Business Model Innovations Transforming the Hotel Industry and Its Implications for Small and Medium Hotels in Mauritius

Goorah, V.[1]* and Panchoo, S.[2]

[1]*Open University of Mauritius, Réduit, Moka, Mauritius*
[2]*University of Technology, Pointe aux Sables, Mauritius*

ABSTRACT

With an average occupancy rate of 48% during peak season, small and medium hotels (SMHs) in Mauritius are no longer competitive as compared to large hotels (LHs). SMHs are challenged to survive in a market where competing solely on price no longer guarantees sustainability for the future. SMHs face the threat of closing down with job losses for both management and workers. In order to survive, SMHs have to relook into their strategy. The purpose of this study is to assess the business model of SMHs in order to highlight their weaknesses which are hindering them from expansion and innovation. This study used a mixed approach consisting of two phases. Phase 1 consisted of structured interviews, guided by the business model canvas (BMC), which were carried out among 30 SMHs. In phase 2, a self-assessment questionnaire based on BMC was administered to the SMHs. In order to assess the mechanisms of innovation within each building block of the BMC, responses from the questionnaire were further coded in SPSS. The result of phase 1 shows that BMC of SMHs differs mainly in value propositions for targeted customer segment. Results from data analysis in phase 2 confirmed that within each BMC building block, the three areas of innovation are customer relationship, customer segment and key resources. The knowledge obtained from this study will help SMHs to analyse their internal capability for business model innovation (BMI), hence, serve as a guide to institutions supporting SMHs to focus on priority areas.

INTRODUCTION

In recent years, the disruptive business model of networked hospitality such as

Airbnb, has surpassed the major hotel chains in number of beds offered and in market valuation (Oskam & Boswijk, 2016). Disruptive business models are increasingly customer-centric and are offering services which never existed before. In confronting these competitors, SMHs need to embrace the challenge of transforming their business model in order to be relevant, competitive and sustainable in the long term. Several authors (PraniČević, Alfirević, & Štemberger, 2011; Andersen & Andersen, 2012; Barney, 2015; Bertolini, Duncan, & Waldeck, 2015; Langviniene & Daunoraviciute, 2015) have developed frameworks to address the issues related to transformation of SMHs; however, little research has been done about how SMHs can redefine their future.

In Mauritius, SMHs comprising 3Star, 2Star, and hotels with No Star ratings, are lagging behind in performance compared to LHs of 4Star and 5Star ratings, which in turn create intensive competition for the same destination. It is claimed that the major fault lines of SMHs are: inability to serve the right set of customers, inappropriate performance metrics, being positioned out of its industry's ecosystem, having an outdated business model and lack of internal talent and capabilities (Bertolini et al., 2015). The SMHs need to address these challenges urgently as an influx in the tourism sector is expected to increase significantly by 2018. The forecast tourist arrival for the year 2017 is revised upwards from 1.27 million to 1.32 million, accompanied by expected earnings of Rs56.6 billion to Rs59 billion.. The vision of the government is to increase the number of tourist arrival to 2 million. Invariably, opportunities for hotels in general, have always been tremendous in terms of business development, foreign exchange earnings and job creation.

The difficulty faced by SMHs is their tendency to develop a preference for strategies involving 'more of the same' (mainly product or service) innovation, which keeps the businesses fixed on the same line of products, using the same, or somewhat similar, technologies, aimed at delivery to the same target customer (Christensen, Raynor, & McDonald, 2015). SMHs are still operating in a paradigm of low cost services without any guarantee for quality or innovative services. In contrast, the type of tourists travelling today are increasingly millennials - those born in the 1980s and 1990s. The millennial generation is characterised by a focus on technology-driven and personalised experiences, whereby, 85% of the millennial generation own a smartphone, which means that technology and innovation are the features that appealto millennial travellers (Mandelbaum, 2016). When value propositions of hotels are compared for a specific budget by tourists, they prefer LHs compared to SMHs. The inability of SMHs to meet the exigencies of the customers has led to loss or even closing down of businesses along with loss of jobs (Weinz, Baum, Busquets, Curran, Servoz, Spainhower, & Myers, 2010).

In order to ensure customer satisfaction and sustainability in the long term, LHs have

adopted business model innovation (BMI), which in contrast is a major challenge for SMHs. BMI has attracted an increasing amount of attention in recent literature (Henriksen, Bjerre, Grann, Lindahl, Suortti, Friðriksson, Mühlbradt, & Sand, 2012; Mikhalkina & Cabantous, 2015; Osterwalder & Pigneur, 2010; Rajala & Westerlund, 2007). Different frameworks on business models and innovation from literature review are compared to select building blocks for BMI. Despite the emerging literature on business model innovation, (Andersen & Andersen, 2012; Christensen, Raynor, & McDonald, 2015; Henriksen et al., 2012; Saunders, 2016), how BMI should be adopted in SMHs has not been given sufficient attention. Given the opportunities for BMI in the hospitality industry, "the building blocks of the business model canvas" (BMC) (Osterwalder & Pigneur, 2010, p. 44) is analysed to identify areas for innovation by SMHs. Furthermore, the resolution of International Labour Office (ILO) for hospitality sector states that it should contribute to fair globalisation, a greener economy and development that more effectively creates jobs and sustainable enterprises (Weinz et al., 2010). Therefore, there is an urgency for providing SMHs with the right framework towards staying relevant, competitive and sustainable in the long term. In this paper, an analysis of internal capability of SMHs to innovate in the different building blocks of the business model canvas (Osterwalder & Pigneur, 2010) is compared with the objective of defining further research areas to develop a roadmap to assist SMHs to adopt business model innovation as a tool for sustainability and competitiveness.

Conceptual Framework

Business models and innovation. Literature on business models is recent and has surged increasingly in research papers since 1995 when the concept of business model became prevalent with the advent of the Internet (Zott, Amit, & Massa, 2011). Although there is no agreed definition of 'business model', most researchers agree that it describes how a company creates and captures value (Linder & Cantrell, 2000; Magretta, 2002; Rajala & Westerlund, 2007; Shafer, Smith, & Linder, 2005; Zott, Amit & Massa, 2011). The building blocks of the model define the customer value proposition and the pricing mechanism; indicate how the company organises itself and whom it partners with to produce value, and how it structures its supply chain (Kavadias, Ladas, & Loch, 2016). Visually, a business model depicts a system whose various building blocks interact to determine the company's success. Since there is no common definition of business model to date, there is no agreement on business model visualisation. Beha, Göritz and Schildhauer (2005) propose seven categories for business model visualisation: (1) value networks; (2) cause-effect models; (3) value creation models; (4) component model; (5) timeline; (6) quantitative model; and (7) meta models. Furthermore, business model provides a simple framework to represent a complex system and is commonly used to address

or explain three phenomena: (1) e-business and the use of information technology in organisations; (2) strategic issues, such as value creation, competitive advantage, and firm performance; and (3) innovation and technology management (Zott et al., 2011).

A comparison of different variables used in each business model and the variables in innovation radar (Sawhney, Wolcott, & Arroniz, 2006) shows that the component model visualisation gives a better representation of a business model. Furthermore, the BMC tool of Osterwalder and igneur (2010) is based on the component model visualisation. BMC has seen a rapid increase in adoption recently for innovation purposes through generation of different scenarios (Strategyzer, n.d.). The building blocks of business model canvas (BMC) typically include strategic decisions on customer segmentation, products and services (or value propositions) to offer, business and research partners to engage with, resources to create and channels to deliver value, as well as the underlying cost structure and revenue streams to ensure economic visibility of the business (Osterwalder & Pigneur, 2010). The business model canvas in Figure 1 is shared under the creative common license and can be adapted by innovating any of the nine building blocks, with acknowledgement to the author (Strategyzer, n.d.).
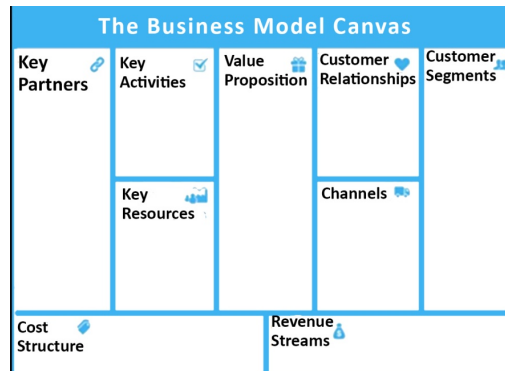

Figure 1. Business Model Canvas. from "The Business Model Canvas" by Strategyzer (https://assets.strategyzer.com/assets/resources/the-business-model-canvas.pdf), Adapted under Creative Commons (CC) License 3.0

Airbnb and business model innovation. The case of Airbnb has been cited in more than 3,000 entries in EBSCO database as an example of disruption of the SMHs through the use of ordinary resources and new technology (Fréry, Lecocq, & Warn, 2015). Airbnb, an online market platform created in 2008, provides accommodation to customers who have difficulty in booking a hotel room in a crowded market. In the beginning, it was merely an alternative to hotels. But over time, Airbnb moved upmarket and provided better homes in wealthier areas. As a result, in 2011, its booking reached above US$1 million and in 2015 it received funding of more than US$1.5 billion (Akhan, 2015). It is expected that Airbnb will generate US$10 billion in business profits by 2020. Airbnb business

model has raised questions about the relevance of Resource Based View (RBV) theory in strategic management. RBV stipulates that an organisation's strategy should focus on rare, imperfectly imitable, and non-substitutable resources (Barney, 2015), which they employ for developing distinctive competencies (Prahalad & Hamel, 1990). Based on RBV, the strategic value proposition of luxury hotels is archetypal capital intensive including a high degree of personalised service targeting a niche market. Moreover, hotels holding higher-value resources (people, technologies, reputation, partnerships) have gained competitive advantage over the years through effective management of resources portfolio (Barney, 2015). However, the RBV theory is challenged by Airbnb which has demonstrated that the strategic value of ordinary resources (empty rooms of homes) can even disrupt the business model of luxury hotels.

Nevertheless, Airbnb's business model has inspired other managers in the hotel industry and beyond, that is, it has become an iconic business model for the sharing economy (Mikhalkina & Cabantous, 2015). Airbnb is financed by charging both hosts and guests transaction commissions, and in exchange, provides services such as handling payments, a private messaging system, and insurance. In this model, the host and guest has a verified profile, which includes recommendations and reviews by previous users. The model has raised sufficient attention in the media, resulting in intense competition in the market with

digital start-ups such as Be Mate, AlterKey, Only-Apartments and others.

Recent literature has also shown that BMI can be a source of superior performance and competitive advantage for SMHs with ordinary resources ("Boutique hotels now", 2015; Saunders, 2016). For BMI, the definition of Lindgardt, Reeves, Stalk, and Deimler (2009) will be used in this paper, that is, business model innovation is more than a mere product, service, or technological innovation. It goes beyond single-function strategies, such as enhancing the sourcing approach or the sales model. Innovation becomes business model innovation (BMI) when two or more elements of a business model are reinvented to deliver value in a new way. Because it involves a multidimensional and orchestrated set of activities, BMI is both challenging to execute and difficult to imitate (Lindgard et al., 2009).

Business model innovations by international and local hotels. In view of the disruptions in business models, major international hotels have changed their respective business model. The strategy for change was either (1) to partner with the disruptor for new prospect or (2) to overwhelm the guest every step of the way or (3) to practise smarter pricing (Saunders, 2016). For instance, Hilton and Uber have partnered to provide seamless travel experience to guests. Hilton reservation provides access to the Hilton HHonors app to issue Uber 'Ride Reminders' online or on the guest's smartphone in advance of

the stay. With 'Ride Reminders', the guest gets an automated notification on the day of travel to seamlessly request an Uber ride to the hotel. It also includes top restaurants and nightlife spots in the United States, along with a 'Local Scene' feature, curated from the top destinations Uber riders in that city visit most (Uber, 2015).

In the same way, independent hoteliers in the US are also using Airbnb as a cheaper online travel agency (OTA) ("Boutique hotels now", 2015). In contrast, in 2013, Accor's business model innovation was to rebrand itself to AccorHotels while also opening up its booking platform to independent hoteliers ("Accor is now", 2015). The objective was to counter commissions to online travel agencies (OTAs) which accounted for approximately 10% to 20% of the booking cost. In 2016, AccorHotels declared net profit up to 8.1% to €266 million ("Strong growth in", 2017). In order to access China's middle class travellers, Marriott International operates its booking service through Alitrip, part of Alibaba ("Landmark Agreement Between Alitrip and Marriott International", 2015). Sherri Wu, chief strategy officer of Alitrip and head of international e-commerce business development at Alibaba has introduced "Post Post Pay" as an innovative program that allows qualified customers to reserve hotel rooms through Alitrip without paying a deposit and to enjoy express check-out service which further enhances the consumer experience and the operational efficiency of hotels ("Wu on Alitrip", 2015).

In OECD (Organisation for Economic Co-operation and Development) countries, the trend is Green BMI (Henriksen et al., 2012) for hotels following requirements of Sustainable Development Goals (SDGs) as stipulated by the United Nations. Green BMI is promoted as a simple intuitive map to understand its business models so that it can be challenged for alternative ways of doing business.

As the business model takes a holistic approach towards explaining how firms do business, companies can use the tool to go through its business model and question each building block and its relationship with other building blocks and think through the consequences of changing its model (Bisgaard, Henriksen, & Bjerre, 2012). The same logic is applied to analyse the concept of reduction of environmental impact according to the method by which the change in the targeted business model block(s) takes place namely:

1) Modification through small and progressive adjustments

2) Redesign materialised in significant changes

3) Alternative building blocks, which can fulfill the same function or operate as substitutes for the original ones

4) Creation and introduction of entirely a new and innovative building block within the model.

METHODOLOGY

The Context for Research

In Mauritius, some large hotels have business model innovation at the core of their strategic plan. It includes focus on a new customer segment, re-branding of value propositions, new services including hotel management and asset management and growth of business, both at local and regional level ("Sun Limited annual", 2015). Sun Limited for example, has transformed its old business model which was based on increasing room occupancy rate to a new business model based on increasing tourist arrivals in Mauritius ("Sun Limited Annual", 2015). In its aim to become a focused, lean, agile and growth-oriented organisation, the group has invested in the implementation of enterprise resource planning (ERP) systems to enable the change in processes. The use of ICT is expected to improve many back office functions related to services, human resource, finance, operations, central procurement and others. The ever present challenge for the group is to be environmentally sustainable so as to be a brand of choice to customers and guests concerned about protecting the natural resources.

Following literature review on different categories of business model visualisation, the component business-model category popularised by Osterwalder and Pigneur (2010) was used as a means to structure the research on the dimensions of innovation in hotels in Mauritius. The research was conducted in two phases based on a mixed methodological approach; the first phase was qualitative approach incorporating multiplecase-studies and comprising structured interviews based on Yin (2014). Data captured were mapped on the BMC to understand the common business pattern among SMHs in Mauritius. Field work was conducted for five months during which semi-structured interviews were carried out with the senior management of 30 SMHs. For reasons of commercial confidentiality, the names of these hotels remain undisclosed. The sample included only hotels where permission for field visit was obtained and hotels classified as 3Star, 2Star and hotels with No Star rating, based on standard classification of hotels by the Mauritius Tourism Authority. A 5Star hotel was also researched using secondary data as a benchmark to compare SMHs.

Phase 2 involved understanding of the mechanisms of innovation in each building block of the business model canvas. This study used a quantitative research method where a questionnaire was developed and administered online to the 30 SMHs involved in the pilot phase to conduct a self-assessment.

The questionnaire consisted of two sections. Section 1 comprised general information regarding the property background information, number of rooms, occupancy rate, ownership and star rating. Section 2 of the questionnaire contained 99 questions with an average of 10 questions for each building block of the BMC used in phase 1.The variables used in the questionnaire were derived from the nine building blocks

of BMC, as defined by Osterwalder and Pigneur (2010), aligned with the mechanism of innovation (Henriksen et al., 2012), that is: (1) modification; (2) redesign; (3) alternatives, (4) creation; and (5) no alteration (the factors which do not cause any innovation results in the building block) and questions assessed the variables defined by the Danish Business Authority (DBA) (2012).

Table 1
Variables for Computing Mechanisms of Innovation

Building Block	Mechanisms for Eco-Innovation (Dependent Variables)	Factors contributing to mechanisms of eco-innovation used as a basis for setting questions (Variables)
1. Customer segments	(1) Modification	Internal systems, prioritisation, information availability, growth
	(2) Re-design	user-functionality
	(3) Alternatives	Segment-Midscale, identification & targeting
	(4) Creation	Segment-Luxury, Loyalty
	(5) No Alteration	Segment-Economic, Service Delivery, Trends Monitoring
2. Value Propositions	(1) Modification	Continuous Improvement, Wi-fi, messaging
	(2) Re-design	Loyalty Programs, Unique User Experience, Streaming Entertainment, Smart Hotel, Data Driven
	(3) Alternatives	Digital Platform, Community Building, Craftmanship
	(4) Creation	Co-living facilities, Reinvention
	(5) No Alteration	-
3. Customer Channels	(1) Modification	Channel integration, economies of scope, sales, staff talent, staff empowerment
	(2) Re-design	Channels matching Customer-segment
	(3) Alternatives	Social Media, Direct Channel, Continuous Improvement
	(4) Creation	-
	(5) No Alteration	Channel Reach
4. Customer Relationship	(1) Modification	Integration of Customer relations, Establish Customer Relations, Maintain Customer Relations, Customer Expectations, Profitability
	(2) Re-design	Personalised Service
	(3) Alternatives	Social Media
	(4) Creation	Direct Customer Relationship, Types of Customer Relationship, Co-creation with Customers
	(5) No Alteration	-
5. Revenue Streams	(1) Modification	Payment Methods
	(2) Re-design	Dynamic Pricing

Table 1 *(continue)*

	(3) Alternatives	Diversified Revenue Streams, Sustainable Revenue Streams
	(4) Creation	-
	(5) No Alteration	Predictable Revenue, Recurring Revenue Streams, Revenue per Customer Segment, Percentage of Revenue Contribution per Segment, Value Proposition generating most Revenue, Price based on Value Addition to Customer
6. Key resources	(1) Modification	Supply of Resources, Economies of Scale, Sharing inhouse resources to partners, Adequate Financial Resources, Human Resources, Internal Talent to deliver unique service
	(2) Re-design	Unique Facilities
	(3) Alternatives	Digital means to pool unused resources
	(4) Creation	Resources Exceed Customer Expectations
	(5) No Alteration	Predictable Demands on Resources
7. Key activities	(1) Modification	In-hour talent development, Service expansion activities, Real-time and transparent information exchange, Lean services
	(2) Re-design	Unique hospitality experience, Standardised and Customisable activities
	(3) Alternatives	-
	(4) Creation	Innovate to deliver service excellence, Sustainable development and solidarity, Data driven decision making
	(5) No Alteration	Resource Requirements of Key Activities
8. Key Partnerships	(1) Modification	-
	(2) Re-design	-
	(3) Alternatives	Focused Partnership, Maximise on Tangible & Intangible Resources from Partners, Reduce Risk and Uncertainty, Partner adopts sustainable principles of operation
	(4) Creation	Creation
	(5) No Alteration	Good Relationship on Key Resources, Value Propositions, Channels, Customer
9. Cost Structure	(1) Modification	Cost efficient operations, Cost structure match business model, Cost connected to each business model block, Variable costs can be predicted, Investment in staff empowerment, Reduce Cost without Compromising Quality
	(2) Re-design	-
	(3) Alternatives	-
	(4) Creation	-
	(5) No Alteration	Predictable cost, Cost of Value Proposition, Activities, Resources are Known

For Green BMI, innovation in more than one business block is important; the research of phase 2 was based on the following hypotheses:

H_0 – There is no relationship between the mechanism for eco-innovation and the star rating of the hotel.

H_1 – There is a relationship between the mechanism of eco-innovation and the star rating of the hotel.

A Likert scale ranging from strongly disagree (representing 1) and strongly agree (representing 5) was used to assess the level of innovation in each enterprise. The Cronbach's alpha coefficient of 0.994 revealed that the data collected for the pilot sample questionnaire had a high degree of validity. In order to test the null hypothesis, "H_0 – There is no relationship between the mechanisms of innovation and the star rating of the hotel", the mechanisms of innovation was computed using the groups of variables listed in Table 1 for each building block. Variables were introduced for the computed data, for example, for customer segment block, the following variables were introduced: ModificationCS, ReDesignCS, AlternativesCS and CreationCS and NoAlterationCS. Since the star rating can influence whether the hotel has a higher level of innovation, three additional variable were introduced – No Star rating, 2Star and 3Star rating.

RESULTS AND DISCUSSION

Results Phase 1

The result obtained is a series of BMC (refer to Figure 1) for each of the 30 SMHs. For the case studies of 2Star hotels, the customer segment is usually tourists of economy class looking for low cost accommodation and services. The value propositions are basically a discounted stay with discounted food service at partner restaurants, spa centres and also discounted tours around the island. The customer relationship of tourists in this category is personal service relationship built with staff and the customer channels are usually the common forms of social media, such as Facebook, Tripadvisor and Twitter. The key activities are basic room service and administration of partner services such as restaurant, taxi and tour guides. The key resources are accommodation space, amenities and toiletries including beauty of the island and the community. The key partners are local restaurants for deals for guests and taxi drivers for trip around the island. Therefore, the cost structure is essentially the costs for staff, cleaning equipment, toiletries, food and amenities while the revenue is payment from guests and commission off restaurant or taxi requested by guests. The small hotels are successful as far as competition is non-existent but the disruptions created by BMIs such as Airbnb are a real challenge to SMHs (Mikhalkina & Cabantous, 2015). A summary of different value propositions as per the star rating of the hotels is given in Figure 2.

Figure 2. Different products and facilities offered by SMHs

The BMC of hotels of SMHs is similar except for the variation in customer segments and value propositions. It shows that BMC is an important tool to represent business models and enables finding gaps and areas of improvement visually.

Results Phase 2

In order to identify the BMIs supporting and transforming the business models in the hotel industry, mechanisms of eco-innovation in each building block of the BMC was used. Following interviews with hotel managers, a self-assessment questionnaire consisting of 99 questions was developed. 12 questionnaires were responded online, while the rest were completed through telephone interview with the SMHs. The result of the self-assessment was cross-verified with secondary data. A summary of data collected for section 1 of the questionnaire used in phase 2 is shown in Table 2. A 5Star hotel listed on the stock exchange was referred to as the benchmark in this study. A quick analysis of the average occupancy rate indicateds that the 5Star hotel has twice the occupancy rate compared to SMHs. In ideal situations, taking the number of rooms into account SMHs should have higher average occupancy rates.

Table 2
Profile of the sample under study

Hotel Rating	No. in Sample	Average No. of Rooms	Average Occupancy Rate
3 Star	9	54	66%
2 Star	8	14	34%
No Ratings	13	14	50%
Total (SMHs-3Star, 2Star and No Ratings)	30	25	48%
5 Star (Benchmark)	1	139	81%

Descriptive Statistics, Estimation and Model Specification

In order to get a better understanding of the mechanisms of innovation in each building block and its relationship with the star rating of the hotel (Figure 3), the questions used during the survey were classified into four mechanisms of innovation. Where the question did not lead to any innovation, it was classified under no alteration. Altogether, 45 dependent variables computed. In order to determine the correlation between star rating of the hotel and the mechanisms of innovation, bivariate correlation matrix was used to determine Pearson's correlation coefficients for the 30 hotels in the sample,

including the significance of the relation. Pearson's correlation for 3Star hotels was found to be above 0.9 for most of the dependent variables with significance, p, less than 0.01, indicating that there is a strong relationship between 3Star rating and the different mechanisms of innovation. Pearson's correlation for 2Star hotels was below 0.5 with significance higher than 0.03 in most cases, showing a weak relationship for 2Star hotels. For No Star rating hotels, Pearson's correlation was highly negative - above -0.5 in most cases with significance less than 0.05, indicating a weak relationship.
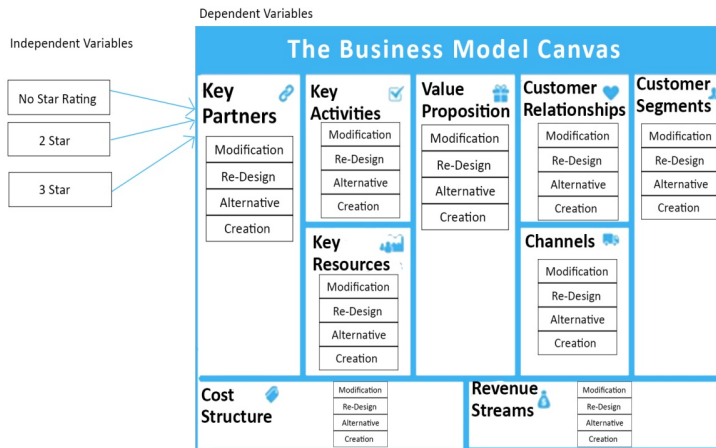

Figure 3. Model specification

For descriptive analysis of the data collected, the star ratings (3Star, 2Star and No Star) were the independent variables and the dependent variables were mechanisms of

innovation in each building block of BMC, that is, modification, redesign, alternatives and creation (Henriksen, et al., 2012).

Top 3 BMI Focus Areas of 3Star Hotels

Pearson's correlation was used to prioritise focus areas for achieving BMI. The list of focus area for each innovation mechanism is as highlighted in Table 3. Customer relationship, key resources and customer segment are found to be the focus areas for BMI. Compared to LHs, SMHs can quickly focus on these areas for BMI.

Table 3
Top 3 BMI focus areas

	Pearson's Correlation for Modifica-tion		Pearson's Correlation for Redesign		Pearson's Correlation for Alterna-tives		Pearson's Correlation for Creation
CR	1.000**	CR	1.000**	KR	1.000**	CS	.992**
CC	.995**	CS	.969**	RS	1.000**	CR	.986**
KR	.994**	VP	.900**	CC	.950**	KA	.952**
KA	.968**	KR	.860**	CS	.892**	VP	.863**
CS	.948**	CC	.857**	VP	.890**	KR	.851**
CD	.942**	KA	.834**	KP	.842**	CD	0
VP	.843**	RS	.746**	CR	.694**	CC	0
KP	0	KP	0	KA	0	KP	0
RS	0	CD	0	CD	0	RS	0

Note: CS: customer segment; CR: customer relationship; CC: customer channel; VP: value propositions; RS: revenue streams; KR: key resources; KA: key activities; KP: key partners; CD: costs drivers

The literature review (Andersen & Andersen, 2012; Beha et al., 2005; Saunders, 2016; "Sun Limited Annual Report", 2015) reveals that BMI has been the focus of international and local hotel groups to meet customer requirements and remain competitive in the market. This research study has demonstrated that the higher the star rating of the hotels, the more likelihood of innovation in each building block of BMC. In order to adopt BMI, lower star rating hotels have to re-think their business model, while the priority business blocks to be innovated are customer relationship, customer channel, customer segment, key resources, value proposition, key activities and revenues.

Disruptors like Airbnb are challenging the RBV theory (Fréry et al., 2015), but it is also a fact that consumers are increasingly looking for a hotel experience which feels like an event. The advantage of SMHs over disruptors is that they can rethink their facilities and services to appeal to certain guest demographics, such as older travellers or long-stay business travellers (Saunders, 2016).

Furthermore, SMHs have direct relationships with their customers and the internal talent in the SMHs can be

upgraded to generate more revenue. They can also bring in new partners to plug in specific skills gap (Saunders, 2016). Collaboration is the key for SMHs to be competitive. Focusing on innovative offerings in the identified building blocks of the BMC provide an opportunity for SMHs to increase revenue. For example, targeting new customer segments like China by creating offerings that are unique may attract new clientele. SMHs cannot work in isolation; they can use their associations to get members to collaborate and innovate. These associations can also influence the government to support BMI by providing funding for SMHs to transform their existing business model.

CONCLUSION

The literature for this study has shown that business model innovation is a reality in the hotel industry and is gaining momentum among LHs faster compared to SMHs. RBV which made SMHs attractive 10 years ago is no longer the only criterion for success. BMC was used to analyse the status of business model innovation among SMHs in Mauritius. The study reveals that there is a slow adoption of BMI by the hotels. Furthermore, the analysis demonstrates that 3Star hotels have a higher tendency towards innovation in selected building blocks compared to the other hotels. Willingness to innovate also demonstrates that SMHs are aware of the importance of business model innovation for sustainability and future growth.

It is hereby suggested that a further study be conducted with a larger sample of hotels including 4Star and 5Star hotels to confirm the results obtained and to identify other innovations being adopted by leading hotels in Mauritius. Barriers to innovation should also be analysed. SMHs have to create new business models by challenging themselves to identify specific customer segments, use digital platforms as new customer channels, establish strong customer relationships, optimise existing resources, develop talents to leverage technology and create unique experience for each customer at a minimum cost, besides generating revenue and becoming competitive in an increasingly technology-driven economy.

REFERENCES

Accor is now AccorHotels and fights OTAs with open enrollment for independents (2015). Retrieved February 25, 2017, from http://www.accorhotels-group.com/uploads/static/ra2013/en/com/ipedis/publispeak/client/contents/pdf/Accor-2013-business-review.pdf

Akhan, E. (2015). *How is Airbnb shaping the hotel industry?* Retrieved from http://printarchive.epochtimes.com/a1/en/sg/nnn/2015/12%20Dec%202015/522/December_4-17_18_lowres.pdf

Andersen, P. N., & Andersen, J. B. (2012). *Green business model innovation in the tourism and experience economy.* Retrieved from http://www.nordicinnovation.org/Global/_Publications/Reports/2012/2012_08%20Green%20business%20model%20innovation%20in%20the%20tourism%20and%20experience%20economy_Case%20examples_web.pdf.

Barney, J. B. (2015). Firm resources and sustained competitive. In A. C. Joel, & F. D. Baum (Eds.), *Economics meets sociology in strategic managemen: Advances in strategic management, Volume 17* (pp. 203 - 227). Bingley, United Kingdom: Emerald Group Publishing Limited.

Beha, F., Göritz, A., & Schildhauer, T. (2005). Business model innovation: The role of different types of visualizations. In K. R. E. Huizingh, S. Conn, M. Torkkeli, & I. Bitran (Eds.), *Proceedings of the XXVI ISPIM Conference – Shaping the Frontiers of Innovation Management, Budapest, Hungary: The International /Society for Professional Innovation Management* (ISPIM). Retrieved from https://www.dropbox.com/s/68v86ynfazyszg4/2015_ISPIM_Conference_Book.pdf?dl=0.

Bertolini, M., Duncan, D., & Waldeck, A. (2015). Knowing when to reinvent. H*avard Business Review, 93*(12), 92-101.

Bisgaard, T., Henriksen, K., & Bjerre, M. (2012). *Green business model innovation conceptualisation, next practice and policy*. Retrieved from http://www.nordicinnovation.org/Global/_Publications/Reports/2012/2012_12%20Green%20Business%20Model%20Innovation_Conceptualisation%20next%20practice%20and%20policy_web.pdf

Boutique hotels now listing rooms on Airbnb to fill vacancies (2015). Rerieved February 26, 2017, from http://www.foxnews.com/travel/2015/12/15/boutique-hotels-now-listing-rooms-on-airbnb-to-fill-vacancies.html

Christensen, C. M., Raynor, M. E., & McDonald, R. (2015). What is disruptive innovation? *Harvard Business Review, 93*(12), 44–54.

Danish Business Authority (2012). *The Future of eco-innovation: The role of business models in green transformation*. Retrieved from https://www.oecd.org/innovation/inno/49537036.pdf

Fréry, F., Lecocq, X., & Warn, V. (2015). Competing with ordinary resources. *MIT Sloan Management Review, 5*6(3), 69-77.

Henriksen, K., Bjerre, M., Grann, E. D., Lindahl, M., Suortti, T., Friðriksson, K., Mühlbradt, T., & Sand, H. (2012). *Green business model innovation: Business case study compendium*. Retrieved from http://www.nordicinnovation.org/Global/_Publications/Reports/2012/2012_15%20Green%20Business%20Model%20Innovation_Business%20case%20study%20compendium_web.pdf

Kavadias, S., Ladas, K., & Loch, C. (2016,). The transformative business model - How to tell if you have one. *Harvard Business Review, 94*(10), 91-98.

Landmark agreement between Alitrip and Marriott International brings new travel options to Chinese consumers. (2015). Retrieved February 25, 2017, from http://news.marriott.com/2015/11/landmark-agreement-between-alitrip-and-marriott-international-brings-new-travel-options-to-chinese-consumers/

Langviniene, N., & Daunoraviciute, I. (2015). Factors influencing the success of business model in the hospitality. In E. Gimzauskiene, K. Duoba, P. Xavier, P. Ashly, & M. Vilkas (Eds.), *Proceedings of 20th International Scientific Conference Economics and Management,* Kaunas, Lithunia: Elsevier Ltd. Retrieved from http://www.sciencedirect.com/science/article/pii/S1877042815058589?via%3Dihub

Linder, J., & Cantrell, S. (2000). *Changing business models: Surveying the landscape*. Retrieved from http://course.shufe.edu.cn/jpkc/zhanlue/upfiles/edit/201002/20100224120954.pdf

Lindgardt, Z., Reeves, M., Stalk, G., & S. Deimler, M. (2009). *Business model innovation: When the game gets tough, change the game*. Retrieved from https://www.bcg.com/documents/file36456.pdf

Magretta, J. (2002). Why business models matter. *Harvard Business Review, 80*(5), 86-92.

Mandelbaum, A. (2016). *Three tech trends driving hospitality biz in 2016.* Retrieved from https://hospitalitytech.com/three-tech-trends-driving-hospitality-biz-2016

Mikhalkina, T., & Cabantous, L. (2015). Business model innovation: How iconic business models emerge. In C. Baden-Fuller, & V. Mangematin (Eds.), *Business models and modelling: (Advances in strategic management)* (pp. 59-95). Bingley, United Kindom: Emerald Group Publishing Limited.

Oskam , J., & Boswijk, A. (2016). Airbnb: The future of networked hospitality businesses. *Journal of Tourism Futures, 2*(1), 22-42.

Osterwalder, A., & Pigneur, Y. (2010). *Business model generation: A handbook for visionaries, game changers, and challengers.* Hoboken, NJ: John Wiley & Sons.

Prahalad, K. C., & Hamel, G. (1990). The core competence of the corporation. *Harvard Business Review, 68*(3), 79-92.

PraniČević, D. G., Alfirević, N., & Štemberger, M. I. (2011). Information system maturity and the hospitality enterprise performance. *Economic and Business Review, 13*(4), 227–249.

Rajala, R., & Westerlund, M. (2007). Business Models - A new perpsective on firms' assets and capabilities. *Entrepreneurship and Innovation, 8*(2), 115-175.

Saunders, G. (2016). *Business model innovation: Hotel's roadmap to 2020.* Retrieved from http://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/publication/2016/business-model-innovation-hotels-roadmap-to-2020.pdf

Sawhney, M., Wolcott, R. C., & Arroniz, I. (2006). 12 Different ways for companies to innovate. *MIT Sloan Management Review, 47*(3), 75-81.

Shafer, S. M., Smith, J. H., & Linder, J. C. (2005). The power of business models. *Business Horizons, 48*(3), 199-207.

Strategyzer. (n.d.). *The business model canvas: Why and how organisation around the world adopt it, a field report from strategizer.* Retrieved from http://strategyzr.s3.amazonaws.com/assets/resources/business-model-report-2015.pdf

Strong growth in 2016 earnings with increased market share and international reach (2017). Retrieved February 25, 2017, from http://www.accorhotels.group/-media/Corporate/Investors/Documents-financiers/2017/02/24/ah_PR_2016results_final_en.pdf

Sun Limited annual report (2015). Retrieved February 15, 2016, from http://www.sunresortshotels.com/IMG/pdf/sun-resorts-ar-2015-finance.pdf

Uber (2015). *Newsroom - Hilton*. Retrieved February 25, 2017, from https://newsroom.uber.com/hilton/

Weinz, W., Baum, T., Busquets, J., Curran, K., Servoz, L., Spainhower, J., & Myers, J. (2010). *Developments and challenges in the hospitality and tourism sector*. Retrieved from http://www.ilo.org/wcmsp5/groups/public/@ed_norm/@relconf/documents/meetingdocument/wcms_166938.pdf

Wu on Alitrip, Alibaba's travel site, and Chinese outbound travel (2015). Retrieved Feb 25, 2017, from https://www.tnooz.com/article/interview-wu-on-alitrip-alibabas-travel-site-and-chinese-outbound-travel/

Yin, R. K. (2014). *Case study research: Design and methods* (5th Ed.). London, United Kingdom: Sage Publications.

Zott, C., Amit, R., & Massa, L. (2011). The business model: Recent developments and future. *Research. Journal of Management, 37*(4), 1019-1042.