

Chapter 2

On Business Model Innovation of Service Industry in Post-Crisis Era

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Abstract The construction of business models has become the key factor to the success of service industry and service enterprises. Through explaining the connotation and formation mechanism of business models with economic and organizational theories, the paper applies the business model theories to the tourism industry and suggests a basic theoretical framework for the innovation of business models among tourism enterprises, which also serves as an conceptual analysis tool for Chinese local tourism enterprises' participation in international competition in post-financial-crisis era.

Keywords Tourism • Enterprises • Business • Models • Innovation

2.1 Introduction

Chinese modern tourism industry, starting under the background of globalization, has made huge progress within its 30 years developing history [1]. Tourism enterprises have transformed its task of participating in the international division of labor to the enhancement of international competition, in order that China, the great tourism country, will march toward the world tourism power.

In post-financial-crisis era, competition is not a one-dimensional comparison between products, technology, talent, marketing and system, but the competition of system models. The optimal model results in competitive while weak model leads to “passive, disorder and vicious competition.” Priority should be given to

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basic skills if the enterprises hope to go to the root of the problem [2]. Enterprises should implement the innovation and transition of business models, which will systematically upgrade the value creation ability.

The paper aims to establish a business model structural system for the tourism service enterprises, to analyze the formation mechanism of the business model, action mechanism and the evolution mechanism, to seek business model innovation methods and paths for the tourism service enterprise and to lay the foundation for further practice and perfection of the theoretical system among tourism service enterprises. The research significance is to provide an analysis means for tourism service enterprises during the practices of business models.

2.2 Reviews on Current Researches Home and Abroad

2.2.1 The Rise and Development of Business Model

Business model appeared first in academic circle in Accounting Review. However, it was not paid great attention by entrepreneurs, venture capitalists and managers until the end of last century to early this century, that is, with the rise of Internet.

Peter Drucker [3], the famous US managerialist defined Business Model as Business Theory in 1994. Dr. Michael Hammer defined Business Model as Operational Innovation in 2004 and believed operational innovation result in deep change of the enterprises. Dr. Hammer emphasized that operation innovation might appear to be strange or unattractive, but it is the only base for a lasting extraordinary achievement. Operation innovation is different from operation improvement and operation optimization. Operation innovation is a brand new method to accomplish tasks, to develop products, to provide customer service or to complete other enterprise operations.

Business model provides a brand new perspective of enterprise management. It pays attention to the description of the integrity and the systematicness of the enterprises, combining together the value creativity and value capture. It becomes an important component of the core competitiveness of enterprises.

2.2.2 Current Researches on Business Model

At present, researches on business model remain a frontier and hot topic as most related researches have been found during the past decade [4]. In foreign countries, relevant researches have extended from new and hi-tech enterprises to common enterprises. Chinese researches are still in the tracking stage.

According to the current literature, although researches have been done to the meaning, structure, the theory explain and model innovation mechanism of business model, a theoretic framework has not yet been built up due to the different perspectives of researchers. Overall, researches on business model still belong to the exploratory initial stage.

2.3 Connotation of Business Model

Any organization, whether for profit or non-profit, has an established target system to ensure its survival and development and measures for operation, in operation mode. For non-profit organizations, it is named as organizational activity model due to its non-profit survival and operational target. For profit organizations, it is named as organizational business model, which a challenge and feedback relationship existing between their operation modes and market competition.

In fact, organizational business model should at least meet two requirements. Firstly, organizational business model is a whole consisting of various components. It is a structure, not just a single factor. Secondly, there is internal connection between those components in an organizational business model, which makes them work in tandem with one and another to form a virtuous cycle.

In view of economics and organizational theory, the author holds that business model is a four-dimensional system structure consisting of customer interface, enterprise core strategy, strategic resources and the value network [5]. The four dimensions, closely contacted with each, supported each other; finally form a virtuous cycle with their combined efforts. Accordingly, business model innovation includes customer interface innovation, enterprise core strategic reform, strategic resources regaining and restructuring and the optimization of the value network, all of which belong to the technology innovation, management innovation, market innovation and system innovation. However, the innovation of a single dimension or a certain component is unlikely to constitute a business model innovation. Entrepreneurs will have to combine various components, to set up a new profit system and a new standard through competition so that the business model can be innovated, which is a systematic innovation of a combination of all kinds of traditional innovation (Fig. 2.1).

Business model innovation, based on the traditional system innovation and yet transcended beyond the traditional system innovation, establishes a new production function. The enterprise combines all sorts of resources, leading various factors of production and resources to new applications and production to new direction, which then creates new business, new technology, new sources of supply and new organization model for what Schumpeter claim of enterprise economic rent, namely “Schumpeter Rent”.

Schumpeter Rent comes from the innovation activities by entrepreneurs in the highly uncertain and complicated environment, which requires entrepreneurs to have “creative destruction” deliberately during innovation, and to reconstruct

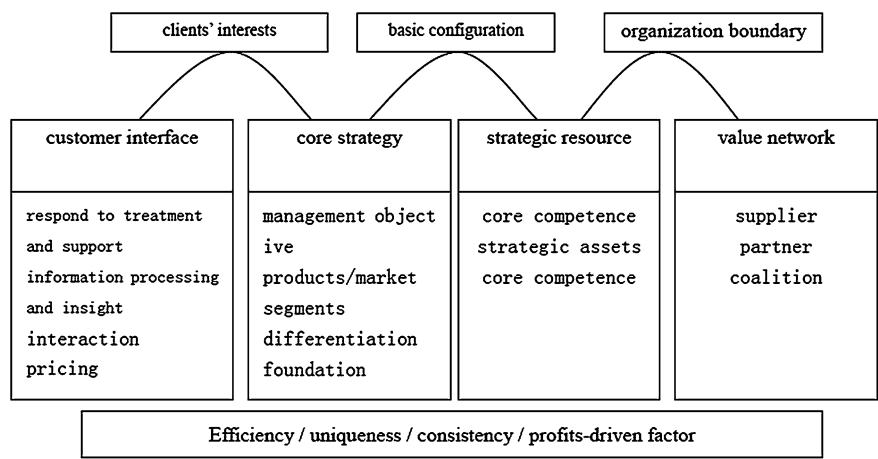


Fig. 2.1 Dimensions and elements of business models

resources and competence of the enterprises as a way to bring sustainable competitive advantages.

2.4 Key Points of Construction of Business Model for Tourism Service Enterprises

Along with the changes of development environment and management of tourism industry, entrepreneurs should constantly reconsider design and innovation of business models. This is the primary experience of how domestic tourism service enterprises improve their core competitive power. Overall, the business model of service industry is more complicated than manufacturing and retail business model. According to the characteristics of the tourism service enterprise, the key to the construction of tourism enterprises lies in the construction of core strategy and strategic resources construction, which, in more specific terms, is the construction of value-revenue management model, management model and operation model.

2.4.1 Connotations of Three Models

Value-revenue Management Model According to the difference of enterprise value among tourism service enterprise, the value-revenue management model can be divided into categories including the economies of scale operation model, scope economy (diversity) management model, rapid response operation model, the network economy operation model, brand economic (quality economic)

management model, polymerization (industrial cluster) economic management models, integration management models, standardization management models, characteristic service management model, cultural business models, etc.

Management Model Management model refers to the fulfillment of business model and strategic objectives of the enterprises through governance, organization structure and control system. Management model of tourism enterprises aims at reducing organization cost, improving management efficiency and realizing enterprise strategic goals indirectly.

Operation Model Operation model of tourism service enterprise segments service activities into different scales of service units or service modules. Here, the design of operation model refers to the Business Process Design, that is, Business Modeling of the tourism service enterprises. Process design of guest service in tourism service enterprise belongs to the product positioning and product design in the traditional business management.

2.4.2 Relationship Between the Three Models

Value-revenue management model, the theoretical guideline in conducting market behavior for tourism enterprises, is to work out mainly the value judgment and income management. Management model refers to the fulfillment of business model and strategic objectives of the enterprises through governance, organization structure and control system. Service model serves as not only basic operation and process of basic component of tourism enterprises, but the value foundation of leading service or service winning of enterprise management model. Tourism service enterprise, with the coordinate operation of value-revenue management model, management model and service model, is able to construct and operate its business model. Different selection and combination of various components of the three models results in most of the designs and structures of business models in the tourism service enterprises.

2.5 Construction of Business Model for Tourism Service Enterprises

2.5.1 Connotation of Business Model for Tourism Service Enterprises

Business model of tourism service enterprises is a strategic operation system combining value-revenue model, management model and service model. It is through the management principles, customized service, and management system and mechanism innovation to create enterprise advantage and to realize the value

enhancement. Among them, value-venue management model is essential to the value analysis and value shaping. It also determines management model and both can be realized through the service model of tourism enterprises. Tourism service enterprise, with the coordinate operation of value-revenue management model, management model and service model, is able to construct and operate its business model. In tourism enterprises, business model presents a consistency in logical form: the principles of value represented by value-venue management model and the execution efficiency required by management model shall be expressed and performed by service model.

A three-dimensional space analysis diagram as showed below may define the connotation and logical relationship of the above business model of tourism enterprises. It explains the logically cause and effect relationship and deduction connection of operation, management and service in its business model of logic of tourism enterprises (Fig. 2.2).

The value-venue management model, management model and service model synchronize in terms of time and space of organizational operation. Customized service, management model and business principles in the hotel business model present, in logical form, a connection of “symbiotic and synchronized” (Fig. 2.3).

Fig. 2.2 Special analysis diagram of the three components for tourism enterprises business model

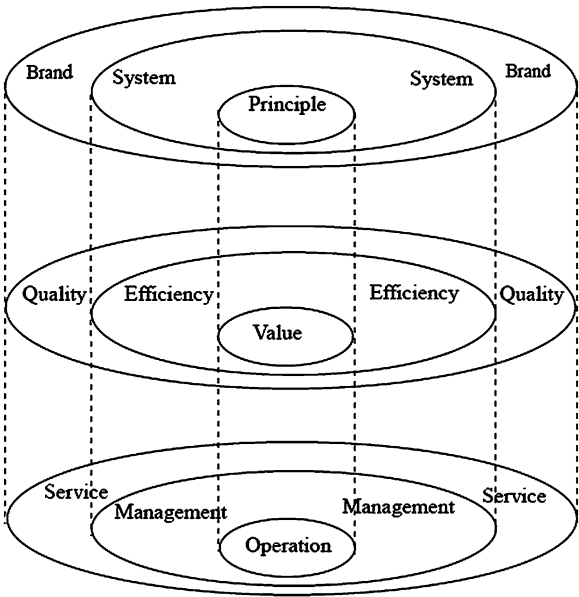
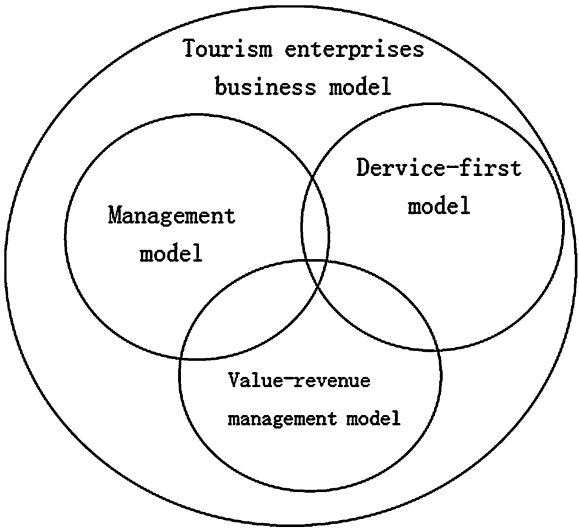


Fig. 2.3 Logical relationship diagram for tourism enterprises business model



2.5.2 Construction of Business Model for Tourism Enterprises Based on CBM

IBM Business Value Research Institute, based on the following theoretical researches, develops, Component Business Model (CBM). External specialization of enterprise affects the cooperation, exchange among enterprises and the interaction of the network and channel, which changed the entire industry’s ecological environment, results in the cooperation between competitors by providing services and solutions to customers. Internal specialization is the ultimate stage of the development of enterprise—enterprises will be organized by networked business module. The operation of enterprise is the interaction of a series of discrete, modeling of modules within the enterprise and with other enterprises.

CBM provides a useful way to the specialization of tourism enterprises both internally and externally. It helps, internally, component of business model based on own assets and ability, to rethink what level they can reach. From the outside, components of business model can help the enterprise fulfill its own characteristics by taking advantage of resources. CBM can help enterprise to evaluate the objectives and strategies, to use of internal and external specialized advantage in the premise of not increasing complexity, and to promote the expansion of the organization, while at the same time, reduce the risk, improve the productivity, control cost, improve efficiency and foresee the financial issues. Figure 2.4 shows the steps to form the business model for tourism enterprises based on CBM (Fig. 2.4).

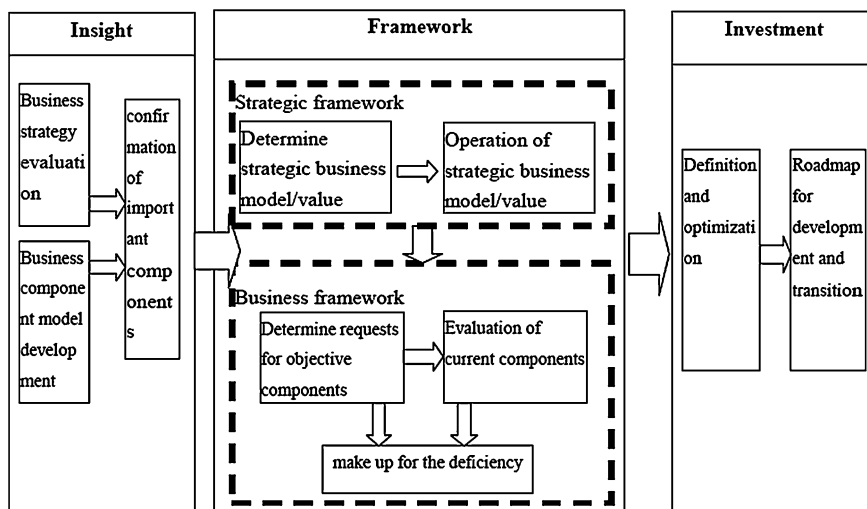


Fig. 2.4 Steps to form the business model for tourism enterprises based on CBM

2.6 Conclusion

As China marches toward world tourism power, the academic circle has showed great interests in the theoretical research of the framework of business model for tourism enterprises. The paper aims at providing a conceptual analysis tool for the innovation of business models of tourism enterprises through a study on the structural and internal logic of the business model. Moreover, at the same time, the paper provides a theoretical framework for designs and innovation of business models as well, which can highlight on the execution of tourism enterprises. Thus, it can help tourism enterprises, from a strategic perspective, to focus on the connection of business mix and the integrity of operation structure rather than value elements, resources and ability.

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