Development of a New Canvas Business Model by Integrating the Success Factors of the Hotel Business

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Original Article

Development of a New Canvas Business Model by Integrating the Success Factors of the Hotel Business

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Abstract: This research examines the development of a business model canvas in a block diagram for the Hotel industry that includes key success factors in the Hotel business. The development of a new block diagram on the Business Model Canvas was carried out through analysis of data collected from interviews with Hotel managers and a review of related literature references. This research reveals that hotel business success factors can be integrated into a business model canvas so that hotel managers can use them to create business strategies and maximize company revenues.

Keywords: Business model canvas; Hospitality Service; Hotel Business; Internal Marketing; Tourism Industry.

I. INTRODUCTION

Indonesia has quite remarkable tourism potential. According to the World Economic Forum Travel and Tourism Competitiveness Index data in 2022, Indonesia has shown the most significant improvement compared to other countries, rising from the 44th to the 32nd position (Kemlu, 2022). Specifically, Bali, Indonesia, is ranked second as a top destination according to TripAdvisor in 2024. In 2019, Indonesia also secured the first position as the most desired destination to visit, according to Forbes (Forbes, 2020).

The growth in tourism in Indonesia has had an impact on the accommodation industry. Despite a decline during the COVID-19 pandemic, in 2022, Indonesia's GDP in the hospitality industry increased by 472 trillion rupiahs, up from 412 trillion rupiahs in 2021 (Statista, 2023).

Data from bps-statistics in Figure 1 shows that the number of hotels and other accommodation businesses increased from 2021 to 2023, despite a decline due to COVID-19 in 2020-2021.
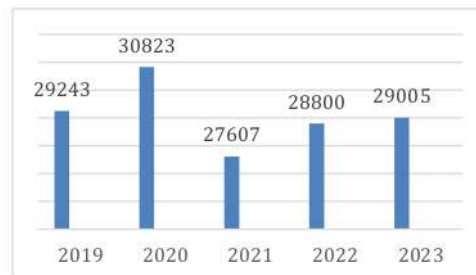

Fig. 1 Number of Hotels and Other Accommodation Business in Indonesia, 2019-2023

Research on the hospitality industry often has broad scope. It may not focus on day-to-day operations but should concentrate on the "real world" to provide relevant outputs for managers and other stakeholders (Khan, 2023). Additionally, some issues that can occur in the hospitality industry include rapid changes, diverse stakeholder needs, intense competition, and limited differentiation in products and services compared to competitors (Song et al., 2024). The emergence of COVID-19 has also been one of the factors causing a shift in the business model in the hospitality industry. Consequently, many hospitality businesses implement Corporate Social Responsibility (CSR) to respond to various stakeholder needs (Song et al., 2024).

Based on the research background before, there is a need for a new business model that aligns with ongoing changes. Some benefits of a business model include understanding how organizations deliver, create, and capture business value, outlining organizational strategies, and serving as an effective tool to commercialize and explore new ideas and technologies

(Huang et al., 2023a). However, existing business model canvases are not specifically tailored to the hospitality industry. Therefore, this research aims to create a business model canvas for hospitality service businesses. This study seeks to offer perspectives and guidance for developing hospitality businesses that align with current needs.

II. LITERATURE REVIEW

A) Hospitality Business

The hospitality industry falls under the category of IHIP services (intangible, heterogeneous, inseparable, perishable), where customers make choices based on experiences, recommendations, and opinions from their environment or previous customers, making it challenging to evaluate service quality (Zheng et al., 2023). In implementing management in the hospitality industry, numerous business sectors and related disciplines are involved. Relevant business sectors include restaurants, hotels, amusement parks, attractions, and non-commercial operations. Meanwhile, related disciplines encompass marketing, finance, human resources, strategy, economics, and accounting. The entire industry is service-oriented, carried out by professionals with various functional aspects to enhance the customer experience (Khan, 2023). Some unique characteristics of hospitality include a more centralized organizational structure and a high level of customer interaction (Huang et al., 2023a).

This study will concentrate on establishments such as hotels and other analogous forms of accommodation. Operationally defined, hotels and similar lodgings serve as commercial venues providing transient residence for travelers (Wong & Yang, 2020). Hotels constitute a destination's integral components of tourism infrastructure (Yang & Mao, 2020a).

The primary objective of a hotel is to afford guests a sojourn characterized by comfort and hospitality, aiming to function as a temporary domicile (Yang & Mao, 2020a). Accordingly, guests are received into this abode with empathy, ensuring they encounter a haven characterized by a gratifying experience (Yang & Mao, 2020a).

B) Business Model Canvas

The Business Model Canvas (BMC), developed by Osterwalder, Pigneur, and Smith in 2010, defines a business model as the rationale behind how an organization creates, delivers, and captures value (Sort & Nielsen, 2018). This canvas serves as a dynamic document where entrepreneurs initially outline their assumptions and ideas, continuously updating them with new information over time (O'Neill, 2015). The BMC structure aims to offer entrepreneurs a deeper understanding of value creation and delivery through its nine building blocks, focusing on the central concept of value propositions in the business model analysis (Sort & Nielsen, 2018). Utilizing the BMC assists users in gaining clarity on the company's distinctiveness (Sort & Nielsen, 2018). Additionally, the BMC aligns with the insights presented by Cañas, serves as an instrument for gathering, arranging, and displaying information, developing a shared vocabulary, outlining conceptual linkages, testing and refining ideas, and enabling social interactions and meaning-making (O'Neill, 2015). The original business model canvas is shown in Figure 2.
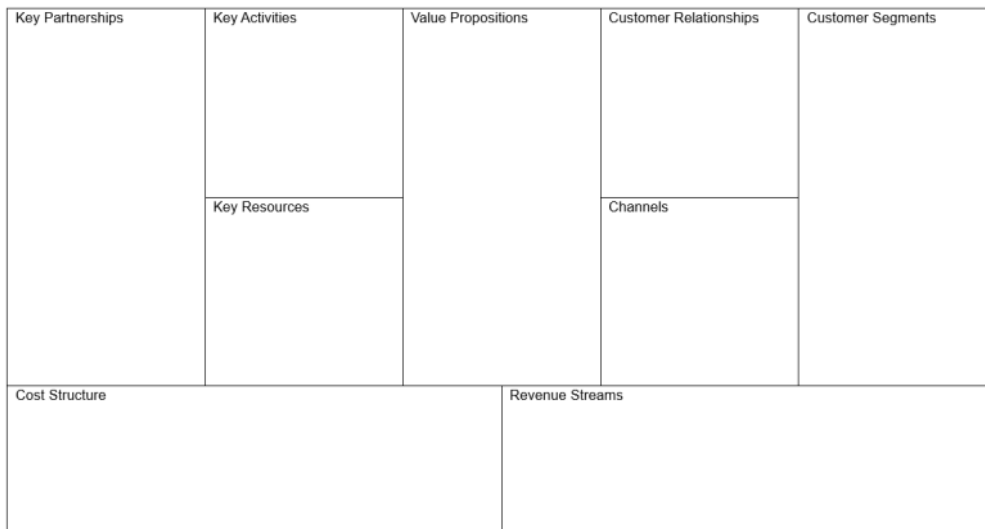

Fig.2 Business Model Canvas

C) Factors Influencing Hospitality Performance

a. Internal Marketing

Internal Marketing applies marketing principles and techniques to incentivize employees to accomplish specific tasks (Yi et al., 2023; Kadic-Maglajlic et al., 2018). George and Gronroos (1989) emphasize that internal marketing focuses on an organization's 'internal customers' (employees) rather than external customers, fostering a service- and customer-oriented mindset among them. Internal marketing also aims to motivate organizational employees to efficiently implement strategies by creating a supportive environment that addresses their needs, ultimately leading to customer satisfaction (Yi et al., 2023; Huang & Rundle-Thiele, 2014).

This approach involves managerial activities to instill a customer-centric orientation in employees to enhance market performance (Kadic-Maglajlic et al., 2018). Internal marketing views employees as internal customers, considering their roles as products, and addresses their needs through the organization (Yi et al., 2023; Kadic-Maglajlic et al., 2018; Huang & Rundle-Thiele, 2014).

Internal marketing components are diverse and include practices such as internal communication, training, and internal market research (Huang & Rundle-Thiele, 2014). Another study suggests that organizations engaging in internal marketing activities using marketing and human resource management approaches witness increased employee motivation and commitment, leading to improved service for external customers (Yi et al., 2023; Huang & Rundle-Thiele, 2014). Numerous research studies highlight that internal marketing positively influences improving employee happiness and leads to increased organizational commitment, client retention, and financial success (Yi et al., 2023).

b. External Marketing

Internal market orientation encompasses the cognitive capacities of a company's personnel. In contrast, external market orientation pertains to the intellectual aspects inherent in customer dynamics, and both are intricately tied to organizational business performance (Zebal, 2018). External marketing underscores the pivotal role of frontline employees in delivering products and services, exerting a significant influence on customer perceptions during service encounters, shaping customers' emotional states, and ultimately impacting overall customer satisfaction (Schulz et al., 2017).

Many activities associated with external market orientation include collecting, monitoring, and analyzing current and future customer needs. These involve customer insights and information from governmental sources, facilitated through formal or informal discourse with stakeholders. Furthermore, it entails disseminating extant and anticipated information throughout the organizational structure, focusing on ensuring the effective utilization of disseminated information (Zebal, 2018).

c. Location

The geographical placement of a lodging establishment is a pivotal determinant of success within the business, as emphasized in existing literature (Orhan, 2023; Yang & Mao, 2020b). The impact of location on the performance and longevity of hotels stems from the inherent nature of their services, which can only be availed of at specific places and times (Yang & Mao, 2020b). An optimal site enables hotels to achieve maximal production capacity, enhance profitability, foster expansion initiatives, elevate service standards, curtail operational expenses, and augment shareholder value, among many other benefits (Yang & Mao, 2020b).

Particularly in urban settings, where tourism appeal may be limited, strategic location selection becomes a cornerstone of organizational priorities geared towards leveraging locational attributes to their fullest potential. However, the hospitality industry often needs more suitable policies and tools to navigate this aspect of business strategy effectively (Orhan, 2023).

Critical considerations in the selection of favorable locales by hotels encompass a spectrum of factors, including the availability of public service infrastructure, accessibility via road and public transportation networks, proximity to tourist attractions, regulatory frameworks, land zoning regulations, receptivity to tourism, crime rates, economic indicators, as well as local environmental and traffic conditions (Yang & Mao, 2020b). Additionally, hotels situated in urban areas specifically seek characteristics such as the accessibility of public transport networks, ease of access and the presence of related services (Orhan, 2023).

d. Innovation

The term innovation refers to altering existing elements or creating something entirely new; its definition is subjective. Meanwhile, innovativeness involves a measurable aspect linked to a firm's inclination toward innovation (Azhar Mohd Harif et al., 2022; Urban & Matela, 2022). A firm is deemed innovative based on its adoption of innovation compared to the amount of breakthroughs embraced and the timing of their adoption (Urban & Matela, 2022).

Innovation is pivotal in enabling organizations to add value, gain a competitive edge, and enhance problem-solving skills, ultimately contributing to improved organizational performance (Azhar Mohd Harif et al., 2022). Notably, research indicates that innovation in service sectors differs significantly from traditional innovations in manufacturing-based businesses, often involving intangible combinations of processes, human skills, and materials, leading to characteristics such as heterogeneity, inseparability, and perishability (Urban & Matela, 2022).

Within organizations, innovation can be driven by knowledge management and information and communication technology (ICT). A review of the innovation literature underscores various sources for innovation adoption, including deploying dynamic capabilities, complementary assets fostering knowledge-based management activities, and reliance on external resources (Azhar Mohd Harif et al., 2022; Urban & Matela, 2022). Knowledge management involves creating, organizing, and disseminating knowledge through integrative practices to foster innovation, a critical element in staying competitive in the market (Azhar Mohd Harif et al., 2022).

Additionally, knowledge stems from ICT, which comprises information and communication technology (Azhar Mohd Harif et al., 2022). ICT contributes to internal innovation within the organization and enhances its capacity to discover innovative approaches internally and externally. This innovation is achieved by speeding up the collecting and transfer of information for gaining external knowledge and simplifying the communication procedure for creative thinking within the organization. (Azhar Mohd Harif et al., 2022).

e. Customer Relationship

Customer relationships can be established through diverse approaches, including heightened customer interactions and value augmentation. The dynamics between hosts and guests involve both direct and indirect contact throughout the entire experience (Wu et al., 2023). These interactions foster a sense of connection and group identity with local people (Wu et al., 2023). They also enable value co-creation between hosts and guests, leading to authentic and memorable guest experiences. Simultaneously, hosts benefit by alleviating loneliness and social isolation, enhancing their social identities, and cultivating trustful relationships (Wu et al., 2023).

Facilitating host-guest interactions involves employing various methods such as information communication, collaborative activities, individualized service, and hospitality behavior. Information communication encompasses tasks like confirming arrival details, recommending travel information, offering basic information about the accommodation, and introducing the use of room facilities and the surroundings.

Collaborative activities include assisting in planning tour routes, engaging in travel-related communication, and providing travel suggestions. Individualized service involves reminding guests of specific information, catering facilities to guests' needs, addressing special requests, ensuring minimal disturbance during rest, offering private space, respecting personal living habits, and arranging guest pick-ups. Hospitality behavior is characterized by friendliness, timely responsiveness, patient communication, and warm greetings (Wu et al., 2023).

Moreover, the pursuit of customer satisfaction involves a focus on increasing value. The personal and daily nature of the hospitality concept is intertwined with routines and lifestyles entrenched in one's beliefs and principles. Customers judge hospitality using a framework of reference related to their values (Beldona et al., 2020). Three distinct categories of value dimensions include relational values (sense of belonging and warm relationships), recreational values (fun, excitement, and fulfillment), and preservational values (security, respect, self-respect, and accomplishment) (Beldona et al., 2020).

f. Methods

This research aims to create a business Model Canvas diagram explicitly tailored for the hospitality business in the Hotel sector, taking into account the factors influencing the success of hotel businesses. In pursuit of the research objectives, a thorough examination of both primary and secondary data was conducted.

g. Location & Research Duration

The study was conducted within the framework of the Hotel industry in Semarang City, Indonesia. The choice of research location was guided by the expansion of the hotel sector in Indonesia and the accessibility of pertinent data. The investigation took place in November 2023.

h. Types & Research Data

This study employs two distinct kinds of data: primary and secondary data. Primary data were collected through interviews performed during the research's deployment. Copper and Schindler (2014) clarify that interviews are the major data collection strategy in qualitative research, which helps understand respondents' perspectives on specific phenomena,

especially in company management.

The second data approach in this research involves secondary data. According to Copper and Schindler (2014), secondary data represents interpretations from prior research. Various pertinent sources contributed to obtaining secondary data, encompassing insights from library research conducted through both offline and online searches throughout the research process.

i. Data Collection and Analysis Methods

The data collection methods used in this research include interviews and observations, specifically used to collect primary data. Simultaneously, secondary data collection was executed through a comprehensive literature review.

Regarding data collection techniques, this study used in-depth interviews to gain detailed insights into the hotel's business model. Schindler (2014) defined that in-depth interviews involve interviewer and respondent interaction to obtain comprehensive information.

The involvement of hotel managers as critical informants in interviews aims to obtain an in-depth comprehension of the hotel's business model and future objectives. Interview inquiries were formulated by referencing the nine building blocks of the Business Model Canvas and success factors in the field of accommodation services. Selecting a hotel manager as an interviewer was a strategic decision to gain deeper insight into the company's business model.

Various references from online journal databases were used to review this research. To provide a comprehensive bibliography of the academic literature on new business models in the hotel industry, related literature was explored using several keywords, including Business Model Canvas, Internal Marketing, External Marketing, Hospitality Business, and Tourism Industry. The research approach is presented in Figure 3.
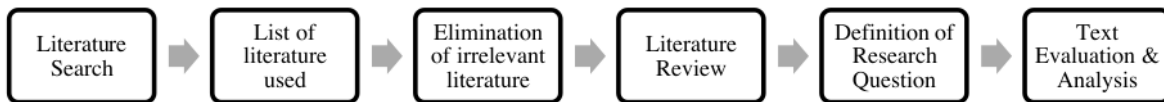
| Literature Search | → | List of literature used | → | Elimination of irrelevant literature | → | Literature Review | → | Definition of Research Question | → | Text Evaluation & Analysis |

Fig. 3 Research Approach

III. RESULTS AND DISCUSSION

The business model canvas previously intended for the business consists of 9 block diagrams: Value Proposition, Customer Segment, Customer Relationship Marketing, Channel, Key Activities, Key Resources, Cost Structure, and Revenue Streams. In implementing this diagram, the requirements of the Business Model Canvas for the hotel industry are only partially accommodated at present. The new Business Model Canvas is explained in Figure 3.

The hotel business model refers to a hotel's structure and strategies to achieve financial goals, provide added value to customers, and sustain business desirability. The hotel industry exhibits diverse business models influenced by hotel size, location, market segment, and other considerations.

Creating a new business model diagram specifically for the Hotel business involves developing nine elements of the business model canvas and adding diagram elements of factors that influence the success of the Hotel business.

By mapping business models collaboratively, the canvas business model diagram uses a collaborative approach combined with success factors in the hotel business to produce a new business model diagram. Based on the literature review conducted and validated from the interview results, there are four new diagrams added to the nine elements of the canvas model business diagram:
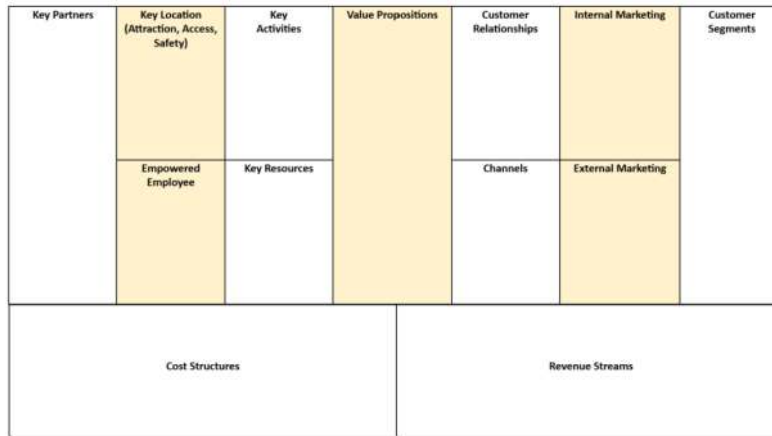
Fig. 4 New Business Model Canvas for Hotel Business

A) Key Location

The key location is defined in 3 points: Attraction, Access, and Safety. According to research conducted by Andra et al. (2022), the positive impact on hotel revenue can be caused by the hotel's spatial access to the main attractions of a destination, whether focused on coastal or cultural aspects. The closer the hotel is to attractions/tourist attractions that can attract visitors to an area, the higher the hotel's potential income.

Andra et al. (2022) also argue that a hotel's ability to be reached spatially from the nearest airport positively affects hotel revenue. This condition shows that access to public transportation, such as airports, train stations, and bus stations, can influence the number of guests staying at the hotel. Key location is also supported by environmental security, where the hotel is located.

B) Empowered Employee

The hotel industry has unique characteristics, where employee involvement in the service process is the main characteristic (Barrows, 2012). As a result, customer assessments of the quality of hotel services are influenced by the employee's ability to provide these services. Therefore, employees can provide the best quality service to retain and attract new customers.

C) Internal Marketing

This factor has the potential to help hotel companies identify and understand customer views on the services they offer. It allows the company to evaluate possible future development of hotel services.

D) External Marketing

This factor becomes a form of marketing communication that includes channels from the company to customers. This type of marketing communication is focused on providing customers with information regarding the value the company provides to its consumers.

E) Value Proposition

The value proposition differentiates the hotel from similar competitors, offering something unique and significantly adding value to customers. In the success factors of the Hotel business, innovation and technology need to be added to the value proposition that can be an advantage for the hotel.

IV. CONCLUSION

Competition in the hotel business is getting tougher, prompting hotel owners and managers to formulate business models to increase the company's competitive advantage. The effectiveness of such business models depends on cultivating strong relationships with customers in the service industry. Essential elements, including value proposition, location, internal marketing, external marketing, and other factors relevant to the hospitality sector, influence it.

The practical implications of this research include recognition models used by competitors, the ability to identify opportunities, formulate solutions in response to competitors' actions, find effective marketing strategies, and implement innovative and competitive business models in business practices. Therefore, the managerial implications of this business model can serve as a roadmap for the following stages in advancing the business model canvas for this hotel business.

Researchers will continue further research regarding the relevance of business diagram models for hotel businesses to various types of hotels and cities (tourism and non-tourism).

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