Value Creation of Customer-focused Service Innovation in Hostel Industry

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Abstract: The tourism industry has not only accounted for an increasing percentage of the GDP of countries around the world in the twenty-first century, but also made great contribution to the growth of the employment population in the employment market. Travelers have gradually shifted from group inclusive tours (G.I.T), which are travel packages designed for the masses, to free independent travel (F.I.T), which is a market with higher customization. Hence, hostels will only gain a greater competitive advantage in the F.I.T market. Past studies on hostels in Taiwan, however, mainly focused on the performance of business models, service quality, customer satisfaction, and customer loyalty, and rarely explored service innovation from the perspective of customer value. Therefore, of the 4,355 legally registered hostels announced by the Tourism Bureau in December 2014, this study selects 561 hostels that have relatively more service innovation events, and analyzes the 2,024 service innovation events of the hostels. Findings of this study are as follows: First, the majority of services provided by hostels offer functional value, followed by hedonic value, relationship value, and conditional value. With regard to trends, the ratio of services that offer "functional value" has decreased sequentially, while services that offer "hedonic value" has increased sequentially each year. The ratio of services that offer "relationship value" has developed into an inverted U-shape, and the ratio of services that offer "conditional value" shows marginal fluctuation. This study proposes managerial implications for service innovation in Taiwan's hostel industry based on the findings above, providing reference for the hostel industry and government agencies.

Keywords: Customer Value, Service Innovation, Hostel

I. INTRODUCTION

The domestic tourism industry has flourished under convenient transporation and growing emphasis on leisure. Even international policy has had significant influence on t he domestic tourism industry. According

to a research report of the World Travel and Tourism Council (WTTC), the economic impact of travel in the Asia-Pacific is expected to contribute 8.2% to GDP, and will increase to 8.7% from 2011 to 2021. Moreover, employment created by the travel and tourism industry, including indirectly supported employment, is estimated at 150 million jobs and expected to reach 180 million jobs in 2011, showing the gradual growth and importance of the tourism industry to the economy.

The scale of the tourism industry growing at a reate of NT$10 billion a year shows the growing emphasis of citizens on tourism and leisure. Furthermore, according to the latest statistics of the Tourism Bureau in 2016, there are 6,222 legally registered hostels and 3,026 legally registered hotels in Taiwan. Statistics of hostels in Taiwan show that they are gradually expanding to overseas travels, and the demand created by F.I.T on hostels trends upwards, possessing great future potential.

The term "innovation" was originally used to describe the concept of enterprises using product innovation as a link in their business strategy to gain a competitive advantage. Today, almost every industry recognizes the importance of innovation. In a time with widespread investments, enterprises that aim to gain a competitive advantage not only focus on "product innovation," but also "service innovation," hoping to thus gain an edge over competitors. Past studies on service innovation mainly focused on its application in the service industry or innovative services provided utilizing technology (Korsching & Ghamrini, 2003), the improvement of service process flexibility, expansion of service scope, improvement of service quality, and replacement of old services (Chang, 2007; Coombs & Miles, 2000; Magnusson, 2003; Bryson & Monnoyer, 2004), but rarely examined the application of service innovation theories in the tourism industry. Studies on hostels in Taiwan mainly focused on service quality and satisfaction as well as business model and performance, but rarely examined service innovation from a customer value perspective. This study focuses on service innovation of hostels around Taiwan, and further analyzes how hostels utilize service innovation to enhance their competitiveness. Summarizing the above, this study mainly aims to: 1. Examine the contents of service innovation of hostels in Taiwan from a customer value perspective; 2. Analyze characteristics of service innovation in Taiwan's hostel industry; 3. Analyze the course of service innovation in Taiwan's hostel industry to understand changes in service innovation during each period.

II. LITERATURE REVIEW

2.1. Service Innovation

Service innovation is the collective efforts of internal management, sales, and information technology experts and other employees within a company to develop new market demand (Spath and Fahnrich, 2007). Based on the direction of service innovation, Hauknes (1996) proposed that service innovation includes product innovation, process innovation, organizational innovation, structural innovation, and marketing innovation. Another form of service innovation is not creating a service that is new to the world, but new to a company, its customers, or its partners (Gustafsson and Johnson, 2003). Based on the above, this study defines a service innovation event as the first time a hostel offers a new service.

2.2. Customer Value

Zeithaml (1988) believes that value is the difference between utility, quality or benefits they receive and their cost when purchasing a product or using a service. Woodruff (1997) pointed out that following

changes in time and the environment, customer value will be the source of competitive advantages to organizations in the 21st century. Eighmey (1997) believes that customer value has six dimensions, including marketing perception, hedonic value, information value, perceived ease of use, credibility, and interaction. Court (1999) also proposed three types of customer values, namely functional value, emotional value, and relationship value, in which relationship value refers to the relationship between the buyer and seller and is similar in concept to social value. Roper (2003) defined customer value as a preference consumers have for the properties of products or services, and the performance and results of these properties meet consumers' goals. Excellent customer value is the key to success for enterprises, and only enterprises that understand customers' needs and place emphasis on customer values can gain loyal customers and competitive advantages (Day, 1994; Porter, 1980; Lemon, 2001). Observing the development of marketing theories in recent years, customer value has been widely recognized as the main source of competitive advantages and key to long-term success (Kotler, 1997; Woodruff, 1997; Khalifa, 2004). Summarizing the above, this study proposes four types of customer value, namely "functional value," "hedonic value," "relationship value," and "conditional value."

III. RESEARCH METHODOLOGY

This is an exploratory study that examines service innovation in Taiwan's hostel industry by collecting internal and external data of research subjects, evaluating the environment, and examination innovation events during different periods. This study focuses on individual cases and gains an in-depth understanding of the relationship between the contents of innovation and the overall environment. The analysis framework and time series analysis is explained below. Based on the theoretical foundation in the literature review, this study proposes four types of customer value, namely "functional value," "hedonic value," "relationship value," and "conditional value." For the time series analysis, this study identifies three stages based on "Taiwan's New Tourism Development Strategies for the 21st Century" and the "Domestic Tourism Development Program" of the National Development Council, which sets the year 2001 as the "year of tourism promotion" and proposes short-, mid- and long-term implementation plans; short-terms plans are plans that can be completed by 2003, mid-term plans can be completed by 2006, and long-term plans can be completed by 2011. Data collected by this study are divided by the three stages of innovation in Taiwan's hostel industry: 1. Sprouting stage (2000-2003); 2. Experience stage (2004-2006); 3. Extension stage (2007 until now). This study thus analyzes the four customer values and types of hostels according to the three stages above.

This study selected 561 hostels from the 4,355 legally registered hostels announced by the Tourism Bureau in December 2014, and examines the service innovation events of the hostels. Hostels with relatively more service innovation events were selected from the 4,355 legally registered hostels announced by the Tourism Bureau, and in total 561 legally registered hostels in Taiwan were selected as cases for this study. This study collects data according to the "three principles of data collection" proposed by Yin (1994) when building the database. With regard to "using multiple sources of data," this study collects data from three sources: First is secondaray data from official websites, newspaper and magazines, periodicals, and monographs; second is government open data from the competent authority of tourism (website of the Tourism Bureau); third is the "Knowledge Management Winner" database, which integrates data of the Chinatimes (China Times, Commercial Times, China Times Express), covering news from around Taiwan.

For the 561 hostels, this study collected a total of 2,024 service innovation events between 2000 and 2014 after removing repeated events from the website of the Tourism Bureau, websites of hostels, and the abovementioned database.

Finally, this study increases internal validity through "pattern-matching," "explanation-building," "time-series," and "program logic model." Then the four customer values are tested for consistency. Explanation-building is the building of an explanation for a case, and then using the explanation to analyze the case data. Time-series is the events of a case in the time they occurred, and the relationship between events and time is verified. Program logic is the cross analysis of pattern-matching and time-series to understand the current status and development of service innovation of the research subjects.

IV. RESULTS

4.1. Analysis of Hostel Service Innovation Events

This study collected a total of 2,024 service innovation events from a wide range of sources. The meaning of service innovation can be divided into: 1. "Functional value" includes: Fine Dining, Cultural Education, and Integrated Services, in which an example of Fine Dining is The Valley of Wind, a hostel in Jiufen, introduced the event "Signature Homemade Pickled Cabbage and Fermented Bean Curd" for customers to experience local cuisine; 2. "Relationship value" includes Government Relationship, International Relationship, and Cross-Industry Relationship; 3. "Hedonic value" includes Artistic Experience, Cultural Experience, Localism, Leisure, Spiritual Cleansing; 4. "Conditional value" includes Architectural Style and Atmosphere.

4.2. Distribution of Customer Values and Hostel Service Innovation Events

The four customer values delivered by service innovation in Taiwan's hostel industry ranked according to number of events is "functional value," "hedonic value," "relationship value" and conditional value. A closer look at the sub-categories showed that hostels currently emphasize cross-industry alliance and developing integrated services, most of which are ecological experience activities, as shown in Table 1.

4.3. Analysis of Developments in Service Innovation

In the development of service innovation in Taiwan's hostel industry, functional value trends downwards, hedonic value trends upwards, relationship value is in an inverted U-shape, and conditional value has maintained even, as shown in Table 2.

V. CONCLUSION AND RECOMMENDATIONS

This study explores service innovation by hostels from a "customer value" perspective, and analyzes the course of developments of service innovation. First, the highest number of service innovation events by the 561 hostels delivered functional value, followed by hedonic value, relationship value, and conditional value. With regard to trends in the number of events, "functional value" accounted for the highest percentage before 2003 at 41.3%, but the percentage gradually decreased, showing its declining importance. In contrast, the percentage of events that delivered "hedonic value" increased over the years, reaching the highest

Table 1
Distribution of Service Innovation Events of Hostels

Category	Number of Events	Effective Ratio	Sub-category	Number of Events	Percentation
A. Functional value	725	35.8	a. Fine Dining	81	4.0
			b. Cultural Education	95	4.7
			c. Integrated Services	549	27.1
B. Relationship value	502	24.8	a. Government Relationship	31	1.5
			b. Local Relationship	75	3.7
			c. International Relationship	28	1.4
			d. Cross-Industry Relationship	368	18.2
C. Hedonic value	603	29.8	a. Artistic Experience	54	2.7
			b. Cultural Experience	70	3.5
			c. Localism	78	3.9
			d. Leisure	95	4.7
			e. Spiritual Cleansing	50	2.5
			f. Ecological experience	256	12.6
D. Conditional value	194	9.6	a. Architectural Style	114	5.6
			b. Atmosphere	80	4.0
Total	2,024	100%	–	2,024	100%

point after 2007 at 33.2%, showing the growing emphasis on hedonic value. "Relationship value" is in an inverted U-shape, reaching its highest point in 2004-2007 at 26.8%. Finally, the percentage of service innovation events that delivered "conditional value" only slightly fluctuated over the years, showing that its importance is unclear or has great room for improvement. The results above have the following managerial implications for Taiwan's hostel industry and government agencies:

First, the majority of service innovation events in Taiwan's hostel industry deliver functional value and hedonic value, so hostels should direct their attention to providing relationship value and conditional value. Hostels should gain an in-depth understanding of the tourism industry and engage in cross-industry collaboration at an appropriate time to enhance their competitiveness through service innovation. Furthermore, hostels should improve innovative services that deliver "conditional value" and give consumers a different experience of hostels.

Second, hostels mainly provide consumers with entertainment and accommodations, but rarely provide any value in dining. Hence, most hostels can make improvement in food and beverage, such as providing local cuisine, so that guests can experience the difference between hostels and tourist hotels, and also allow them to better understand the area they are visiting.

Third, there are relatively few service innovation events related to government relationship and international relationship. Summer and winter vacations are the peak seasons for the hostel industry, and hostels should attract international toursts during the off season to generate more revenue. Hence, the

government should invest its resources into aiding the internationalization and upgrade of the hostel industry.

Table 2
Development of Service Innovation

Service Innovation Value		Year Established			Total
		Before 2003	2004-2007	After 2008	
Functional value	Number of events	52	378	295	725
	% in the year established	**41.3%**	**36.8%**	**33.9%**	**35.8%**
Relationshipvalue	Number of events	28	276	198	502
	% in the year established	**22.2%**	**26.8%**	**22.8%**	**24.8%**
Hedonic value	Number of events	33	281	289	603
	% in the year established	**26.2%**	**27.3%**	**33.2%**	**29.8%**
Conditionalvalue	Number of events	13	93	88	194
	% in the year established	**10.3%**	**9.0%**	**10.1%**	**9.6%**
Total	Number of events	126	1028	870	2024
	% in the year established	100.0%	100.0%	100.0%	100.0%

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