

## **Innovations in Rural Tourism Business Model**

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**Abstract :** *Since rural tourism is one of most competitive industries, so it seems necessary to find possibilities for competitive advantage. One of the ways to achieve competitive advantages is implementation new business models into business activity. Nowadays innovations in business models become more interesting for the managers rather than innovations in products or the technologies. Therefore, this study is conducted to provide managers, who are engaged rural tourism industry, a comprehensive framework illustrating guidelines and steps for innovating the business and helping them to benefit from a competitive advantage. Hence, it is tried, first of all, to propose a business model framework which is suitable with rural tourism industry. As the components of this model are value proposition, target Customer, customer interface, Partnership network, cost structure, and finally revenue model. After that, it is tried to be provided a comprehensive framework for rural tourism business model innovation. This model consists of two parts. The first part presents steps for entrepreneurs are going to run businesses in rural tourism industry. And the second part provides steps should be taken in rural tourism business model innovation for an existence organization and an incumbent business model.*

**Keywords:** *business model; business model innovation; rural tourism; rural tourism business model.*

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### **I. Introduction**

Rural tourism by offering and keeping the natural and cultural heritage such as natural attractions, traditions, and customs not only is considered as a sustainable development activity, but also it has been counting as a reliable income source for the economy of many countries. For example, the Rural Development Program for Lithuania 2007–2013 (Ministry of Agriculture of the Republic of Lithuania, 2007) allocated 204 million Lt (US\$76.7 million) in rural tourism development. Since rural tourism is one of the most important industries having a significant role in the Europe countries economy (Sharpley, 2002), the competition in this industry is increasingly on the rise (Wilson, et al. 2001). In this competitive market, having a strategic competitive advantage can be considered a guarantee for the survival and profitability. Nevertheless tourism can affect and be harmful for the culture, the social, and the environment of the destination (<sup>2</sup>Sharpley, 2002). These harms sharply decrease the demand for tourism in an area and consequently, an interesting economy source is ignored.

On the other hand, innovation has always had, in imply, investing lots of money on research and development, laboratories, and technologies in not too long past (Mitchell, Bruckner, 2004). Nowadays, the nature of innovation is also has changed and innovation in business model is more interesting for the decision makers due to the fabulous results have gained from changing in business model without incurring the costs on new technologies (Chesbrough, 2007).

Innovation and reconsidering the business model not only has always counted a strategic competitive advantage (<sup>4</sup>Mitchell, Bruckner, 2004; Giesen et al. 2007), but also in practice it is able to prevent such effects. Thus, the goal of the study is to provide a comprehensive framework for implementation of rural tourism business model innovation.

For this purpose the wide literature of rural tourism, business model, and business model innovation is studied. Then were selected necessary actions for properly activity of tourism business, information was systematized and assessed by possibilities of practical application for rural area, then established the sequence of determined actions and according identified date the procedural model was presented. Eventually, this study provides a framework for managers and decision makers in rural tourism industry who would like to innovate business model both for whom are interested in starting a business or for whom are in charge of an existing business.

### **II. Essence of rural tourism**

Rural tourism activity has been including all tourism activities and tourism services offering in rural destinations (Polucha, Žukovskis, 2010). Baležentis et al. (2012) argue that rural tourism is a sustainable activity as it presents a fundamental for sustainable energy promotion. And they also state that rural

tourism is attractive activity in both urban residents who have land in the village and the villagers who seek to have their own business. Such tendencies are inherent in the Baltic countries and Central Europe. Reasons like nature, culture, tradition, foods, climate, and customs cause a desire to spend time in the village (Fleischer, Pizam, 1997). As Polucha, Žukovskis<sup>5</sup> (2010) believe that rural tourism are distinguished by traits such as small-scale residency, a pleasant climate closing to the nature, and finally host community. Hence, the region that benefits from these features, it can hope for its own development. Because of the tourists are so beneficial for the local communities and rural development (<sup>2</sup>Sharpley, 2002) specially, so most of businesses engaging in rural tourism are owned by the local entrepreneurs and families.

### III. Business model

Although use of business model concept in management and organization research spread since 1990s (Lambert, Davidson, 2013), there is not a consensus on a definition for this concept. In general terms a business model attempts to elucidate value, the path in which value is creating in, source of value creation, and the ways which are chosen by the business to make benefit from this value (vom Brocke, et al. 2014; Mosleh, Nosratabadi, 2015a).

The concept of business model explains the logic of a special business (Mosleh, et. al., 2015; Drejeris et al., 2013). A business model tries to elaborate the key areas are vital for a business as the survival of the business is quite depend on these area (Mosleh, Nosratabadi, 2015b). <sup>16</sup>Osterwalder et al. (2005) discuss the identification of this area is the main step to keep in state of art and to make timely changes. In other word, analyzing the areas are covered by a business model not only doses help managers to identify the current situation of each these areas, but also it help to track the trends and respond dynamically to the transitions. And one more step, it can also be led to the innovation in each area.

#### *Rural tourism business model*

According to rural tourism and business model definitions, rural tourism business model should be able to elaborate what value has been creating in rural activity, to whom this value is created, how this value is offering, what sources are required in value creation and value offering processes, what costs has been imposed, and finally, how like the revenue way are.

The wide literature of business model, tourism, and rural tourism was studied and was found only fragments of necessity processes. Hence, regarding the business model literature and the nature of rural tourism requirements, this study suggests the following components as rural tourism business model:

1) Value proposition, 2) Determining Target Customers 3) achievement Customers interface 4) and Partnership network 5) choice appropriate cost structure 6) creating permanent revenue model. This suggested model is shown in figure 1.

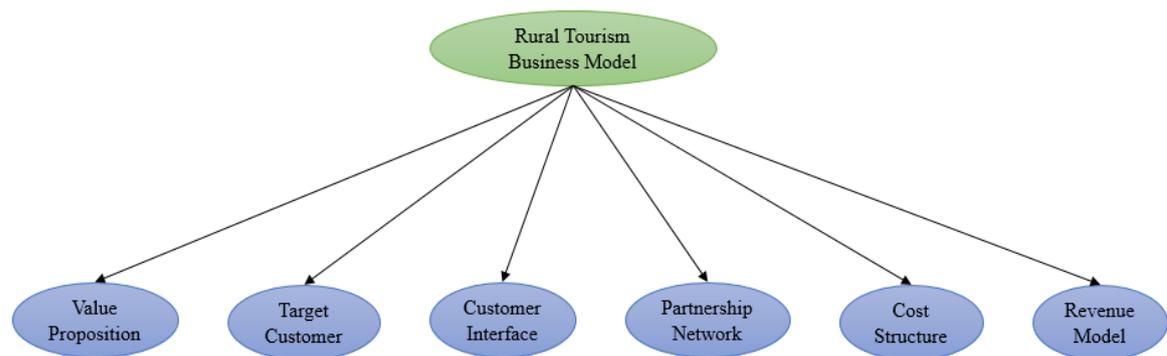


Fig1. Rural tourism business model of this study

As it is mentioned above, this rural tourism business model is proposed to answer the main questions the business model concept is worry about. Questions are about the value creating and value offering processes and the financial aspect of the rural tourism. Thus, these components are defined as follow:

1) Value proposition: is an extensive opinion about products and services an organization offers (Ye, et al., 2011; Weiner, Weisbecker, 2011; Jupesta et al., 2011; Storbacka, Nenonen, 2010; <sup>16</sup>Osterwalder et al. 2005),

2) Target Customer: illustrates that to what market segments the company offers value (<sup>20</sup>Storbacka, Nenonen 2010; McCarthy, 2008; <sup>16</sup>Osterwalder et al. 2005; Pateli, Giaglis, 2003),

3) Customer interface: clarifies how a company is linked with its different market segments, (<sup>16</sup>Osterwalder et al. 2005). This component is especially important and expresses peculiarities of rural tourism business.

4) Partnership network: Outlines how partnership with other companies helps a company to effectively offer and commercialize value (<sup>16</sup>Osterwalder et al. 2005),

5) Cost structure: Depicts what costs have been incurred to the company in value offering process (<sup>17</sup>Ye, et al., 2011; <sup>18</sup>Weiner, Weisbecker, 2011; Hacklin, Wallnöfer, 2011; <sup>20</sup>Storbacka & Nenonen, 2010; <sup>21</sup>McCarthy, 2008; <sup>16</sup>Osterwalder et al. 2005),

6) Revenue model: is representation of the way a company makes money (<sup>17</sup>Ye, et al., 2011; <sup>18</sup>Weiner, Weisbecker, 2011; <sup>23</sup>Hacklin, Wallnöfer, 2011; <sup>20</sup>Storbacka, Nenonen, 2010; <sup>21</sup>McCarthy, 2008; <sup>16</sup>Osterwalder et al. 2005).

Each business has an individual business model which is, almost consciously and in some cases unconsciously, chosen by the decision makers (Hu, 2014). As described above, the rural tourism business model considering this study contains six components. The interesting part is there, in practice, many options for each of these six elements which make distinguish between the businesses and makes the business models individually. Each combination of these options creates a specific business model (<sup>13</sup>Mosleh, et al. 2015).

Rural tourism business model is able to demonstrate well what is happening in rural tourism practically. Therefore, seeing what is happening through business model framework provides critical information can help the managers and the decision makers to choose the best options based on their resource and expected profits.

In practice when a tourist goes to a village, he/she needs transportation, accommodation, catering, and other possible services such as having a leader and staffs like that. He/she is, more than likely, ready to pay for the local foods, local cloths, taking part in customs and tradition events, agricultural products, handicrafts, and the other similar things. But, from the rural tourism business model perspective, transportation, accommodation, catering, tour leader, local cloths, customs and tradition events, agricultural products, and handicrafts are the value can be offered to the customers and all of them has been categorizing in value proposition component.

It is a two-way approach to decide about the target market, the second rural tourism business model component. In other word, based on the resources, the company's competencies, and the abilities it has been deciding what type/s of these values can be offered. Accordingly, the target customers will be simply illustrated. But sometimes the customers are the determinants. It means, in some cases, the customers' features and consequently their requirements are very limited; in some areas as a result, the values can be offered are limited in some areas also.

The third rural tourism business model component is customer interface. This element, according to its definition, refers to the ways a business engaged in rural tourism is connected with its customers. It is known that 5 times more expensive to find a new customer than to keep existing. Determination some problems can challenge new suggestions for improving business activity. Of course, in this industry this connection is face to face and most of the services are offering in this industry are delivered in person. Hence, the decision makers should be careful about service delivering and have to planning for this issue. In addition, they also can keep in touch before and after of service delivering through the website, email, and telephone.

When a tourist goes to a village he/she certainly has multiple-needs as it is mentioned above. Hence, the existence of a cooperation between different businesses are engaged in rural tourism can offer a comprehensive package to the customer (the tourist) which subsequently leads to improve the profitably (Liang, et al. 2005). For instance, the most popular collaboration between the transporter and the host offering accommodation service increases the chance of accessing the customers.

The two last rural tourism business model components are cost structure and revenue model which are identified as financial aspect by <sup>16</sup>Osterwalder et al. (2005). Depending on the kind of the mentioned services and products are offering, the cost structure and the revenue model are different. For example, the cost structure for accommodation is more focused on cleaning and maintenance. On the other hand, income model or the way money has been making will be different. The different strategies are taken for income model. In some collaboration, the tourist is not charged for the transportations and he/she just pay for the accommodation. As another example, although the tour leader is quite free, the tour leader takes tourists to certain areas which he/she has a contract with. Generally, the income ways depend on the value proposition and the services the business is offering (Zott, Amit, 2010; <sup>14</sup>Drejeris et al. 2013.).

#### **IV. How to innovate rural tourism business model**

This chapter will explain directs for rural tourism business model innovations. As in previous chapter it will be made by systematical approach: from the general to the itemized.

##### **4.1 Business models innovation**

Innovation in a business model is not simply equal to innovation in services/products or technology (<sup>4</sup>Mitchell, Bruckner, 2004; Lindgardt et al., 2009; Massa, Tucci, 2013). <sup>26</sup>Lindgardt et al. (2009) believe that when innovation in business model is happened that at least two components of business model are reinvented and innovation in just product/service does not count as a business model innovation. They also believe that a business model contains two main parts which are value proposition model and operating model. Value proposition model includes three components i.e. target segment, products/services offering, and revenue model; and operating model comprises value chain, cost model, and organization. <sup>26</sup>Lindgardt et al. (2009) discuss that since a business model is a multidimensional system changing in more than two of its components leads to changing the whole of the model and it is business model innovation. Whiles, <sup>4</sup>Mitchell, Bruckner (2004) argue that innovation in at least four business model components leads to business model innovation which enables the company to offer new products/service to new segments of the market.

Massa and Tucci (2013) believe that there are two kinds of business model innovation which are innovation business model design and innovation in business model reconfiguration. They demonstrate that business model design is associated with innovation in designing a business model which is so critical for entrepreneurial activities. In other words, <sup>27</sup>Massa and Tucci (2013) consider innovation in business model design as the first step in business model designing when the entrepreneurs are thinking about running a business. They argue that innovation in business model designing phase is a process containing the following steps: 1) recognition of internal and external opportunities, 2) organization creation, 3) market interface, 4) determine organizational boundaries (<sup>27</sup>Massa & Tucci, 2013).

According to <sup>27</sup>Massa and Tucci (2013) the second type of business model innovation is related to business model reconfiguration. In other words, when the decision makers are thinking about innovate an incumbent business model for an existence organization, they have to reconfiguration the business model and to reconsider interrelations among the business model components. They continue that in this kind of innovation the organization must cope with serious challenges such as organizational inertia, business process management, and organizational learning. Hence, they recommend that a sophisticated change management should be done and this innovation process should be highly supported by the manager. In accordance with <sup>27</sup>Massa and Tucci (2013) this kind of innovation may have also disadvantages. First of all, the uncertainty is always along with the innovation. Secondly, lack of the adequate resources and finally, lack of legitimacy (<sup>27</sup>Massa & Tucci, 2013). Nevertheless, innovation in business model has been always recommended, due to the sustainable competitive advantage is created in business model innovation (<sup>4</sup>Mitchell, Bruckner, 2004; <sup>6</sup>Giesen et al., 2007).

Business model innovation in existence organizations is categorized in three categories by <sup>6</sup>Giesen et al. (2007): 1) industry model innovation, 2) revenue model innovation, and 3) enterprise model innovation. According to <sup>6</sup>Giesen et al. (2007) industry model innovation includes innovation in generating a new industry, redefining the industry, and finally moving into a new industry. But revenue model innovation means innovation in the ways the money and incomes are made; for instance, reinventing the new pricing model. Eventually, <sup>6</sup>Giesen et al. (2007) define enterprise model innovation as changing the company's role in the value chain which may be led to changing the products, customers, suppliers and other things. <sup>27</sup>Massa, Tucci (2013) also argue that business model innovation consists innovation in content, structure and governance. Amit and Zott (2012) discuss that innovating a business model is usually taking place in three ways: set up a new activity, connecting the activities in new ways, and changing the parties carry out an activity. They need to dynamically trace the trends and to have a proper change management to be able response on time to these changes (<sup>4</sup>Mitchell, Bruckner, 2004). We will try to follow the opinion of the latter mentioned authors.

##### **4.2 Rural tourism business model innovation**

Since, the rural tourism businesses are approximately owned and managed by the locals, the business models has been rarely analyzing so as to optimize the profitability. Hence, the first step in rural tourism business model innovation is the businesses are engaged in rural tourism need to create processes are so sensitive about changes and trends in their business model components. As it mentioned above, rural tourism business model proposed in this study, provide managers and decision makers key points are very critical for the survival of the business. Tracking and analyzing trends and changes of each rural tourism

business model components present this opportunity to the manager keep up-to-date their business model and ensures that by being in state of art their profitability will be guaranteed.

Although having a flexible business model, which is able to respond the environment changes, is required flexible resources and a strong change management (Doz, Kosonen, 2010), it will lead to the sustainable competitive advantage and profitability (4Mitchell, Bruckner, 2004, 2004; 6Giesen et al. 2007).

According the literature and what mentioned above, this study provides a comprehensive framework for innovation in rural tourism business model for both businesses are going to start a business in rural tourism and for existing organization. This framework is shown in fig. 2.

As fig. 2 shows, depending on whether a business is going to start or it has already started its activities, two quite different paths are considered. As it mentioned, for innovation in business model of a business which is going to start its activities in rural tourism industry the innovation in business model designing should be tracking. Regarding the proposed model of this study, the managers should perform the entrepreneurial activities such as identification of the opportunities of both internal and external environments, organization creation, defining the market segments and communication channels with customers, and finally determine organizational boundaries.

In return, business model innovation in incumbent organizations follows the other path i.e. business model reconfiguration. In this path, the managers need to, first of all, identify in what level they would like to innovate their business model. In this step, they should decide whether they want to innovate their industry model or revenue model or enterprise model. Innovating in their industry model can mean they want to get out of rural tourism industry and as it is clarified in this model there are three options in front of the managers to innovate their industry: moving into a new industry, redefine the industry and creating a new industry.

Innovation in revenue model level just means that the managers reinvent and rethink of the ways they make money through. When an innovation in a business model is happened, at least two of the business model components are reinvented. Therefore, innovation in the value proposition which is led to new customers can considered as an innovation which can be considered as innovation in revenue model as well. On the other hand, new strategies in pricing also have been acknowledged as innovation in revenue model.

If the managers decide to innovate the enterprise model, it means they are changing the role of the organization in value chain in the rural tourism industry. In this case, value proposition, customers, partners and the relationships will change. For instance, a firm used to shoulder the tourists transportation has decided to run a local restaurant. It is not changing the industry, because as it is mentioned changing the industry means the new business does not have any role in the rural tourism value chain. It is just changing the role of the firm in the rural tourism value chain by new value proposition, new customers, new partner, new connections and new revenue model. It is worth mentioning that regardless the type of innovation (business model design or business model reconfiguration) innovation must be happened in the content, structure, and governance of at least two rural tourism business model components.

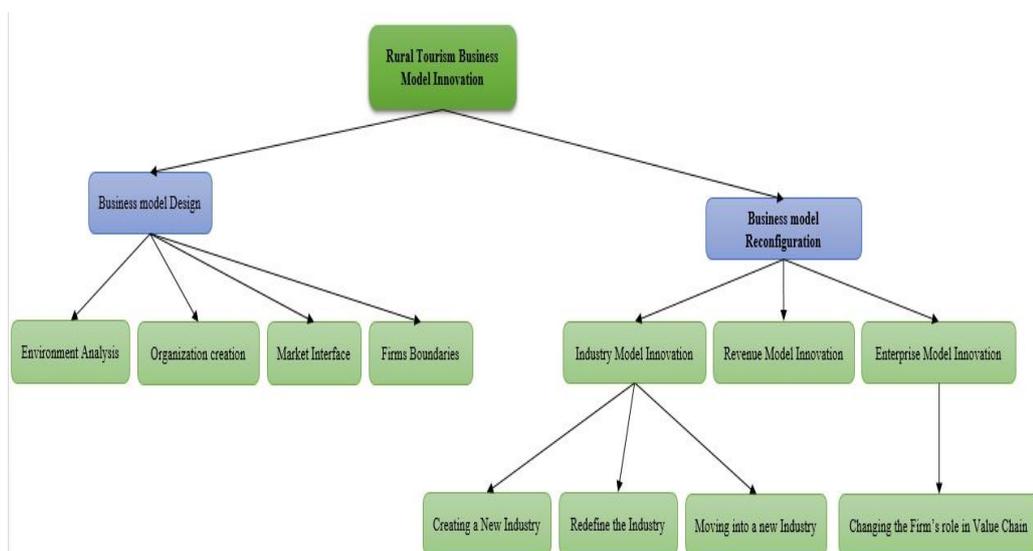


Fig.2 The proposed rural tourism business model innovation framework of this study

Application of the model will allow both novice businessmen and professionals better understand the tourist business properties and thereby achieve better results. The model adapted for 2 business situations.

## V. Conclusions

Regarding the importance of rural tourism role in economic developments in the Europe countries, the development of this industry is interesting for these countries. As a result, competition in this industry is continuously rising. Having a competitive advantage can guarantee the profitability in this competitive market.

Nowadays, innovation in business model is more interesting for the managers than innovation in products or the technologies. Therefore, this study, due to the lack of a guidelines for business model innovation in rural tourism industry, tried to provide a comprehensive framework to managers are engaged in rural tourism industry to innovate their business model to benefit form of competitive advantage. For the mentioned purpose, this study, firstly, attempts introduce a rural tourism business model. Due to lack such model in the literature, a wide literature were studied and a six-component model suggested as rural tourism business model. As value proposition, target Customer, customer interface, Partnership network, cost structure, and finally revenue model are the components of this model.

In the next stage a framework, based on the literature, is proposed for rural tourism business model. This model provides guidelines and steps that the managers should take for innovate their business. This model includes two parts which have their own path for different activities. The first path is named innovation in business model design which comprises the guidelines for the entrepreneurs are going to run businesses in rural tourism industry. Against, the other path provides steps should be taken in rural tourism business model innovation for an existence organization and an incumbent business model.

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