

The Internet as a powerful instrument for competitive advantage – recommendations for the Austrian SME accommodation sector

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Abstract

The Internet provides companies with several types of opportunities to conduct their business but also alters the rules of competition within an industry by causing several threats (Werthner and Klein, 1999). By looking at these threats and opportunities we have defined a generic framework, which was already introduced at last year's ENTER conference in Helsinki (Gratzer and Winiwarter, 2003a). We have applied our generic framework to the SME accommodation sector in Austria and have compared the results of an expert survey and a hotel survey (Gratzer, 2003; Gratzer and Winiwarter, 2003b), which were carried out in Austria last year. The information we received together with enterprise information provided us with the possibility to draw a picture of the strategic use of the Internet and the ability of companies to gain competitive advantage. This paper focuses on the main findings of the surveys, the identification of possible success indicators, and the formulation of recommendations for the market players in the Austrian SME (Small and Medium Enterprises) accommodation sector.

Keywords: competitive advantage, competitive strategy, accommodation sector, Internet

1 Introduction

Information and communication technologies (ICTs) and tourism are two of the most dynamic drivers of our global economy. As many authors have claimed, tourism must be treated as an information-intensive industry (Poon, 1993; Sheldon, 1997; Inkpen, 1998; Werthner and Klein, 1999). Travel and tourism can be defined as an information business, because information is one of the most important quality parameters to support actions for the tourism area as a service industry. In few other areas is the generation, gathering, processing, application and communication of information as important for day-to-day operation as it is for the travel and tourism industry. More than other services, tourism services are increasingly dominated by information. However, the core product is in almost any case a physical product. The

Internet as an information and communication technology is a perfect platform for companies within the industry to bring information about their products to the customers all over the world, in a direct, cost-minimizing and time-effective way. The Internet changes the structures and processes within the tourism industry. New value chains and value systems are emerging, and the players within the industry have to redesign their strategy under the power of ICT. The aim of this research is to explore the market structure and determinants of competitive advantage for the SME accommodation sector in Austria.

2 Framework for Competitive Advantage

All dimensions of an organization and an industry have to be re-examined in the light of power ICT applications. The Internet provides several types of opportunities for companies to conduct their business but also alters the rules of competition within an industry by causing several threats. By considering these threats and opportunities we define a framework for competitive advantage (Gratzer, 2003; Gratzer and Winiwarter, 2003a). The ability of companies to *create or capture value* is an essential success factor for their competitive advantage. The research method we apply is to formulate a number of questions corresponding to these threats and opportunities. Based on these questions we discuss the developments in the SME accommodation sector in Austria. The research can be divided into three major parts:

- In the first part we used the strategic concept of the five competitive forces (Porter, 1985; Porter and Miller, 1985; Porter, 2001) to analyze an industry. This market-based view provides an overview of the developments and threats caused by ICT within an industry, in particular by the Internet. To counteract these threats of the Internet and to achieve competitive advantage, a firm has to develop a strategy by using the opportunities of the Internet. In this part we defined several opportunities and activities a company can use to gain a competitive position. This is primarily based on the Logics of Value defined by Akkermans (Akkermans, 2001; Gordijn and Akkermans, 2001).
- In the second part of our research this framework has been applied to the SME accommodation sector. We have generated a number of questions corresponding to the identified threats and opportunities and evaluated these questions through online surveys. First, we carried out an expert survey with Austrian travel and tourism experts. On the basis of this expert survey we designed an online survey within the industry to analyze the changes in more detail and within the day-to-day business of the industry players.
- Finally, the results of the surveys provided us with a comprehensive overview of the changes within the Austrian SME accommodation industry. In particular, we looked at the capacity of these facilities to gain competitive advantage by using the Internet, identified possible success indicators, and derived recommendations for players within this sector.

For further details on our framework and the methodology and results of the surveys we refer to our previous publications (Gratzer and Winiwarter, 2003a; Gratzer and Winiwarter, 2003b).

3 Main Findings

As already outlined, in the first part of our research we have identified several business values and opportunities of the Internet due to its very specific characteristics. For the accommodation sector in Austria this causes several changes. Regarding the five competitive forces for the accommodation sector in Austria we derived from our surveys that:

- The threat of substitute products/services and an increased power of suppliers are not seen as evident.
- An increased rivalry among existing firms is also not considered as that relevant.
- On the other hand, the Internet increases the threat of new entrants (in the form of new intermediaries) by reducing the entry barriers.
- The Internet increases the power of buyers by reducing the switching costs.
- The Internet offers new possibilities to bypass intermediaries and to address customer needs directly; the power of such intermediaries is reduced.
- The Internet offers new tools and services (e.g. personalization) to place new products for individual customers.

In (Gratzer and Winiwarter, 2003b) we could show that the most evident threats for the hotels are the faster reaction time, additional workload, and new personnel requirements. In general, these are *organizational problems*. The ability to handle these problems will be a very important success factor to gain competitive advantage by using the Internet.

Opportunities are seen by using the Internet *to distribute niche products and address the individual customer*. It can be regarded as one of the largest threats that SMEs failing to adapt their Internet presence and therefore being unavailable in the marketplace will be inaccessible to customers and intermediaries. Furthermore, we see it as an essential success factor for a hotel to create organizational structures, such as defining responsible persons or specific business processes (e.g. using the Internet for product development) for the introduction of new Internet technologies. It is also essential to address the consumer need directly in a personalized manner to enhance the customer relationship and decrease switching costs.

Regarding the share of online bookings we evaluated that the importance of the Internet increases with a decrease of the number of beds. For facilities with 1 – 10 beds, the Internet share counts for about 24% of all bookings, facilities with 31 – 50 beds still have a share of 20%. For very large hotels with more than 500 beds, the online share is below 5%. This can be explained by the distribution channels of the

hotels. Larger hotels normally have different channels (tour operators, CRS, hotel chains) that have been well established over the years, smaller facilities have normally only one or fewer different channels to distribute their product. Thus, the Internet provides a major opportunity for them to reach customers.

We also compared the Internet turnover with the number of beds. We can see that the turnover increases with the number of beds (see Figure 1). As, in general, larger enterprises make a higher turnover this is understandable. Facilities with 31 – 50 beds and those with 51 – 100 beds seem to be at the best position as their Internet turnover is above average in the higher categories. For example, we evaluated that just 6% of the hotels have a Internet turnover between € 31,000 and € 50,000, whereas in the category with 31 – 50 beds about 13% make a turnover of this amount. The situation for facilities with 51 – 100 beds is similar.

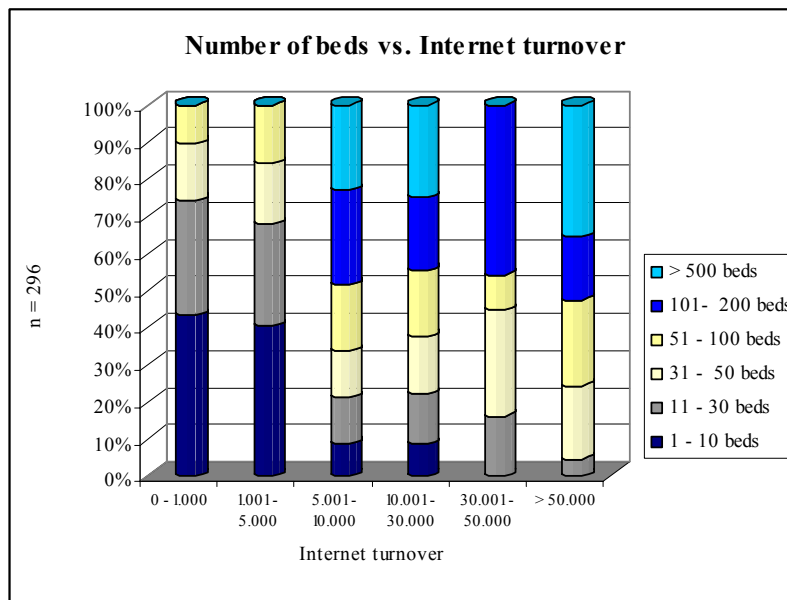


Figure 1. Number of beds compared to the Internet turnover

4 Possible Success Indicators

Next, we try to extract some success indicators. Based on the data of the hotel survey, we are looking for significant relations from which we might derive possible success indicators. The basic question might be: “*Why are some facilities much more successful using the Web than others, or which ones are able to gain competitive advantage?*” We asked a question in the industry survey where the participants had to state the tools and services they are already using for their business. It is important to point out that we were just looking at the use of the different tools and services and

not focusing on the intensity and quality of use. For instance, a bad homepage or newsletter could also be a negative success indicator. Thus, this has to be noticed as a limitation of our study because we are just looking at the strategic level.

We have to consider that the use of a service or tool will not necessarily influence the Internet turnover or share of online bookings. To outline possible dependencies we use the share of online bookings and try to display possible dependencies between the use of a specific service and the share of online bookings. We tried to estimate multinomial logistic regression models, where we had to recognize that the dataset was too small (more specifically, there were too many empty cells) to get useful results. Therefore, we are focusing on descriptive statistics to outline possible interdependencies. Table 1 illustrates the identified dependencies of the share of online bookings on the used services, and we can see that *online booking*, *product development*, *online surveys* and *personalization* are possible success indicators.

Table 1. The share of online bookings in relation to the use of services

Used service	Identified dependencies (Chi-Square Test)
Use of online reservation (reservation per eMail)	$p > 0.05$
Search for market information	$p > 0.05$
Use of online booking (with transaction)	$p=0.016$
Newsletter	$p > 0.05$
Last minute offers	$p > 0.05$
Use for product development	$p=0.043$
Online survey	$p=0.028$
Personalization	$p=0.033$
Search for customer information	$p > 0.05$
Banner and promotion	$p > 0.05$

We also evaluated that the size of an accommodation facility is highly influencing the ability to use the Internet for business activities. Regarding the number of beds we can suggest that there are dependencies on the use of online reservation, the search for market information, online booking, the use of a newsletter, last minute offers, and the use of the Internet for product development. In all cases we see dependencies in the way that a larger number of beds implies a more intensive use of the mentioned services and tools. Regarding the Internet turnover, most of the services showed dependencies. To summarize, we can assume interdependencies between: the *used services*, the *number of beds*, and the *share of online bookings*. As depicted in Figure 2 we have to assume a triangle relationship between these three indicators. The number of beds and the used services determine and influence the share of online bookings, but the used service can also indirectly influence the number of beds (e.g. by increasing the occupancy rate). In the other direction, the share of online bookings might influence the use of Internet services as well as the number of beds by offering new financial possibilities.

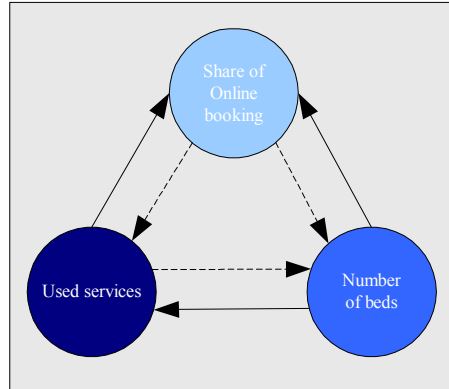


Figure 2. Interdependencies between used services, number of beds, and share of online bookings

As a major output of our surveys we have to consider that regarding the situation of accommodation facilities we have to distinguish three different groups. As depicted in Figure 3 we can define three clusters using the number of beds as parameter: *facilities < 30 beds*, *facilities with 31 – 100 beds*, and *facilities > 100 beds*.

Facilities smaller than 30 beds have a high potential to use the Internet for their business, most of them indicated a very high percentage of online bookings, but they are also struggling with the organizational problem to integrate the Internet into the business processes. We indicated that they are using the Internet not so extensively (see the smaller bubble in Figure 3); especially regarding the more dynamic opportunities such as online booking, personalization, or product development.

Accommodation facilities with 31 – 100 beds seem to be in the best position compared to the two other groups. They have a high share of online bookings and are already using the different tools and services extensively (larger bubble in Figure 3). They have already the capacity to adopt the Internet for their business and are flexible enough to use services like product development or personalization.

Larger facilities (> 100), in general, have a lower share of online bookings, even though they are extensively using Internet services. Compared to the two other groups, the Internet is not as important for product distribution because they are also using other channels. They have more often the problem to adopt their business processes to the new requirements of the Internet as they have already more static organization structures.

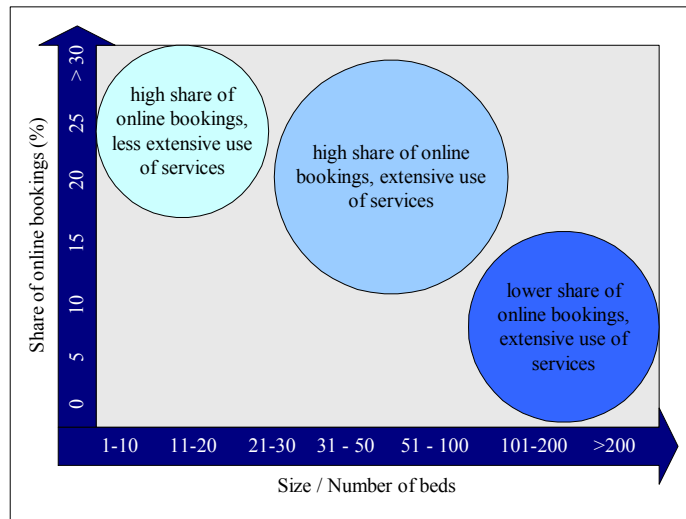


Figure 3. Three groups of accommodation facilities

5 Recommendations

To draw our recommendations, we first define some general suggestions. In general, SMEs need to take advantage of using ICT to reduce their marginalization from the mainstream tourism industry and to make their products available to institutional and independent buyers. The Internet provides them with two major opportunities: *The direct customer contact* and *a new worldwide distribution channel*. They may be able to achieve competitive advantage if they manage to develop and position their niche products as unique. Enhancing the professionalism of SMEs, through marketing and management training, can especially support smaller companies.

As illustrated in Table 2 we can define several recommendations for the SME accommodation facilities to improve their Internet strategy. We differentiate between the size of the facilities, as defined above, and short-term and mid-term recommendations. As the developments within the ICT area cannot be estimated easily for a longer term, we are not trying to give recommendations for this time scope.

We have to mention that the recommendations are just suggestions to improve or enhance the Internet activities and have to be evaluated for each specific facility. Some of the recommendations are unique for a specific group, some are valid for several groups. Furthermore, we have to take into account that some of the identified threats or opportunities can become obsolete within a short time. The tourism industry is living in a time of change, market structures as well market players are changing very fast, thus we can only provide a snapshot of today's situation.

Table 2. Short-term and mid-term strategies to use the Internet

Group of accommodation facility	Short-term strategy	Mid-term strategy
< 30 beds	<ul style="list-style-type: none"> ▪ Management and marketing training ▪ Adopt internal processes ▪ Use online booking ▪ Capture value about the consumer by conducting online survey ▪ Cooperate within a marketing group with strong Internet activities 	<ul style="list-style-type: none"> ▪ Management and marketing training ▪ Use product development ▪ Use personalization ▪ Provide a newsletter
31 – 100 beds	<ul style="list-style-type: none"> ▪ Training of employees ▪ Capture value about the consumer by conducting online survey ▪ Enhance online booking ▪ Provide last minute offers ▪ Provide a newsletter 	<ul style="list-style-type: none"> ▪ Use personalization ▪ Niche products to attract new market segments ▪ Banner and promotion
> 100 beds	<ul style="list-style-type: none"> ▪ Training of employees ▪ Adopt internal processes, define responsibilities ▪ Capture value about the consumer by conducting online survey ▪ Enhance online booking ▪ Provide last minute offers ▪ Provide a newsletter 	<ul style="list-style-type: none"> ▪ Use personalization ▪ Niche products to attract new market segments ▪ Banner and promotion ▪ Capture value by Web mining ▪ Disintermediation

In addition, we can draw some recommendations for players that are acting within the value system of SME accommodation facilities. These players are *new intermediaries, marketing organizations, and tourist boards*.

New intermediaries, such as Tiscover or Nethotels, are those players which provide many of the new tools and services. They open new distribution channels and the direct contact to the customer. Most of these new players are mainly focusing on the intermediary part. The number of online distribution and booking systems is still increasing. Today there exist about 35,000 online booking systems a customer can access to book a hotel room. This causes also problems for the accommodation sector. Which system should they use? How many they are able to handle in the daily business? As we saw, the most evident problems for the hotels are the organizational challenges, thus the new intermediaries should take this into account and offer their customers tools and services to overcome these challenges. Furthermore, we have identified several tools and services the accommodation sector should use to gain competitive advantage. Especially for smaller facilities, these tools have to be provided by these new intermediaries. They have to support the SME accommodation

facilities in their activities with automated and simple tools and services, and training activities to apply these tools.

Marketing groups should improve their internal activities and enhance the use of the Internet within their member community. They have to guide and assist their members and could also strengthen their own position by providing several services or tools (e.g. a newsletter tool or conducting online surveys). They have also the power and ability to motivate their members to use the Internet much more for product development and online distribution.

Tourist boards have similar possibilities as marketing groups. The tourist boards are in close contact with the accommodation facilities and can influence their activities. They can, for example, increase the online booking activities by only including bookable facilities into their Web site. They can organize training activities and strengthen the Internet awareness of their members by providing financial support. This is especially evident for organizations of the public sector like the Chamber of Commerce or provincial tourist boards, which can actively motivate their members to use the technology.

6 Conclusions and Future work

The aim of our research is to explain the role of the Internet for accommodation facilities from the point of view of industry experts as well as of representatives from the accommodation industry. Larger hotels and hotel chains have always had a greater need of ICT and have already a higher level of ICT usage (Buhalis, 1997; Buhalis, 2002). However, the Internet can be seen as a powerful instrument for the SME accommodation sector to overcome this ICT disadvantage. Based on the findings of our surveys, we formulated several recommendations for the three groups of accommodation facilities to improve their Internet strategy. These recommendations provide a snapshot of today's developments and should help players to define their strategies. In general we can draw the conclusion that innovative players who appreciate the power of the Internet and adopt their business strategy and internal processes to the new demands will be able to compete on an equal footing with some of their larger competitors.

Further research can be conducted by using the theoretical framework to evaluate other sectors within the travel and tourism industry. This could provide a more comprehensive insight view of the changes within the industry value chains. Furthermore, our research has been mainly focusing on a strategic evaluation of used tools and services of the Internet. To draw more specific recommendations for industry players, further research should look more deeply at quality parameters of the used services and try to define empirical models to evaluate their ability for competitive advantage. Finally, we try to disseminate the results of our research to the industry players at workshops and meetings and will therefore be able to get feedback

from the industry. This will provide valuable input for a more thorough description and assessment of the individual activities for the different business strategies.

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