

การเสริมความได้เปรียบทางการแข่งขันด้วยนวัตกรรม การบริการ: กรณีศึกษาบริษัทจัดการโรงแรมไทย

ENHANCING COMPETITIVE ADVANTAGE THROUGH SERVICE INNOVATION: A CASE STUDY OF THAI HOTEL MANAGEMENT COMPANIES

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บทคัดย่อ

บทความนี้มีวัตถุประสงค์เพื่อศึกษาการใช้นวัตกรรมการบริการของบริษัทจัดการโรงแรมไทยเพื่อสำรวจความได้เปรียบทางการแข่งขัน โดยใช้กรอบแนวคิดนวัตกรรมการบริการของ Ostrom et al. (2010) ในการวิเคราะห์เนื้อหาจากบทความวิชาการ รายงานของภาคเอกชน และเอกสารของบริษัทจัดการโรงแรมไทย ใน 3 ด้าน ประกอบไปด้วย การให้บริการรูปแบบใหม่ กระบวนการการให้บริการแบบใหม่ และโมเดลธุรกิจบริการแบบใหม่ ผลการศึกษาพบว่า บริษัทจัดการโรงแรมไทยใช้นวัตกรรมการบริการเพื่อสร้างความได้เปรียบทางการแข่งขันด้วยกลยุทธ์การสร้างความแตกต่างเป็นหลักและผลการศึกษาได้สนับสนุนงานวิจัยที่เกี่ยวข้องที่พบว่ามีความลึกซึ้งและขับข้อนามากยิ่งขึ้น ดังนั้นนวัตกรรมการบริการจึงมีความสำคัญต่อความได้เปรียบทางการแข่งขันของโรงแรม

คำสำคัญ: นวัตกรรมการบริการ ความได้เปรียบทางการแข่งขันโรงแรม ประเทศไทย

Abstract

This paper aims to examine how Thai hotel management companies utilize service innovation to enhance competitive advantage. By reviewing academic literature, industry reports and company documents, data were analyzed using a content analysis approach. Based on Ostrom et al. (2010)'s framework of service innovation, this paper has identified service innovation utilized by Thai hotel management companies, consisting of new service concept, new service process, and new service business model. The findings have revealed that differentiation strategies were mainly used by Thai hotel management companies to enhance competitive advantage through service innovation. Moreover, the findings have supported relevant studies that service innovation is crucial to hotels' competitiveness as tourists become increasingly sophisticated.

Keywords: Service Innovation, Competitive Advantage, Hotel, Thailand

1. INTRODUCTION

The tourism industry is a major source of revenue for Thailand, accounting for over 10 percent of the country's GDP (Temphairojana, 2016) generating over 1.47 trillion Baht for the Thai economy (Tourism Authority of Thailand, 2017). One of the sectors to which the tourism industry in Thailand has contributed significantly is the hotel sector. According to Naksongkaew (2016), the number of new hotels has been increasing to serve the larger number of customers which has resulted from the fast growth of the tourism industry in Thailand. Nonetheless, a number of studies have indicated that hotels in Thailand have also been influenced by crises and high competition.

Firstly, it should be pointed out that the performance of hotels in Thailand is directly related to the state of the tourism sector (Krungsri Research, 2017). Such a concern is supported by Saraithong and Chancharoenchai (2017) who found that the performance of Thailand's tourism industry has been unstable due to a number of crises. As illustrated below, previous crises, such as SARS and political crises, have had negative effects on hotel occupancy rates in Thailand.

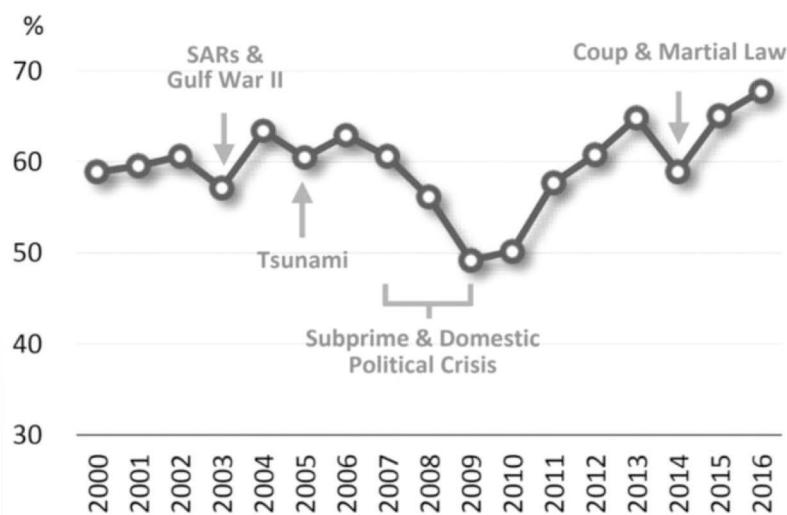


Figure 1: Thai hotels' occupancy rates and crises affecting the tourism industry
Source: Thailand Department of Tourism, as cited in Krungsri Research (2017)

Secondly, competition in the hotel sector worldwide is intense and hotels are constantly trying to gain a sustainable competitive advantage (Rayna & Striukova, 2009). Hotels in Thailand have also been influenced by high competition (Janssen, 2017; Thoraninpanich, 2015) and hence have been unable to raise room rates for years. Therefore, a price war is unavoidable (Bangkok Post, 2017). It should be pointed out, however, that hotels not only compete with local hotel management companies and brands at destinations, but also with multinational hotel companies (Lam, Ho, & Law, 2015). American and Singaporean hotel brands, in particular, are penetrating Thailand to cash in on growing tourism (Bangkok Post, 2017).

Despite crises and intense competition in Thailand's hotel sector, Centara Hotels and Resorts, Dusit International, and Minor International, remain competitive as three of the top Thai

hotel management companies in terms of room supply with a large number of hotel properties in Thailand and overseas (C9 Hotel Works, 2016). In addition, the three hotel management companies have seen their investments pay off in recent years with a significant amount of their profits coming from diverse portfolios overseas (Bangkok Post, 2014). In 2017, Dusit, Centara, and Minor have profit margins of 2.10%, 9.28%, and 11.57% respectively (The Stock Exchange of Thailand, 2017a).

The success of Centara, Dusit, and Minor has led a number of authors (e.g. Bangkok Post, 2014; C9 Hotel Works, 2016; Lam et al., 2015) to discuss the quick development of these companies, as well as to analyze the factors contributing to their competitive advantage through service innovation. Arguably, one of the factors contributing to competitive advantage in the hotel sector is service innovation (Hilman & Kaliappan, 2015; Rayna & Striukova, 2009; Tang, Wang, & Tang, 2015). Service innovation not only leads to the hotel's competitiveness (Gyurácz-Németh, Horn, & Friedrich, 2016), but also has a positive influence on performance (Gomezelj, 2016).

A service innovation can derive from the continuous improvement of hotel services (Gyurácz-Németh et al., 2016). For example, hoteliers offer various attractive menus, Wi-Fi, customized room beautification, exclusive room amenities, creative design and architecture (Hilman & Kaliappan, 2015). Whilst innovation is usually associated with technology, non-technological innovation, such as new ways of thinking and new service offerings, are also important. More importantly, innovation in the hotel industry ranges from incremental innovation to disruptive innovation, which impacts not only the hotel, but also the whole sector (Rayna & Striukova, 2009).

With all these issues in mind, this paper aims to examine how Thai hotel management companies utilize service innovation to enhance their competitiveness. Although many studies have attempted to develop the understanding of service innovation and competitive advantage in the hotel sector (e.g. Bharwani & Mathews, 2016; Tang et al., 2015; Tigu, Iorgulescu, & Ravar, 2013), research exploring the ways to enhance service innovation in the hotel sector is still limited (Tang et al., 2015) particularly in a Thai context. It is envisaged that this paper contributes to the growing body of company-based research on best practice for hotels in Thailand, with potential implications for the hotel segment in general.

2. LITERATURE REVIEW

2.1 Competitive Advantage through Service Innovation

According to Porter (1985), a competitive advantage strategy consists of the following strategies: cost leadership, differentiation, and focus. Stonehouse and Snowdon (2007) explained that a cost leadership strategy requires a firm to become the lowest cost producer of a product or service so that above-average profits are earned although the price charged is not above the industry average. A differentiation strategy creates a customer perception that a product or service is superior to that of other firms, based on brand, quality, and performance, so that a premium price can be charged to customers. However, a focus strategy uses either a differentiation or cost leadership strategy in a narrow market segment.

To remain competitive, Porter (2011) suggested that activities that go into creating, producing, selling, and delivering a product or service are the basic units of competitive advantage, whilst operational effectiveness means performing these activities better—that is, faster, or with fewer inputs and defects—than competitors. Nonetheless, O'Shannassy (2008) pointed out that a sustained

competitive advantage will only occur when the firm implement a value creating strategy that is not implemented simultaneously by rivals, and other firms are unable to duplicate the benefits of this strategy.

In the context of service companies, understanding how companies innovate services has been considered as one of the top research priorities by a number of scholars (e.g. Hsieh, Hung-Chang, Chih-Ping, HsiuJu, & Yu-Chun, 2013; Ostrom et al., 2010), especially in regard to how service innovation impacts the company's competitive advantage. María, José, and Primitiva (2018), in particular, highlighted that tourism companies need to innovate to ensure their competitiveness, as tourists are better informed and have more sophisticated behavior. Such a statement is supported by Arshad, Wang, and Su (2016) who stated that customers are becoming more advanced, segmented and challenging, and demand more in regard to customization, innovation, price and quality. To maintain competitiveness, the continual innovation of services is essential as services can be easily copied once in the marketplace.

Another growing area of study in service innovation and competitiveness is the view that service innovation achievement is based on the value created by collaboration between providers, customers and business partners (Åkesson, Skålén, Edvardsson, & Stålhammar, 2016; Khaksar, S., Khosla, Chu, & Shahmehr, 2016) which has recently been one of the top research priorities in studies dedicated to the hotel industry (Oyner & Korelina, 2016). Instead of organizations producing services in isolation from their customers, customers more generally contribute to service innovation with creative ideas and suggestions about how to integrate a new service into an existing service eco-system (Åkesson et al., 2016). In turn, service providers need to co-design and co-produce a service innovation with both suppliers and customers (Den Hertog, Wietze, & De Jong, 2010).

In addition, companies that co-create service innovation with its customers is in a better position to outperform its competitors since customers' participation in the innovation process can provide reliable information about their current preferences, thus avoiding unnecessary delays and errors in the service (María et al., 2018). Consequently, companies increasingly consider customer-perceived value as a vital factor in advancing the level of service performance (Yeh, 2016).

2.2 Service Innovation Framework

Service innovation can be classified into different approaches. Two of the most cited classifications were proposed by Hjalager (2010) and Ostrom et al. (2010). Hjalager (2010)'s classification, in particular, covers a range of service innovations from the product and services level to the organizational level. A more simplified approach was proposed by Ostrom et al. (2010) who stated that service innovation creates value for companies through the following types of service innovation: new service concept, new service process, and new service business model. Ostrom et al. (2010)'s framework is discussed below. Firstly, and mostly highlighted by business practitioners, a **new service concept** can be an integration of several existing service offerings into a package, or a combination of tangible products or intangible services, or both. In addition, a new service concept can be a unique offering of diversified services, service differentiation, technology-enabled new services, or service improvements that exceed the customer's expectations (Hsieh et al., 2013). Simply put, a new service concept refers to changes considered as new by the customer, either in the sense of having never been seen before, or being new to the particular company or industry (Hjalager, 2010).

Secondly, a **new service process** typically refers to backstage initiatives which aim at increasing efficiency, productivity and flow, generally through technology (Hjalager, 2010). In addition, new service processes can be innovations in service delivery systems that take various forms, such as new creations, improvements, and technology-enabled amelioration (Hsieh et al., 2013). There are a number of examples in which technologies have enabled service innovations, ranging from electronic government and e-health, to customized services, self-service concepts, and so on (Den Hertog et al., 2010). Thirdly, a **new service business model** describes how companies apply new perspectives, thoughts, or logic to their service business to increase profits or to outperform rivals. A new service revenue model offers a new revenue-generating mechanism for services to both current and new groups of customers. Additionally, a new service business model can be an improvement or creation of an external partnership in the value network, such as strategic alliance and buyer-supplier cooperation (Hsieh et al., 2013). Ostrom et al. (2010) pointed out, however, that it is vital for companies to understand that a business model for a service business requires a different approach from a product business.

3. METHODOLOGY

To achieve the aim of this paper, a qualitative research method was employed. It should be pointed out that this paper is motivated by the lack of relevant research and literature specifically concerning this research topic. As little is known about this key issue, this paper has adopted a qualitative research method. Thai hotel management companies were chosen as the target population. Centara Hotels and Resorts, Dusit International, and Minor International were then selected as the sample companies for the case study. Based on C9 Hotel Works (2016)'s study, these companies are the top Thai hotel management companies in terms of room supply with a range of hotel properties both in Thailand and overseas.

Secondary data regarding the service innovations offered by Thai hotel management companies were collected during November 2017 – January 2018 through their websites and supplemented by a review of academic literature, industry reports and company documents. A number of studies (e.g. Bharwani & Mathews, 2016; Qin, Li, & Yu, 2015; Rayna & Striukova, 2009) have also utilized secondary data to examine service innovation in hotels, and Cavender and Kincade (2015) added that secondary data can provide information about the contextual environment of the case study, which leads to the foundation and meaning of analysis. Data were analyzed using a content analysis approach based on Ostrom et al. (2010)'s framework of service innovation. To triangulate the study and to improve validity, the researchers gathered company data from multiple trade publications as well as information from the companies' websites and articles from various sources.

4. Findings

4.1 Background Information

In 1948, Dusit International founded its first hotel in Bangkok and launched its first flagship 5-star hotel in 1970. Among the three Thai hotel management companies, Dusit International is the only company that operates an educational institution, the Dusit Thani College (Dusit International, 2017). Dusit International currently manages 29 hotel properties worldwide, with 51 confirmed

projects in the pipeline. Hotel brands include Dusit Thani (luxury), Dusit Devarana (luxury), dusitD2 (boutique), and Dusit Princess (upper-middle scale) (Dusit Hotels and Resorts, 2017a). According to The Stock Exchange of Thailand (2017a), the majority of Dusit's revenue comes from the hotel business (85%), whilst its education business generates 8% of the revenue.

Minor International launched its first hotel in 1978 and acquired Regent Hotel Bangkok in 2000, which was later rebranded as Anantara Siam Bangkok, Minor's flagship luxury hotel. Unlike Dusit and Centara, Minor has expanded its presence rapidly through acquisition. Minor also manages a variety of businesses, with a total of 150 hotels & resorts, 1,900 restaurants and 300 retail trading outlets. Hotel brands include: Anantara (luxury), Avani (luxury), St Regis (luxury), Four Seasons (luxury), and PER AQUUM (luxury) (Minor International, 2016). The Stock Exchange of Thailand (2017a) reported that Minor's revenue derives from hotels (51%), food (42%), and lifestyle (7%) businesses.

In 1983, Central, Thailand's leading retail group, formed Central Hotels and Resorts and launched its first property, a five-star hotel in Bangkok. Later in 2007, Central Hotels and Resorts has been rebranded as Centara Hotels and Resorts. Currently, Centara manages 65 hotel properties in total, with 22 properties overseas. Hotel brands include Centara Grand Hotels & Resorts (luxury), Centara Hotels & Resorts (4 stars), Centara Residences & Suites, Centara Boutique Collection, Centra by Centara Hotels & Resorts and COSI Hotels (budget). Centara is owned by Central Plaza Company Limited, which also owns Central Restaurant Group. In 2016, Central Plaza Company Limited's revenue came from hotel (47%) and restaurant (53%) businesses (The Stock Exchange of Thailand, 2017a).

As discussed above, Dusit International was the first company to establish their hotel business, followed by Minor International and Centara Hotels and Resorts. In terms of brand portfolio, Minor International has the largest number of hotel brands, whilst Dusit and Centara have a greater variety of brands from budget to luxury. It should be pointed out that approximately half of Minor and Centara's revenue comes from non-hotel businesses, while the majority of Dusit's revenue comes from hotel businesses.

4.2 Service Innovation

Influenced by crises and intense competition, Thai hotel management companies arguably need to gain a competitive advantage through service innovation. To overcome such challenges, these companies have employed a number of service innovations approaches based on Ostrom et al. (2010)'s framework of service innovation.

4.2.1 New Service Concept

Firstly, companies can introduce new service concepts by integrating services into a package (Hsieh et al., 2013). Such a strategy has been adopted by Centara Grand at Central World by offering a new dining experience in Bangkok called "Progressive Dining" whereby customers start their fine dining experience by having tapas at the Spanish restaurant UNO MAS at the hotel on the 54th floor. Main courses are then served at the hotel's Red Sky restaurant on the 55th floor, followed by dessert and champagne at the CRU Champagne Bar on the 59th floor (Destination Thailand News, 2017).

Secondly, a new service concept can be a collaboration, or co-creation, between the service providers and the customers (Den Hertog et al., 2010). Dusit International, for instance, has recently launched new Thai cooking classes at its properties. Open to hotel guests and the general public at selected Dusit Hotels and Resorts worldwide, each hands-on session is conducted by an experienced Thai Chef de Cuisine and includes a choice of three authentic recipes, followed by a sit-down lunch or dinner (Dusit Hotels and Resorts, 2017b). Arguably, Dusit International's expertise in providing hands-on courses at its hospitality education business, the Dusit Thani College (The Nation, 2017b), may have contributed to the success of its cooking classes.

Thirdly, technology-enabled new services that exceed the customer's expectations can be considered as a new service concept (Hsieh et al., 2013). Anantara Siam Bangkok, a Minor hotel brand, understands the needs of tech-savvy travelers such as Millennials by offering a complimentary in-room smartphone which has been pre-installed with helpful applications. In addition, the phone provides guests with various features such as unlimited free local and international calls, unlimited free mobile internet, and instant access to the hotel concierge. This enables them to make special requests and reservations on the go (Shukla, 2017). As Schiopu, Padurean, Tala, and Nica (2016) pointed out, Millennials put a strong emphasis on their use of technology in a multitasking way to share travel experiences.

4.2.2 New Service Process

Firstly, technology can be utilized to enhance and customize service process (Hsieh et al., 2013), which is crucial as services largely focus on personalized experiences (Tripathi, 2017). Minor Hotels is the first hotel group in Asia Pacific to launch Expedia's automated MICE booking technology. By visiting Minor hotels' websites, customers can instantly check the availability and rates, and book meeting rooms, accommodation, food and equipment directly (Hayhurst, 2017). This new service process simplifies a process which has been largely manual, inefficient and time-consuming between the event planner and the hotel's business events sales manager (Hamdi, 2017). By strategically automating MICE business with technology, hotels can drive greater MICE sales efficiency and encourage higher customer satisfaction (Web in Travel, 2017).

Since young Chinese travelers prefer to receive travel information through WeChat, China's popular mobile messaging application (Wildau, 2016), Dusit International was the first hotel group in Thailand to accept WeChat Pay, WeChat's mobile payment, at its restaurants, spas, participating outlets, and for hotel rooms upon check-out. Users are able to pay their hotel bills by simply scanning a QR code to have the relevant fee deducted from their accounts (Hospitality Net, 2017). Like Dusit, Centara also accepts UnionPay, a popular Chinese payment method, and is active on China's leading social media applications, Weibo and WeChat (The Nation, 2017a).

As part of Central, Thailand's leading retail group, Centara has merged its loyalty program with Central's loyalty program "Central-The 1 Card" which has over four million customers. As a result, Centara has become part of Thailand's largest loyalty program (Citrinot, 2013). In turn, Centara customers can earn points at department stores in the Centara Retail Corporation portfolio (Business Traveller, 2013). Additionally, the 1 Card database is the most engaged and valuable database and allows Centara to increase revenue and customer loyalty through relevant messages using personalized customer relationship management. More importantly, the program is employed not only as a tool to drive loyalty, but also to drive Centara's website as the preferred booking channel (Centara Hotels and Resorts, 2016).

4.2.3 New Service Business Model

The new service business model indicates how hotels apply new perspectives, thoughts, or logic to their service business to increase profits or to outperform their competitors. Moreover, one of many approaches to innovate a business model is to develop services to appeal to specific groups of customers or to reposition an existing service in the market for previously unreachd customers (Hsieh et al., 2013). Interestingly, this type of service innovation has been widely used by all three Thai hotel management companies to enhance their expertise.

Unlike Centara and Minor, Dusit currently does not operate a food business. However, Dusit recently planned to enter the food business with strategic investment in NR Instant Produce Co., Ltd., a producer and exporter of ready-to-cook, ready meals, seasoning powders, dipping sauces, drinks and juices (Dusit Hotels and Resorts, 2018). Through this investment, Dusit plans to create Dusit Foods Co., Ltd., a new subsidiary designed to leverage Dusit's rich experience in food and beverage services (The Nation, 2018). A new line of Dusit-branded, premium products for local and international markets will be developed. This new business model is likely to expand its customer base and enhance its brand image worldwide, which is in line with Dusit's strategy to diversify its business and generate revenue from related industries (Dusit Hotels and Resorts, 2018).

Another new business model is a joint venture between Central's property development company "Central Pattana", or CPN, and Dusit to jointly invest in a mixed-use development project including hotels, residences, shopping malls and office buildings to be located in the heart of Bangkok (The Stock Exchange of Thailand, 2017b). The shopping mall and the office building businesses will be developed through CPN's expertise, whilst the hotel and residential businesses come under Dusit's expertise (Central Pattana Public Company Limited, 2017). Such a new business model is very unique, considering that Central also owns Centara, which is one of Dusit's competitors in Thailand.

With the diverse business models of hotel, food, and lifestyle businesses, Minor has recently launched a new business model "The Mekong Kingdoms Luxury Cruises". Travelers can board a 13-cabin luxury barge at LuangPrabang or Chiang Khong located near Anantara Golden Triangle Elephant Camp and Resort, one of Minor's luxury resorts (Minor International, 2018). Minor provides a variety of cruises for travelers with different lifestyles, as well as dining cruises in Bangkok and overnight cruises from Bangkok to Ayutthaya province in Thailand (Tourism Authority of Thailand, 2018).

5. CONCLUSION AND IMPLICATIONS

Challenged by crises and intense competition, Thai hotel management companies need to enhance a competitive advantage through service innovation. In turn, this paper has examined this issue and has revealed a number of theoretical implications. Firstly, there has been limited literature on how Thai hotel management companies maintain their competitive advantage through service innovation. Hence, this paper contributes to an important but essentially overlooked area in hotel management and service innovation. Secondly, this paper strengthens relevant literature (e.g. Arshad et al., 2016; Måra et al., 2018) which indicated that service innovation is crucial to the company's competitiveness as customers become increasingly sophisticated, such as tech-savvy Millennials, and Chinese travelers who prefer mobile payment. Thirdly, this paper supports a

number of scholars (e.g. Akesson et al., 2016; Khaksar et al., 2016) who propounded the value of co-creation between providers, customers and business partners, such as Dusit's co-created cooking class or the joint-venture project between CPN and Dusit, one of Centara's competitors.

This paper has also contributed a number of managerial implications. Firstly, this paper has examined three service innovations that are crucial to the competitive advantage of Thai hotel management companies, which are new service concept, new service process, and new service business model. Interestingly, Thai hotel management companies mainly use differentiation strategies to gain a competitive advantage through service innovation. With a differentiation strategy, according to Porter (1985), companies select attributes valued by customers, and uniquely positions itself to meet those needs. For example, both Centara and Minor have created exotic customer experiences through their "Progressive Dining" and "The Mekong Kingdoms Luxury Cruises", respectively. Secondly, although technology has been used in a number of cases, such as in-room smart phones, and a MICE booking technology, these service innovations cannot be considered as a cost leadership strategy. Whilst technologies can be cost-efficient for Thai hotel management companies, their major aim in using technologies is to provide personalized services to customers and suppliers. Thirdly, a sustained competitive advantage will only occur where the firm implements a value creating strategy that is not implemented simultaneously by competitors (O'Shannassy, 2008). In turn, Thai hotel management companies will need to review the relevancy of their service innovation regularly to ensure that their competitive advantage is sustained.

However, it should be pointed out that this paper has certain limitations. Firstly, service innovation cited in this paper primarily derives from a review of existing academic literature, industry reports and company documents, as studies in this field are limited. To gain further insights into the relevant issues, in-depth interviews with executives at Thai hotel management companies and surveys from hotel customers regarding their perceived value on service innovation, are needed. Secondly, this paper acknowledged Gomezelj (2016)'s recommendation that the same innovation may be categorized differently by various authors, as it can be challenging to distinguish clearly the categories of innovation as there is close interplay between them. Thirdly, these three hotel management companies are all in Thailand. In turn, hotel management companies in other parts of the world may have been influenced by macro and micro environmental variables differently, which has led to varied utilizations of service innovation. Therefore, future studies should compare and contrast how hotel management companies in Thailand and overseas gain their competitive advantage thought service innovation.

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