



With the rush of e-commerce activity that we have witnessed in the hospitality industry over the past year, it is time to take stock of the progress that is being made and to assess what this might mean for the industry going into 2001. During the course of this past year, we have seen a number of e-commerce initiatives announced by various hotel companies, Internet-based organizations and e-commerce service providers.

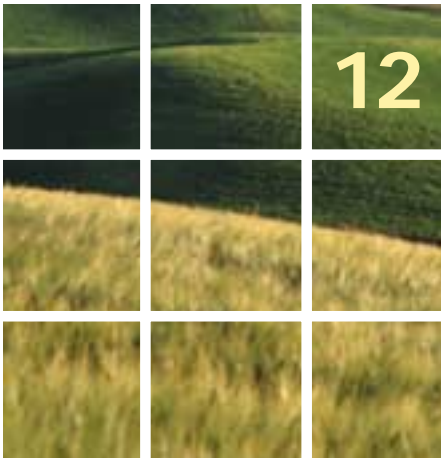
Industry technology lags

As a backdrop to this review, it is worth taking stock of some of the factors that are driving the industry inexorably towards a web-enabled vision of the future. The hospitality industry is of course no newcomer to technology, but it remains far behind other industries in the adoption of well-integrated systems based upon consistent technology standards. This lack of integration comes

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Hospitality e-Commerce

The pace picks up



Some of these activities undoubtedly represent well thought through strategies supported by changes in organization, people, process and technology, while others may be little more than wishful thinking or over-reaction. One thing is certain, however, there is clearly some fundamental change occurring within the industry and e-commerce is definitely positioned at the front and center of this change.

All of the industry's largest companies are clearly focused on e-commerce. Whether it be e-distribution in the business to consumer ("B2C") context or e-procurement in the business to business ("B2B") context, the topic is hot and getting hotter. Why? because the growth rates in Internet-based commerce are explosive and hotels need to network with their customers, their suppliers and even in certain contexts with their competitors if they are going to benefit from the Internet revolution now well underway.

at a high cost in terms of lost opportunity to enhance revenues and reduce costs. The silos of proprietary custom-designed technologies that are the landscape for the hospitality industry, however, are encouraging some to believe that application services that are hosted and serviced by others in a web-enabled structure may be the solution to an industry in need. In all events, hospitality organizations will need to align their key processes around the Internet if they are to realize the benefits that e-commerce represents.

Everything becomes "web-enabled"

The Internet itself is having a huge impact on society as everything becomes "web-enabled" and we begin to operate in what will inevitably become a completed networked world. In a few years, broadband communications will allow for effective desktop video conferencing. And it will be of a quality that will finally begin to impact business travel and the meetings market.



The convergence of entertainment, communications and e-business

We are also seeing an important convergence of entertainment, communications and e-commerce. Think of a customer sitting at home watching an ad for a hotel being broadcast on television. They see an icon that connects them via the Internet to the hotel's web-site for more information and then once sold on the idea, to a reservation or perhaps a commercial transaction. This is true convergence. It will also finally allow accurate measurement of advertising effectiveness by being able to monitor the link between transactional activity and advertising.

Who are my customers — how much are they worth ?

Large-scale investments are being made by some companies in customer relationship management systems that integrate all of the information on customers that is collected at various customer touch-points such as the Web, the front desk, the call center and the sales organization. With a single view of individual customers and a methodology to value them, the productivity of investments in sales and marketing should increase significantly. Web-based systems that facilitate this for smaller hospitality organizations and individual hotel properties will be a major step forward to making hospitality a truly customer-centric business.

Networking — alliances lead the way

For many hotel organizations in the networked world of the future, alliances will become a critical growth and development strategy. Strategic alliances extend the reach of an organization into areas that would not otherwise be accessible. The notion of trying to be all things to all people and going it alone is long gone. Tomorrow's most successful organizations will be cross-selling their products and services with other organi-

zations' customers and engaging in all manner of business to business arrangements. The recently announced alliance between Leading Hotels of the World and Relais & Chateaux, for example, contemplates joint marketing, the linking of web sites, the opening of an Internet portal and the sharing of databases.

Cendant Internet Group also under-



stands the benefits of alliances. As a subsidiary of Cendant Corporation (the largest hotel franchisor in the world), it is pursuing Internet, broadband and wireless convergence opportunities for the group to capitalize on its core competencies in franchising, outsourcing, cross-selling and preferred alliance programs. Cendant's WizCom International subsidiary recently signed an agreement with GetThere.com to build an interface between the two organizations to allow GetThere.com's corporate travel customers to have access to WizCom's customer base which comprises more than 90 hotel chains worldwide.

GetThere itself has been the subject of much attention, itself the target of an acquisition by Sabre Holdings, the travel-distribution and computer services company. Sabre, acknowledging the

increasing share of corporate travel business being booked directly on line through companies such as GetThere.com and Rosenbluth's BizTravel.com, clearly does not want to be left on the sidelines as the B2B e-Distribution landscape evolves.

Aside from the WizCom alliance, Cendant is also part of a consortium including Marriott, Hyatt, Starwood and Hilton and nominally called "HonestBroker.com" – a proposed on-line reservation system organized in response to the growth of on-line travel intermediaries such as Expedia, Travelocity and Lastminute.com and auction sites such as Priceline.com. Consortium members, while not shunning these on-line intermediaries, can in this manner control more of the distribution of their inventory on line and ensure that their yield management strategies are optimized. Internet-based consortia are also being formed in Europe with Accor, Hilton Group and Granada and in Asia Pacific with this same trio along with Starwood Hotels & Resorts. Meanwhile back in the UK, Whitbread and Bass Hotels & Resorts recently announced that they were joining the European initiative.

The e-volving role of the Intermediary

Infomediaries on the Internet that collect information and package and distribute it have played an important role in the first phase of the Internet revolution. Intermediaries, especially travel agents, have in the meantime been significantly effected by the changing dynamics of travel distribution. And so we can expect to see continued changes in this landscape as traditional land-based intermediaries react to the opportunities and risks associated with the new networked environment.

And for those intermediaries without alliance partner relationships and a solid e-Business strategy, the word "disintermediation" will become part of



their business terminology – a process whereby traditional customer relationships are interrupted by others who attack the market place by avoiding intermediaries and going direct to the buyer. In such an environment, travel agents, tour operators and hotel marketing organizations must all find ways of adding value if they are to retain the attention and loyalty of their customers. On balance, the growth of e-distribution should be a positive for hotel operators who are lowering their distribution costs, selling more rooms and strengthening their brand loyalty.

Our customers are getting smarter

The Internet is also increasing the transparency of pricing within the hospitality industry. Armed with more information and more knowledge, consumers as a result are becoming more aggressive. They tend to know what they want and when they want it. And this will get worse not better for the suppliers and intermediaries trying to keep up.

Travelers will place less reliance on so-called “travel experts” and more on the feedback provided by their peers – by fellow travelers who in a networked environment will be sharing their opinions with the world at large on the Web. In the future, we anticipate that travelers will not go to a place without having seen it beforehand. They will not book a hotel room without having viewed it through a downloaded video. Virtual travel that becomes a part of the travel planning process is just around the corner. This will be a very unforgiving environment particularly for those suppliers who traditionally have glossed over their weaknesses with sales and marketing hype. Comparing the hype to the reality will be far easier in the future. Travelers will also want better pricing and value and those who resist this will quickly see their customer base erode in favor of those who respond.

Bricks and clicks

For land-based companies (“bricks”), the opportunities afforded by the Internet are extremely compelling. As a result, they are adding “clicks” (or internet-based solutions) to their business models at a rapid pace. The “clicks” on the other hand are realizing that they need to add “bricks” if they are to remain competitive in the future. There is also in some circles a realization that it will probably be the traditional land-based companies

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adding successful Internet strategies that will win the war in the end while perhaps losing a few battles with pure play Internet companies over the short term. This view is also reinforced by the significant downward adjustment in stock pricing that most pure Internet-based companies have suffered this year, albeit following plenty of hype that boosted stock multiples to extraordinary heights in the first place.

Success on-line

On the Internet, the satisfaction of consumers is very straight-forward – they are looking for four things - entertainment, convenience, information and value. Web sites must therefore be entertaining, they need to be convenient (ie uncomplicated), they must provide rich content and finally provide value for money. With only one in five visitors to travel web sites actually booking as opposed to looking (according to one recent survey), web sites will also need human support if they are to reinforce the

convenience factor. In the Internet world of tomorrow, those with flat content and little support need not apply.

As off-line travel suppliers get onto the Internet, they are looking to drive down distribution costs and in turn the commissions they have traditionally been paying to third party intermediaries. Airlines and hotels have in particular been investing heavily on-line and we should expect other suppliers to follow suit, with many of these partnering with others in order to

spread the distribution risk.

With the advent of major “Portals” such as Yahoo and AOL representing access to vast customer bases, we are seeing a migration of activity through partnering arrangements with such Portals. They clearly have enormous marketing power and are consolidating this further.

In response, hospitality and travel companies are creating their own large new travel portals, occasionally working with their competitors to control the growing portion of inventory that would otherwise be migrating to new conduits in the rapidly changing Internet-based system of distribution in travel.

For many of these suppliers, their control of established brands is a distinct advantage since one of the early lessons of commerce on the Internet is that the cost of establishing a brand on the Web is frequently as high and as challenging as the cost in the physical world.



Profiting from e-commerce

As to the economic models on the Internet, there are an array of new and innovative approaches to commerce, many of them creating downward pressure on profit margins for suppliers. On line auctions of unsold inventory, for example, while arguably broadening the distribution channel, create increased price instability. Business models in the meantime are in a constant state of flux requiring frequent reengineering as the landscape changes from one year to the next. There are also new pricing models for intermediaries such as value added fees for services rendered and subscriptions of one kind or another.

On the buy side, there is increased bartering, auctions of all types, demand collection models, channel consortia and buyer cooperatives. The context for hotel organizations of the future is thus one filled with opportunity but at the same time representing an environment with plenty of risk.

e-Procurement leads the way in hospitality B2B

Of the on-line B2B opportunities in hospitality, none has seen as much activity of late as that of e-procurement. It is an area ripe with potential as the entire supply chain from requisition to payment is web-enabled and the inefficiencies of the traditional procurement function are eliminated. E-procurement can produce not only significant cost savings through volume discounts, competitive pricing and labor savings but an array of ancillary benefits as well, including tighter adherence to approved products, services and vendors, wider access to vendor networks and on-line inventory management and accounting. It is hardly surprising therefore that hospitality organizations from large to small have been anxious to find ways of getting this activity on-line as quickly as possible. They have also realized that this is not an

area that needs to be invented from scratch especially considering the array of e-commerce companies that have developed comprehensive business models and technologies in this space.

As has been the case in e-distribution, hotel companies have also not been shy about getting together to capitalize on the e-procurement opportunity. The "P-

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Co" consortium originally formed earlier this year by Marriott and Hyatt Hotels and more recently joined by ClubCorp USA and the discussions in Europe of the creation of a virtual market place by such industry leaders as Bass, Whitbread, Hilton International, Accor and GranadaCompass are evidence of much activity in this area. Hilton Hotels and Starwood are also very active in this space. Most of these activities are being set up with e-commerce service companies that develop and host the technology platforms for e-procurement. Names in the news include Go Co-op.com (working on P-Co with Marriott and Hyatt), Zoho.com (with Starwood as a shareholder), PurchasePro.com with Hilton and others such as hsupply.com working with a variety of hospitality companies and independently owned properties.

Progress in the e-procurement area centers on the creation of digital market places that bring together multiple buyers and sellers. Such virtual market places force down transaction costs and either provide industry content (a "vertical e-market") or provide key functions across a variety of industries (a "horizontal e-market"). E-hubs take digital market

places a step further by integrating their client or anchor companies' enterprise resource planning (ERP) and accounting systems to produce total end to end solutions and in doing so add significant additional value to the business model. For those companies still struggling with ERP installations and legacy systems, however, integrating these into an e-Hub

solution may be a challenge over the short term. For the industry at large it would be helpful to have a standard platform for e-procurement solutions, although any such standard may be too much to expect given the industry's record with IT in the past and the competition already established in this arena.

On the horizon are entirely web-enabled enterprise and property management solutions provided by "application service providers" or ASPs that host and manage the software from a central facility. Hoteltools.com is an example of this model where property management, reservations and supply chain integration are aggregated into a single on-line "Enterprise Information Portal". For smaller companies and independent properties the ASP model represents an opportunity to access technology and systems that would otherwise be either too expensive or too complicated to consider. Clearly, the completely networked world of hospitality is not too far away.

Industry portals such as VerticalNet.com's e-hospitality.com, hglobe.com and hotelresource.com are forming to provide industry specific



content and resources, e-procurement in some cases, auctions, employment listings and links to third parties. Among the revenue sources that these businesses are relying on - commissions, subscriptions, advertising and the like.

In closing, it is worth noting that the entire topic of e-Business, whether it relates to distribution, procurement or knowledge sharing has to now be at the center of the agenda for senior managers in the industry. Their current deliberations both internal on strategy and external with potential third party alliance partners will surely have a significant influence on the shape of tomorrow's hospitality industry. While some of the early stages in this revolution have been documented here, one thing is certain - the e-commerce landscape is going to

continue to change significantly over the short to medium term. Hospitality organizations must thus transform their business models to deal with the opportunities and threats presented by the dot.com world where the cost structures are different, the processes are automated and the pressure on pricing is downward. The successful hospitality companies of the future will be those that are able to continuously reinvent themselves, incorporating e-business capability into the length and breadth of their organizations. Their managers will also have to think about the future in ways that are fundamentally different from the past and the present. If they do, they will be creating the future rather than waiting for it to happen.



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