Tourism Review

Business models in tourism
Guest Editors: Stephan Reinhold, Florian J. Zach and Dejan Krizaj
As advocates of a fascinating research context and an applied discipline, tourism and hospitality, scholars are developing unique concepts to explain travel-related phenomena and are on the lookout for new theories and theoretical frameworks from other disciplines that help them make sense of the shifts and swings in market behavior. The focus of this special issue, the business model concept, is part of the latter category and aligns with *Tourism Review*’s aspiration to advance our understanding of tourism value creation from a multidisciplinary, holistic perspective.

The concept had started its ascend in the mid-to-late 1990s in the management sciences (Zott *et al.*, 2011). In short, the business model is a comprehensive analytical framework to explain how specific actors (such as entrepreneurs, firms or collaborative networks) create, capture and disseminate value. As such, it seems to be an intuitive fit to address the erosion of perceived customer value as well as new forms of intermediation and competition threaten existing revenue models. All those challenges are relevant to tourism and hospitality. For example, price comparison and distribution platforms have shifted the power of established hospitality chains to capture margins per unit booked along their supply chains. Services such as Uber Eats and Deliveroo challenge the profitability and value offered of traditional fast food franchises. Yield management backend solution providers engage in a fierce optimization race driven by advances in machine learning to outpace alternative revenue management applications and increase their clients’ revenue per available room. Health tourism is inspired by advances in rehabilitation robotics. And finally, some tourism organizations seem to start shifting their existing value proposition from information services and placing promotion in its broadest sense to a development platform for tourism entrepreneurship and new attractions.

The increase in academic interest for the business model concept has been paralleled in public discourse and industry practice. Newspaper articles and investor reports regularly reference the concept; corporate entrepreneurs and startup teams use different variants of business model frameworks for ideation and venture development; and Alexander Osterwalder’s business model canvas is available in the business section of many airport bookstores.

However, the business model is much more than a visual consulting tool. It is sometimes mistaken for one because of both the prominence of Osterwalder and Pigneur’s (2009) canvas and the evolution of studies on business models as a research program (Lecocq *et al.*, 2010). Like any new, challenging concept developed in the management disciplines, the business model’s conceptual boundaries have shifted and evolved into different streams of research (Massa *et al.*, 2017) that are at times hard to identify from outside the research communities that drive the research agenda at its core. We content that this is, however, a necessity to unlock its potential for hospitality and tourism research.

With this special issue on business models in tourism and the review article “Business Models in Tourism: A review and research agenda” (Reinhold *et al.*, 2017), we have attempted to start a conversation on where business model research in tourism stands and clarify some challenges and misconceptions in applying the business model concept as a theoretical lens to study tourism and hospitality research questions. As a guest editorial team, we unite those...
strands of research: tourism and hospitality research with business model research in strategy, entrepreneurship and organizational behaviour.

The collection of work presented in this special issue is representative of the relatively nascent state of business model research in tourism and hospitality and the challenges involved in this type of research. Following our call, in late 2016, we received 38 original manuscripts and extended abstracts. Of those, we invited 14 papers for the first round of reviews. Any submission coauthored by anyone of us guest editors was handled separately by the acting editor-in-chief to ensure the integrity of the double-blind review process. After a second round of reviews, we selected four contributions to feature in this special issue. We hope they serve as an inspiration on how to pick up on methodological challenges and research gaps to advance our understanding of a number of phenomena from a business model perspective in tourism and hospitality management and entrepreneurship.

This special issue is structured in two parts. The first part contains the introduction and two conceptual papers. In “Business models in tourism – state of the art,” we present a critical review of the state of business model research in tourism and hospitality that builds on our literature review published in *Tourism Review* Volume 72, Issue 4 (Reinhold et al., 2017). It contextualizes our findings in the broader landscape of scholarly discourse on business models.

We hope it serves tourism and hospitality researchers as a point of orientation in navigating the body of knowledge on the business model concept within and outside their discipline.

In “A business model typology for destination management organizations,” Stephan Reinhold, Pietro Beritelli and Rouven Grünig argue that DMOs face challenges that simultaneously question how those organizations create and capture value. The authors use typological reasoning to propose four DMO business model ideal types. Those four ideal types relate to decision-makers’ assumptions about the perceived level of control a DMO has over a destination and how tourism organizations create and capture value.

In “Game on! A new integrated resort business model,” Aaron Tham and Danny Huang make their case for a new integrated resort business model that benefits from conceptual integration of smart tourism ecosystems with dynamic capabilities. The authors argue in their conceptual contribution that their approach to business model development in information-rich environments can help realize sustainable competitive advantage.

The second part contains two empirical case studies that use the business model as a conceptual lens to study relevant tourism issues from a cross-sectional perspective. They are both interesting from a research perspective as well as for those that look for inspiration on how to make the business model concept tangible in tourism settings for their teaching. In “Jumia travel in Africa: expanding the boundaries of the OTA business model,” Maxime Weigert illustrates how constraints on demand and supply in a developing sub-Saharan African travel market have shaped the local adoption of the OTA business model. The author illustrates that the experience of Jumia Travel in Côte d’Ivoire is an example of dynamic capabilities at work that enabled a local venture to develop new business routines and acquire new competencies to implement the OTA business model locally in a bottom of the pyramid market.

Finally, in “An examination of a social tourism business in Granada, Nicaragua,” Alexia Francidis demonstrates how tourism businesses can pursue a dual agenda with a social business model. The author focuses on value dissemination among stakeholders in a local community with an organizational support model.

We extend our gratitude and thanks to the present editor Dimitrios Buhalis and former editor Christian Laesser for their support and encouragement, to our anonymous reviewers for the critical feedback and commitment that helped shape and develop the manuscript in this
special issue and, finally, to all authors for sharing their contributions in this special issue to inspire a conversation on business models in tourism.

References


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Business models in tourism – state of the art

Stephan Reinhold, Florian J. Zach and Dejan Krizaj

Abstract
Purpose – This paper aims to review the state of the art for the Tourism Review special issue on “Business Models in Tourism”. The authors’ purpose is twofold: first, to contextualize the empirical and conceptual contributions featured in the special issue in relation to the state of research on business models in tourism. Second, the authors position the special issue in the broader scholarly conversation on business models to identify avenues for future research.

Design/methodology/approach – The authors systematically review the content of tourism-specific business model studies from leading literature databases to answer four questions relevant for future work on business models in tourism: First, how do tourism scholars define the business model concept? Second, what is the ontological stance (object, schema or tool) of existing studies of tourism business models? Third, what are the methodological preferences of existing work on business models in tourism? And finally, what qualifies as rigorous business model research?

Findings – From the critical review of 32 contributions, the authors identify a minimal consensus and dominant approach to conceptualizing the business model concept in tourism studies. In addition, the authors reveal a strong preference for small-n case study research designs. In sum, those findings point to important gaps and design decisions for future business model studies in tourism.

Originality/value – This review of the state of research on business models in tourism details research opportunities with regard to theory, methods and applications that tourism scholars can investigate to contribute to the theory and practice of business model management.

Keywords Tourism, Review, Business model, Special issue, Avenues

1. Introduction and methodology

Entrepreneurially minded individuals have been making a business of other people’s travel activities for centuries (Towner and Wall, 1991; Walton, 2009). Creating value for early guests and travelers with products and services as well as the joy and money earned were simple: a shelter for the night, food and drink for sustenance and enjoyment, showing them around and helping them find their way, or sharing local tales for entertainment – all in exchange for cash or barter goods.

Despite those individuals establishing tourism business models – roughly speaking a coherent set of activities that creates value for customers and defines mechanisms for the business to profitably sustain itself based on those activities (Reinhold et al., 2017) – there was no need for them to consider their activities along those lines. Activities were local or at least limited in geographical scope. Host and guests were physically copresent. Securing reward from goods and services exchanged was close to a certainty (“no money, no service”). Moreover, the number of actors involved was rather limited because of the materiality of service production and rivalry in goods and service consumption.
Although this simplistic view of early tourism and hospitality might still hold some truth in isolated pockets of today's market, this is not the reality businesses are facing to date. Tourism and hospitality businesses not only compete internationally but also are much more corporate (via institutional investors) and profit-driven (via cost control and revenue management). Along the tourism service chain, tourism services are coproduced in multifaceted, multi-constellation virtual networks with partners and competitors of various specializations. In addition, their services combine physical and digital, intangible aspects that no longer exhibit the same levels of rivalry in consumption but threaten the notion of certain reward from guest-host interaction – a challenge that also confronts other industries as well (McGrath, 2010). The overall set of actors, activities and transactions involved in creating value for people who travel and capture value from those activities has become much more complex. As the contributions in the *Tourism Review* special issue on Business Models in Tourism demonstrate, the business model as a concept and perspective helps entrepreneurs, managers and researchers understand the challenges involved in managing and innovating their business activities in the latter market environment.

In this article, we critically review the state of research on business models in tourism for this special issue. To this end, we build on Reinhold et al.'s (2017) comprehensive discussion of the business model concept, its components, merits, criticism and relation to other business concepts published in *Tourism Review* ahead of this special issue. Subsequently, we answer four specific questions relevant to anyone willing to join the ongoing discourse on this subject: first, how do tourism scholars define the business model concept? Second, what is the ontological stance (object, schema or tool) of existing studies of tourism business models? Third, what are the methodological preferences of existing work on business models in tourism? And finally, how to conduct rigorous business model research?

The answer to those questions is based on a systematic content analysis of 28 articles from four relevant research repositories (EBSCO, Emerald Insight, ProQuest, and Science Direct) and the four conceptual and empirical articles featured in the *Tourism Review* special issue on «Business Models in Tourism». As a collection, those 32 articles (see Reviewed business models in tourism literature) make an excellent exemplary collection of work on business model in tourism to date.

32 Contributions in alphabetical order:

1. Alegre and Berbegal-Mirabent (2016)
2. Andersson and Getz (2009)
5. Diaconu (2012)
6. Fageda and Flores-Fillol (2012b)
7. Fageda and Flores-Fillol (2012a)
8. Fenclova and Coles (2011)
10. Frank (2011)
The set of 28 repository articles has recently been acknowledged “as a coherent body of knowledge on business models in tourism” (Reinhold et al., 2017, p. 462) covering contributions from A-listed tourism journals (International Journal of Contemporary Hospitality Management, Journal of Sustainable Tourism and Tourism Management) and reviewed for what they reveal about the phenomenological aspects of business models in tourism (i.e. content and configuration). The focus of the review in this article is different, however, and missing from the discourse on tourism business models to date.

This review of the state of the art focuses on what those articles reveal about the use of the business model as a theoretical concept and the methodological approach to studying how value is created, captured and disseminated in tourism. This is an important discussion that complements the phenomenological focus of earlier reviews and provides scope for future research in theory, method and application.

Finally, the contextualization of those findings in the broader discourse on business models is based on a comprehensive review of 11 special issues (in Long Range Planning, Strategic Entrepreneurship Journal, Harvard Business Review, M@n@gement, R&D Management, Strategic Organization and Advances in Strategic Management) and 10 review articles on business models in the strategy, entrepreneurship and innovation and technology management domain published between 2003 and 2017 in the four research repositories mentioned above.
2. Synthesis of key views and frameworks

This section synthesizes key views and frameworks in existing work on business models in tourism to date. Specifically, we consider how existing studies conceptualize and operationalize business models and what research designs dominate tourism-specific business model studies to date.

2.1 How do tourism scholars define the business model concept?

At a surface level, there is general agreement among most tourism authors in how they define business models in the broadest sense as a concept that outlines “how a business works” or “how firms do business” (Alegre and Berbegal-Mirabent, 2016; Andersson and Getz, 2009; Graf, 2005). In that regard, it seems consistent with the broader academic discourse on business models (Massa et al., 2017). On closer inspection, however, existing work falls into three different groups: contributions that reference the activity system perspective, those that build on the business model canvas and those that display no agreement and use idiosyncratic or no definitions.

In the existing tourism literature, the business model notion most referenced – though frequently not directly applied to operationalize the concept – is the one by Raphael Amit and Christoph Zott (Amit and Zott, 2001; Zott and Amit, 2010; Zott et al., 2011). Their activity system definition puts value creation and value capture at the core of the business model (Zott and Amit, 2013). Although Reinhold et al. (2018) adopt the activity system definition to discuss ideal type destination management organization (DMO) business models directly, the other three contributions in this special issue use Amit and Zott’s work indirectly to contextualize their discussion of the business model concept.

The canvas definition (Osterwalder and Pigneur, 2009) is another conceptualization of the business model we encountered several times. Some authors (Franzidis, this issue) recognize that the business model canvas offers an alternative approach to understanding how organizations work. However, other authors rely on the canvas to operationalize their core concept but stop short of defining business models (Rusu, 2016). One of the challenges in using the business model canvas for academic purposes pertains to how it relates to theory. Unlike other concepts (Demil and Lecocq, 2010; Zott and Amit, 2010), it lacks consistent theoretical grounding which might explain why some studies applying this “tool” fail to link their results and discussion to existing theoretical work. This is, however, not to say that there are no ways of making theoretically and methodologically sound use of the canvas as a tool to study issues related to business model management and innovation. We elaborate on this point in the subsequent section as we discuss different approaches to operationalize the business model concept.

Finally, there is a group of authors whose work displays no agreement on the understanding of the business model outlined above. Either those contributions provide an unclear conceptualization that serves the purpose of an individual study (Langvinienė and Daunoravičiūtė, 2015; Mihalić et al., 2012) or they refrain from providing any definition completely (Diaconu, 2012; Fageda and Flores-Fillol, 2012b; Heicks, 2010). Although it appears that an omission might indicate that there is an agreement on a universal understanding of business models, it also suggests that authors might not care to delineate their interpretation of a business model. There is a tendency to use the term either as a very general reference to entrepreneurial choices or as a buzzword. In the latter case, this is problematic as authors capitalize on the generally accepted importance of business models (Teece, 2010) but complicate the academic discourse and attempts at developing a solid understanding of the concept and its implications in context.
None of the contributions in this special issue are part of this last group (see Table I). They all situate their understanding of the business model concept in the general discourse. With their different conceptualizations, they demonstrate a plurality in approaches and the concept’s verisimilitude to study tourism-relevant issues following different operationalizations.

Over the years, different management, organization and information systems scholars have provided detailed, critical reviews of business model definitions in the extant
literature, looked at the differences and similarities among those (Hedman and Kalling, 2003; Klang et al., 2014; Shafer et al., 2005; Wirtz et al., 2016) and explained how they differ from other business concepts such as strategy and tactics (Casadesus-Masanell and Ricart, 2010) or organization design (Fjeldstad and Snow, 2018). What is best suited to inform future tourism studies apart from conceptual validity concerns depends on the business model’s ontological status (see below).

2.2 What is the ontological stance of existing studies?

Ontologically, there are several different stances to study tourism business models. Accordingly, authors operationalize the business model concept in different ways that determine how they understand business models’ taxonomical and typological properties, tourism-specific contingencies as well as how they answer questions such as how tourism business models explain the creation of value among diverse stakeholders or the success and failure of innovation endeavors.

Reinhold et al. (2017) suggest three dominant operationalization approaches or “functions” (Reinhold and Dolnicar, 2017) that specify how the business model concept helps analyzing and understanding value creation, capture and dissemination in tourism and hospitality: as either an object, a schema or a tool[1].

The business model as an object focuses on firms’ attributes via direct measurement or observation (e.g. as a set of activities or observable products, processes and profit formulas). Authors who view the business model as a cognitive schema are mapping mental concepts and relationships to understand the perceptual images and language that managers and entrepreneurs use to make sense of value creation and capture activities in their business context. Finally, the business model as a tool is premised on the use of frameworks and representations such as the well-known Business Model Canvas (Osterwalder and Pigneur, 2009) and their application for managerial or entrepreneurial purposes.

Most tourism studies we reviewed operationalized the business model as a theoretical concept that represents real, directly observable firm attributes. For example, Souto (2015) considers the role of new business models in tourism and hospitality firms’ pursuit of competitive advantage. The author (2015) defines the business model as “a system of activities configured and implemented [‘put into practice’] to provide a specific value proposition to the customer” (2015, p. 146) in reference to Amit and Zott (2001), Magretta (2002) and Osterwalder et al. (2005).

Note that listing Souto’s (2015) analysis of business model and business concept innovation as an exemplar should not be mistaken for an unconditional endorsement of his approach to studying business models. We appreciate how the author conceptualizes the business model theoretically and how he sets it apart from cognition about business models (i.e. what he calls “business concept”), and agree that business model innovation is a relevant subject to study for tourism and hospitality businesses. However, we are, among other things, concerned about the measurements used for the business model concept and the contextualization of the author’s findings. The author interviewed 115 senior hotel managers in Spain using a multipart questionnaire addressing firm innovation and growth to measure – for example – business model innovation behavior. Despite providing respondents with a definition of the concept [“business model innovation is a new or significantly improved architectural configuration of the system of creation, capture and delivery of value” (Souto, 2015, p. 148)], other studies have shown that practitioners’ notions of these concepts vary tremendously (George and Bock, 2011). Additionally, empirical studies struggle to operationalize business model innovation (Foss and Saebi, 2017) which both raise
concerns about the validity of managerial responses. Therefore, seminal studies have used trained expert rater judgment instead of practitioner (self-assessment) (Amit and Zott, 2001). Furthermore, the discussion of the relationship between managerial cognition on business models and the business models “put into action” (Souto, 2015, p. 150 et sqq.) ignores large portions of work on managerial cognition (Gilbert, 2005; Porac et al., 2002) and business model cognition (Baden-Fuller and Mangematin, 2013; Chesbrough, 2010) on this subject. Those literature streams would have been available at that time and suggest that cognition can be both a barrier to and enabler of business model innovation – affecting both the change in routines and dedication of resources to innovation endeavors.

Compared to the tourism business model literature, the articles presented in this special issue are no exception with their approach to operationalization – even though they apply the business model as a conceptual lens to analyze a very diverse set of tourism-related issues. The case studies in Africa (Weigert, 2018) and in Central America (Francidis, 2018) use the business model concept as a theoretical lens to analyze the local and social dimensions of regional tourism and hospitality businesses. Tham and Huang (2018) consider the synergies of linking the integrated resort business model to smart tourism ecosystems management, and Reinhold et al. (2018) introduce a typology of business models for DMOs to understand destinations’ ideal and perceived management approaches. In sum, all four papers conceptualize the business model as an object. Only Reinhold and colleagues incorporate some notion of the business model as a schema, too.

The predominantly objective conceptualization of the business model as real attributes of a firm in tourism studies is representative of general business model research, which crosses industry and discipline boundaries. Massa et al. (2017) highlight that those studies use both qualitative and quantitative research designs and tend to share a focus on four major subjects:

- the role of business models in firm performance;
- understanding the performance drivers of innovative business modes;
- the impact of new business models on competitor and industry dynamics; and
- conflicts among business models within organizations.

In contrast, studies that see the business model as a cognitive schema are more interested in

- how those mental representations develop and change;
- how they affect decision making; and
- enable social action (Baden-Fuller and Mangematin, 2013; Massa et al., 2017).

Finally, business model literature that focuses on the concept’s representation as a tool has been preoccupied with:

- what to include in those representations;
- how to best portrait business models, and – to a lesser extent; and
- the effect of using such representations on managerial activities and behavior (creativity in developing new business ideas, success rate of proposal approval etc.) (Massa et al., 2017; Wirtz et al., 2016).

In sum, the three different ontological stances have different merits to study a variety of phenomena that matter to business model management and innovation in tourism contexts. None is strictly superior to the others. However, appreciating their differences
helps in understanding how results of different studies fit together and what methodological choices authors made.

2.3 What are the methodological preferences of existing work?

Most empirical studies on business models in the tourism and hospitality sector use a case study research design revealing the concept’s widespread perception and convenience to frame some (prevailing qualitatively) inputs-processes-outputs insights in one or several units of observation. Of those case studies we reviewed, most cross-sectionally compare two or more within-industry cases: e.g. business models of airline vs airline or airport vs airport at a specific point in time (Fageda and Flores-Fillol, 2012b; Frank, 2011). Longitudinal and process case studies (Schiller, 2011) are much more infrequent and use smaller case samples – presumably because of the substantially larger effort for longitudinal data collection and analysis involved.

Also rare are single-case studies that provide a very in-depth evaluation of an iconic case company [Ryanair (Diaconu, 2012)] that is either, particularly successful, innovative, impactful or interesting for any other reasons. In addition, studies that compare business models across tourism subsectors (e.g. hotel vs airline) are similarly infrequent (Bieger and Wittmer, 2006). Finally, across all discussed case study designs, data tend to be mostly secondary (annual reports, media sources, etc.), but at times also primary (e.g. interviews and direct observations) or a combination of the two (Heicks, 2010; Hojman and Hunter-Jones, 2012; Margherita and Petti, 2009). In sum, case studies contribute to our understanding of tourism business models by deriving insight – beyond description – from real-world cases.

Apart from those empirical studies, we find that several authors have opted for conceptual contributions that use industry examples to illustrate their theoretical arguments. By design, conceptual articles are normative in one of two ways: either they argue how a specific business model configuration should be deployed and improved (Langvinienė and Daunoravičiūtė, 2015; Reinhold et al. (2018)) or they suggest how to classify and understand empirical manifestations of business models based on typological or taxonomical characteristics.

This pursuit of different study approaches is generally mirrored in the conceptual papers (e.g. the business model typology by Reinhold et al. (2018)) and case studies (e.g. social tourism enterprise by Francidis, 2018). Overall, the multiplicity of approaches toward studying business models in tourism benefits a richer phenomenological understanding. Plurality is welcome as long as the design and reporting of individual studies allow to connect findings across the body of knowledge on the same subject.

The dominance of case-based research designs mirrors the dominant empirical and methodological approach in the broader business model literature (Foss and Saebi, 2017). Anecdotally, the number of empirical cases used in those studies seems to have increased since the seminal 2010 special issue on business models in Long Range Planning from one or two to three cases and more per study. Furthermore, there are infrequent business model studies that use larger samples than the average case study (n > 30) as well as multilevel or multivariate techniques (Hock et al., 2016; Kim and Min, 2015; Velu and Jacob, 2014).

Finally, there are two research designs for business model studies from the general literature we have not yet or just tangentially encountered in the tourism and hospitality domain: first, studies that use qualitative comparative analysis (QCA) to study business model configurations (Muñoz and Cohen, 2017; Täuscher, 2017) and second, those that use simulation to model the economic behavioral implications of business model
configurations (Casadesus-Masanell and Zhu, 2013). Both those designs might provide inspiration for future work on business models in tourism.

3. What qualifies as rigorous business model research?

Two issues render designing a rigorous business model study a nontrivial affair: first, there is disagreement about the nature of the core concept as outlined in Sections 2.1 and 2.2 and as indicated in the general business model literature (Foss and Saebi, 2018; Massa et al., 2017). This complicates both the theoretical framing of business model studies as well as relating them to previous results. Second, apart from graphical representations as tool (e.g. “Canvas”), the business model knows no single artifact equivalent or material representation that enables a researcher to study its characteristics (Foss and Saebi, 2018). This sets it apart from studying, for example, a product innovation or entrepreneurial business plans. As a challenge, the latter reason relates both to the methodological comments on Souto’s (2015) work in Section 2.2 and the discussion of methodological preferences in Section 2.3.

Below, we put forward three suggestions for the practical aspects of designing a rigorous business model study that address those two issues. Our suggestions ground in our review of existing scholarly work, our own struggle as authors in designing business model studies and in the experience with reviewing business model submissions to this special issue, other journals and to conferences.

3.1 Provide a clear conceptual definition

Back in 2001, Porter (2001, p. 73) criticized definitions of the business model to be “murky at best”, and defining it for research purposes is still a challenge given the outlined (partial) disagreement. For conceptual clarity and construct validity, we advise to define the business model in relation to its ontological status as either a real object, cognitive schema or tool. As we have outlined in our review article (Reinhold et al., 2017), those positions tend to be associated with different epistemological takes that influence how authors craft their argument to defend their operationalization.

This is not a call for tourism and hospitality scholars to develop their own definitions. On the contrary, for each of those positions, there are existing definitions and conceptualizations that fit and can inform research designs in our field. Across industries and definitions, however, the activity system definition (Zott and Amit, 2010) seems to have been the one adopted by most authors successfully publishing empirical studies on business models. Moreover, we believe that it also has a lot of potential as a theoretical basis to advance our thinking about value creation and capture in tourism destinations across firm boundaries. Independent of this position, new tourism business model studies are more likely to make a contribution if they consistently apply a clear conceptual business model definition from the existing ontological literature, specify what level of analysis they apply it to or locate it at (individual person, group of people, department, firm, network of organizations, destination, etc.), and whether they consider it a real attribute of the behavior of those entities, focus on something that exists in those actors’ heads or relate it to a specific tool.

3.2 Specify your study’s purpose: What is it a theoretical instance of?

For many if not most journal manuscripts, the mere description of the business model of company X will be insufficient to be considered a theoretical contribution in its own right. To address this concern and simultaneously facilitate connecting a study to previous work, authors need to clarify what their business model research is a case or instance of and why
using the business model concept as analytical framework is expected to add to our understanding of the phenomenon at hand. In part, this addresses potential issues of studies’ internal validity (via theory triangulation) and external validity (via rationale for case selection).

3.3 Explain the link between data and theoretical observation

Finally, the missing link between data used and claimed theoretical observation on relevant attributes of the business model is another frequent point of contention. A clear definition, as outlined above, enables authors to establish this link. In addition, we were surprised to find that a considerable number of empirical research papers featured little to no indication as to how the data (interviews, observation, websites, articles, etc.) provide evidence of different aspects of the business model the authors claim to observe or measure. This is both a matter of construct validity and result reliability.

4. Future perspectives and debates

Although there is initial research on business models in tourism, we identify several opportunities for scholars to address that provide perspective for theory, method and application and hopefully inspire future debate.

In terms of contributions to theory, future studies first need to be clear on their view of business models as object, schema or tool. Specifically, there are avenues to build upon existing tourism literature that define business models as an object, to expand research on tourism business models as a schema and leverage business models as a tool beyond a mere description of an activity, but to contribute to the development of other management and tourism theories. Our review of business model studies in tourism and the collection of articles in this special issue demonstrate that work on business models as schemas and tools is underrepresented to date. Although this is a shortcoming of existing work, it offers opportunities for future contributions. This is not a call, however, for a simple application of existing tools (e.g. business model canvas). Rather, it is important for scholars to advance our understanding of those tools in action, for example, how they interact with tourism managers’ and entrepreneurs’ cognitive schemas or enable and restrain the pursuit of certain ends in tourism-relevant problem settings. Second, tourism scholars should rely on existing business model definitions in management literature to develop a cohesive field of tourism business model research, instead of developing new definitions to carve out a niche based on application rather than theory. Third, a critical future research direction is managing and innovating tourism business models. In designing new tourism and hospitality business models, it is necessary to understand the relevant cognitive schemas of partaking actors and how those schemas enable collaborative innovation efforts. Research should indicate whether (and how) these schemas span the classic organizational boundaries in destinations.

As for methodology, we first encourage tourism scholars to use QCA to evaluate business model configurations and use quasi-experimental templates to study larger case numbers. Second, studies that use more or only primary data allow scholars to gain deeper insights into specific enterprises or activity systems; especially in longitudinal settings. Third, studies with quantitative data are still rare and would not only be a welcome extension, but also provide effect sizes and “hard” measures to demonstrate significance – for those of a positivist conviction.

There are also several avenues in terms of applications or settings of tourism business model studies: first, scholars should go beyond the analysis of transportation or hospitality firms or firm-like entities (e.g. airlines, hotels or destination marketing organizations) and apply business model concepts to destinations themselves. There is an opportunity for business model research to complement the “balanced-score-card approach” to
understanding destination competitiveness. Second, scholars apply the business model concept to cutting-edge issues that span traditional boundaries. For example, the way the sharing economy phenomenon crosses traditional organizational boundaries and arguably disrupts established methods of value creation make it an ideal match for business model reasoning. The same might be the case for emerging blockchain projects in the tourism sector. In a similar vein, autonomous technologies (artificial intelligence and robotics) lend themselves to a business model discussion, as they are likely to critically impact the role of human actors – both on the production and consumption side of tourism services. Third, although tourism destinations are generally understood to thrive from the collaboration of destination stakeholders, destinations and DMOs are still experimenting with different business models at the intersection of public and private sources. Opportunities and challenges at this intersection need to be explored beyond sustainability and efficiency improvements and thus beyond classic linear model of production to fully understand two- and multisided business models.

In sum, there are manifold opportunities for tourism studies from a theoretical, methodological and application perspective to address issues relevant to the tourism system from a business model perspective.

5. Conclusion

The tourism sector and its business models are an interesting area of investigation because of the complexity of the value creation, capture and dissemination processes. Coincidentally, the interdisciplinarity of theories that inform business model research is ideal to understand these complex processes and allows researchers to reach across established tourism researchers’ communities. Research in tourism business models is still in its infancy. We hope that this special issue and exemplar high-quality studies inspire tourism scholars to elaborate on this line of research. We look forward to valuable contributions that enrich our theoretical understanding and provide assistance for practitioners to sustainably create, capture and disseminate value.

Note

1. For clarity, we use a simplifying set of labels to discuss the different ontological stances used by Reinhold et al. (2017) and introduced by Massa et al. (2017). First, object refers to those studies that conceive the business model as a real entity, “something out there” in the real world that an organization has. In Massa et al. (2017), this corresponds with the interpretation “as an empirical phenomenon or attribute of a real firm” (p. 76). Authors that subscribe to this view believe in the physical manifestation of the business model and accordingly measure it in different attributes (activities, structures, etc.) that can be observed. As Massa et al. (2017) point out, those “studies typically ascribe to a positivistic stance and test hypotheses related to business model variables” (p. 79). This is also reflected in the first use of the business model concept by Reinhold et al. (2017).

Second, the term schema is aligned with the discussion of cognitive and linguistic schemas by both groups of original authors. Finally, tool refers to the descriptive, simplifying nature of conceptual and performative representations of business models used for strategic practices. As Massa and colleagues (2017) point out, Osterwalder’s business model canvas is a popular, prime example that “offers a scaled-down representation of a ‘generic’ business model assumed to be valid for many firms” (p. 87). The reason we refer to this use as a tool, rather than formal conceptual representation (Reinhold et al., 2017), is to simplify the delineation between the business model as a theoretical concept that is operationalized to measure real attributes of a firm (object) or tap into manager’s mental models (schema), on the one hand, and the application of (normative) tools used for strategic practices (corporate planning sessions, board room presentations, innovation workshops, etc.) labeled “business model”, on the other hand. Those tools tend to be weaker in theoretical grounding, which is one way to set them apart from their academic object and schema counterparts.
References


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A business model typology for destination management organizations

Stephan Reinhold, Pietro Beritelli and Rouven Grünig

Abstract

Purpose – The need and legitimacy of destination management organizations (DMOs) are increasingly questioned. Still, the tourism literature provides little advice on how DMOs change and finance their activities for the benefit of their destination-given contextual change. This conceptual article aims to contribute to filling this gap. The authors do so by proposing a typology of business models for destination management organizations.

Design/methodology/approach – With the help of typological reasoning, the authors develop a new framework of DMO business model ideal types. To this end, the authors draw on extant literature on business model typologies and identify key dimensions of DMO business models from the tourism literature.

Findings – The challenges DMOs face, as discussed in the tourism literature, relate to both ends of their business model: On the one end, the value creation side, the perceived value of the activities they traditionally pursue has been declining; on the other end, the value capture side, revenue streams are less plentiful or attached to more extensive demands. On the basis of two dimensions, configurational complexity and perceived control, the authors identify four distinct ideal types of DMO business models: the destination factory, destination service center, value orchestrator and value enabler.

Originality/value – The authors outline a “traditional” DMO business model that stands in contrast to existing DMO classifications and that relates DMO challenges to the business model concept. The typology provides an integrated description of how DMO business models may be positioned to create and capture value for the organization and the destination(s) it serves. The ideal types point to important interdependencies of specific business model design choices.

Keywords Business model, Value creation, Typology, Value capture, DMO

Paper type Conceptual paper

1. Introduction

Despite being the dominant solution to market and manage destinations across the world (WTO, 2007), the struggle of the destination management organization (DMO) has become a cornerstone of the tourism literature in recent years. Research from different theoretical perspectives suggests that DMOs are facing an existential crisis (Pike, 2016). The perceived value of their existing services is dwindling and their trusted revenue streams have started to run dry (DMAI, 2014; Wang, 2011). The viability of the DMO business model is threatened.

These are daunting prospects, aggravated by the DMO’s “lack of authority and control over the destination and the tourist services and products” (Serra et al., 2016, p. 2). Either the coming years are likely to witness a change in how DMOs create and capture value, or different actors altogether will assume responsibility for activities that benefit coordination and destination development (Pike, 2016; Reinhold et al., 2015).

For quite some time, DMOs have been criticized for being unable to change and adapt to the new market realities (e.g., Gretzel et al., 2006; Sheehan et al., 2016). Moreover, both...
scholarly sources (d’Angella et al., 2010; Reinhold et al., 2017) and industry reports (e.g., DMAI, 2014) acknowledge the importance of paying attention to DMO business models. The tourism literature provides little advice on how DMOs might consistently change and finance their activities for the benefit of their destination given contextual change (e.g., Socher, 2000). Instead, governance (e.g., Hristov and Zehrer, 2015), structures (e.g., Wang, 2008), functions (e.g., Pearce, 2016b) and competences or limited combinations thereof (e.g., Pearce, 2015) dominate the discussion. Revenue sources rarely take center stage (Beritelli and Laesser, 2014). Additionally, no contribution to date has explicitly addressed how DMOs below the national level can try to address the outlined DMO crisis by means of altering both sides of their business model, that is, how to consistently create and capture value for their stakeholders (Zott and Amit, 2010).

In this conceptual article, we contribute toward filling this gap. We propose a typological framework of four ideal-type business models for DMOs: the destination factory, destination service center, value orchestrator and value enabler. These ideal types are based on two key dimensions: configurational complexity and perceived control. Our framework contributes to the destination management literature by providing insight into the combinatory options and interdependencies of DMO business models. We assert that to assess the viability of DMO business models, we need to understand what stance the business model takes on perceived control over relationships in the destination, the interactions among stakeholders embedded into the business model and the focus on value or products.

2. Conceptual background

We use typological reasoning to theorize differences in the nature of DMO business models. To this end, this section introduces the typology and ideal types as means of theory-based classification and identifies how the business model concept relates to typological work.

2.1 Typologies as a means of classification

In the social sciences, the classification of entities and activities is a fundamental epistemological process (Bailey, 1994). Ordering entities and activities on the basis of key attributes “brings parsimony and mental order to one’s view of them” (Hambrick, 1984, p. 27). The resulting classes reduce information of complex ideal types or real world things to those aspects of theoretical significance or an observer’s interest while “maximizing within-group homogeneity and between-group heterogeneity” (Bailey, 1994, p. 1). However, the reliability of inferences about entities’ key attributes based on class membership might vary considerably (Hambrick, 1984).

The literature distinguishes two types of classification schemes by means of process: taxonomies and typologies. Taxonomies are derived bottom–up from empirical research and observations of things out in the world, whereas typologies are derived top–down from conceptual work and theorists’ sense making (Baden–Fuller and Morgan, 2010; Hambrick, 1984). Taxonomies try to definitively categorize phenomena into mutually exclusive and exhaustive classes by specifying a set of consistent sorting rules (Doty and Glick, 1994). Charles Darwin’s evolutionary taxonomy is a prime example (Padian, 1999). Typologies, in contrast, provide no such rules. Instead, they provide sets of interrelated ideal types, “each of which represents a unique combination of the […] attributes that are believed to determine the […] variance in a specified dependent variable” (Doty and Glick, 1994, p. 232). Prominent examples in the tourism literature are, for example, Cohen’s (1972) sociological typology of four tourist roles (i.e. organized mass tourist, individual mass tourist, explorer and drifter) based on strangeness and institutionalization of the tourist experience; or Savage et al.’s (1991) stakeholder typology adapted by Sheehan and Ritchie (2005) that
assesses a DMO stakeholder’s potential to cooperate in relation to their capacity to propose a threat to cooperation. A common misconception refers to typologies as poetic yet plausible attempts that classify phenomena based on a theorist’s sense making (Hambrick, 1984). More recently, however, typological reasoning has been acknowledged as its own style of theorizing (Cornelissen, 2017; Delbridge and Fiss, 2013). “[T]ypologies are complex theoretical statements [. . . that] highlight the internal consistency among the first-order constructs within an ideal type, and they explain why this internally consistent pattern results in the specified level of the dependent variable(s)” (Doty and Glick, 1994, p. 234). Typological reasoning yields a key benefit: It introduces ideal types that reach beyond nascent empirical developments of specific phenomena and inspire practitioners in their decision-making (Doty and Glick, 1994). Ideal types embody theoretically relevant characteristics to categorize and explain observed behavior.

While previous work on DMOs was often taxonomical [see, for example, Pearce’s (2015) detailed analysis and discussion of destination management structures in New Zealand], our work reflects on existing DMO business models by introducing a set of theoretical ideal types in a typological framework. The set of ideal types is based on two critical dimensions (for details, Section 4.1): configurational complexity that refers to how complicated the set of design choices and related interdependencies are for a specific business model configuration; perceived control that encapsulates subjective perception of a DMO’s power over the development of and production in a destination. A broad taxonomical classification of actual DMO behavior is beyond the scope of our present work. Subsequently, we, therefore, focus on how typologies and how business model ideal types[1] can benefit the discussion of how DMOs create and capture value to the benefit of the destination.

2.2 Business models and typologies

In strategy research, the business model is a relatively new concept whose definition is multivalent in character (Baden–Fuller and Morgan, 2010). In line with the latest comprehensive literature review published and the purpose of this article, we define “a business model as an attribute of a real firm” (Massa et al., 2017, p. 80) that is conceptually distinct from the firm’s strategy (Casadesus–Masanell and Ricart, 2010; Zott and Amit, 2008). Specifically, we adopt Zott and Amit’s (2010) activity systems definition. It conceptualizes a business model as a “set of activities, as well as the resources and capabilities to perform them – either within the firm, or beyond it through cooperation with partners, suppliers or customers” (Zott and Amit, 2010, p. 217) – which depicts “the content, structure, and governance of transactions designed so as to create value through the exploitation of business opportunities” (p. 219).

As activity systems operated by real organizations to create and capture value, business models can serve as ideal type in the sense of typological work (Baden–Fuller and Morgan, 2010). In this sense, “they also bring into being the very things that they describe” (Mikhalkina and Cabantous, 2015, p. 81). Moreover, they enable academics as well as practitioners “to model and articulate different activities” (Baden–Fuller and Mangematin, 2013, p. 423) that benefit an organization’s various stakeholders and have potential implications for entrepreneurial efforts as well as organizational resilience (Baden–Fuller and Mangematin, 2013; Hamel and Valikangas, 2003).

Two recent articles suggest that there is a need for improving classification on business models to understand the links between configurations, behavior and performance (Baden–Fuller and Mangematin, 2013; Eckhardt, 2013, p. 415). They have inspired first typological contributions for specific contexts (McNamara et al., 2013) and configurations (e.g., Rumble and Mangematin, 2015). However, there is still considerable room to investigate the manipulability and configurational aspects of business models.
(Baden–Fuller and Mangematin, 2013) if we consider that business model research deviates from the traditional resource-based and positioning view in its behavioral assumptions as well as assumptions about value creation and capture (Massa et al., 2017). For a typology of DMO business models, this implies that configurational ideal types have the potential to inspire both research and practice.

3. Challenges to the destination management organization’s business model

3.1 DMO definition

Today’s DMOs for community-type settings (Flagestad and Hope, 2001) have evolved from place promotion agencies dating back to the mid-nineteenth century into professional tourism organizations with a wide range of marketing and management responsibilities (Pike and Page, 2014; Presenza et al., 2005). The main purpose of these organizations is commonly associated with providing coordination and collaboration benefit to public and private destination stakeholders as well as to tourists by means of managing and developing tourism processes (d’Angella et al., 2010; Sainaghi, 2006; Spyriadis et al., 2013).

There is, however, a lively debate among tourism scholars about the effectiveness or normative assignment of DMO roles, aspirations and impact (see Pearce, 2015; Pike and Page, 2014). To keep our paper concise, we limit ourselves to positioning the DMO concept used in this piece. Hence, we define the DMO as a destination management organization serving the main purpose outlined above. We deem this adequate because DMOs are frequently assigned a broad range of activities (such as destination branding, lobbying, strategy formulation, quality assurance, crisis management and policy-making; Pearce, 2015, 2016a) even though they lack the control and authority to create the aspired impact (Serra et al., 2016, p. 2).

By devising a business model typology for this comparatively broad definition of a DMO, we aim to provide impetus for a discussion of how organized coordination and collaboration can benefit destination actors independent of the definitive activity profile in a specific national or regional context. This implies that a DMO is not an independent organizational entity. However, given our typological approach, we will not assess all the contingent value-co-creation arrangements with public and/or private bodies that taxonomical work has started to look into from a broader destination management perspective (Pearce, 2015).

3.2 Existing destination management organization classifications

Despite its prominence in other sectors (Massa et al., 2017), the business model concept has not been used for understanding DMOs’ challenges. Instead, tourism scholars have devised a range of other meaningful classifications for DMOs and their activities. To provide an overview, we arranged the core ones in four groups, as classified by:

1. level;
2. activities, functions and competences;
3. structure and governance; and
4. revenue streams.

Most prominent among these classifications in research and practice is the distinction of DMO types by level. The national, regional and local levels are frequently used to distinguish DMOs by function and budget size (Bieger et al., 2009; Wang, 2008; WTO, 2007). DMOs at the national level (NTO) tend to focus on national-scale activities, “which the private sector itself is least likely to undertake […] such as] international and domestic
marketing of the country as a whole; the provision of tourist information; and the collection and analysis of tourism statistics” (Spyriadis et al., 2013, p. 81). DMOs at the regional and local level (RTO and LTO), in contrast, are focused on marketing and managing more specific tourism destinations (e.g. a province, a valley, a park or a city; WTO, 2007). Traditionally, these destinations have been understood as administrative geographic boundaries. However, more recently, scholars have started to interpret the geographic scope of a regional and local DMO’s field of activity more flexibly (Beritelli et al., 2014; Beritelli et al., 2015b).

A second group of classifications specifically deals with DMO activities, functions and competences. The most general classification distinguishes between marketing and management tasks and relates to the aforementioned discussion of the normative roles of DMOs and what the “M” in DMO stands for (Laesser and Beritelli, 2013; Pike and Page, 2014). In his recent review of DMO functions, Pearce (2015) identifies 19 distinct DMO functions from existing literature, which specify the activities associated with marketing and management. Table I lists them in alphabetical order. However, the list does not imply any hierarchy among functions. It even lists destination management and marketing separately alongside what could arguably be classified sub-functions of marketing and management.

To address this issue, Pearce (2015) refers to four ways of organizing these functions:

1. by competence level;
2. statutory vs discretionary nature;
3. enabling vs regulatory impact; or
4. the relationship structure for units in charge of fulfilling certain functions.

The author devotes most attention to the to the three-level typology of organizational competences (Pearce, 2015): operational, functional and inter-functional competences. Going back to the original sources [Grant (1996) cited by Tywoniak and Groupe (1998)], the three typology levels represent organizational capabilities. The latter ones are separated by a high degree of knowledge integration that allows to perform specific functions[2] in a given functional organization structure. Most of the functions listed in Table I are mapped onto DMOs functional units or across those units. Assuming a functional structure for DMOs is – against current practice – challenging. The functional organization was devised to “efficiently produce a limited array of products if demand for the various products can be forecast and production runs strictly scheduled” (Miles and Snow, 1992, p. 59). Yet, this is at odds with the context of DMOs, which requires them to provide services in a complex and dynamic environment.

### Table I DMO marketing and management functions

<table>
<thead>
<tr>
<th>Animation</th>
<th>Destination planning, strategy formulation, monitoring and evaluation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assistance with accessing finance</td>
<td>Enhance well-being of destination residents</td>
</tr>
<tr>
<td>Business support</td>
<td>Human resource development, training</td>
</tr>
<tr>
<td>Crisis management</td>
<td>Information provision and reservations</td>
</tr>
<tr>
<td>Destination and site operations</td>
<td>Policy-making and enforcement</td>
</tr>
<tr>
<td>Destination marketing, branding and positioning</td>
<td>Product development activities</td>
</tr>
<tr>
<td>Destination management</td>
<td>Quality assurance</td>
</tr>
</tbody>
</table>

**Sources:** Based on Peace (2015, p. 3); functions listed in alphabetical order, no hierarchy or weight implied
The third group of classifications for DMOs specifically addresses aspects of structure and governance. Flagestad and Hope (2001) describe two prominent types of DMOs each linked to a different organizational destination structure at opposing ends of a continuum. For community-type destinations, the authors describe DMOs to be “perceived as mainly marketing devices and policy domains in which planning and decisions are based on stakeholder collaboration and numerous compromises” (Flagestad and Hope, 2001, p. 452). For corporate-type destinations, in contrast, DMOs are (or are a part of) multi-divisional organizations with central control, visitor process focus and destination leadership (Flagestad and Hope, 2001). Wang (2008, 2011) complements the two extreme types with a discussion of four DMO governance models. Based on Destination Marketing Association International (DMAI), the author identifies four models (Wang, 2011) of the DMO as:

1. public government agency;
2. government-funded, non-profit organization;
3. non-profit public private partnership; and
4. private members-only trade association.

In his analysis of destination management structures in New Zealand, Pearce (2015) puts more emphasis on the formal and informal natures of coordination among DMOs and related agencies. Finally, there is also evidence that DMOs’ perceived and actual role in destination governance might vary considerably with regard to the power to coordinate and to control the behavior of different destination actors (Beritelli et al., 2015a; Beritelli et al., 2015b).

The final group of classifications centers on the revenue streams and funding of DMOs. While the four governance models by Wang (2011) already allude to how certain DMO types are funded, Beritelli and Laesser (2014, p. 214) provide a more detailed discussion of seven DMO revenue sources: “(1) membership fees, (2) partnership platforms/initiatives, (3) commercial revenues, (4) overnight taxes, (5) regional and state subsidies, (6) municipal subsidies, and (7) tourism taxes”.

All of the reviewed classifications center on one or a limited set of relevant variables for the design and management of how a DMO creates and captures value. Yet, none provides an integrative picture of the DMO business model that would help us understand the interdependencies of specific design choices. This is, however, one of the key strengths of the business model concept (Arend, 2013) and worthwhile understanding to investigate how DMOs may respond to the threat to their viability.

3.3 “Traditional” destination management organization’s business model

As no previous work has provided a complete representation of a DMO business model, this section conceptually establishes a point of reference for the later business model typology and discussion. Our representation of a “traditional” DMO’s business model is a simplified theoretical portrait of how this organization creates and captures value. It refers to a business model as a system of activities (Zott and Amit, 2010) and is bound by the DMO definition we use as well as by the combinatory variety of contingent design choices for the business model.

To operationalize the business model definition introduced in a previous section, we represent how the DMO creates and captures value along three dimensions that account for Zott and Amit’s (2010) content, structure and governance of activity systems: activities, actors and revenues streams. Activities refer to “the engagement of human, physical and/or capital resources of any party to the business model (the focal firm, end customers, vendors, etc.) to serve a specific purpose toward the fulfillment of the overall objective” (Zott and Amit, 2010, p. 217). Value creation in tourism business models frequently transcends
boundaries of an organization and involves coproduction with private and public entities as well as with tourists. The actor dimension identifies all partners and customers relevant to the transactions related to a specific business model (Zott and Amit, 2008). Finally, revenue streams represent the third dimension that accounts for how the value created from actors' activities is appropriated (Zott and Amit, 2010) and disseminated among the value network (Allee, 2008; Peppard and Rylander, 2006). Figure 1 provides a simplified depiction of the relationship among the three dimensions.

For three main reasons, we establish the normative point of reference for our DMO business model typology based on Bieger (1998) and colleagues’ prescriptions for community-type DMOs in Switzerland: First, these prescriptions across a number of publications provide the information necessary for the three dimensions of our business model. They are well documented over time across a number of publications by the original author(s) (Bieger, 1998; Bieger et al., 2009). Second, they resonate with publications of other scholars (Beritelli and Laesser, 2014; Flagestad and Hope, 2001; Presenza et al., 2005; Sainaghi, 2006) and with how-to guides for tourism professionals (WTO, 2007). Finally, Switzerland serves “as a living laboratory” (Beritelli and Laesser, 2014, p. 216), with a longstanding tourism tradition (Pike and Page, 2014).

Figure 2 provides an overview of the normative, traditional DMO business model. Activities are at the heart of Figure 2. Bieger’s (1998) four-task domains structure the maximum range of DMO activities identified by this author and colleagues (Bieger et al., 1998):

1. planning;
2. product development;
3. marketing; and
4. representation of interest.

These activities align with DMO functions identified by other authors (Bornhorst et al., 2010; Pearce, 2015) and, arguably, create direct or indirect value for the listed set of relevant destination actors (Sheehan and Ritchie, 2005).

Prescriptively and perceptively (Bieger and Beritelli, 2013; Bornhorst et al., 2010), the planning activities improve and support the execution of other activities, particularly, those related to marketing and product development. For instance, planning activities may lead to more effective marketing initiatives that increase the number of visitors and, thus, create value for a destination. Product development supposedly leads to more targeted product and service offerings that, in combination with effective marketing initiatives and improved internal stakeholder relations, increase visitor numbers and experiences. Hence, both tourists and destination residents are suggested to be major beneficiaries of these activities. Marketing activities supposedly create direct benefit for service providers in the destination. Finally, activities linked to representation of interest are assumed to enhance visitor experience via resident and political support.

The activities in the four domains are funded by a combination of the sources of funds identified by Beritelli and Laesser (2014). To the left, Figure 2 identifies how activities in the

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**Figure 1** Business model framework

<table>
<thead>
<tr>
<th>revenue streams</th>
<th>actors</th>
</tr>
</thead>
<tbody>
<tr>
<td>capture value</td>
<td>create value</td>
</tr>
</tbody>
</table>
Figure 2: Normative DMO business model
normative DMO business model should be funded by means of different revenue streams and different actors. Bieger and Beritelli (2013) base the links between activities, revenues sources on the premise that non-commercial revenues should be earmarked and benefiting the actors that paid them.

In sum, the normative business model represents a prescriptive maximum of potential DMO activities funded by a broad set of revenue streams and with a sense of control of destination competitiveness and its development. This contested view (Beritelli et al., 2014) should neither be mistaken for a desired ideal organization nor for an empirical specimen.

3.4 How is it being challenged?

The business model of the DMO is challenged at both ends: On the value creation side, the perceived value of the activities they traditionally pursue has been declining. On the value capture side, revenue streams are less plentiful or attached to more extensive demands. The existing tourism literature offers a number of arguments and case studies to back up the claims at both ends, on which we elaborate below. While this literature offers large-scale evidence of these developments, to a lesser extent, there seems to be agreement that “the DMO business model must transform” (DMAI, 2014, p. 20).

The perceived value of DMOs traditional activities is in decline. Four main arguments back up this claim. First, the DMO faces (new) competition that fulfils its job-to-be done more efficiently and effectively (DMAI, 2014). Competition stems from both new market players (Wang, 2011) as well as actors within their destinations (Gretzel et al., 2006). For example, DMO websites have lost considerable pull as primary sources of information and sales channels (Reinhold et al., 2015; Wang, 2011) next to the likes of information and service providers such as TripAdvisor, Google Trips and Priceline.

Second, for some of the services DMOs provide, stakeholders have realized that they do not or no longer provide the anticipated benefits (Beritelli et al., 2015b). Stakeholders question DMOs ability to attract tourists and influence their travel decisions (Reinhold et al., 2015). Simultaneously, DMOs struggle “to precisely demonstrate the market impact” (Pike, 2016, p. 3) of their activities. This is troublesome given that the marketplaces they operate on are “increasingly noisy, confusing and [constantly] evolving” (Wang, 2011, p. 18).

Third, the boards of these organizations have become increasingly larger in an attempt to foster collaboration and match the complexity of the business context (Beritelli et al., 2015b; Wang, 2011). However, the greater set of heterogeneous board members, stakeholders and partners increases the diversity of requests and opinions. Given the political nature of DMO decision-making (Pike, 2016), this potentially lowers the average fit of individual DMO activities with the needs of its stakeholders and leads to minimal consensus solutions instead (Beritelli et al., 2015b).

Finally, DMOs lack the resources, control and legitimacy for functions assigned to them (Serra et al., 2016, p. 2). This is, for example, particularly pronounced for the attempts of community type DMOs to develop and implement destination strategies (Haugland et al., 2011; Reinhold et al., 2017).

Revenue streams are less plentiful or attached to more extensive demands. Three main arguments back up this claim. First, the fiscal reality of the past years and present require “DMOs to defend their funding against demands for other public-service expenditures” (DMAI, 2014, p. 20). Pike (2016) even talks of an over reliance on government funding for which there is no long-term guarantee. How fast and how drastically changes in government funding priorities will affect DMOs is unclear at this point (Reinhold et al., 2017).

Second, new forms of competition in the lodging sector from peer-to-peer accommodation rentals (Guttentag, 2015; Reinhold and Dolnicar, 2017) that are either not taxed or circumvent paying tourism fees and lodging taxes (Lambea Llop, 2017) lower the revenue
potential of two typical DMO revenue streams. The same effect results from DMOs decreased relevance as sales platforms for tourism products (Reinhold et al., 2015).

Finally, the executive branches and administrative bodies of governments are increasingly pressured to account for tax revenues spent (Arnaboldi et al., 2015; Curristine et al., 2007), while DMOs struggle to validly demonstrate the impact of their publicly funded activities (Pike, 2016). The specification and interpretation of performance mandates require DMOs to deliver “more for the same” or even “more for less” public financial contributions.

In sum, these challenges to DMO value creation and value capture highlight the need to take an integrated, business model perspective.

4. A typology of destination management organization business models

4.1 Key dimensions of DMO business model configurations

To explain ideal-type configurations of DMO business models, we propose a framework that builds on two main dimensions. The first dimension describes the complexity of the business model configuration (“configurational complexity”). The second dimension describes the extent to which the DMO is perceived to control the production and development of a tourist destination (“perceived control”). We conceptualize configurational complexity and perceived control as continuous dimensions. Any DMO’s existing business model can be theoretically located at any point along these two dimensions. For the sake of parsimony, we identify four ideal types by the ends of the two dimensions. However, the dashed rather than solid lines in Figure 3 illustrate that a DMO’s business model can exist anywhere in between these ideal types. Below, we describe each dimension before we turn to ideal types in the subsequent sections.

4.1.1 Configurational complexity. A key differentiator of business models is their complexity. While there are many aspects to complexity in business model configurations (Aversa et al., 2015; Furnari, 2015; Teece, 2010), we focus on two that are particularly relevant to coproduction of tourist experiences: one vs multi-sidedness and product vs value centeredness.

The first aspect refers to whether a business model establishes a direct relationship between a firm and a customer that pays for the products and services received (one-sided) or whether the firm establishes varied in-/direct relationships with and among different groups of customers who may or may not pay for the products and services (multi-sided; Baden–Fuller and Mangematin, 2013). Well-known multi-sided business models are operated by booking platforms that establish contact between destination visitors and

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**Figure 3** DMO business model typology

![Diagram of DMO business model typology]

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hospitality enterprises. While guests do not pay the platform operator (e.g. Booking or HRS), hotels and other lodging establishments pay commission for the matchmaking services. The complexity of multi-sided business models stems from the relationships among customers to consider as well as interdependencies in revenue mechanisms (Rumble and Mangematin, 2015). In contrast, one sided business models are much simpler, for example, a single shop of a fast food chain (e.g. Pret A Manger or Subway) selling sandwiches and drinks to hungry city travelers for cash and passing on fees (Baden–Fuller and Mangematin, 2013).

The second aspect pertains to what “unit of business” (McGrath, 2010) a specific business model configuration is centered on. Product centered business models focus on the creation of specific, pre-specified artifacts (e.g. destination brochure) and services (e.g. representation at travel trade show). In contrast, value centered business models focus on the value they provide to specific customers by solving specific problems of theirs (e.g. developing the seeds for a new visitor flow) – regardless of the form this takes as product or service. While this dichotomy between product and value focus is related to Baden–Fuller and Mangematin’s (2013) project vs scale based dichotomy, it additionally highlights whether preconceived notions of products and services determine the unit of business (“inside–out”) or whether the value proposition starts with the customer problem (“outside–in”) (Day, 2011). Considering the tailored notion and outside–in focus, value centered business models are conceptually more complicated than product centered ones (Rumble and Mangematin, 2015).

4.1.2 Perceived control. The second key dimension to identifying the ideal-type DMO business models is control. Approaches in both destination governance and practice differ in the extent of control they ascribe the DMO to manage the destination as a production system and determine its success (Beritelli et al., 2015b). Given the challenges in measuring destination performance and the impact of specific actors (Bornhorst et al., 2010), we conceptualize control as perceptive construct. We argue that the perceived level of control that decision-makers ascribe to the DMO compared to other destination actors informs the choice and configuration of the DMO business model. This argument is consistent with behavioral assumption that cognitive schemas shape the decision-making of individual and collective strategic actors (Gary and Wood, 2011; Porac et al., 2002).

For the purpose of this framework, we distinguish between two theoretical levels of perceived control. Actors that ascribe a high degree of control to the DMO conceptualize destinations as sets of hierarchical relationships. The DMO is perceived as the organization in charge of strategic leadership and mediating the relationships between actors both within and outside of the destination. This extreme form of control is more likely to be realized in corporate-type than community-type destination settings (Flagestad and Hope, 2001). Nonetheless, it may still inform the design of business model configurations as a dominant logic among decision-makers (Prahalad and Bettis, 1986). At the other end of the spectrum, actors that ascribe the DMO low levels of control conceptualize the destination as sets of networked relationships. The DMO is perceived as an embedded organization (Beritelli et al., 2007) that tries to support the production system with limited resources and system-level influence (Pike, 2016; Serra et al., 2016).

4.2 Type 1 – destination factory

The first type describes a business model configuration of low complexity that assumes a DMO of high perceived control over the destination. The DMO operates a one-sided product centered business model. Its value proposition for tourism enterprises builds around the products and services of the activity profile outlined in the “traditional” DMO business model (cf. Figure 2). The DMO is perceived to be in hierarchical control of all strategic and operational processes relevant to the destination. The DMO develops a
destination strategy, plans and develops tourist infrastructure and new products, promotes the destination, manages key accounts, provides guest information, etc. In effect, the business model is configured as if the DMO were to run an integrated destination factory. As the focal organization in control, the DMO relies on general budget funding via mandatory contributions (i.e. overnight and tourism taxes), and it pays little attention to how interactions among different stakeholders are relevant to its revenue streams.

4.3 Type 2 – destination service center

The second type also refers to a business model configuration of low complexity. However, it assumes a DMO with little control over the destination. The DMO operates its one-sided product centered business model with a focus on supporting various business relationships with standardized product and service solutions. Like a service center to destination stakeholders, it supports specific marketing and product related activities. For example, the DMO pools marketing funds to coordinate billboard campaigns. However, this type of DMO is unlikely to develop new products or lead strategic processes. Moreover, unlike the destination factory, the second business model configuration does not assume legitimacy and resource access. The destination service center has to negotiate and account for it. This type of DMO’s revenue streams benefits from fewer public subsidies and mandatory contributions, and has to negotiate more project-based funding from partnership initiatives and platforms. While the networked nature of the destination is acknowledged in terms of the activity profile, the second type does not consider the relationships among actors for interdependent revenue stream and funding arrangements.

4.4 Type 3 – value orchestrator

The third type stands for a business model configuration of high complexity that assumes a DMO of high perceived control over the destination. It shares the latter characteristic with Type 1. However, unlike the first type, it devises the value proposition starting with the specific challenges of its destination stakeholders. Relationships in the destination for strategic and operational processes are still conceived as hierarchically controlled by the DMO. It orchestrates a multitude of dyadic relationship rather than a real network. We, therefore, termed this ideal type of business model configuration the value orchestrator. Like Type 1, the value orchestrator relies on general budget funding and mandatory contributions. However, it also tries to capitalize on concerted partnership initiatives and commercial revenues from purposeful, DMO-mediated matchmaking among destination actors and between destination actors and tourists.

4.5 Type 4 – value enabler

Finally, the fourth type characterizes a business model configuration of high complexity. Unlike Type 3, however, it assumes that a DMO has limited control over the destination as a productive system. This fourth type operates a multisided business model focused on enabling value creation by destination actors. The DMO defines its value proposition based on the pertinent challenges of these actors with a focus on establishing and sustaining value creating relationships among actors. With this role in mind, we labeled this configuration the value enabler. Like the second type, it is required to negotiate its legitimacy and resource access. However, its funding and revenue streams are more activity and project based. It is remunerated by tourism businesses for establishing and growing (not controlling) new tourist flows based on the developments and need of the destination.
5. Discussion

If we are to provide DMOs with a sense of perspective given the challenges to how they create and capture value, an integrated conceptualization of their business model configuration options is critical. Existing studies have focused on the challenges, activities and functions this organization type pursues (Pearce, 2015), but they offer little insight how DMOs may address the decline in the perceived value of the activities as well as the squeeze on funding. We have sought to provide structure to this discussion and open up a new, integrative perspective. Our key assertion is that the viability of DMOs value creation and capture can be discussed based on the business model concept. This aligns with the call for more research on business models in tourism in a recent review paper (Reinhold et al., 2017). To extend existing work, we developed a typology that builds on the complexity of DMO business models as well as the perceived control of the DMO over the destination. Our framework introduces four ideal-type configurations that enable future research to position real life cases along the two dimensions highlighted.

In sum, our typology contributes to the destination management literature by providing insight into the combinatory options and interdependencies of DMO business models. Extant research has focused on a limited set of aspects of value creation but it is critical to understand the interdependencies of design choices by taking an integrative perspective. By theorizing combinatory complexity and perceived control as key dimensions along which DMO business models vary, we provide a starting point to investigate the efforts of DMOs to deal with the challenge to their reason to exist that other authors have called for (Pike, 2016). Our framework suggests that to understand the viability and bricolage of DMOs to create and capture value for its stakeholders and the organization, we need to understand what stance the business model takes on perceived control over relationships in the destination, the interactions among stakeholders embedded into the business model and the focus on value or products. This opens future research opportunities to reflect on the integration of research on DMO business models, distributed strategic capabilities in destination settings and destination leadership (Hristov and Ramkissoon, 2016; Hristov and Zehrer, 2015; Reinhold et al., 2017).

Future studies can apply and expand on our typological framework to develop a richer understanding of DMO business models in a number of ways. First, scholars could use our framework to analyze how specific business model configurations positioned along the two dimensions of the typology drive the behavior of destination actors. For example, Baden–Fuller and Mangematin (2013) suggest that studying the effects of configurational ties in business model configurations and their influence on behavior is promising and yields potentially more substantive insights than asking to what extent a given DMO follows an ideal-type business model at a given point in time. Hereby, behavior refers to not only value creating activities but also committing resources that sustain the DMO financially. In sum, this could help combine our typological work with in-depth taxonomical studies (Pearce, 2015) to develop scenarios for the evolution of DMO business models and study specific DMO cases going forward (Reinhold et al., 2015).

Second, future research could use our framework to analyze the implications of specific business model configurations for how key processes are structured. For example, there is a case to be made that the value creation arrangement for value enabler business models is likely to deviate from traditional firm structures. A multi-sided value centered DMO business model might be more likely to organize value creation as project-based competence network rather than a functional organization [Steiner (2017), for an empirical illustration]. Reinhold and colleagues (2015, 2017) refer to this as a notion of organizational liquidity. Alternatively, researchers could apply our framework to look at the permanence of activities added to key processes.
Finally, researchers can extend our framework by considering additional dimensions relevant to DMO business models as well as what the ideal types imply for DMOs attempting to transform their business model. For example, it might be easier for DMOs with a business model akin to a destination factory to transition to a value orchestrator-like model than a configuration close to a destination service center. In particular, transitions that require a shift in the dominant logic regarding perceived control may require DMOs to overcome substantial rigidities embedded in key actors’ cognitive schemas (Chesbrough, 2010). Future work that combines our framework with literature on individual and group cognition has the potential to enrich our proposed business model typology.

From a managerial perspective, the four suggested ideal types offer two potential practical benefits: First, the two dimensions offer potential to reflect the assumptions, on which a currently operated DMO business model builds and what might happen if those were to change (zu Knyphausen–Aufsess et al., 2006). Second, the ideal types serve as extreme configurations that offer inspiration in attempts to alter or innovate DMO business models – be it in the form of the analogies they offer or transfer of specific relationships among design decisions (Martins et al., 2015).

6. Conclusion

Tourism scholars recognize the challenges that arise from the role of the DMO in a destination setting and that this type of organization struggles for resources and legitimacy. However, scholars have but recently moved beyond a discussion of governance, activities, functions and competences to include how value is captured by DMOs. The literature is encouraging to embrace the DMOs challenges as research opportunity. The typological framework we developed points to the interdependencies of decision-maker’s assumptions about the DMO and the destination as well as to the interdependencies in between DMO value creation and value capture. We hope our framework inspires future theoretical and empirical work on the nature of DMO business models and organized coordination and collaboration in destination settings. In addition, we hope that our framework also encourages policy maker and destination managers to consider alternative solutions to marketing and managing destinations that go beyond a mere institution-driven perspective.

Notes

1. Doty and Glick stress that empirical examples “may be more or less similar to an ideal type, but they should not be assigned to one of the ideal types in the typology” (1994, p. 245).

2. As examples, Grant (1996) lists manufacturing at the operational level, R&D at the (broad) functional level and new product development at the cross-functional level.

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Game on! A new integrated resort business model

Aaron Tham and Danny Huang

Abstract

Purpose – This paper aims to present the case for a new integrated resort business model. It does so by integrating the notion of a smart tourism ecosystem into the concept of dynamic capabilities so as to guide integrated resort theory and practice in an evolving landscape.

Design/methodology/approach – The theoretical model is derived from synthesising the gaps surrounding literature that contextualises business models and the relatively scarce body of knowledge related to integrated resort business models.

Findings – Integrated resorts are characterised by strategies using a follower mentality. Destinations seeking to create new integrated resorts largely emulate existing product or service points of differentiation, though such attempts are often quickly eroded by competition. By integrating the smart tourism ecosystem to the theoretical framework, this conceptual paper elucidates how an information-rich environment can help to better realise sustainable competitive advantages.

Research limitations/implications – This conceptual paper will require empirical data to validate the theoretical model. Implications stemming from the research will hasten greater social networks that need to be incorporated to foster timely and necessary circulation of information to attain optimal outcomes generated by the dynamic capability effect.

Originality/value – This paper re-conceptualises the business model for integrated resorts. By integrating the notion of smart tourism ecosystems to business model literature, the paper illuminates how integrated resorts can be better positioned in adapting to the changing operating environments.

Keywords Destination marketing, Dynamic capabilities, Value chains, Casino management, Smart tourism ecosystems, Tourism product life cycles

Paper type Research paper

Introduction

Tourism operates in an environment that is brand and product proliferated (Cvelbar et al., 2016). As such, destinations continue to evolve and provide an ever-increasing amalgamation of products and services for potential, new and existing visitors (Soteriades, 2012). In the past decade, a commonly used strategy is the creation of an integrated resort (IR) (Ng and Austin, 2016). Briefly, Wan (2015) characterises an IR as a one-stop entertainment precinct comprising accommodation, shopping, dining and event spaces, often with gaming facilities. Balsas (2013) postulated that IRs exist as a lever for economic and social growth to stimulate tourism demand to a destination. Likewise, the vested interest of an IR is to have greater connectivity with the destination's wider tourism potential, leading to an enhanced offering that can create compelling reasons for initial or repeat visits to a destination (Liu et al., 2015). Such outcomes provide a win-win situation for both a destination and the IR.

However, in the past few years, destinations featuring IRs have experienced reduced visitor numbers on the back of sluggish economies, tightening of government regulations and increased competition (Wong and Wu, 2013). Despite these challenges, new IRs who feature widespread product innovation and promises of superior service continue to evolve...
(Io, 2016). The premise of this paper is the argument that such conditions are resulting in a plateauing effect of IR performance, and that a reconfiguration of IR business models is required.

Synthesizing from the theoretical framework of a business model proposed by DaSilva and Trkman (2014), this paper argues that the success and sustainability of any IR in tourism both requires and encourages collaboration, integration and co-creation of experiences. At the heart of a tourism ecosystem is the need to re-position organisations as agents of change (Tham et al., 2015). In this manner, the development of IR, and other contemporary attractions, is a strategic tool to alter and leverage consumer preferences in a dynamic manner. For instance, new tourism attractions such as the Museum of Old and New Art in Hobart and the Guggenheim Museum in Bilbao are successful exemplars for their respective destinations as “game-changing” investments (Salmon, 2016).

The objective of this conceptual paper is to propose a new IR business model depicting how future developments of the sector can achieve desired outcomes in a sustained manner rather than being just an additional piece in rejuvenating the destination life cycle. Some references will be made to emerging IR developments in the Asia Pacific, such as the likes of Queen’s Wharf in Brisbane, Australia. Other developments in Japan and South Korea appear to likewise reiterate the need for new business models to be considered for IRs (Chan and Kurtenbach, 2016; Cohen, 2017).

**Concept of a business model**

This section discusses existing literature surrounding the concept of a business model. A critique of the current scope of scholarly literature on business models is provided to draw out the highly diluted interpretations of the term, and key gaps that will be addressed considering that IRs operate across competitive micro- and macro-environments.

Some early scholarly work conceptualising business models have defined the term as the structure of an organisation in locating itself to its stakeholders (Al-Debei and Avison, 2010; Demil and Lecom, 2010; Hedman and Kalling, 2003). In addition, Casadesus-Masanell and Ricart (2010) postulated that the business model is sandwiched between strategy and tactical nous. While most scholars concur that the role of business models helps in terms of delineating the parameters of business operations and governance, the term does not have a uniformly accepted definition because of the challenges of classifying its nomenclature (McGrath, 2010; Richardson, 2008; Shafer et al., 2005; Zott and Amit, 2008).

For example, Doz and Kosonen (2010) take a leadership perspective in conceptualising business models. While leadership and management strategies are crucial to any business, the nature of its operations can vary and dictate how the business model should be framed. Kindstrom (2010) analysed the characteristics of product and service organisations and found that business models can differ significantly. For service organisations, the business models are often characterised by co-creation and demand that the organisation is proactive to market trends and innovations (Nenonen and Storbacka, 2010).

Furthermore, advances in terms of technology and competitive frameworks have disrupted the classical notion of business models. Contemporary discourses of business models (Foss and Saebi, 2018; Schaltegger et al., 2016) often draw from principles of innovation (Chesbrough, 2010) and entrepreneurship (Morris et al., 2005) to ensure business sustainability (Bocken et al., 2014; Stubbs and Cocklin, 2008). Clearly, the understanding of business model is not a static one, but enacts high dynamism (Cavalcante et al., 2011).

Greater effort is evident in recent literature seeking to clarify relevant concepts and yet distinguishing the notion of a business model from other terms. For instance, Arend (2013) asserted that the current scope of understanding needs to differentiate the role of value creation that is at the core of a business model from its narrow perspective of economic
transactions. Instead, he proposes that the business model needs to facilitate a more inclusive nature of non-monetary exchanges such as social networks and sustainable archetypes, which is likewise supported by Lambert and Davidson (2013).

The past five years have witnessed the shifting terrain of further impetus to reorientate business model literature from being accepted at face value instead of teasing out applications for the future. Different scholars have approached the understanding of business models from various ways. For example, Maglio and Spohrer (2013) adopt a service science perspective to elucidate the nuances unique to the experience economy that will warrant a different approach to traditional product-based enterprises. Reiterating the value of consumer insights to business models, Norton and Pine (2013) postulated that the value of end-users should be the essence of why organisations exist. After all, business models are intricately linked to strategy, which is often aligned to market trends and preferences (Foss and Saebi, 2017).

The increasing roles of consumer inputs to the business model have steered the notion of business model innovation. The term “business model innovation” is concerned with the justification for shifting business models from an inward-looking to an outward-looking approach (Kajanus et al., 2014). This is by no means a reduction of the value of internal capabilities of the organisation, but rather reflects the growing stature of having information-led mechanisms towards the stewardship of business models (Spieth and Schneider, 2016). Clauss (2017) further initiated several indicators to help organisations know how to track their business model performance aligned to innovative measures.

Despite the noble intentions of refining business model literature, some scholars remain very cautious that the different approaches remain highly fragmented (Klang et al., 2014). The gaps in knowledge may be attributed to the nomenclature of each industry, and the additional contextual cues (e.g. size and resource endowments and political framework) differ significantly across time and space (Spieth et al., 2014).

This tension is somewhat addressed by DaSilva and Trkman (2014) in their conceptualisation of business models. The authors integrate the relationship between strategy, dynamic capabilities and situating the business model across different temporal perspectives of the long, medium and short term. This lends a cohesive basis to demarcate the value of strategy, dynamic capabilities and the business model working in tandem to achieve organisational success. It recognises strategy as a long-term orientation as derived from mission and values, and how the business model is positioned as a short-term perspective that evolves with the dynamic capabilities of the organisation triggered by micro- and macro-environmental forces.

In this vein, it is most likely that all organisations possess their own strategies and business models. However, what will likely set successful organisations apart from their competitors will be how they leverage on their respective dynamic capabilities (Achtenhagen et al., 2013; Schilke, 2014). The subsequent sections systematically overlay the roles of strategy and business models for IR. The paper will then turn to the analysis of dynamic capabilities and how these are influenced by a smart tourism ecosystem where IRs operate in an information-driven environment.

A new integrated resort operating landscape

IRs, both existing and new, are operating in a landscape that is increasingly becoming more competitive, as each provider seeks to present their respective target markets with some points of differentiation (Ji et al., 2017). As such, “hardware” such as improved premises and new gaming equipment or “software” in the form of service quality management can be very quickly eroded by emerging competitors (Baloglu et al., 2017). For this reason, a new landscape that considers the roles of strategy, business models and dynamic capabilities will provide more holistic evaluations of any provider and their brand
positioning to create more value over and beyond the physical structures of the IR. Each of these roles will be subsequently discussed.

**Integrated resort strategy**

The IR strategy for operators in the Asia-Pacific region is uniquely defined by their structural features characterising specific market environments. For Australian IRs, with their state-based licencing (regulation), operator strategies are largely focussed on servicing local customers (Slaughter, 2016). There is little specialised input required in terms of bricks and mortar/gaming product/human services and inputs (Markham et al., 2014). Additionally, there does not appear to be immediate threats posed by technological advances such as online gaming, which compete in different market segments. Online gaming is usually associated with the local or international sporting arena (Deans et al., 2016; McManus and Graham, 2014). As such, the market environments for IRs are “close to hand”, enabling management to anticipate and respond to changes in these strategic settings at a much rapid pace (Pham and Grant, 2017). Other IR operations such as Macau and South Korea share much of these similar strategic settings, with the main difference being that their customers are primarily from the domestic and regional markets. In contrast, other countries have IRs that are channelled towards a more international audience. These include Singapore, Philippines, Saipan, Russia and South Korea which rely on customers coming from another jurisdiction – where regulation and customer preferences are “distant”, resulting in management having greater different challenges to anticipate and respond to changes in strategic settings (Vlcek, 2015). There are also some subtle differences related to IR market sizes and growth rates. For instance, Asian markets are experiencing relatively higher growth and market shares than those mature entities operating in Australia (McCartney, 2015). Nonetheless, it is evident that the IR market for the international tourist remains relatively fragmented.

The strategic decisions for IRs then are determined based on long-term orientations of what value maximisation may be reaped over the length of its operations. Adopting a resource-based view of the organisation, lies its privileged asset of a gaming licence (Assaf et al., 2013). As such, IRs need to deliberate as to what the objectives are to create such licences based on some key considerations:

- For both existing and new IRs, what is the value of a casino licence, in terms of gaming licence concessions and fiscal regime?
- What stakeholder engagement is required to build and maintain the social licence to operate the casino licence?
- How can the value of that licence be optimised, in terms of gaming and non-gaming offerings to identified customer segments?
- What are the competitive advantages of the IR, and what institutional capabilities are required to build and sustain them? What scanning, assessment and reaction capabilities are required to assess market conditions and the implications of changes in them?

These decisions in many ways frame the choices of business model available to the IR in terms of operationalising the strategies.

These contextual differences in strategic settings dictate different choices of business models for various IR operations. As business models are contingent upon long-term strategic intent, contingency planning becomes of vital interest. An example of this in influencing IR strategy in Australia was the impending deportation of 19 Crown Resort employees detained in China in October 2016 under the suspicion of promoting gaming (Callick, 2017). This current saga has gripped those in the IR sector, as Crown Resorts is
one of the key players in the Australian market. While the case was ongoing and in its aftermath, the way IRs position themselves to key markets such as China has led to a recalibration of strategies for operators targeting high rollers (Kitney, 2017). For emerging IRs such as Queen’s Wharf Brisbane, the strategic decision was to apply for a gaming licence in a competitive bid, with a proposal which provides an adequate return to the proponents and generates state tax revenue, while investing in tourism infrastructure which attracts visitors and investment, reconnects activity of the city to the river, preserves heritage areas and provides improved public amenity (State Development Queensland, 2017). This multi-stakeholder approach serves to mitigate potential risks when executing strategic actions. The holistic approach is consistent with how other IRs have operated as the long-term forecast for casinos within the market framework is likely to be focussed on the Asia-Pacific region as a corridor of tourism growth (Hancock and Hao, 2016; Lo and Hui, 2015).

**Integrated resort business models**

The current landscape of IRs and their business models appear to be characterised by a convergence of net worth into a large aggregate space (Andriotis, 2008). IRs disrupted the spatial and temporal elements of segregating tourism entities across geographical regions and instead unified the different types of experiences under a collective whole (Zagorsek, 2009). Such strategies are associated with the value creation propositions of an IR, which suggest that there is likely to be more value derived from having the synergy of a hub of activity rather than as separate entities in different geographical locations (Nunkoo and Ramkissoon, 2010). While the IR model was first initiated in Las Vegas a few decades ago, there appears to be little modification of such business models globally. The replication of the “Las Vegas effect” has been documented in destinations such as Macau and Singapore, with other countries such as the Philippines fast entering this seemingly lucrative market (Hannigan, 2007). Yet, a combination of sluggish global economies and political clampdowns on gaming has halted the once exponential growth of the IRs, on the back of casino revenues (Srinivasan and Lambert, 2017). It is obvious that a market follower strategy is no longer viable, as the novelty effect will wear off very quickly once other destinations launch new products or brands onto their IR scene (Prentice and King, 2011).

The current modus operandi of IRs has been to enhance destination appeal (Wong and Li, 2015), while capturing a broader range of tourist segments (Li et al., 2017a). Such an approach is consistent with what extant literature (Piccoli, 2008) characterises as value capture. Applied to IRs, value capture is an important consideration as operators seek to derive maximum value from their customers so as to justify returns on investment. This can be triggered by offering a plethora of experiences, leading to brand loyalty (Tsai et al., 2015). After all, some scholars posit that IRs, including casinos, follow a tourism life cycle trajectory and will at a certain point of their operations have to deal with the likelihood of declining fortunes (d’Hauteserre, 2000; Moss et al., 2003). Clearly, the current business model of IRs appears to be easily adapted and thereby exacerbate further pressures, especially in the short term. As such, a new business model is needed to ensure the viability of IRs over the medium and long term. While both strategy and business models have been discussed, the role of dynamic capabilities involving IRs remains largely implicit. This paper will next address how dynamic capabilities influence the conceptualisation of a new IR business model.

**Integrated resort dynamic capabilities**

Dynamic capabilities are defined as an organisation’s ability to configure its own resources that are adapted to the evolving market environment (Ambrosini and Bowman, 2009). As such, dynamic capabilities seek to ensure that the organisation is positioned to realise its competitive advantage (Cavusgil et al., 2007; Easterby-Smith et al., 2009). While the
principles of dynamic capabilities are generally acknowledged, some scholars have raised the concerns around its lack of a theoretical grounding (Arend and Bromiley, 2009; Barreto, 2010). However, both Eriksson (2013) and Wang and Ahmed (2007) argue that one should approach the notion of dynamic capabilities from the point of view of applying this to various contexts. Such a perspective is certainly valuable to help better contextualise dynamic capabilities in action.

In a tourism context, some studies have used dynamic capabilities as a framework to clarify how it can assist various organisations to deliver a sustainable advantage. For instance, Camison and Monfort-Mir (2012) found that the use of innovative practices as a dynamic capability was highly varied and proposed tangible guidelines for improving performance. In comparison, Nieves and Haller (2014) analysed accommodation providers and concluded that training and collective wisdom fuelled the potential of dynamic capabilities. In another setting, Leonidou et al. (2015) postulated that hotel chains that embrace ecological principles as part of their dynamic capabilities helped reap economic benefits.

It is evident that dynamic capabilities are essential in a service economy such as tourism. These should likewise apply to IRs, as decisions assembled to gain a competitive advantage are distinct – e.g. around product (both gaming and non-gaming), service, bundling of offerings and pricing of offerings for the various customer segments important to the operator (Liu et al., 2017). Further, some considerations impact on market conditions and implications for changes in the operating landscape. For instance, how regular and deep does the IR scan for changes in customer preferences, availability and price of future inputs, potential changes to regulation, potential changes to technology, new competition and changed behaviours in existing competitors?

To realise the potential derived from dynamic capabilities, IRs must therefore possess a repertoire of knowledge sources to adapt to the competitive market environment (Cepeda and Vera, 2007; Zheng et al., 2011). This mimics the information-intensive networks emblematic of a smart tourism ecosystem (Tironi and Criado, 2015). In the smart tourism context, IRs cannot merely serve the “high rollers”, but should likewise include the broader tourism and entertainment markets which are a broader and often deeper market (Prentice and Wong, 2015).

Given that IRs are large single-site and multi-function facilities, interacting with tourism networks is required to increase the appeal of the destination in which it is located (increase the pie coming to the destination), drive visitation to the IR itself (increase the IR’s share of that larger pie) and enhance the competitive advantage of the IR by combining its built form (which is largely replicable) with the appeal of the destination (which is largely unique). For new developments such as Queen’s Wharf Brisbane, such considerations are highly relevant given it is such a large investment relative to the destination and auxiliary services. This provides the impetus for the adoption of a smart tourism ecosystem to IRs.

A smart tourism ecosystem

Put simply, a smart tourism ecosystem is a dynamic environment where different stakeholders engage iteratively with decision-making and are highly informed using data analytics (Brandt et al., 2017). For such ecosystems to work, three criteria must exist. First, there needs to be the sharing of information across the network (Del Chiappa and Baggio, 2015). Second, the system needs to support collaboration so that decisions can be made more efficiently (Boes et al., 2016). Finally, all members of the ecosystem can participate anytime, from various locations (Vargas-Sanchez, 2016). This recipe for smart tourism has already come to fruition, with some destinations such as South Korea and Barcelona reaping the benefits of an ecosystem (Marine-Roig and Clave, 2015; Park et al., 2016). From the perspective of stakeholders in destinations, a smart tourism ecosystem informs how organisations can manage costs or guide capital expenditure (Buonincontri and Micera, 2016). To customers, a
smart tourism ecosystem improves decisions about time allocated to be spent in the
destination and how that time is spent, which in turn allows operators to better forecast
demand and how to service these visitors – e.g. scheduling of staff (Hsu et al., 2016). As the
data and insights are gathered and shared iteratively, its benefits are further reaped through
the feedback loops to enhance future actions (Ogulin et al., 2016).

The various applications of smart tourism further reiterate that various stakeholders can
contextualise the potential to their own loci of influence. For instance, Nguyen et al. (2017)
showed how smart tourism may be operationalised through social media data tracking on
cultural heritage resources so as to better provide interpretation materials for interested
tourists. Another study by Del Vecchio and Passiante (2017) revealed how smart tourism
provided the justification for employee skill development as a result of smart tourism inputs
in terms of visitor expectations and experiences.

The potential for new IR developments as a catalyst to renew or build a smart tourism
ecosystem is therefore important. IRs are one of the most closely monitored sectors in
tourism. This is because they are resource-intensive and often feature gaming operations as
part of its collective offerings (But and Ap, 2017). The cost-benefit analysis of IRs therefore
extends beyond economic considerations to include social and environmental implications
from the short to long term (Kamat et al., 2016). As such, there is a heightened necessity to
have an ongoing engagement with different stakeholders in an evolving manner, which
emboldens smart tourism ecosystems in practice (Jovicic, 2017). Synthesising extant
literature has led to the development of a dynamic capability framework depicting smart
tourism-led IR business models as illustrated in Figure 1.

Figure 1 is derived from the work of DaSilva and Trkman (2014) but integrates Gretzel
et al.’s (2015) work on smart tourism ecosystems to an IR perspective. However, in many
ways, IRs can be considered a mini-destination (Flagstad and Hope, 2001) aiming to
having several sectors working in tandem to realise synergistic results. It is argued that
dynamic capabilities enhance the operationalisation of a smart tourism ecosystem to better
position business models for value creation and capture (Greenwood and Dwyer, 2017; Ni,
2017).

**Figure 1** A Dynamic capability framework depicting smart tourism-led IR business models
The conceptualisation proposed in Figure 1 calls for further cohesion among different stakeholders to current and future developments concerning IR business models. Table I provides an overview of how the different stakeholders can contribute to and benefit from the smart tourism ecosystem, much of which is currently being provided with the opportunity of improved curation and coordination.

Relating to the business model concept, there are clearly added demands on organisations to no longer operate in a static manner (Wirtz et al., 2016). The need for a refined IR business model has been prompted by the lack of action among incumbent players in the gaming industry, each of whom face a product life cycle expediting to a decline stage (Li et al., 2017b). The futile attempts to diversify economies heavily reliant on the gaming sector are obvious, and certainly raise the stakes in relation to sustainable destination developments concerning IRs because of their high capital investment (Suess and Mody, 2016). In response to the challenges faced by IRs, this paper has articulated the need for new business models and shows how concepts like the smart tourism ecosystem may help to elucidate how new IR precincts could be positioned.

Specifically, the paper reveals more about value capture and creation as compared to extant literature on IRs. Drawing from smart tourism perspectives, IR value capture is incorporated from information derived from wider destination stakeholders. This is far more effective than considering value capture solely from shifting market share from other competitors, as other studies have postulated (Io, 2017). Value creation is also likely to

<table>
<thead>
<tr>
<th>Stakeholders</th>
<th>Potential inputs</th>
<th>Potential benefits</th>
<th>Sources</th>
</tr>
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<tbody>
<tr>
<td>Tourism industry/operators</td>
<td>Engage with other operators to extend or create new products and experiences</td>
<td>Improved physical and experience connectivity between attractions</td>
<td>Boes et al. (2016); Wang et al. (2017)</td>
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<td></td>
<td>May include inter- and intra-regional transport operators</td>
<td>Increased demand from new and existing customers</td>
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<tr>
<td>Transportation operators</td>
<td>Improved integration of networks and data</td>
<td>Improved physical connectivity matched with demand</td>
<td>Jovicic (2017); Wang et al. (2013)</td>
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<td></td>
<td>Sharing of demand trends, including dispersion</td>
<td>Enable better planning with operational cost and capital investment benefits</td>
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<tr>
<td>Operators and government agencies</td>
<td>“What’s on”, weather conditions, accessibility information, ticketing and distribution information and/or functionality</td>
<td>Improved in-destination decision-making by tourists</td>
<td>Guo et al. (2014); Wang et al. (2017)</td>
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<td>Improved experience by tourists</td>
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<td></td>
<td></td>
<td>Increased visitor satisfaction and likelihood of repeat visitation</td>
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<tr>
<td>Destination marketing organisations</td>
<td>Leverage research and insights into customer demand trends</td>
<td>More informed decision making by tourism industry</td>
<td>Guo et al. (2014); Wang et al. (2015)</td>
</tr>
<tr>
<td>Tourists</td>
<td>Social media profile, including updates and past travel history</td>
<td>Allows better targeting of appropriate offers</td>
<td>Boes et al. (2016); Wang et al. (2013)</td>
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<tr>
<td></td>
<td>Social media feedback on the positive and negative experiences</td>
<td>Enhance desirability of experiences amongst other tourists</td>
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<td></td>
<td></td>
<td>Improve operator product, service levels, etc.</td>
<td></td>
</tr>
<tr>
<td>Residents as tourists</td>
<td>Tips of where to go and what to do</td>
<td>Enhance authenticity of experiences to non-locals</td>
<td>Guo et al. (2014); Jovicic (2017)</td>
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</table>
generate greater traction when viewed from the lens of smart tourism ecosystems. IRs can be perceived to stimulate real-time flow of tourists to and from their precincts, which may assist other tourism providers to be more receptive to the IRs rather than being seen as a direct competitor (Li et al., 2017a, 2017b). Focussing on the aspect of dynamic capabilities further contributes to the understanding of how IRs can better activate their business models. Each of the stakeholders in Figure 1 can be mapped across a continuum in terms of their attitudes to IRs, and this evolution over time informs better decision-making and practices that will likely confront IRs in the near and distant future.

Conclusions, limitations and future studies

In conclusion, the paper sets out to conceptualise a new business model for IRs, as they confront the current challenges facing their operations. The proposed business model is one that embraces a smart tourism ecosystem, and one that readily draws from copious amounts of available information to guide planning and decision-making. The contribution of the paper is the integration of business models within smart tourism ecosystems, which are essential to a fast evolving, and competitive markets exhibited in tourism and hospitality, such as the IR sector.

The paper is not without its limitations. As a conceptual paper, it is limited in its capacity to validate the model in the absence of data. Operators in different parts of the world may provide alternative views of how IR business models should be like in a smart tourism ecosystem in the future. Notwithstanding These limitations, the paper has provided a useful base to chart the trajectories of future studies.

Future studies could test the variables within the conceptual business model to see if these are antecedents to successful IR operations. Other scholars may also choose to examine cross-cultural management influences on IR business models concerning sustainability. There is also a potential for academic exploration of longitudinal studies to ascertain how the business model has evolved over time, and its impact on stakeholders.

Overall, the paper has documented how IRs should respond to the macro- and micro-environment in developing a business model that is oriented within a smart tourism ecosystem. This alters the dominant discourse of IRs from merely being envisioned as newly developed products or diversified experiences to playing an integral role in terms of destination development.

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Further reading


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Jumia travel in Africa: expanding the boundaries of the online travel agency business model

Maxime Weigert

Abstract

Purpose – This study aims to analyse the business model of Jumia Travel, an innovative online travel agency (OTA) that operates in African markets. Focusing on market conditions and consumer behaviour in sub-Saharan Africa, where barriers to e-commerce are strong and tourism is viewed as a non-essential activity, the study examines the ways in which Jumia Travel carries out its development objectives in Côte d’Ivoire and revamps the OTA business model in relation to market constraints.

Design/methodology/approach – The study uses a descriptive-qualitative method based on desk research analysis of corporate sources, including websites, annual reports, public interviews of managers and newspaper articles. It also draws on primary sources collected through interviews with the Jumia Travel Côte d’Ivoire country manager.

Findings – The research shows that the demand- and supply-side constraints of African markets compel Jumia Travel to acquire new skills and competencies to adapt to and capture the Ivorian travel market. In doing so, the company expands the boundaries of the traditional OTA business models found in developed markets, demonstrating the dynamic capabilities that drive OTA business model transformation when deployed in a technologically immature market.

Research limitations/implications – The Jumia Travel venture provides an insight into the constraints faced by an OTA at the bottom of the pyramid and in emerging markets and shows concretely what skills and competencies are required to overcome them. It is also a new experiment still in the early stages of development, and this limits the proper assessment of sustainability of its business model.

Originality/value – This study examines a unique experience: an unconventional OTA that concentrates exclusively on domestic and regional markets in sub-Saharan Africa. The business model lens brings into focus the operational limits and innovation opportunities of developing an e-travel business in the fast-growing markets of Africa, characterised by major supply-side constraints, the predominance of low-income consumers and a poorly structured travel industry. In this context, OTAs’ innovation challenge is no longer to disrupt the travel sector in differentiating from competitors, as was the case in the mature markets of the first world but to develop business processes suitable for operating in the constraint-based environment of emerging markets and capturing the rising demand for travel products. This involves co-creating value in linking African hotel providers and clients and increasing economic returns from this value through various business model adaptations designed for and with local consumers and partners.

Keywords Africa, Dynamic capabilities, Business model, Constraint-based innovation, Intra-African tourism, Online travel agency

Paper type Case study

1. Introduction

New tourism business models have received increasing attention from scholars in the past decade, in an effort to comprehend the major changes brought about by the rise of the internet in tourist consumption behaviours and the permutations it caused in the industry (Buhalis and O’Connor, 2005; Buhalis, 2011). These evolutions have been mostly captured by the concept of disruptive innovation, which depicts the process whereby a product or
service introduced in the market as a cheaper and more convenient alternative to existing products or services creates a new market that progressively supplants the initial one, as well as the companies that traditionally dominated it, as the new product appeals a growing number of mainstream consumers (Christensen and Raynor, 2003). Such disruptions occurred in the tourism sector with the emergence and expansion of online travel agencies (OTAs) operating the accommodation and other travel services sector (e.g. Expedia, AirBnb and Booking.com). OTAs’ expansion deeply reshaped the tourism distribution channels and intermediation structure by providing direct communication between suppliers and consumers (Kracht and Wang, 2010).

While an emphasis has been given on how these disruptive business models transform existing tourism markets, and despite most of them having become global companies that operate beyond their home markets, little has been said on their horizontal expansion to new geographical markets. This stems from the comparable level of development that prevails in the Western countries in which they mostly operate, particularly in terms of tourism market maturity and the widespread use of the internet on which their business thrives. In these similar technological environments, OTAs can apply an invariable business model, which can be described as running a Web portal that allows consumers to search for and purchase travel products from providers, with a commission charged on transactions concluded through its intermediary (Tippie and Patel, 2016). Bolstered by market responsiveness and a growing strike force, they gradually gain market share through increased penetration into the supplier and consumer spaces: in 2016, half of travel revenue was booked online and half of that through OTAs (Tnooz, 2016). In doing so, OTAs disrupt the traditional travel industry structure in place prior to their arrival and eventually build up a mainstream player position (Guttentag, 2015).

Against this backdrop, this article concerns an unprecedented OTA experience in terms of geographical coverage. It focusses on Jumia Travel, an OTA which operates in several African countries and targets almost exclusively the domestic and regional middle and high-end consumer markets. This case study, which is centred on the Côte d’Ivoire subsidiary of Jumia Travel, offers an opportunity to discuss the nature and innovation capacities of OTAs’ business models through a theoretical lens which is no longer the one of disruptive innovation, as there is no traditional market to disrupt in Africa but the ones of constraint-based innovation (Zeschky et al., 2014) and bottom of the pyramid markets (Prahalad and Hart, 1999), which provide relevant analytical frameworks to capture the production and consumption conditions in developing countries. More specifically, the developing country context in which Jumia Travel operates allows the probing of the dynamic capabilities (Teece and Pisano, 1994) to innovate not a single company but the OTA business model itself, from the moment it is deployed in an environment radically different from the one in which it came into being. The demand- and supply-side constraints of African markets compel Jumia Travel to acquire new competencies that expand the boundaries of the traditional OTA business models found in developed markets, thereby giving birth to a revamped OTA business model whose innovations must be examined in light of the numerous challenges related to doing e-travel business in Africa.

2. Theoretical lens

The OTA business model in developing countries has been studied in the case of India (Khare and Khare, 2010; Sujo et al., 2014) but never in Africa. In fact, Jumia Travel is the largest pioneers in implementing an OTA business on the continent, where the travel industry generally disregards domestic tourism opportunities, based on the assumption that travelling remains a non-essential activity for Africans (Euromonitor Research, 2015). To a greater extent than India[1], sub-Saharan African countries are affected by low infrastructure development, massive poverty rates and market fragmentation, and this poses two challenges to an OTA: a supply-side one, related to the constraints to
e-commerce in developing countries; and a demand-side one, related to the low-income level in the population. Such market conditions require using the concurrent approaches of constraint-based innovation and bottom of the pyramid (BOP), which provide an analytical framework for studying business models in emerging markets.

2.1 Doing business and e-business in developing countries

The patterns of doing business in developing countries have been first addressed through the concept of BOP, which refers to the lowest tier of a five-level pyramid that categorises global consumers based on their purchasing power. The bottom tiers include customers with annual purchasing power parity of US$1,500 or less (Prahalad and Hammond, 2002). As the concept was coined by Prahalad and Hart (1999), numerous scholars have explored BOP experiences, analysing both successful and failed venture attempts focused on the poor segments of developing markets. Originally emphasized on multinational companies, these researches have expanded the scope of the BOP concept in terms of actors involved, including small enterprises, social entrepreneurs and not-for-profit organizations. The plurality of experiences also led to design more nuanced approaches to the poor as a market segment, deviating from an initial income-based definition of poverty to incorporate complementary dimensions such as material deprivation, lack of education and other forms of exclusion (Kolk et al., 2014).

In Africa, the BOP approach can be understood in light of a more precise understanding of the phenomenon of the emergence of the African middle class. A study using an absolute definition of per capita daily consumption of $2-20 in 2005 PPP US dollars classified about 327 million people, i.e. 34 per cent of the continent’s population, as middle class (Ncube et al., 2011). A closer look, however, reveals a high concentration in the lower ranks of the classification, with 190 million people with per capita consumption levels of $2-4 per day. This so-called floating middle class, which borders the poverty line, accounted for more than 60 per cent of the middle-class category. Likewise, the lower-middle subcategory, comprised of 83 million individuals with consumption levels of $4-10 per day, accounted for 25 per cent. The upper-middle subcategory, including Africans with daily expenditures of $10-20, represented only 14 per cent.

These findings show that in all categories, the African middle class is not comparable to the Western one. Based on an absolute approach, about 75 per cent of the African middle class remains below the US poverty line of $13 per day (Ravallion, 2010). International comparisons are flawed because purchasing power is relative to the cost of life and production fixed costs in a given country (Kharas, 2010) and depends on the acceptance of affluence. In this regard, an additional indicator of developing countries’ middle class is the shift in consumption behaviours from purchase of subsistence goods to durable items, such as refrigerators, mobile phones, motor vehicles and insurance services (Ncube et al., 2011) or even formal housing with a water tap and electricity as the main lighting source (Visagie and Posel, 2011). This approach poses the question of essentiality of the products, which is critical for the case being treated in this paper: how do travel purchases rank in the gradation from essential to non-essential goods and services? In the absence of surveys that capture travel expense patterns in developing countries’ middle classes, common sense suggests that paying for travelling comes after acquiring a water tap or a connected device. This further calls into question the profitability of selling travel products online targeting the African middle class. However, two additional consumption-based parameters potentially give credit to this challenge. First, the emergence of the middle class in Africa also translates into occupational transformation, creating a growing number of African managers, senior officers, technicians, etc. (ibid.). Under any assumption, and despite the lack of data, this also translates into an increase in business travellers – a core segment target for Jumia Travel, as outlined below. Second, Ncube et al. (2011) point out the rapid expansion of the African middle class, whose population grew at a faster pace than the
continent’s overall population over the period from 1980 to 2010, reflecting strong economic growth. The authors predict that the phenomenon will keep amplifying and swelling all levels of the middle-class category, including the upper tiers, enhancing the market’s potential.

Based on findings from case studies bringing into focus the way firms arrange linkages with the network of suppliers as part of their strategy to create and capture value, some authors found generic principles necessary for capturing these low-income and emerging middle-class markets, including affordability, accessibility, availability, acceptability and awareness of the products destined to developing markets (Prahalad, 2006; Anderson and Markides, 2007). These principles highlight the limit of approaches focused on cost reduction as way to serve the BOP. They unveil other supply- and demand-side factors of success in BOP markets, including the need for companies to develop production and distribution processes adapted to the context and to engage consumers in the design of enabling products or services (Simanis, 2012).

Some key features of BOP settings in developing countries have been described in the case of e-commerce. Operational constraints faced by e-businesses in those countries first include low internet penetration – for instance, internet penetration was estimated at 22 per cent in Africa in 2015, as compared to 80 per cent in the European Union (World Bank, 2017). This core constraint reflects additional constraints summarized as infrastructure and socio-economic barriers such as low telecommunication infrastructure and high access cost to equipment (Lawrence and Tar, 2010) or economic, socio-political and cognitive barriers such as lack of electricity supply, inadequate regulation and computer illiteracy (Kshetri, 2007). Also, a critical constraint for e-commerce operators is the lack of institutional trust, which is determinant for the transactional practices that take place in a given socio-cultural context (Linders, de Groot and Nijkamp, 2005). The lack of transactional trust has been identified as a major decider for OTAs operating an online faceless retail enterprise on the Indian market, where interpersonal interactions is still given much importance (Khare and Khare, 2010).

In view of both the supply- and demand-side constraints that affect the business environment in developing countries, an emphasis is increasingly given to the private sector as a catalyst for market changes in these environments, underlining their ability to drive down transaction costs, provide distribution channels and aggregate fragmented consumption markets (Prahalad and Hammond, 2002). This role has translated into a growing interest in business models in emergent markets and the way they navigate and overcome these constraints.

2.2 Business models in emerging markets

Shafer et al. (2005) defined business models as mechanisms for creating and capturing value, distinguishing between value creation, understood as the way a firm develop core competencies, capabilities and positional advantages in a market and value capture, understood as the way this firm captures economic returns from that value. Research on how to create and capture value in emerging markets has been widely linked to the BOP concept (London and Hart, 2004; Seelos and Mair, 2007; Payaud, 2014). This stems from a growing interest in the fast-growth economies of the developing world and from the need, stressed by empirical evidence of success and failures of multinational companies attempting to expand in developing countries, to understand what determines business model success in constraint-based markets (Anderson and Markides, 2007; Eyring et al., 2011).

While the issue of doing business in developing countries has often been examined from the social business models angle, in an effort to link the profit-maximizing objectives of the private sector to the social benefits expected from development by the international community (Slack, 2012; Yunus et al., 2010; Brugmann and Prahalad, 2007), it has also
been explored from a resource-based and strategy perspective focusing on firm-level resources and capabilities (Wernerfelt, 1984). A key starting point is the assessment of the transferability of profit-seeking business models from developed to developing countries. Scholars invariably showed that the “import” of domestic models into emerging markets has proved an inappropriate and outperforming approach, hence the need to design new business models adapted to local markets’ cultural, economic, institutional and geographic features and resource scarcity (London and Hart, 2004; Martin and Sunley, 2006; Eyring et al., 2011).

These findings can be linked to the broader theoretical framework on the dynamic perspective of the business model. This approach has been widely introduced in recent years, as the advent of the digital economy stressed the need for companies to adapt to changing customer and technological opportunities (Teece, 2007; Amit et al., 2011). This shed light on business models’ ability to allow for change through “dynamic capabilities”, initially defined by Teece and Pisano (1994) as “the subset of the competences/capabilities which allow the firm to create new products and processes and respond to changing market circumstances”. Since then, studies on dynamic capabilities have had a strong emphasis on the drivers and barriers to change (Chesbrough, 2010), leading some scholars to isolate the ability to create new “ordinary” or “substantive” capabilities (e.g. developing routines for operations or new products) from the ability to change existing routines, wherein the “dynamic” capabilities truly lie (Winter, 2003; Zahra et al., 2006). In an attempt to link business model dynamism and innovation, Cavalcante et al. (2011) similarly distinguished the “static properties” of the business model as its ability to run existing activities from its “flexible characteristics” as an ability to be receptive to environmental and contextual changes.

This approach focused on change and distinctive capabilities has been used in the research on business models in emerging markets, questioning which are the transferable and locally built capabilities (London and Hart, 2004). For instance, Van Den Waeyenberg and Hens (2012) posed that the transferable capabilities developed in home markets are mainly procedural and managerial (e.g. customer-centric vision and experience in product development) but need to be complemented by new capabilities gained on the ground. This complementarity issue has been mainly addressed using the collaborative business model approach, which focuses on strategic alliances and partnerships with either local companies or non-governmental organizations as a way for the incomer company to access the missing capabilities to co-create business models based on “combinative capabilities” (Seelos and Mair, 2007; Dahan et al. 2010). In these models, cooperation with local partners is seen as a source of knowledge and understanding of local needs and practices and a channel for value co-creation (Nahi, 2016). This approach resonates with BOP scholars focusing on the nature of BOP business models, who make a distinction between simple low-end market entry stories and initiatives that engage the poor not only as consumers but also as co-inventors of the business process (Kolk et al., 2014).

These findings have opened up research avenues on business models in emerging markets as a configuration of transferred and developed capabilities that dynamically transform the initial business model to render it suitable for the new environment, through both internal adjustments and co-operative linkages with external stakeholders (Van Den Waeyenberg and Hens, 2012). The Jumia Travel case, which showcases an attempt to transfer and adapt to Africa the exogenously built OTA model, can be analysed under the dynamic capabilities framework as it raises key research questions on the OTA business model itself. Indeed, if OTAs exercise substantive, static capabilities and operational routines in their traditional, developed markets – which have been identified as their ability to secure online bookings (Guttentag, 2015) or a structure of linkages with key actors of the online distribution chain (Kracht and Wang, 2010; Amit and Zott, 2012) – what kind of transformation does this business model undergo when expanding in constraint-based,
BOP and immature travel markets? Does it require new capabilities and, if so, are they transferred capabilities or are they acquired through co-creation with external stakeholders as research suggests? What do they say in relation to OTA companies’ dynamic capabilities? The present case is an exploratory response to these questions.

3. Jumia travel’s business model in the Côte d’Ivoire case

3.1 Methodology

This article is a single-case study based on primary and secondary source analysis. This research design is due to the uniqueness of Jumia Travel’s experience in terms of continental scope and financial support: its competitors are smaller, country-based companies such as Hotel.ng in Nigeria and Travelstart in South Africa. The research was conducted in two phases. First, owing to the exploratory nature of this research and the lack of tourism scholarship on Jumia Travel, this article draws on media articles and corporate sources for information about the company, including Jumia’s website, annual and corporate reports, public interviews of Jumia’s managers and newspaper articles, whose references are indicated in the reference section. In the same time, the academic literature on BOP and constraint-based innovation referenced in this paper were collected and explored to set the context for Jumia Travel’s operational challenges as an OTA in Africa, and a review of OTA studies in contexts that face similar conditions was conducted, in particular in the Indian e-travel market.

The second phase consisted of two interviews with the country manager of Jumia Travel in Côte d’Ivoire in September 2016 and February 2017. These exchanges were conducted as semi-structured interviews. The framework of themes to be explored was built in the previous phase, informed by the literature review on BOP, constraint-based innovation and business models in emerging markets. Questions were directed on the operational strategy of Jumia Travel in Côte d’Ivoire and the interviewee’s comprehension of the constraints and challenges faced by the company. Primary information collected through these interviews were then incorporated into the theoretical and analytical framework designed in the first phase.

3.2 An overview of Jumia group

Jumia Travel is part of the Jumia Group, founded in 2012 as a start-up of the Nigerian group Africa Internet Group, whose parent company is the German Rocket Internet, with a view towards implementing an e-commerce platform for African consumers. In 2015, Jumia and the other AIG e-commerce start-ups were reunited under the holding Jumia Group, which forms an ecosystem of nine companies operating various e-commerce segments: Jumia, Jumia Market, Jumia Travel, Jumia Food, Jumia House, Jumia Deals, Jumia Jobs, Jumia Car and Jumia Services. Operating in 23 African countries in 2017, Jumia Group had become the first African unicorn in 2016 when its value topped US$1bn on the Frankfort Stock Exchange. Despite five years of financial loss[2], the holding increasingly attracts investors’ interest, as seen during a series of fundraising rounds through which the group raised several$100m and welcomed major investing companies in its shareholding (Polle and Vallet, 2016). Considering this cost-ineffectiveness and the numerous risks associated with investment in Africa, these investors’ decision to come on board indicates solid confidence in the ability of Jumia to take up the challenge of popularizing e-commerce on the continent.

Jumia Travel is Jumia’s first e-travel business experiment – neither Jumia nor its sponsors had experience in running an OTA in developed countries. Jumia Travel began its activities in Nigeria in 2013 and now operates in ten African countries, three of which are regional offices: Dakar in Senegal, Lagos in Nigeria and Nairobi in Kenya. These regional offices report to the headquarters in Paris, France and cooperate with an IT centre in Porto,
Portugal, which operates the entire computer system. Jumia Travel’s internet portal allows users, whether resident in the country or abroad, to compare the content and prices of different hotel offers and to book a room directly online, with listings for 25,000 hotels in Africa. Jumia Travel Côte d’Ivoire (JT-CIV) began operation in 2015.

3.3 Jumia travel in Côte d’Ivoire

Côte d’Ivoire, with a per capita GNI of US$1,420 in 2015, is ranked among the lower-middle-income countries (World Bank, 2017). Recovering from a political crisis that lasted from 2002 to 2011, the country has witnessed a dramatic rebound in growth, with rates above 8 per cent since 2012. The country’s population was 23.7 million in 2015, of which 4.9 million are concentrated in the economic capital Abidjan. The poverty rate was estimated at 48.9 per cent in 2013, while the middle class, as defined above, accounted for 38.1 per cent of the population in 2010 – 18.9 per cent without the floating class. The tourism market remains small but is booming in line with economic growth (WTO, 2015). Growth in international arrivals has averaged 52 per cent since 2011, and it jumped by 206 per cent from 2014 to 2015, with 1.4 million arrivals. This increase was driven by a perfectly equal increase in leisure and business tourism (+ 206 per cent), which accounted for 58 per cent and 42 per cent of total arrivals in 2015, respectively. The land route remains the main access road (63 per cent of arrivals in 2015), coinciding with the majority of Africans in the total arrivals (67 per cent).

While leading OTAs list international hotel brands in Africa, Jumia Travel has adopted a strategy geared towards the geographical coverage of areas not only covered by these major groups but also of different segments, including entry level. This strategy has led to the identification, through the dispatch of specialized agents throughout the territory, of a quasi-exhaustive list of accommodations available in the country. This investigative effort has enabled JT-CIV to reference more than 600 hotels in Côte d’Ivoire in 34 localities other than the largest city Abidjan. In comparison, in the first quarter of 2017, Booking.com covers 210 hotels, distributed in 14 localities outside Abidjan. This strategy of national expansion presented the company with operational constraints arising from the low level of development of the country that hinder the conduct of e-commerce. These constraints were exacerbated by the volume of hotels, their geographical dispersion, including in hard to reach areas, where hotel managers were not prepared for the online marketing method proposed by JT-CIV.

Two constraints determine the transactional space for an OTA operating in Côte d’Ivoire: internet penetration, with only 21 per cent of the population using the internet in 2015, and the rate of banking, with only 15.1 per cent of adults aged 15 and above holding an account at a financial institution in 2014 (World Bank, 2017). Against this backdrop, one critical development is the expansion of mobile payments across the country, boosted by the widespread use of mobile phones, with a SIM penetration of over 100 per cent in 2015. This mode of payment requires that the user have a mobile account provided by telecom operators, which allows him or her to store cash money in an account associated with the SIM card. It also allows the user to make financial transfers from a mobile phone, including transfers to another mobile account and trade transactions. Côte d’Ivoire is one among the more dynamic markets for mobile payments, with more than two million active users in 2013 (AfDB, 2015).

This environment comprises a series of constraints for JT-CIV, to which it undertook to adapt to build positional advantages and create value in the Ivorian e-tourism market by linking hotel providers and clients. These constraints and solutions to overcome them are supply and demand side in nature and involve co-creation of business solutions with local partners. Based on the relationships with customers and providers it builds, the company also attempts to correct market failures with the aim of increasing captured returns from its activity.
3.3.1 Supply-side constraints and adaptations. The first supply-side constraint stems from the internet infrastructure gap. Broadband internet is low in Côte d’Ivoire, with 0.5 subscriptions per 100 people in 2015 (World Bank, 2017). By contrast, mobile penetration is strong, while smartphone expansion drives up internet penetration (AfDB, 2015). This has led JT-CIV to develop two differentiated communication channels (online and offline) for hotel providers: 1) JT-CIV has developed an extranet mobile application dedicated to hotel providers to connect to the platform through the internet from a smartphone; and 2) JT-CIV employees have regular offline exchanges with providers, who manage bookings for them and are tasked with the update of their internet pages. Second, JT-CIV faces cognitive constraints among hotel providers, with a lack of awareness and mistrust of e-commerce opportunities and their technical operation. This has led JT-CIV to send teams all around the country to meet with hotel managers and make managers aware of the main issues surrounding e-tourism and how Jumia Travel works. This learning process involves convincing hotel managers to participate in a canvassing activity, as well as training sessions on the use of platform tools (registration and tariffs), together with an introduction to revenue management. Third, JT-CIV has to deal with a lack of management continuity, with two main causes of operational failure in cases where hotel operators did not implement the partnership: the negligence of some managers in updating their internet pages; and a high turnover in the management of the hotels, which breaks the links established initially. To solve this, JT-CIV has set up a system to monitor the activity of the internet portal, accompanied by a personalized offline follow-up with hotel operators.

3.3.2 Demand-side constraints and adaptations. A first constraint on the demand side is the strong preference of the customers for payment in cash on arrival, which reflects the large unbanked population. This posed a problem for JT-CIV in collecting commissions, exacerbated by the inability of hotel operators to pay the commission by bank transfer or postal services due to the low level of banking in the country. This constraint led the company to resort to transport service providers, who can collect cash and checks throughout the country. Next, JT-CIV has discovered a strong demand for travel advice due to the lack of online and offline tourist information about hotels, their facilities and their contexts (security, accessibility, amenities), in particular for foreign customers travelling to Côte d’Ivoire. This situation resulted in intense usage of the company’s hotline, which, over time, has begun to play the role of human travel agent responding to the individual concerns of customers, and thus becoming a key instrument of hotel transactions. Third, the analysis of transactions has revealed strong interest from clients in mid-range (three-, two- and one-star) hotels (82 per cent of bookings in 2015). This situation, which reflects the predominance of domestic customers (89 per cent of transactions in 2015) with limited purchasing power, has led JT-CIV to improve the status and increase the value of these establishments. While they are less profitable in terms of commission, highlighting them serves to increase the volume of bookings.

3.3.3 Market failure corrections and value capture. The way in which companies adapt to these supply-side constraints leads to the adjustment of their business models, a learning process that allows them to correct mistakes and enhance successes. At the same time, JT-CIV’s training approach demonstrates that they intend to influence the development of the market, by informing and upgrading hotel providers. Simultaneously, the company is carrying out other strategies to correct market failures and capture additional returns from its activity. For instance, it provides mobile incentives. Using cash payment, though preferred by clients, incurs costs related to the collection of commissions, the inability to track transactions and the management of finances, given that JT-CIV “advances” commissions to hotel providers. To reduce these losses, JT-CIV has embarked on a campaign to encourage the practice of mobile payment between clients and hotel providers, particularly with regard to the business travel segment (56 per cent of total transactions). In another vein, JT-CIV uses lobbying with the government. After two years of operation, JT-CIV has gathered detailed information on the needs of hotel customers, as
well as on the experiences of the tourism sector from the perspective of both service providers and tourists. This knowledge of the market and its dynamics is highlighted in its yearly “Hospitality Report Côte d’Ivoire” (Jumia Travel, 2017), which is presented to stakeholders in the sector with a lobbying angle, notably at the annual Ivorian tourism fair. By identifying infrastructure and regulatory gaps in the development of business, JT-CIV provides the government with courses of action that reflect the realities of the market, thus contributing to the improvement of the effectiveness of tourism policies.

4. Conclusion

Based on the dynamic perspective of business models, this case study is an insight into the dynamic capabilities of a travel company to revamp the OTA business model as deployed in constraint-based and BOP markets. JT-CIV is a case of major dynamic capabilities at work in relation to the usual OTA business model active in developed markets. While the core business model remains unchanged (running an online travel booking engine), the constraints faced in the Côte d’Ivoire BOP market force the company to develop new business routines and acquire new competencies and skills. This includes the development of a staff architecture for offline management of customer and supplier relationships; the setting-up of an educational, monitoring and fee collector team working on the ground and a human-based travel guide function, traditionally found in a brick-and-mortar environment. At the same time, JT-CIV undertakes to capture more value in collaborating with external stakeholders, by guiding hoteliers on mobile adoption and engaging the government in tourism development by increasing knowledge of consumer trends and identifying obstacles to be removed to foster the travel business in the country. The core of these dynamic properties is a detailed knowledge of the constraint-based market, which allows JT-CIV to discern both how to adapt to the market and how to influence and model it towards more value capture.

The findings of this OTA case study in a sub-Saharan African country are consistent with the general findings of other BOP and constraint-based innovation venture studies, whether they focus on e-commerce or not. As scholars have pointed out (Prahalad and Ramaswamy, 2004; London and Hart 2004), the value proposition in emerging markets lies less in the product itself than in the product offering, including the way the product or service is designed with local partners and delivered to consumers. This premise is supported by the case of JT-CIV, which keeps unchanged the core of the OTA value proposition but has to adapt its business model to new circumstances based on an experimentation of market actors’ needs, expectations and capabilities. This therefore evidences the actual participation of local consumers and partners in the process of value co-creation in BOP markets. The relationships JT-CIV build with the Ivorian ecosystem of actors is an essential part of its business model, as it both determines its positional advantage in the travel market space and provides a framework for co-developing appropriate competencies and mechanisms for the purpose of capturing more economic returns.

Although each transaction carried out through Jumia Travel contributes to the performance of its business model, the question of sustainability remains an open one. This is the key limitation of this research, the subject of which is a new experiment, a work in progress and still in the early stages of development. It is also an ongoing venture: in February 2017, Jumia Travel launched its flight search engine, adding domestic and international flights to its offer, with plans to gradually integrate other aspects of travel. It will be interesting to further monitor if the company can win its gamble and overcome major constraints, in particular African tourists’ limited purchasing power.
Notes

1. Since 1998, per capita national gross income in India has overtaken the one of sub-Saharan Africa and is almost twice higher in 2016 – with a comparable relation for poverty rates (World Bank, 2017). The recent experience of India provides an instructive case of OTA models in emerging markets, where it developed earlier faced with similar level of development to that seen today in Africa. A critical difference in market conditions is that despite internal disparities, India is a continent-wide economy of more than one billion people, while Africa is host to more fragmented and smaller nation-wide markets. This difference in market scope is a major limitation to the comparison.

2. Since its creation in 2012, Jumia has steadily lost money, despite an increase in its sales revenue from €29m to €134.6m between 2012 and 2015 (Poll and Vallet, 2016).

References


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An examination of a social tourism business in Granada, Nicaragua

Alexia Franzidis

Abstract

Purpose – The purpose of this paper is to examine the business model of a successful social tourism business in Granada, Nicaragua. The study assesses how the business provides an avenue to combat the challenges that restrict certain stakeholders from participating in tourism. The case identifies specific mechanisms, such as investing in the local community’s education and favoring local vendors and merchants, as ways in which social tourism businesses can disseminate value among all stakeholders and create a more equitable form of tourism.

Design/methodology/approach – The case study method was chosen for collecting and analyzing data. Data include in-depth interviews with business founders, managers and employees, field observation notes, photographic documentation and additional written documents. Data were analyzed using content analysis.

Findings – The study found that the business was able to produce a high-quality tourism product that disseminated value among all stakeholders. The study also proved the value of the additional building blocks within the Business Model Canvas for Social Enterprise, and the clear distinction between “co-creators” and “beneficiaries.”

Originality/value – This study uses the Business Model Canvas for Social Enterprise, a model unverified since inception, to analyze a successful social tourism business. It confirms the usefulness of the additional building blocks within the model, and the additional delineations between “co-creators” and “beneficiaries.” Furthermore, the paper recommends these distinctions are extended to all blocks in the canvas, to illustrate the many ways a company can distribute value based on its business model.

Keywords Community involvement, Tourism impacts, Social tourism business, Social tourism enterprise

Paper type Case study

Introduction

Tourism has been lauded as an “economic” and “social phenomenon” (UNWTO, 2016). Its continued growth has made it one of the most prominent commercial sectors in the world, creating employment opportunities, increasing household income and stimulating regional development through the construction of infrastructure and facilities (UNWTO, 2006). In less economically developed countries (LEDCs), tourism is often seen as one of the few feasible options for development that creates opportunities for business (Briedenhann and Wickens, 2004; Swarbrooke, 2005), as it can be easier to establish and is more cost efficient than other forms of rural economic development strategies (Wilson et al., 2001). However, many of the positive benefits cannot be enjoyed if it is not developed or managed in a sustainable manner. Due to a scarcity in human capital, many local authorities in LEDCs rely heavily on foreign skills and finance to develop tourism facilities. Through profit repatriation, the employment of foreign nationals, the purchase of imported infrastructure and the consumption of foreign products, much of the earnings can leak out into other economies (Smith and Jenner, 1992). Furthermore, many development projects tend to be elitist in including representatives from selected groups (Jewkes and Murcott, 1998), and may only...
seek collaboration between those groups who have compatible goals, resources or skills (Bramwell and Sharman, 1999). Remaining actors, such as community residents, are left in seasonal or low-paying positions (Jewkes and Murcott, 1998).

To combat these conditions social tourism businesses have emerged to create added value to individuals, communities and the environment (Poon, 2011). These organizations combine profit-making goals with social objectives, and give tourism businesses the opportunity to distribute benefits equitably between all stakeholders. Such initiatives have been found to combat economic challenges, enhance capacity building, empower community members and provide long-term benefits for all actors (Iorgulescu and Râvar, 2015). These businesses have also received attention and increased demand from customers, with studies confirming enhanced customer loyalty, satisfaction and increased brand image (Choi and Kim, 2013).

While this type of business has proven beneficial and is attracting academic attention, the number of studies that examine a social tourism business’s operational methods is limited (Iorgulescu and Râvar, 2015). Researchers have recommended further investigation into the effective methods and tools of current organizations, as the findings would create shared knowledge on how to adopt more equitable and inclusive business models (Michelini and Fiorentino, 2012).

This paper aims to enhance the existing literature by examining a successful social tourism enterprise in Granada, Nicaragua. It uses a newly proposed model, the Business Model Canvas for Social Enterprises (Qastharin, 2014), to assess how a successful social tourism business disseminates value among stakeholders and dismantles the barriers that typically restrict certain stakeholders from benefiting from or participating in tourism.

Social enterprises

Social enterprises have been recognized as key actors in helping achieve developmental goals (Nelson, 2012). They are typically founded as a response to the unfavorable economic, social, cultural and/or ecological environments found in LEDCs (Aziz and El Ebrashi, 2016). These conditions are an opportunity for organizations to provide value to underserved populations and create a “transformational impact” (Aziz and El Ebrashi, 2016, p. 1541). This goal often shapes “the mission value propositions and target segments blocks of the business model” (Aziz and El Ebrashi, 2016, p. 1541). Social tourism businesses are noted as one type of business that can help to overcome the development issues faced by societies (Hall and Kirkpatrick, 2005). If managed successfully, tourism enterprises can provide professional, vocational and entrepreneurial training to develop residents’ skills (Echtner, 1995), enhance capacity building and offer support and additional resources that may otherwise be unavailable (Scheyvens, 2002).

Business models

Business models provide a means to describe the way in which companies function (Osterwalder and Pigneur, 2010). The term gained popularity in the 1990s due to its use in digital technology and e-business companies (Osterwalder, 2004), but has since been expanded to include other types of organizations (Zott et al., 2011). There are now a plethora of articles, each offering slight variations in conceptualization and definitions (Casadesus-Masanell and Ricart, 2010). Authors have referred to business models as “the content, structure, and governance of transactions designed […] to create value through the exploitation of business opportunities” (Amit and Zott, 2001, p. 511), and a “means to describe and classify businesses” (Baden-Fuller and Morgan, 2010, p. 156).

Despite these variations, many agree that business models offer a clear yet generalized description of how an “organization functions in achieving its goals” (Massa et al., 2016,
The definition adopted by this paper comes from Osterwalder and Pigneur’s (2010) pinnacle text: “a business model describes the rationale of how an organization creates, delivers, and captures value.” This definition is used because it is “easily understood and communicated” (Shafer et al., 2005, p. 202), facilitates value-added analysis (Sanderse, 2014), and enables a broader understanding of value (Zott et al., 2011). It can also be used as a basis to develop a business model canvas[1] for use in analyzing a wider variety of organizations (Sanderse, 2014). It comprises nine building blocks: customer segments, value proposition, channels, customer relationships, revenue streams, key activities, key resources, key partner and cost structure.

As companies have continued to evolve, variations of business models have emerged to reflect these changes. One example of an alternative business which has grown over the years, mirroring a societal shift, is social enterprises. Such businesses fall between for-profit and non-profit organizations (Michelini and Fiorentino, 2012). They operate with a similar structure as a for-profit business, with products, services, customers, markets, expenses and revenues; they strive to be financially self-sustaining (Yunus et al., 2010); however, surplus profits are invested to achieve a specific social mission or objective (Yunus et al., 2010), and the profits determine the impact of the social initiative (Bull and Crompton, 2006).

As the primary purpose of social enterprises is to serve society (Yunus et al., 2010, p. 311), and their success is measured by their social outcome, their business models differ from conventional for-profit business models (Yunus et al., 2010, p. 312). They contain the conventional components found within for-profit business models, but they also include all stakeholders and the social objective (Yunus et al., 2010). As with for-profit businesses, variations of social business models have grown and the specificities of the social business model remain unclear (Chesbrough et al., 2006). There are now a variety of models that a company can adopt based on its mission, its type of integration and its target market (Grassl, 2012).

Osterwalder and Pigneur (2010) were the first to split “beyond-profit business models” into the third-party-funded model, in which a third party (i.e. donor, group of donors or public sector) pays for an organization to provide a service or product to its recipients, and the triple bottom line business model, which extends the nine building blocks to include social and environmental costs and benefits, in an effort to maximize positive benefits and minimize negative impacts. Smith (2012) proposed the non-profit Business Model Canvas as an alternative: two canvases, presented alongside each other, include both the donor’s and the beneficiary’s perspectives. Although this canvas highlights the separate activities of each stakeholder, it has been criticized for being complicated, as the connections cannot be easily observed in one glance (Qastharin, 2014). Another model, the social business model canvas (Social Innovation Lab, 2013), rearranges the sequence of the building blocks and includes new blocks that measure the social impact of the organization, and how the surplus is invested. It also identifies the beneficiaries (persons who derive advantage from the initiative) and differentiates between them and the customer (people or organizations willing to pay to address the issue including donors and volunteers), as noted by a dotted line in two of the building blocks: segments and value proposition. The model included beneficiaries, because they are believed to be crucial for the organization to fulfill its mission.

While the social business model canvas provides more depth and allows greater flexibility, it fails to mention the company’s overarching social objective – which should be the basis of a social business (Yunus et al., 2010). Consequently, the business model canvas for social enterprise (Qastharin, 2014) was designed, drawing from the aforementioned models and additional canvases proposed at a US sustainability conference (GoGreen Portland, 2014) and Yeoman and Moskovitz’s (2013) social lean canvas.
As illustrated in Figure 1, the model includes two additional elements: the mission of the business and the impact and measurements of a social objective. It also differentiates between co-creators and beneficiaries (referred to as “customers” in the social business model canvas) in both the value proposition and customer segments boxes. The additional elements – placed at the beginning and end of the model – and the clear delineation between co-creators and beneficiaries, illustrate the most comprehensive and holistic approach a social enterprise can take toward catering to its customers and the communities for which it cares. The model was developed following the analysis of a social enterprise in Indonesia that needed to further breakdown the building blocks due to multiple stakeholders being invested in or impacted by the company. However, while the model offers a unique and interesting perspective (Aziz and El Ebrashi, 2016), it is yet to be verified on other enterprises. Further testing of the model on other social businesses would be beneficial as a way to validate the model. Additionally, the model’s clear distinction between co-creators and beneficiaries, which is only noted in the customer segments and value proposition boxes, could be extended to other blocks, particularly if these entities are separate and guide the organization’s mission, operations and impact. This is especially useful in social tourism businesses that try to cater to and disseminate value to a plethora of stakeholders.

Methodology

A case study method was chosen for collecting and analyzing data. Case study research has emerged as a multi-method research strategy for the social sciences (George and Bennett, 2005) that allows multiple perspectives from a variety of sources to be incorporated in a systematic way (Yin, 1984). Many authors agree that case studies are an
ideal way to examine complex questions, and provide a holistic and in-depth exploration of a chosen area of investigation (Feagin et al., 1991; Grosshans and Chelimsky, 1990; Merriam, 2009). This triangulation of sources enables a researcher to gather enough information to check for trends, identify possible patterns, rule out competing explanations, corroborate findings, build explanations and produce a thematic review. In addition, through the use of multiple data sources (subjects and various types of investigation), data that are collected hold stronger trustworthiness for theories and hypotheses (Yin, 1984).

The organization selected for investigation is a mid-range boutique hotel, Hotel con Corazón (Hotel with Heart), located in Granada, Nicaragua, that invests all of its profits into local educational programs. Nicaragua has the second highest rural poverty rate in Central America (National Institute of Statistics and Census, 2001). Many residents in rural areas have limited access to education, with public expenditure favoring urban schools and neglecting rural areas (UNDP, 2000). There are no public universities in Granada; the closest is in Managua, 46 kilometers (28 miles) in driving distance. Primary and high school enrollment is low and suffers from low retention and limited facilities. Furthermore, English language skills, which are desirable for those seeking employment in the tourism or hospitality industry, are available only to those community members who are wealthy or well-connected or have access to educational programs (Sproule, 1996). A recent study on staff placement at ecotourism establishments in Thailand found that less educated residents are disadvantaged when seeking employment due to their lack of skills, experience and knowledge (Laverack and Thangphet, 2007).

Owing to the pleasant climate, spectacular scenery, unique culture and higher levels of personal safety than in other Central American countries, tourism has grown to become the second largest industry in Nicaragua. Granada is the oldest colonial city located in Western Nicaragua near Lake Nicaragua. It ranks as the most popular tourist destination in the country (INTUR, 2013), yet despite the continued increase in popularity, tourism infrastructure remains very basic (USA Department of State, 2012), and there is an enormous potential for further development and additional tourism enterprises to cater for this growing demand.

Hotel con Corazón opened in October 2008. It fits the criterion of a social tourism business that is self-sustaining from the profit generated by the business, has a clear social objective (to support local education programs), invests surplus revenue to achieve its mission and includes all stakeholders. The hotel was also selected, because it disseminates value not only through the investment of surplus funds to its social mission, but also in its daily operations by including local residents and providing residents with educational opportunities and other benefits.

The author conducted site visits, face-to-face interviews with the founders and employees of the organization (in managerial positions and non-managerial positions) and face-to-face interviews with tourists staying at the hotel. All of the interviews were structured, open-ended and in-depth, and were later transcribed verbatim by the author. Additional forms of data include field observation notes, photographic documentation annual reports and web media content. Written descriptions were completed on these items for inclusion in the analysis. Data were examined through content analysis, which enables a researcher to quantify and analyze the presence, meaning and relationships of words and concepts, and make inferences about the messages and information from these texts (Kohlbacher, 2005). Using a color-coding mechanism, data were organized around pre-set codes of components within the business model canvas for social enterprise as developed by Qastharin (2014).

Results

Below is a description of each of the components of the model as it pertains to the company. Findings are grouped according to the building blocks within Qastharin’s canvas
(2014), but now all blocks are further divided into co-creators and beneficiaries, with the intention of emphasizing the significance in the divide. As in Qastharin (2014), the term “co-creators” was adopted and includes in-kind contributions, such as volunteers, as well as those paying funds, such as donors and customers. In this case study, the term “beneficiary,” persons who derive advantage from the initiative, includes local community residents, employees and those involved in the education program.

**Mission**

Co-creators: The hotel has four guiding business principles that influence its design and daily operations. The first two: “fun and fresh” and a “place to be you” cater to the needs of the customers (hotel and tour patrons) through the provision of a locally designed hotel with Western amenities to ensure a comfortable stay.

Beneficiary: The remaining two guiding principles, “local color” and “good business” cater to fulfilling the needs of the beneficiaries and improving their livelihood. The hotel’s commitment to “local color” means it embraces ways to include and showcase the local community. It hires local residents despite their lack of skills, formal education or language abilities, purchases supplies from local vendors, acts as an intermediary for local craftsmen and channels its profits into educational efforts, thereby benefiting children, parents and teachers. The hotel also has a very transparent and well-publicized mission: “To invest all profits into local educational programs.” This mission guides its social impetus to improve social conditions for the local citizens, and determines the investment of surplus revenue.

**Customer segments**

Co-creators: The hotel caters to both a niche and the mass tourism market. It receives free independent travelers and group travelers from around the world, mainly Western countries, of a wide age bracket.

In 2015, the hotel’s 3,287 guests were from the USA (42 per cent), The Netherlands (15 per cent), Canada (6 per cent), France (6 per cent), Costa Rica (6 per cent), the UK (5 per cent), Nicaragua (5 per cent), Germany (4 per cent), and other countries (12 per cent). The hotel’s social objective, particularly its dedication to education, is an explicit element within its marketing mix, and it strives to appeal predominantly to the socially conscious traveler. Guests know that hotel profits are invested in the local community’s education, and they are happy to stay somewhere that is socially oriented without jeopardizing price, quality, or amenities. However, due to the hotel’s high-quality products, services, competitive rates, and prime location, a customer does not have to be motivated by the social cause to stay at the hotel.

Beneficiary: The individuals that benefit from the initiative are those who are geographically disadvantaged or who do not have access to opportunities such as education. All of the employees are local residents in the community. The creators of the handcrafts are women from Granada and surrounding communities. The two local school programs that receive funding are in a nearby rural village, Las Lagunas, and the two NGOs that receive financial contributions, La Esperanza and Empowerment International, are also local organizations involved in education.

**Value proposition**

Co-creators: Customers can experience a high-quality hotel, with a full range of “fun and fresh” facilities and amenities, at a price that is comparable to its competitors of the same star rating. Customers enjoy added value knowing their money is going toward local education projects. Customers also have a more authentic product as the hotel uses local
vendors, sells products on behalf of local craftswomen and provides an opportunity to interact with local residents, all of which enhances a customer’s experience. The project also creates value for the board members and their donors, who provide in-kind services or financial donations. These individuals are intrinsically motivated to be part of an initiative that makes the world a better place.

Beneficiaries: The hotel provides on-site training for local residents in multiple departments to increase their skill set and create opportunities for career progression. The hotel believes this not only benefits the employees by enhancing their skills, but also provides a better service experience for the tourists, as employees are able to help other employees during peak periods. The hotel has an incentive program that gives employees an extra 10 per cent of their salary if they attend university, regardless of the course. The hotel believes this creates a more skilled employee, which is good for the employee, the guests and the company. Local community residents also benefit from the business because of the hotel’s commitment to keep the project local. Having a local supply network for labor, materials, goods and services has meant more money staying within the local economy, ensuring lower levels of leakage. The money generated from the sale of local handcrafts goes directly to the women from the community who make the products.

**Key activities**

Co-creators: Hotel con Corazón provides hotel guests with a comfortable, home-away-from-home getaway “a place to be you” at an affordable rate; complimentary Wi-Fi and recreational facilities; meal options for breakfast, lunch and dinner; tours; and in-house shopping for local artifacts.

Beneficiaries: Key activities toward beneficiaries include educating the workforce through on-the-job training and financial assistance for university courses, elevating local merchants with in-house sales, favoring local vendors for goods and services and investing in the education of the local community. Educational funds are disseminated through field trips and activities, to highlight that learning can be fun, tutoring classes for students, maintenance of educational materials and computer equipment, scholarships and home visits to parents to enhance their understanding of the value of education. Funding is also provided to the two local NGOs involved in education.

**Key resources**

Co-creators: Hotel con Corazón was founded by two Dutch social entrepreneurs in 2003, henceforth referred to as the founders. Having visited Nicaragua, they realized that tourism had enormous potential, but that there were problems with the country’s educational efforts, chiefly limited resources and retention. They had the idea to establish a hotel as a tourism business to generate income to invest money toward educational initiatives. Following this they met with the Ministry of Education, and were put in touch with two local schools needing assistance in the Las Lagunas area. Upon returning to The Netherlands, they assembled an organizing board named Foundation Hotel con Corazón. The board comprises six members (up from five when it was first created), including the founders. The board members participate on a voluntary basis, are employed full-time in professional careers and are keen on using their skills and experience to make a difference in the world. Their combined professional experience includes marketing, finance, hotel management, tourism and education. The skills and connections of the board members assisted with the creation of a solid business plan and the generation of startup funds through additional donors.

In addition to their qualifications and work-experience, the board members were familiar with the needs and wants of the Western traveler – which is the predominant tourist market to Nicaragua. One of the obstacles that locals face when establishing a tourism business is
their lack of knowledge concerning Western tourists, which makes it difficult to cater to the 
needs of this market. Thus, the board members’ know-how and network of professionals 
proved instrumental during fundraising efforts.

Beneficiaries: The hotel hires two “on-site foreign managers” to assist with daily operations 
and provide guidance when needed. It is an 18-month, rotating position which will one day 
become filled by local residents. All other employees are residents in the community. 
Employees are hired based on their attitude rather than prior experience or language 
abilities. The hotel’s tangible assets, such as the building, furniture, amenities and food and 
beverage, are all sourced locally.

Customer relationships

Co-creators: The hotel’s four guiding business principles ensure a personal and more 
authentic product and service. The hotel strives to deliver superior service through its 
friendly and knowledgeable employees. Through developing personal relationships with 
customers, the hotel creates a community of social ambassadors who can spread the word 
about the hotel and its mission. This promotes additional donations and creates a referral 
base for future travelers.

The website is also very detailed and includes every annual report since the hotel launched. 
The first annual report contains a detailed time-line describing the history and development 
of the hotel; subsequent annual reports detail the hotel’s mission, strategy (how it operates) 
and an overview of its business principles and philosophies. The reports are available for 
download in English, Spanish and Dutch, and copies are also displayed in the hotel lobby 
and in each room. The walls of common areas such as the restaurant/bar, courtyard and 
reception/lobby are decorated with photographs of the hotel’s social efforts and its mission 
statement (it is painted on the walls).

Revenue

Co-creators: The hotel has a number of revenue outlets, accommodation charges from the 
16 rooms, food and beverage sales and tours. It also still accepts donations. A breakdown 
of the revenue sources is: accommodation, 80 per cent; food and beverage sales, 6.5 per 
cent; tours, 13 per cent; and other, 0.5 per cent. In 2015, the hotel maintained an average 
occupancy rate of 66 per cent and organized 420 tours for 1,250 guests. It reported US 
$277,785 total revenue, averaging US$77 per room per night. Its net profit after expenses 
listed in cost structure was US$71,786.

Beneficiaries: All profits are invested into local educational programs. Additionally, all 
revenue generated from the sales of local artifacts goes to the vendors; the hotel sees itself 
as more of a facilitator, and feels that it provides an additional service for the guests.

Channels

Co-creators: Hotel con Corazón utilizes both direct and indirect distribution strategies to 
reach customers. Its website provides details of the hotel’s rooms, the services available 
and the trips offered, and enables direct booking. In addition, the website highlights the 
hotel’s involvement in community efforts through actively displaying its mission, revenue 
structure and annual reports. Customers can also access information about the hotel 
through indirect distribution methods. The hotel is listed through popular intermediaries 
such as booking.com, agonda.com and Tripadvisor and has an active Facebook presence. 
Due to its novel business model, it has been featured in popular magazines, as well as in 
the press and online. Lastly, previous guests actively inform potential guests about the 
property through word of mouth.
Beneficiaries: Employee recruitment is typically done through word of mouth, whereby managers ask the employees for recommendations or referrals. The hotel has established a reputation as a good employer and residents stop by to enquire about vacancies. Local vendors and the products of local craftspeople were identified through the founder’s connections with other hoteliers. Educational partners were recommended based on need, following a meeting with the Ministry of Education.

Cost structure
The main cost of the business was the initial construction of the hotel, for which startup funds of €470,000 were used. Since its opening, the hotel has expanded from 15 to 16 rooms. It has also increased the services it offers guests, such as providing tours, and upgraded the facilities when necessary. In 2015, major renovation expenses were undertaken to replace the air-conditioning systems in the rooms with more sustainable ones and fix the roof. The main operating costs include personnel, purchasing, restaurant, bar and office supplies, maintenance: gas, water and electricity, administration and promotion, cleaning, transport and execution of the tours. In 2015, these expenses totaled US $184,863. In addition to this, the company paid US$21,136 in income taxes, reservation maintenance and reservation installations.

Key partners
Co-creators: Foundation Hotel con Corazón raised funds through official presentations to friends, the one-time sale of social shares in the company (a financial donation of €500), various fundraising activities and smaller individual donations. The total funds raised were then matched by an NGO in The Netherlands, who in return asked for an annual report detailing how the money was spent.

Beneficiaries: The founders spent approximately two years during the start-up/construction phase of the business, establishing themselves in the community. They befriended other hoteliers who put them in contact with local carpenters, seamstresses and other local suppliers. Through the Ministry of Education, they were also in contact with several school teachers and tutors in the surrounding community, who helped to design the educational program for the children. They also established a rapport with the local education-based NGOs to identify the reasons for educational problems and how they could try to overcome them. The organization has maintained these relationships since its inception.

Impact and measurement
Co-creators: An additional measure of success, and recognition of the quality of the hotel’s products and services, is by the hotel’s five-star rating on TripAdvisor (from 604 reviews). It is also ranked as Granada’s top-rated hotel, and is regarded as one of the most popular hotels in Nicaragua.

Beneficiaries: The hotel’s mission to invest into local educational programs has resulted in multiple quantifiable outcomes. In 2015, the hotel paid for seven teachers and provided educational support to 284 primary school students. The surplus funds helped to offer classes on four days a week to students in first, second and third grade, and to provide homework support to students in the fourth grade or higher. The teachers employed through Hotel con Corazón spend one day a week with the families of the students to help them realize the importance of education. They also provide some support to parents to enable them to help their children with homework. The teachers have reported fuller classrooms, fewer dropouts and improved student grades. Based on the success of the home visits, the Ministry of Education opened a secondary school in the area based on requests from parents. Furthermore, the funds spent on employee educational efforts
resulted in 10 out of 11 full-time employees studying courses ranging from English to Accounting.

Conclusion

Social businesses are mission driven, and the business models used to describe them need to include their social objectives and outcomes (Bull and Crompton, 2006). This study demonstrates the use of the additional building blocks within Qastharin’s (2014) business model canvas for social enterprise – the business’s “mission,” and the business’s “impact and measurements” – which allow a richer understanding of why and how an organization functions. Additionally, the clear distinction between “co-creators” and “beneficiaries” in the model highlights the fact that social enterprises can benefit a variety of stakeholders, depending on their mission and operational structure.

In the case study presented, of the Hotel de Corazon in Granada, Nicaragua, further delineations were made, in many of the other blocks in the model, to show the additional stakeholders benefiting from the business. One of the difficulties of managing performance in business is articulating all of the objectives in a measurable way (Bull and Crompton, 2006); the additional delineations included in this paper clearly show the many other intangible values that a company can distribute, subject to its business model.

The examination of the Hotel de Corazon’s business found shared value among all stakeholders: high customer ratings, continued profits, inclusion of residents as suppliers and employees and successful results from the educational initiatives. The “beneficiaries” included local residents in the form of employees, vendors, merchants and those involved with or receiving educational funding. Indeed, the case study of this social tourism business demonstrates that tourism can benefit the local community, rather than just foreign investors or local elites, if it is developed in a socially responsible manner. The case study also provides a canvas that other social tourism businesses can adopt.

As this investigation examined only one type of tourism and hospitality business, in one geographical location, devoted to one primary mission, it is recommended that additional studies are conducted on other social tourism businesses using Qastharin’s (2014) Business Model Canvas for Social Enterprise, particularly in LEDCs. It is also recommended that the delineations between “co-creators” and “beneficiaries” be made in all the blocks in the model, as in this study. These studies would continue to validate the business model canvas, the usefulness of delineations between “co-creators” and “beneficiaries,” and the ways in which social based tourism businesses can create more equitable forms of tourism.

Note

1. The business model canvas is a visual chart that illustrates the building blocks of a business model and assists stakeholders to understand the structure and flow of an organization (Osterwalder and Pigneur, 2010).

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