<td>74</td>
</tr>
</tbody>
</table>

Source: Compiled by the authors.
Note: ICT = information and communication technologies.

In addition, they use both recognition and economic rewards for those who surface innovative ideas. Management innovations are where these firms place most of their effort, followed by initiative in process innovation, product innovation, and marketing innovation.

All of these innovative chains reported implementing innovations that involved new products or customer segmentation; 88 percent implemented innovations in the areas of human resources, purchasing, quality, customer service, external communication, customer loyalty, new sales channels, or operational processes; 77 percent implemented innovations in service, marketing, internal communication, or the design of their facilities; and 66 percent implemented innovations in budget-control instruments, utensils, machinery, or facilities. In this last category of innovations, there was intensive use of information and communication technologies. In hotel chains with a high level of innovation, the physical spaces most commonly targeted for innovation—in 66 percent of cases—were public spaces: restaurants, rooms, and common areas.

Market and Process Innovations Are Most Critical

Considering our four-category typology, at 96 percent each, the innovations that hotel chains carried out most frequently were in market knowledge and processes. Management innovations (89 percent) were also frequent, while product innovations were least frequent, at 79 percent. In this section, we describe these innovations and reveal the characteristics of the chains that implemented them.

Innovations in Market Knowledge

The most frequent market knowledge innovation was the use of new sales channels (cited by 85 percent of the chains), followed by communication improvements (80 percent). Improvements to customer services and the targeting of new market segments were the least common, with each being implemented by just 57 percent of the chains. Most of the cases of innovation involved the use of information and communication technologies (see Exhibit 6).

The chains that innovated in the area of market knowledge tend to share the following characteristics: most of their hotels were located at holiday destinations; they have a medium level of innovation overall; and they measure their innovation mainly by looking at sales increases and improvements in quality.

Innovations in Processes

Process innovations could be internal or external and could involve direct or indirect contact with customers. The most commonly cited innovation of this type involved operational processes (65 percent of those making a process innovation), with internal communication (61 percent), price control (58 percent), and instruments for budget control (50 percent) not far behind (see Exhibit 7).

Like the market-knowledge innovators, the chains that implemented process innovations tend to have a medium level of innovation overall and mainly operate hotels at holiday destinations. The criteria most frequently used by
Innovations in Management

Innovations in management were implemented by 89 percent of the surveyed chains, with quality management cited most frequently, at 71 percent. Other innovations of this type involved innovations in human resources, purchasing management, management of the operations department, organizational structure, and environmental-impact management, which at 41 percent was the least common.

The chains that implement innovations in management tend to operate both holiday and urban hotels, have a medium level of innovation overall, and use information and communication technologies in their innovations. Once again, sales increases and service quality increases were the most common measurement criteria. Exhibit 8 provides a summary of the frequency of use of the various types of management innovations.

Innovations in Products

Product-related innovations were the focus of 74 percent of the chain managers surveyed (Exhibit 9). Foremost among innovations of this type were new product concepts (cited by 85 percent), followed by new or improved activities or services; architecture or design; and utensils, machinery, or facilities (implemented by 50 percent of the chains in this group).

Unlike the chains in other categories, those that make innovations in products tend to have a high level of innovation, overall, and typically operate hotels both in urban areas and at holiday destinations. When asked about the tangible aspects of their product-related innovations, most of the chains in this group mentioned rooms, restaurants, and common areas. Like the other groups, these chains often used information and communication technologies in their innovations.

Case Studies of Exemplary Hotel Concepts

In this section, we feature innovative concepts implemented by NH Hoteles, Hoteles Hesperia, Chic&Basic, and Marqués de Riscal. Each of these innovators has used all of the types of innovations we presented earlier, but they particularly focused on innovations related to market knowledge, which is a key method of avoiding commoditization. In the four cases that follow, a key element of innovation is customization and a focus on clearly defined target customers. Targeted products for targeted customers is the hallmark of our exemplary hotel innovators.
Another key element of our innovators is their talent at both process and management innovations. In the cases we feature, operational processes often required cooperation with external partners, which meant ensuring an open flow of information from one company to another. Involving partners in service innovation is complex, which might explain the need for strong effort in management innovations cited in our survey. In our exemplary hotel cases we find that alliances and partnerships serve as critical devices for exploiting and sharing capabilities efficiently.

In the cases that follow, we see the importance of simultaneously working on market, product, process, and management innovations and of involving partners, with a goal of singularity in innovation. As we indicated above and discuss below, this trait of singularity is a key success factor in prolonging an innovation’s life span as a point of differentiation.

**NH Hoteles and Micro-segmentation**

The biggest hotel chain in Spain, NH Hoteles group has adopted an approach to understanding and communicating with customers known as precision marketing. NH Hoteles offers moderately priced, contemporarily furnished hotels located primarily in Europe, Latin America, and Africa. NH Hoteles is third in the European ranking for business hotels. The group has 347 hotels comprising more than 53,000 rooms. The chain is listed on the Madrid Stock Exchange, is part of the Madrid Stock Exchange General Index, and is also quoted on the New York Stock Exchange (OTC Market). Following the September 2009 merger of NH Hoteles and Hesperia, NH Hoteles is in charge of the management of both firms’ hotels.

With precision marketing, NH Hoteles personalizes messages, and uses specific communication actions aimed at segmented client groups in a process called micro-segmentation. Using a computerized system (based on the Oracle platform and Daemon Quest tools), the firm has assembled a large database with more than four million clients segmented using up to thirty-three variables. This storehouse of customer information is intended to provide a more in-depth knowledge of clients and produce a personal and interactive relationship with them. Because the chain can adapt its offers and messages, clients pay greater attention. As we explain in a moment, the system results in a significantly higher average response rate than typical marketing campaigns.

The precision marketing initiative, proposed and managed by the marketing department, began in 2002 with the creation of the company’s global computer system. Implementing the process took three years to complete and represented an investment of €8 million. Since that time, NH Hoteles has launched more than two hundred precision marketing campaigns aimed at segments as small as just eighty-four people. Some campaigns have had up to thirty-two different versions. Segmentation examples can be seen in the following campaigns: Bernabeu Football Stadium, a raffle to win match tickets, targeting fans of Real Madrid’s competitor clubs, along with reduced hotel rates; Sleep&Go, a programme for clients under 30 for stays in quality hotels at affordable prices; Club 60+, an offer designed and adapted to the agenda of the over-60s; and Madrid Master’s Series, a package for tennis fans including a VIP room, transport to the tournament in an official car, and first-class tickets to the tournament.

With the implementation of precision marketing, statistics on sales communication effectiveness have improved considerably. Commercial promotions of this type within the Spanish hotel industry have an average response rate of 2 to 3 per thousand, while NH Hoteles records an average success rate of 50 percent and has achieved 90 percent in some campaigns. In 2006 alone the income earned from clients targeted by these campaigns increased by 20 percent in the case of companies and 14 percent for individuals. Another clear impact has been seen in online operations with 20 percent of total NH internet sales directly related to precision marketing actions.

**Hotel + Chef Alliances**

In the past few years, Spain’s hotels have attempted to attract clients by promoting their restaurants. For this purpose, hotels have allied themselves with well-known chefs, most of whom represent the personalized *author cuisine*, in vogue in Spain. Spain is home to a high number of Michelin star-rated chefs, especially in Catalonia (with sixty Michelin star restaurants in 2010) and the Basque country. Apart from Paris, Barcelona and San Sebastian are the only other cities in the world with three restaurants that have been awarded three Michelin stars. These high-quality restaurants reflect the importance that Spanish culture places on gastronomy, but they contrast with what had been the generally deficient quality of Spanish hotels, a situation exacerbated by the scant profitability of hotel restaurants.

By allying themselves with a renowned chef, Hoteles Hesperia and other chains have improved its restaurants as well as reflect the chef’s image. This differentiates these hotels from local competitors and, most important, also differentiates the property from those in other regions that neither have such a high number of famous chefs nor the possibility of doing so in the short to midterm. These renowned chefs have become consultants: they design products, launch brands, develop new concepts, constitute the hotel’s image, and even revitalize the books of some business units. The role of these chefs often includes providing advice on the preparation of dishes and designing menus for the hotel’s restaurants, although the chefs primarily are still managing their own restaurant. Many hotel
Chic&Basic offers hotels, guest houses, and tourist centers. A small hotel chain offering three business lines catering a trend of well-designed, modest-price hotels in city centers where, in the past, only unappealing guest houses were to be found. Attractive and affordable, Chic&Basic is riding a trend of well-designed, modest-price hotels in city centers. A small hotel chain offering three business lines characterized by design, a central location, and competitive prices, Chic&Basic offers hotels, guest houses, and tourist apartments. The innovative aspect of this chain lies in creating a range of guest houses or small hotels in the old quarters of large cities, guaranteeing design and comfort though without offering luxury or extra services, and above all, doing so at competitive prices. Chic&Basic guarantees its clients similar quality to that offered by the big hotels in terms of the rooms’ design and comfort, though without such a wide variety of amenities or the typical hotel structure. In addition to the basics, we would also have to add that internet access and the daily press are included in the room rate along with facilities for clients to make their own sandwiches, coffee, or juice while they surf the net or read a book or magazine. The aim is to attract clients who are looking for a central location in large cities without having to pay an excessively high price and who don’t need a wide variety of services. These are clients who would previously have had to pay luxury hotel prices or else stay in run-down guest houses in which quality and comfort were inadequate.

**Hotel + Wine: A Product Innovation**

The Marqués de Riscal winery, in an alliance with U.S.-based Starwood Hotels and Resorts, has created City of Wine, a development intended to take advantage of the growing popularity of "wine tourism," as an expression of the Spanish wine culture. Located in Elciego, in the Rioja Alavesa region, the winery expanded its facilities with a modern concept that drastically broke with the image of a traditional Rioja winery. City of Wine includes the original, renovated Marqués de Riscal winery, dating from 1858, as well as a new hotel designed by Frank Gehry, who also designed the Guggenheim Museum in Bilbao.

In addition to the Gehry-designed winery and forty-three-room Starwood Luxury Collection hotel, the City of Wine, which was launched in September 2006, hosts a Wine Therapy Spa operated by the French firm Caudalie (pioneer in the market), which bases its beauty and anti-stress treatments on the natural properties of both grapes and wine. City of Wine also offers an exclusive restaurant serving regional cuisine in collaboration with renowned chef Francis Paniego, and the facilities also include a modern conference center and two shops for visitors. Including the renovation of the winery, total investment in the project reached €70 million. The hotel enjoys months-long waiting lists, and the town and Rioja region are in the midst of a tourism revival. The number of visitors to the region rose by 68 percent during the project’s first year. Given the City of Wine’s noticeable effect on tourism, up to twenty new hotel proposals have been presented to local authorities to benefit from the influx of national and international tourists as a result of the “Gehry Effect.”

We should note that a few years prior to the City of Wine project, a wine spa had been launched in Catalonia by the Peralada group. This was the first of its kind in Europe,
though it does not have a business concept centered on wine, as in this case.

Suggestions for Innovation in Light of Competition
The profit slump between 2001 and 2005 forced the Spanish hotel industry to think about innovation as never before, but hoteliers should not wait for a downturn to focus on innovation. We noticed that the “sun and beach” hotels have been less affected by some of these changes than urban hotels; but there are factors which recommend that the tourist hotels should be thinking about innovation more than they do at present. For the urban hotels, it seems that these have seen innovation as the only way to differentiate themselves in a crowded market. High-end, five-star hotels have begun to be developed on a larger scale, while affordable hotels on the outskirts of some cities have also begun to gain a foothold in some markets. The luxury market, high-status architectural firms, and the latest technology are increasingly present in the new urban hotel industry. Despite excellent architectural designs, we do not see these as a lasting point of differentiation among hotels.

Changing an organization’s culture is difficult, but innovation should be a part of this culture if the company aims to survive. Based on the results of our questionnaire, the chains that innovate most see innovation as strategically important from the outset. They are dedicated to carrying it out; they reward employees for their proposals; and they establish more or less formal structures for the entire organization to contribute their ideas (centered primarily on management aspects followed by procedural and product innovations). Effectively conducted innovation focuses more on market knowledge (i.e., channels, communication, loyalty, or marketing) and on the product (i.e., quality, new products, and business processes).

Focus on Singularity
In addition to our exploratory survey, we have presented four cases of successful innovators. None of these concepts is difficult to copy, except perhaps in terms of the investment required, and yet each has a form of singularity. When considering innovations, companies should think about the singularity of innovations. If we identify attributes and bundle key resources that create unique competencies, it will be easier for these innovations to last over time.

Any hotel could ally itself with a chef, for example, but no other country can lay claim to as many elite chefs as Spain, and there are not enough chefs of this caliber—in any country—for every hotel to try to establish similar alliances. Singularity can also be seen in designer hotels and guest houses, because few cities that tourists associate with design and the avant-garde have an interesting old quarter with a niche for these types of establishments. Certainly, few hotels that have developed their business concept around the wine business by allying with a tradition-shattering winery in a world-class wine region. These singular innovations are possible in few other countries, since they do not have Spain’s variety, richness, and cultural tradition.

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References


Bios

Mar Vila, is an associate professor in the ESADE department of financial management and control, and coordinator for the GRUGET research group on tourism management.

Cathy Enz, Ph.D., is the Lewis G. Schaeneman Jr. Professor of Innovation and Dynamic Management and professor in strategy at the Cornell University school of Hotel Administration.

Gerard Costa, Ph.D., is an associate professor in the ESADE department of marketing management and a researcher with GRUGET.