Frugal Innovation as a Lever of Competitiveness in the Moroccan Hotel Industry

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Abstract

As the world continues to pivot to a post-pandemic reality and global tourism gradually regains pre-pandemic levels, competition in the hotel industry becomes fiercer.

This article explores the applicability of frugal innovation as a potential strategy for hoteliers to enhance their competitiveness and appeal to customers, particularly in an era of rising costs, weakened purchasing power and changing traveler habits.

Our article synthesizes a wide range of academic work, books and reports, to analyze the concept of frugal innovation and its relevance to the Moroccan hotel industry in the post-Covid era. In the article, we examine how frugal innovation can influence competitiveness and also aim to provide a better understanding of the concept through an overview of similar types of innovation and its application examples.

Drawing from our analysis, we propose frugal innovation as a promising strategy and emphasize on how it can help Moroccan hoteliers gain competitive advantage by developing affordable and sustainable products and services that meet the changing needs and expectations of travelers.

Despite the lack of empirical results, the article serves to consolidate the existing literature, outlines the theoretical underpinnings of frugal innovation and sets the scene for future empirical research to explore and validate the theoretical propositions.

Keywords: Frugal Innovation; Hotel Competitiveness; Tourism; Crises; COVID-19.

1. Introduction

Morocco's tourism is a major component of the country's economy. In 2019, the sector contributed 7.1% to the country's GDP, amounting to 81.4 billion MAD, according to data published by the Moroccan Ministry of Tourism, Handicrafts, Air Transport and Social Economy, and accounted for 5% of direct jobs created (550,000 jobs) and 15% of indirect jobs created (2.5 million jobs) of total employment in Morocco (Ministry of Economy and Finance - Kingdom of Morocco, 2020).

The hotel industry is an important part of the Moroccan tourism sector, providing accommodation and services to both domestic and international visitors and playing a significant role in shaping their overall travel experience.

In 2020, the sector has been profoundly affected by the COVID-19 pandemic. Tourist arrivals in Morocco fell by 79% compared to the previous year, resulting in widespread shutdowns, heavy job losses and a sharp decline in tourism revenues (Ministry of Tourism, Air Transport, Craft & Social Economy - Kingdom of Morocco, 2023).

The hotel industry, among the hardest hit in the country, has since been forced to adapt to a new reality and explore innovative ways to meet the challenges brought by the crisis.

2. Research background

According to recent UNWTO data, over 900 million tourists traveled internationally in 2022, twice the 2021 figure, though still 63 % of pre-pandemic levels. International tourist numbers increased significantly in all regions of the world (UNWTO, 2023). Morocco has managed to win back around 84% of tourists during 2022 compared to 2019, amounting to 11 million travelers (Ministry of Tourism, Air Transport, Craft & Social Economy - Kingdom of Morocco, 2023).

Triggered by Russia’s war against Ukraine, hospitality businesses, already struggling to recover from the pandemic crisis, are now facing additional challenges (UNWTO, 2023), including the rising cost of energy, high inflation and weakened household purchasing power, which could result in travelers adopting a more cautious spending attitude in 2023.

Increasing market competitiveness is a matter of survival in these times of uncertainty, crises and pandemics (Mashika et al., 2021). As the hotel industry worldwide gradually gains momentum, hotel managers should stay up to date and informed to meet the evolving needs and expectations of travelers and remain competitive in the post-COVID era.

Previous literature has begun to address such issues by focusing on innovative approaches like Frugal Innovation.

The attributes of frugal innovation make it a favorable strategy for responding to normal or crisis situations marked by resource scarcity and rapid adaptation to emerging situations.

Over the last decade, research on frugal innovation has mainly focused on how to address the challenges of low-income and resource-constrained contexts, often with sustainability considerations in mind.
This paper aims to explore how frugal innovation can influence competitiveness in the hotel industry in the post-COVID era.

3. Frugal innovation

Frugal innovation has recently become a topic of growing interest as scholars and practitioners seek new approaches to address social and economic challenges. However, there is some confusion around the concept as it has been used interchangeably by some researchers with similar or related concepts, leading to misunderstandings and inconsistencies. For instance, in 2011, Zeschky et al. combined the characteristics of good-enough and frugal innovation, and later found that frugal innovation has different characteristics compared to good-enough and low cost innovation (Zeschky et al., 2015).
Frugal innovations have primarily appeared in the context of emerging markets. The core idea was to develop products and services that met the specific needs and requirements of these markets and were cheap enough to enable low-income consumers to afford them. Today, several research studies point out that frugal innovation is also practiced in advanced economies.
The concept of frugal innovation is subject to different but not contradictory definitions. In the narrow sense, it corresponds to new functionality at a lower cost. Thus, there is both a novelty content in terms of the use of the product and a cost saving content (Zeschky et al., 2014). It is characterized by low to medium sophistication, medium sustainability and medium focus on emerging markets, in comparison to jugaad innovation or reverse innovation (Brem & Wolfram, 2014).
It is important to distinguish frugal innovation from related types of innovation. Our aim is to provide a better understanding of the concept through a comprehensive overview of similar types of innovation and their interrelationships.

3.1 Jugaad innovation

Jugaad is the process of production that takes into account the needs and circumstances of citizens, households and populations in emerging contexts (Basu et al., 2013). Jugaad is also seen as a component of frugal innovation, where improvisation is key. In Hindi, jugaad is a hack, workaround or simple innovative solution. Jugaad innovators face great resource scarcity and complexity, yet they draw on their ingenuity and resilience to develop highly effective solutions that deliver more value to their communities while minimizing the resources that are often scarce in these markets. A Jugaad innovation is inclusively frugal, but a frugal innovation is not necessarily so (Radjou et al., 2012).

3.2 Gandhian innovation

Gandhian innovation is the gradual transformation of waste into useful products that meet a demand. It is described as 'More from Less for Many', transcending, through a process of improvement, a logic of low cost but poor quality for one of low cost but good quality. (Lundvall et al., 2011).

3.3 Low-cost innovation

Low-cost innovation is about making goods and services available to people who would otherwise not be able to afford them by providing lower cost solutions. This is particularly, but not exclusively, the case for groups at the bottom of the income pyramid (BoP) (Haudeville & Bas, 2016). They are new products to the market, but not new in an absolute sense. We are therefore more in the realm of creative imitation (Kim, 1980).

3.4 Good enough innovation

This is a type of innovation that meets or exceeds the quality requirements of the product, but does not include non-essential functionalities. Good enough innovation starts with an existing good or service as a reference. The aim is to rebuild it around the essential functions only. The novelty, which is also relative, comes from the simplified architecture of the good enough product (Haudeville & Bas, 2016).

3.5 Reverse innovation

Reverse innovation is the transfer of frugal innovations from emerging and developing markets to developed countries where consumers have higher purchasing power. In other words, frugal innovations are developed and introduced in emerging economies. They are then 'exported' to developed economies (Hussler & Burger-Helmchen, 2016). In this sense, researchers have suggested that not all frugal innovations are reverse innovations but that all reverse innovations are frugal as well (Rosca et al., 2017).

4. Frugal Innovation as a lever of Hotel Competitiveness

4.1 Competitiveness

Research on competitiveness can be traced back to Porter's work on the competitiveness of nations (Porter, 1990), where he defined competitiveness of nations as the result of a nation's ability to innovatively gain or maintain an advantage over other nations in key industrial sectors.

Although the concept of competitiveness of nations was originally introduced by economists, the term has later become a subject of study in the field of management.

D'Cruz and Rugman provide a widely accepted definition of firm-level competitiveness. They define a firm's competitiveness as its capacity to design, produce and/or market its goods/services better than its competitors, taking into account both price and non-price factors (D'Cruz & Rugman, 1992).

Competitiveness is a critical factor in the hotel industry as it directly affects a hotel's ability to attract and retain guests. Competitive advantage may be the key to success in the hotel industry (Tsai et al., 2009). In this context, it is essential for companies to have a very clear image and to understand their customers' needs in terms of service, price and amenities.

4.2 Frugal innovation and hotel competitiveness

According to Prabhu and Radjou (2015), frugal innovation, which originated in emerging economies, is now attracting large companies in developed economies as they become aware of the benefits of such an approach, especially in terms of management (cost-effectiveness, meeting needs, improving sustainability).
Frugal innovation can be an interesting strategy for hotels to improve their competitiveness and appeal to customers, particularly in an era of rising costs, weakened purchasing power and changing traveler habits.

4.2.1 Access to new markets

Frugal innovations can grant access to new markets by enabling hotel managers to offer services that are tailored to target customers' unmet needs and budgets.
Frugal innovation is often associated in the literature with the bottom of the pyramid (BOP), that is, low-income individuals and households in emerging markets. These low-income groups have underserved needs and cannot afford mainstream solutions, and therefore represent a large market niche for many companies.
Large companies started paying much attention to frugal business opportunities, since Prahalad raised awareness in his book 'The Fortune at the Bottom of the Pyramid' (2010). The main idea is that companies that offer frugal innovations can simultaneously profit from affordable, quality solutions and contribute towards better living conditions for the less privileged. (Wohlfart et al., 2016).
Besides addressing the needs of target groups in bottom-of-the-pyramid contexts, frugal innovation can also help hotel managers target the growing segments of ecological and frugal travelers by marketing sustainability efforts and eco-friendly practices, as the notion of frugality is closely tied with sustainability (Pepper et al., 2009).

4.2.2 Cost reduction

Frugal innovations are characterized by a much lower price or significantly lower costs compared to conventional products and services. Almost every definition or description of frugal innovation in the literature emphasizes this aspect (Weyrauch & Herstatt, 2017). Cost-saving measures allow hotels to offer lower prices, making them accessible to a wider range of travelers.

According to Qu et al. (2002), hotel room price has a positive effect on hotel room demand. Tsai et al. (2006) also found that hotel room demand is positively related to the consumer price index (CPI). In other words, the price of hotel rooms has a relative quality compared to general goods and services, which can either stimulate or dampen the demand for hotel rooms. Mattila and O'Neill (2003) discuss the role of pricing on customer satisfaction. They suggest that a guest may experience the same level of service during two hotel stays, yet their level of satisfaction may be very different depending on the room price. From a focus group interview, Lockyer (2005) also found that price has a major impact on the selection of accommodations during the early decision process (budget, location, reason for stay, etc.) (Roy, 2011).

5. Frugal innovation application

Strict orientation towards the specific needs of a selected group of customers is a typical feature of companies that engage in frugal innovation. They find a specific target group of potential cost-sensitive customers, thoroughly analyze their needs, and then make clear decisions on the features that are relevant from the point of view of these customers in order to bring down prices. They compromise on the range of solutions, not on quality, when trying to achieve an affordable price level. They may even add features that would increase the price if they are strongly relevant to the specific target group. The result is a good quality solution that is cheaper than existing high-end offerings, but more expensive than established low-end solutions. (Wohlfart et al., 2016).

The Volkswagen Beetle and IKEA are examples of frugal companies. The original Volkswagen Beetle not only became extremely popular because young people could afford it. It was also praised for its sturdy and extravagant design. Similarly, IKEA has clearly focused on the needs of its main target group: young families. The company's steady and growing success is due to a balanced mix of low prices, modern design and services for children. (Wohlfart et al., 2016).

In the hospitality sector, according to Radjou and Prabhu (2015), Accor is a great case study of frugal innovation. It is an excellent example of how frugal innovation can be used to improve operational efficiency and customer satisfaction.

As a frugal hotel chain aimed at budget-conscious travelers, 'Ibis Budget' hotels offer all the necessary amenities such as comfortable beds, free Wi-Fi and 24/7 access to food and drink. By simplifying the design and focusing on the essentials, Accor has been able to lower construction costs and increase profitability while maintaining a high level of customer satisfaction.

Accor has also launched several sustainability programmes that reflect its frugal innovation philosophy. One example is the "Planet 21" project, which targets waste reduction, energy conservation and sustainable practices in all its properties. By using sustainable materials, reducing water consumption and introducing energy-efficient technologies, the group has been able to trim its operating costs while improving its brand reputation.

6. Conclusion

Building a competitive strategy remains a challenging task for many hoteliers, as the tourism sector is undergoing radical change. The ability to innovate and adapt the offer, together with an effective interpretation of the demand, are the new keywords to remain competitive in the post-COVID era.

Facing the situation, frugal innovation is now becoming a strategic business approach to increase hotels' competitive advantage as travelers demand more affordable and sustainable products.

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