



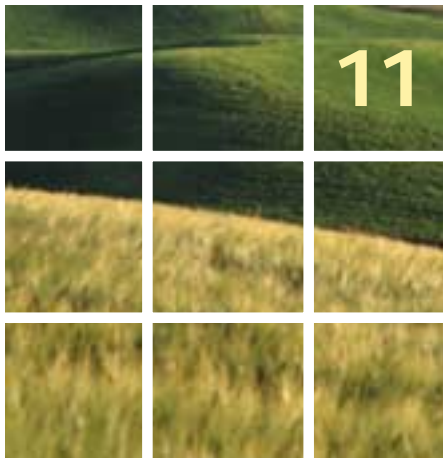
Growth of eBusiness in the new economy

As hospitality industry executives contemplate the launch of the new millennium, they need to recognize the huge changes that are occurring in the way business is being conducted and begin planning in earnest as to how they will respond. For those operating within the physical world, the concept of

win the Internet consumer, whose ranks are growing rapidly. Traditional retailers have much to be concerned about as retail sales over the Internet skyrocket. And while such activity has yet to grow to the same extent in Europe and Asia/Pacific where the cost of phone calls remains an issue, it surely will over time. In the meantime, travel is one of the more popular online products for sale and over

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Hospitality eBusiness in the New Economy



electronic or “eBusiness” may appear to be of limited significance. But such assumptions could be costly. eBusiness and its applications are undoubtedly the number one topic in the boardrooms of most of the world’s largest companies. The financial markets are making massive investments in the companies that deliver Internet technologies, content and related products and services, and the corporate world is now moving toward eBusiness offerings at a rapid clip.

On the business-to-business (B2B) front, eBusiness is projected to grow enormously in the United States over the next several years, with business-to-consumer (B2C) trade not as big, but growing just as fast. The McKenna Group estimates that the B2B marketplace could grow in value to \$500 billion in 2003. But those estimates may be low. General Motors Corporation, Ford Motor Company and Daimler Chrysler, for example, have just announced that they plan to combine their efforts to form a B2B integrated supplier exchange through a single global portal. Meanwhile, on the retail front, the race is on to

the next several years, it is projected in the United States alone to grow to \$12 billion.

eBusiness is rewriting the economic rules globally for every industry — including hospitality, travel and leisure. Indeed, it’s important to recognize that we are now operating in what has been described as the “new economy,” as global trends drive change, including globalization, consolidation, convergence, technology and communications. Even more, it is clear that the underlying sources of value are also changing. Use of intangible assets such as information, brands, customers, relationships and networks distinguish the most successful companies in the world.

The impact of the Internet

It is clear that the Internet is having a huge impact on how we conduct our lives and our businesses. And it arrived virtually overnight. In the United States, for example, it took 38 years for television to get into 50 million homes. For the Internet, it took just five years. And for those U.S. consumers that are online,



four out of five believe that the Internet is a more important invention than television. Of these same online consumers, close to six in 10 prefer e-mail for business correspondence and over one in four check their e-mail while on vacation.

The Internet is also 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 9 percent of volume over the next year, to the declining role of the travel agent. This occurs as so-called “infomediaries” provide information and access, and software robots troll the activity online to develop matches between buyers and sellers analyzing, complex patterns and looking for trends for marketers to capitalize upon. As for the infomediaries, we can expect some of these to move into the transactions business and continue the process of disintermediation. For some hospitality companies, it may be best to join this new competition, particularly if they cannot be beaten at their own game.

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. The Internet has clearly leveled the playing field by making price information broadly available to the consumer. Internet business models affect product and services offerings, pricing, distribution and customer service, as well as long-term information capabilities. As a consequence, some hospitality suppliers will inevitably feed different tranches of their inventory through the various channels at their disposal — including the Internet, travel

management organizations, destination packagers and the like.

Convenience and consistency

In the end, customers want both convenience and consistency. They don't have all the leisure time that futurists once predicted they would have by now. In fact, they have less. Today's fast-paced world produces ever more stress, and consumers want information and they want it fast. And if hospitality companies and travel providers don't deliver conve-



nience, 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.

Customers are also looking for consistency — a simple concept, but central to whether a brand has value or not. And in the emerging networked world, aligning the value propositions of

alliance partners and ensuring a seamless and consistent experience will only be as good as the weakest link in the chain.

New business rules are emerging

Within this new economy, the operating environment for hospitality companies is changing. There are new rules of conduct, new relationships and new criteria for success, along with a new set of metrics. The revolution that we must now confront is therefore no less significant than the one that our forebears had to deal with as the Industrial Revolution changed how people lived, worked and dealt with each other. And like our distant relatives of centuries ago, there are boundless opportunities and countless risks, most obscured within an environment of great uncertainty. In such an era, there are certain traits to business behavior that will distinguish success from failure. At this stage in the new economy's evolution, these traits would appear to include speed, agility and flexibility.

Speed is necessary to get to market early with a first-mover advantage that assures early adoption by an increasingly fickle, restless and frequently disloyal customer. Such speed is imperative as so-called “start-up” companies come to dominate their chosen niche in extremely short periods of time, frequently preempting the opportunity for those too slow to react.

Agility is required to be able to respond to competitive threats by not only those we know and can monitor, but also unseen competitors. These latter competitors may not even exist as yet, but as they emerge, they may quickly disintermediate established customer relationships.

And, finally, flexibility is needed to reorganize the established models of business and all of the related processes, and adapt the organization in organic



fashion to a new environment in whatever form it takes.

From place to space

For business executives at large, one of the most compelling changes that has confronted them in recent years is the potential for eBusiness. But while the significance of these new media are all too apparent, the business solutions required to capitalize on opportunities they offer are unfortunately not. For most hospitality executives, the essential frame of reference has been a geocentric one where real estate and geography have been the big drivers in a physical world — buildings, dots on maps, markets served, chains. In tomorrow's world, these concepts will require some fundamental adjustments to provide for market "spaces" rather than "places" as the nature of relationships between hotel businesses, their customers, their suppliers and their alliance partners go through rapid and constant change.

As these changes occur, the new economy's business leaders must quickly learn the new rules of the game and adjust their approaches accordingly. And the most successful among us will align key processes around the Internet, build corporate intelligence automatically, create integrated value chains and develop new processes to deal with an ever-changing set of circumstances.

The human capital challenge

Supporting the changes in the new economy will be a vast pool of talented human capital anxious to bring new ideas and new technologies to bear on the traditional ways of doing business and, in doing so, steadily increase the pace of productivity improvement. And if the hospitality industry is to respond to this coming reality, it will need to address some of its most vexing challenges — particularly those relating to the recruitment, training and development of human capital. The human capital

inventory for an eBusiness will require entrepreneurship, as well as visionary leadership, strength in sales and marketing and commitment to customer relationship management. The organizational bias will need to be toward creativity and risk-taking, and away from dependency on analysis and procedures.

In addition to the human capital challenge, many of today's legacy organizations are better structured to work in the old economy, but are consid-

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erably less aligned for many activities in the "New." The cultural challenges may in fact be no less daunting than those presented by some of the technological ones. For large organizations attempting a major shift in orientation, the presence of a significant culture may turn out to be quite a hindrance.

Redefining the hospitality business

In some industries, profits are made on spare parts and maintenance rather than on mainstream products. In the new economy, we may see this business model replicated in the hospitality industry. And for those companies that discount or give away products such as hotel rooms in order to sell linked services, they surely will be redefining the meaning of hospitality. They will also be marketing an array of hospitality and leisure products and services to a customer base that is no longer satisfied with the traditional ways of making such purchases.

Hospitality businesses that traditionally provided room, board, management and

marketing may need to rethink their roles in the new economy, particularly as services become more valuable than products. With the rapid growth of "infomediaries" and their facilitation of transactions, hospitality businesses may need to redefine themselves in order to prosper in an increasingly electronic world where one-to-one customization is the order of the day. But for those contemplating repositioning their companies in an eBusiness environment,

it will be necessary to focus on the current value proposition of the business and determine how it might be reformatted or enhanced to ensure success in the new setting.

Is the industry prepared?

But just how prepared is the global hospitality industry to capitalize on some of the opportunities afforded by the emerging new economy? In Arthur Andersen's recently published global survey of technology, *Hospitality 2000: The Technology*, some of the issues that the industry is facing were addressed. These included the closed nature of our technology architectures, the way in which we collect information on our customers, our investments in Internet, intranet and extranet technologies, and our adoption of electronic commerce. The results are not especially encouraging and suggest an industry still relatively slow to adapt to eBusiness. Only 39 percent of the industry's Web sites, for example, can handle reservations on a real-time basis, and even fewer still



(19 percent), collect customer information. At the same time, just 22 percent are using “push” marketing programs and a distinct minority (just 19 percent), have extranets to suppliers or customers. But these adoption rates are nonetheless projected to grow and we should, therefore, expect our industry’s leaders to be far more attuned to the needs of an eBusiness environment in the years to come.

As information technology (IT) is used to facilitate a company’s entry into the world of electronic commerce, our industry’s leadership will also need to overcome a natural tendency to be disappointed by the role of IT in achieving competitive advantage. For many years IT was seen as a mechanism to support back office finance and accounting functions. In the future, it inevitably will be one of the principal drivers of value creation in the new economy. But we should not be misled by IT — in eBusiness, it will be the strategy, not the technology that will make the difference between success and failure. But having the strategy in place is only the first step. It must be linked to every part of the business.

Planning for eBusiness

With the costs of playing in the eBusiness world escalating rapidly, hospitality executives should consider the four phases of what might be called the “eBusiness Lifecycle.” The first of these — **eBusiness Strategy Development and Planning** — must address the

market and competitive context, articulate the vision and opportunity, outline the strategy and the business case, and identify the risks. In recent years, we have frequently seen hospitality businesses put up a Web site on the Internet and consider this an eBusiness strategy. But without a strategy for this new form of commerce and the business planning process to drive it, such reactionary approaches stand little chance for success.

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Once the plan is in place, an **eBusiness Design** phase can commence to address site design, lay out the business architecture, identify the technical infrastructure, plan for performance, availability and capacity, and deal with tax issues and enterprise security.

Following the design phase, **eBusiness Implementation** will prepare for the launch with training and change enablement, implementation and integration, testing and roll-out. Once in place, **eBusiness Operations** will need to be supported by IT and audit services, Web site activity analysis and Web site maintenance. Finally, measurement systems will need to be established to monitor performance.

As industry executives embark on this eBusiness lifecycle, they will need in the

first stage to clearly establish the business case for investing in new technologies, systems and organizations by addressing both the cost reduction and revenue enhancement benefits. On the revenue side, there are a number of factors to consider. These include the company’s ability to identify and recruit the most valuable customers; the ability to seamlessly cross-sell the company’s products and services, as well as those of alliance partners; the ability to retain

valuable customers and reduce attrition (especially relevant in a world of questionable brand loyalty); and finally, when and how to eliminate costly and unnecessary discounts through revenue optimization.

In this kind of environment, the property management system will no longer hold sway as the center of the hospitality universe, but will become just one in a series of customer touch-points that will increasingly include the Internet. These touch-points will ultimately need to be fully integrated into a customer information system supported by sophisticated data warehousing and data mining technologies.

Adding to the industry’s costs in this portrait of the future is the cost of grafting eBusiness technologies onto the

eBusiness Lifecycle





industry's legacy systems. At a certain stage, it may make sense to start from scratch and ensure that every system is Web-enabled. This would allow a total interface for a high-growth eBusiness, thereby maximizing the customer relationship management opportunities that it presents.

Success on the Inter net

As to the role of the Internet, its comprehensive reach and ubiquitous nature has already ensured its central place in the new economy. But how should we evaluate whether an Internet application is deserving of our attention? Firstly, productivity on the Internet in the years to come will be vastly improved by much higher bandwidth than is currently in place. And with higher bandwidth will come applications that can benefit from such extra capacity delivering tightly focused and reliable content to an increasingly sophisticated and demanding e-customer. If an Internet application is to succeed in the future, it will therefore need to be designed to capitalize on this coming reality.

Secondly, an Internet application needs to form a community of some sort because without a sense of place, albeit of the virtual sort, participants will not have that all-important sense of belonging. And as with the industrial revolution, which drew a disparate population to centers of economic activity, so will such "intranet communities" grow in value as their populations increase in size and their economic product expands. For larger businesses that form such communities, they are developing new revenue sources and are reinventing their relationships with customers, employees, suppliers and partners. Smaller companies intent on participating in this new environment, may need to be content as

a participant in an established community, rather than trying to take on the creation of a community itself. It is better, perhaps, to be one of many players in a successful space than struggling to establish an identity in a world surrounded by also-rans.

Whether large or small, community developers and marketers of the virtual sort will have to recognize that what may have appeared cool in the physical world to generations brought up in the old

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economy will not work in the world of eBusiness. Being cool and staying that way in order to get and keep attention will remain a constant challenge, especially for those keen to nurture a younger generation of travelers brought up on MTV and the Web.

Finally, the successful Internet application needs to improve service while reducing transaction costs, particularly as the balance of power in the buy/sell relationship continues its inexorable migration from sellers to buyers. Service improvement strategies will be nothing new for hospitality businesses, but it is noteworthy that service (rather than on-time delivery, price or other concerns) is the top factor that encourages return eBusiness. This must be an area of focus since the current growth of eBusiness appears destined to outpace the supporting infrastructure and its related service at least over the short term. But as hospitality executives know, delivering good service can be expensive. Scaling the types of service response to the

circumstances is a growing need, but one that can be modulated if the value of each customer can be distinguished and the response adjusted accordingly.

In considering the opportunities in hospitality eBusiness, industry leaders should take stock of the dynamics that are occurring in the new economy and plan accordingly. It is probably easy to dismiss the eBusiness world as a playground for others with products and services that are more obviously appli-

cable. But our industry is changing, as is the world around us. And as alliance partners, vendors, customers, employees and systems all become Web-enabled, hospitality companies must adjust their strategies, organizations, processes and technologies accordingly.



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