Hospitality Traditionalism in the New Economy

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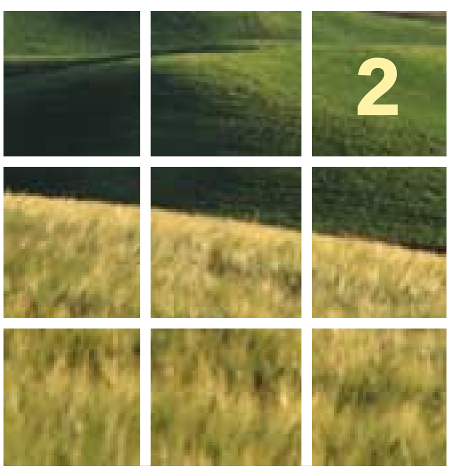


As the world's hoteliers consider the dawn of a new age, they have to be concerned with the rapid pace of change and the effects such change is having on the traditional ways of hotelkeeping. Hotelkeeping? A quaint phrase redolent with images of good food and service, well-kept buildings and satisfied customers. But what is it that we ever kept? The hotel? The customers? The traditions? I am sure that the hotel etymologists amongst us will all have their own interpretation but one thing is certain — they will all agree that whatever hotelkeeping meant just a few short years ago, it clearly means something different today.

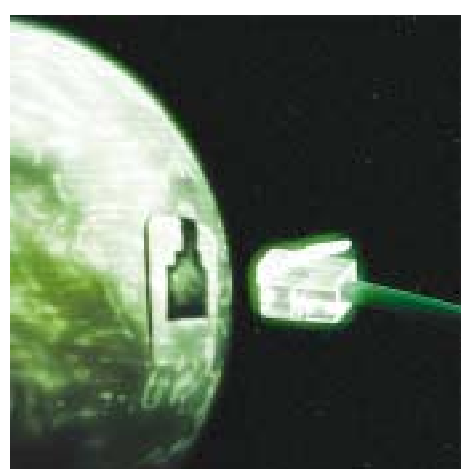
For today, we are confronted by a world that is changing more rapidly than ever before and these changes are having and will continue to have big impacts on the way in which our industry performs and who within it will succeed and who will not.

The New Economy

But before we go further, some definition is in order. Let us start with the term, the "New Economy." So what is the New Economy? Well it is one driven by four key trends — globalization, the revolution in communications, consolidation in industry and technology. And with regard to technology, most particularly the explosive growth of the Internet. And these big mega trends are converging all at the same time and are causing a revolution that is no less significant than the industrial revolution of over two hundred years ago. Back then, the industrial revolution turned people's lives upside down, causing huge changes in the ways people worked, where they lived and how they related to one another. And lest anyone think that the revolution that we are know living through is any less significant, let's take a look at just a few pieces of data that illustrate the point.

The impact of the Internet

Firstly, the Internet. In the United States, it took 38 years for television to get into 50 million homes. For the Internet, it took just five years. And for those consumers in the US that are on-line on the Internet, four out of five believe that the Internet is a more important invention than television. Of these same on-line consumers, close to six in ten prefer e-mail for business correspondence and over one in four check their e-mail while on vacation.



The growth of e-Commerce

For the wired-up world, electronic or "e"-Commerce is becoming big business. It is undoubtedly the number one topic in the board rooms of most of the world's largest companies. And it is growing fast. Business to business e-Commerce is in fact projected to nearly triple to $110 billion in the United States over the next several years, with Business to Consumer trade not as big but growing just as fast. On the retail front, traditional retailers have much to be concerned about as retail sales over the Internet skyrocket. And while such activity has yet to migrate to Europe and Asia/Pacific where the cost of phone calls remain an issue, it surely will over time. In the meantime, travel is one of the more popular on-line products for sale and over the next several years, it is projected in the US alone to grow to $12 billion in on-line activity.

Disintermediation

The Internet is all about disintermediating the customer relationship — that is undermining and redirecting customer attention to new sellers of products and services and away from their traditional relationships. And as this occurs, the traditional approaches that hospitality businesses have taken to distribution are all being affected. From reservations taken over the Internet which are projected to more than double to nine percent of volume over the next year to the declining role of the travel agent. This, as so-called "Infomediaries" provide information and access and software robots troll the activity on line to develop matches between buyers and sellers and analyze complex patterns looking for trends for marketers to capitalize upon. The reality today is that the balance of power is shifting from sellers to buyers and in so doing it makes the importance of delivering high quality service, convenience and value for money ever more compelling.

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The customers want convenience

In the end, people want convenience. They don't have all the leisure time that futurists once predicted they would have by now. They in fact have less. They tend to be under far more stress as a consequence of the pressures of today's fast-paced world. They want information and they want it fast. And if we don't deliver them convenience, somebody else inevitably will. They also want to be wired up to the rest of the world — at home, in their office and especially when they travel. And for hoteliers trying to cope with in-room technologies and the delivery of high-speed Internet-access, we will soon be seeing more integration of network communication and entertainment products to further complicate or liberate our lives depending on your point of view.

Consolidation — the urge to merge

While consumers reorganize their relationships with providers of countless new and improved products and services, the traditional businesses that have serviced them in the past are consolidating fast. They are also joined by new companies that come on to the scene from literally nowhere, many driven by opportunities on the Internet and the revolution in telecommunications. But while companies have in recent years had a tremendous urge to merge, their consolidation process does not always make them better. In fact according to one survey in the US, one half of merged companies failed to deliver the post merger benefits they had promised prior to closing the deal.

In the hospitality industry, the traditional arguments in favor of consolidation have involved the power of linked-up businesses, the reduction in operating costs and the marketing benefits from enlarged distribution networks. But more recently, it is a sense that the globalization of the world's economies is requiring the big to get bigger. This has continued to drive companies to seek mergers and acquisitions or in the alternative, strategic alliance relationships. These with partners who can bring additional size and breadth to a rapidly changing market place. Today's mergers are clearly designed for strategic fit and economies of scale.

In brands we trust

In America, consumers are also very brand focused. And while elsewhere this is less the case, we can assume continued growth of branding internationally as the world's markets become more integrated and more interdependent. But in the hospitality industry, brand loyalty is extremely hard to achieve. Consumers are often confused by the variety of brands we have, by the inconsistency in our products and by the mixed messages they get from our marketers.

So what is the message for the traditional hotelier? It is to recognize the growing importance of branding, to ensure a consistency of product and service against customer expectations and to be prepared to invest in the marketing and technology platforms that can support such a strategy. Bear in mind that as businesses are linked together in an increasingly networked world, the concept of brand becomes ever-more important. This is especially the case as businesses look to increase their share of the customer's wallet through the delivery

of new products and services in alliance with others.

Customers will look for the security of a place they can trust — a community where like minded customers can come to either physically when they travel or virtually when they communicate and shop over the Internet. And hospitality businesses are in fact particularly well-suited for this new environment because it is the quality of service that will inevitably make all the difference to business success in the New Economy. Even in the current early days of the Internet revolution, it has become obvious that service rather than price is what drives most customers to return to the places they have come to know and trust.

Values migrate to intangible assets

The rules of the New Economy have made one thing patently clear. It is that intangible assets can have just as much value as physical assets. Since the days of the Industrial Revolution, business people have generally been focused on their physical assets — the land and factories they owned, their machinery and equipment, their hotel properties and the furniture, fixtures and equipment they housed within them.

But in today's New Economy, values have been migrating to the intangible assets of the business. And what are these intangibles? They are the things that we tend to take for granted. The relationships with our customers and employees; the information stored in our books and records; the brands we use to promote our businesses; the technology and software we use to run our operations and the relationships we have with our suppliers and our alliance partners. These are assets with tremendous value in the New Economy and if we cannot find ways of capitalizing on these assets and leveraging them into new ways of creating value, others will surely do so.

New measurements required

We also need to find new ways of measuring our success in managing these intangible assets. Traditionally, hoteliers have looked to the yield of their physical guest rooms — measures such as average room occupancy and average room rate and yield have dominated our metrics for as long as we can remember. But what if we began to concentrate as much on the customer as we do on the room — might our measurement system be different? I think it would and I propose that one of the key metrics of the future will be revenue per available customer or "RevPAC" to coin a phrase. And why not? Surely the yield from our customer assets is just as important a measure of success as the revenue from our physical assets. Getting from here to there however will require much effort but in the end it will be very worthwhile.

Managing the customer relationship

But what does all this mean in practical terms to today's traditional hotelier or hotel company? Well for one, it means investing more in customer relationship management and engaging in so-called "one to one" marketing. If customers are to be positioned at the center of our business universe, then surely we will need to know much more about how they behave, what they think of our product and service and how valuable they are relative to one another.

Data-warehousing, integrated customer information systems and sophisticated technology-based approaches to sales and marketing will in the end separate the hospitality success stories from the also-rans and failures. Clearly, if a well-equipped customer relationship management system can identify the most valuable customers, increase their retention and optimize their revenue yield, then it is probably worth having. Think for example of the cost of original customer acquisition. It is far higher than the cost of customer retention and modest improvements in a company's retention ratio can increase bottom line profitability dramatically.

Investing in technology

But a word of caution. Technology today is quite expensive and while the per unit cost of computing continues to drop, systems are becoming more complex and generally more costly. The industry in fact spends about three percent of its revenue on technology and this ratio is projected to increase by one third over the next year or two. But as hoteliers invest more on technology, they also need to spend more time in evaluating the anticipated costs and benefits of such investment before they proceed. A well-documented business case will show where the increased revenues or decreased costs are coming from and how management will measure the progress resulting from the technology. Our industry unfortunately has a rather poor record in this area, frequently taking on faith the promises made by vendors and then facing the inevitable disappoint-

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ments that arise from not knowing whether the technology has produced the benefits it was supposed to.

Outsourcing the basics

As we continue to increase the focus of our strategies, our processes and our technologies towards the customer and to the relationships we maintain with others, it is worth remembering where technology has come from in the hospitality industry. Its original role in supporting the back office finance and accounting functions has of course evolved a great deal over the years. But if the current state of the industry's finance and accounting function is anything to go by, we should hardly applaud our use of technology to bring down costs. Far from it. We in fact recently completed a survey of 300 hotels worldwide and looked at the cost of finance and accounting. At an average cost of more than two percent of revenue, it is more than double the best practice standards in a number of other industries. This of course suggests an enormous opportunity for either a significant reengineering of the finance and accounting function or its complete outsourcing to a Shared Service Center that can bring the sophisticated applications that would bring down these costs.

Are we ready for more technology?

The evidence of technological readiness in our industry is thus not encouraging. Our recent global study entitled Hospitality 2000: The Technology in fact highlighted some of the key issues we continue to face as an industry. These include the low level of integration in the many different systems we use and the low level of information that we collect on our customers. Our research indicates that only one in three hospitality companies have a data warehouse. And even for those that either have one in place or the plans to build one, they generally do not have a clear idea of how they are going to use the customer information productively once they have it.

Our industry is also relatively slow in its adoption of electronic commerce with only four in ten hospitality web sites actually taking reservations on the Net. But these volumes are set to rise dramatically as net-savvy customers force the process and our non-hospitality competitors rise to the occasion to service their needs. Bear in mind that it is not only the competitors we know about and can see that we must worry about, but also those that are not in our business today or indeed have yet even to be formed. But arise they will, ready to take over our customer relationships and diminish our business value in the process.

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Customer information systems — the need for integration

In order to build customer information systems, hotel businesses will need to transform their traditional central reservation systems that tend to take a fractionalized share of a distributed rooms inventory into ones that are fully integrated with property management systems. These would then produce a single image not only of the physical rooms inventory but of the customer as well. Our research indicates that only one in four hotel companies has a single-image rooms inventory. The study also shows that 60 percent of hotels have a yield management system of one type or another — systems that are of course used to improve room revenue yield as opposed to customer yield. And the way in which hotel rooms are distributed will continue to undergo change in the future. We project that in-house reservations departments which on average currently take well over one half of all reservations, will decline in their share of the total by well over 20 percent over the next couple of years.

Customers touch hotel businesses at a variety of different points — at the reservation system, through the sales office network, at the hotel and increasingly on the Internet. If we are ever to engage our customers in a true one-to-one fashion, then we will need to have all of these various touch-points integrated and producing a similar view of who the customers are, how they feel about us and what they are worth.

Valuing the customer

Different customers of course have different values. Does this mean they should be treated differently from one another? To a traditionalist, the answer would probably be no — "I treat all of my customers the same" would be the refrain. But let's pause and realize that in a "one-to-one" marketing world we must begin to understand what the value drivers are that make one customer worth twice as much as the next in terms of "lifetime value." With such knowledge, we would probably landscape our sales and marketing strategies somewhat differently than we have in the past and surely to greater effect.

Technology in sales and marketing

The technology being used for customer relationship management is also allowing us to automate some of our sales and marketing processes so that we can increase productivity and therefore revenue while reducing cost. “Longitudinal marketing” that automatically triggers sales campaigns based on predetermined customer actions and learns from its successes and failures, can clearly improve on sales production. This in comparison to what historically has been the very loose science of hospitality marketing. Some would argue in fact that it’s been more art than science. But this is set to change as our technologies bring greater science to the process.

Human capital needs strategy too

Beyond the ways in which we relate to our customers, however, we also need to worry about our employee relationships, particularly in view of the industry’s generally poor record in recruitment, training, development and retention. Human resource professionals in our hotels need to be seen more as strategic partners to management rather than as administrative types. And the HR function must have more of a bottom line business orientation with a strategy that is aligned with the overall strategy of the business. And speaking of relationships with customers and employees, hospitality businesses also need to develop stronger relationships with their suppliers and with alliance partners who can help them in turn deepen and broaden their relationships with their customers.

Visionary leadership

These strategies for success in the future will of course only be realized if the leadership of an organization is visionary and can anticipate the changes that lie ahead. In an era of such rapid change, it is hardly appropriate to be looking back on the models that worked well in the past. We can learn from history to be sure but we have to anticipate the future and plan accordingly. Most people however are generally resistant to change -— and it is this very resistance that so often leads to business failure. Change in any organization must therefore be enabled by a formal proactive process that is well-communicated and is lead by example from the very top.

The successful hospitality organization of the future

And what might the successful brand-oriented hospitality organization of the future look like? It would create value by investing in and leveraging its brands, its human capital resources and its customer assets. Development and operations groups would execute consistent and profitable product and service delivery in support of brand strategies that are coordinated by corporate management. Core functional services would be delivered either from the center or the field according to the circumstances. Nonstrategic functions would be outsourced where appropriate.

Proactive growth and development would be fueled not only by expansion of traditional products and services but also by line extensions and new businesses that are responsive to the market’s needs. Strategic alliances with companies that share the organization’s operational philosophy and its product and customer orientation would provide entrée into new markets assuring a high level of local knowledge.

The organization’s brands and its customer assets would be valued using integrated customer information systems. A customer-centric philosophy would drive the allocation of financial capital and human resources to produce satisfactory long-term returns. Customer loyalty would be developed by brands that are positioned to avoid customer confusion. Business success would be measured not only by growth in net income, but also by improvement in measurements such as brand and customer asset value, employee and customer loyalty and environmental responsibility.

Human capital management and information technology are both aligned strategically with the company’s business plan and support the continued development of a creative knowledge-based customer-focused enterprise.

Given this view of future success, we believe that one can definitely make the case that there is a home for traditionalism in the New Economy, providing however that it gives recognition to the threats and opportunities that surround it. For those traditionalists that embrace the opportunities in a proactive fashion, they will clearly stand a better chance to deal with the threats — of which there are undoubtedly plenty. As the new millennium gets started, hoteliers and hotel company executives the world over must consider more seriously than ever, the consequences of being left behind. With greater focus on the issues outlined here, they will be best prepared for a place in the future.

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