



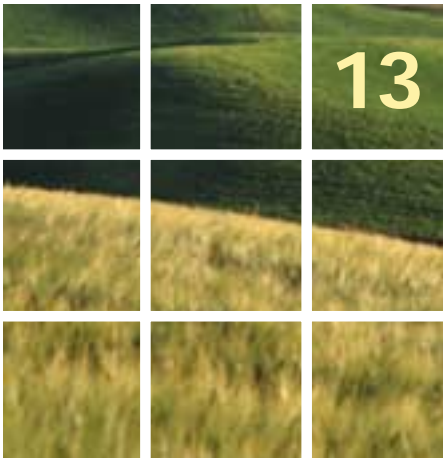
As the hospitality industry continues to embrace electronic forms of doing business, from the way rooms inventory is distributed to the online purchasing of goods and services, tradition-bound attitudes are changing in this sector as rapidly as the technological enhancements that mold them. The context for

broadly: 14 percent of respondents indicate total revenue in excess of \$1 billion, while six percent represent companies with revenues of between \$500 million and \$1 billion. Thirteen percent of responding organizations reported between \$100 and \$500 million in revenue, 11 percent between \$50 and

Hospitality eBusiness: The Future

BY
ROGER S. CLINE
CHAIRMAN AND CEO

Global survey focuses on the explosive growth of eBusiness in the industry



eBusiness in hospitality is a challenging one but the future is bright as revenue yield and labor productivity improvements begin to have an impact on the bottom line. "Hospitality eBusiness" is not only here to stay but destined to play an increasingly significant role in the way the hospitality business is conducted in the future.

Research methodology and respondent profile

Following the proven research methodology used in previous Hospitality 2000 studies, the research was conducted by completing a broad-ranging review of the literature. A detailed questionnaire was then mailed to hospitality industry executives around the world. Of those respondents reporting their home base location, 24 percent are located in Europe, the Middle East, India and Africa (EMEIA), 66 percent in the Americas and seven percent in Asia/Pacific. A total of 465 completed questionnaires were tabulated.

The size of respondent organizations in terms of their total revenue is distributed

\$100 million, and 48 percent less than \$50 million.

Global hotel chains represent 27 percent of respondents, regional hotel chains 10 percent, independent management companies 17 percent of respondents, individual hotels 18 percent, franchisors two percent and 22 percent other forms of organization.

The context for eBusiness

As we consider the future of eBusiness as it relates to the hospitality industry, we should consider the important megatrends that provide some of the backdrop to the eBusiness revolution that is occurring around us throughout the business and social worlds.

Over the last couple of years, as we entered the new millennium and confronted the realities of an increasingly networked world, it became apparent that the so-called information revolution had matured. As anyone browsing the Internet will attest, there are huge quantities of information and in most instances, it is available to all-comers at hardly any cost, at least not typically to



the end user. Information has become ubiquitous and commodity-like. It does not, in many instances, have much value in and of itself. But information can become valuable when it is converted into knowledge. It is therefore safe to say that we have entered the “Knowledge Era” — a period when the most successful organizations will be those that can capture information, create knowledge and distribute it to their various constituents in a way that makes a difference.

One of the major drivers to this rapid migration into a knowledge economy has been the broad deployment of inexpensive, reliable and transformational technologies in a series of what might be called technology “flash points.” In the past, these have not occurred often, but over the last 10 years, they have appeared with increasing frequency. As a consequence, we’ve also seen a rapid increase in technology-related benefits that have improved productivity and contributed in large measure to high rates of sustained economic growth. The pace of change has clearly accelerated and business leaders continue to struggle with the challenges of uncertainty.

For the hospitality industry, the implications of change, particularly as it relates to technological innovation, are significant. Bandwidth abundance, for example, will likely be an important driver of change in the future as we move from narrowband to broadband communications. In a few years, we should expect another flash point with the widespread usage of high-quality desktop video conferencing and its associated implications for business and convention tourism.

Technology is also forcing out distribution inefficiencies with a significant impact on the travel industry’s intermediaries and their traditional business models. It is also reducing transaction costs (the interactions between people and functions) within companies. In the



future, successful companies will likely tend to specialize in one or two, but not all three, of the key elements of all businesses: customer relationship management, infrastructure (back office support) and product innovation.

In the meantime, eBusiness has removed the traditional barriers to commerce: time, distance and physical location. And while the hospitality industry has historically been a comparatively slow adopter of the new and the innovative, we now see its active embrace of two key areas of the eBusiness world: eDistribution and eProcurement. And in the evolving knowledge era, one wonders whether the geographically and culturally diverse hospitality industry with all of its people challenges will be prepared for what may arguably be the next revolution on the Internet — that of distance learning.

The industry’s “eProfile”

At the outset of our survey, we were most interested in determining the readiness of the hospitality industry to engage in eBusiness. As such, we posed a series of questions concerning the connectivity of employees to company intranets, extranets and to the Internet

itself.

As in all industries, the degree of connectivity in the hospitality sector varies significantly from one type of business unit to the other and from one job function to the other. For example, one would expect to see extensive use of computers in front- and back-office locations in hotel properties, as well as throughout corporate offices. One would expect less deployment elsewhere in a typical hotel. The survey showed that 41 percent of employees work with desktop computers of one kind or another and that this ratio should grow to 52 percent over the next three years, an increase of 25 percent. Regionally, respondents from the Americas report higher current usage (47 percent on a simple average basis), compared to 37 percent in Asia/Pacific and 39 percent in EMEIA. Growth over the next several years, however should bring these disparities closer together (54, 49 and 49 percent respectively).

The survey also indicated that fewer employees (28 percent) have access to the Internet, although again, this is expected to grow over the next several years by 50 percent. In three years time, we estimate that about four in 10 employees will have access to the Internet. Again, there are regional disparities with current access reported in the Americas at 38 percent, but only 21 percent in EMEIA and just 16 percent in Asia/Pacific. The differences, however, are expected to narrow over the next several years (49, 37 and 30 percent respectively).

Responding organizations were stratified by size according to their revenues, with large organizations defined as those with revenue of more than \$100 million and small organizations being those with revenue of less than \$100 million. On this basis, 51 percent of the small hospitality organizations indicate they have their own intranet, compared to 78 percent in large organi-



zations. (See Exhibit 1.) And in terms of who is using such intranets, it is 69 percent of senior management, close to two thirds of mid-level management and approximately one third of staff. Over the next three years, however, these ratios of usage are expected to grow: to 77 percent for senior management, 75 percent for mid-management and 44 percent for staff.

As might be expected, the types of intranet in use in the hospitality industry vary. Those that provide connectivity within hotels are reported by 59 percent of respondents, intranets that provide connectivity between hotels are reported by 44 percent and those intranets that provide connectivity between hotels and a corporate office are used by 73 percent.

The use of intranets is dominated by e-mail (86 percent); followed by the distribution of general corporate information such as press releases and newsletters (83 percent), policy changes (70 percent), new product and service information (69 percent), market information (60 percent), company performance (57 percent) and employee listings (52 percent). Lesser usage is made of

intranets for online HR functions (42 percent), training (37 percent), and team rooms (35 percent). (See Exhibit 2.)

For those organizations without an intranet (34 percent), just under four in 10 plan to install one within one year, and close to 33 percent will do so over the

an extranet are planning to install one over the next year, (12 percent) or over the following two years (24 percent).

Despite the surprisingly high general levels of connectivity in the industry, however, only 58 percent of reporting organizations have a formal eBusiness

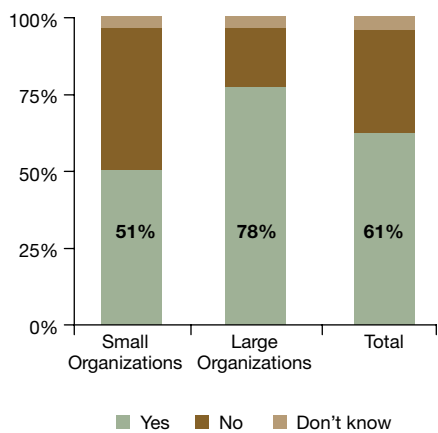
Despite the surprisingly high general levels of connectivity in the industry, however, only 58 percent of reporting organizations have a formal eBusiness strategy. Larger organizations report a higher incidence (69 percent) than do smaller ones (51 percent), suggesting that the industry needs to do more than just be connected if it is to make strong advances in the eBusiness world.

following two years. The balance (43 percent) either have no current plans for an intranet or were not sure of them.

In addition to an intranet, some hospitality organizations (approximately one third) have an extranet that connects their organization to other businesses, such as suppliers or customers. And predictably, the ratio tends to be higher in larger organizations (42 percent) than in smaller ones (26 percent). Again, some organizations that do not currently have

strategy. Larger organizations report a higher incidence (69 percent) than do smaller ones (51 percent), suggesting that the industry needs to do more than just be connected if it is to make strong advances in the eBusiness world. (See Exhibit 3.) Companies must have strategies for eBusiness in place before they consider the people, process and technology issues related to it. Geographically, Asia/Pacific reports a higher incidence of planning (74 percent) than

1 Not All Organizations Have Intranets



2 The Uses for Intranets





EMEIA (66 percent) and the Americas (55 percent), suggesting that there may be an inverse relationship between planning and adoption. At the organizational level, the franchisors and global hotel chains report the highest degree of planning (91 and 75 percent respectively), while regional chains and independent management companies are less involved in the planning process (66 and 58 percent respectively).

In reviewing the current integration of daily operations into today's eBusiness environment, hospitality organizations report only moderate such integration, suggesting much change lies ahead. By function, sales and marketing lead the way in terms of the degree of integration, followed by distribution, recruitment and procurement. (See Exhibit 4.) Larger hospitality organizations report more integration in the areas of marketing and distribution, but size appears to matter less when it comes to procurement, sales and recruitment.

In looking at the virtual hospitality organization of the future, there are a number of functions that have the potential for "web-enablement" using an intranet, extranet or the Internet itself. Presented with a variety of functional areas, the most significant web-

enablement is projected to occur in sales and marketing (virtual property tours, sales force automation, guest history and loyalty programs), datawarehousing, reservations, yield management, procurement and executive information systems. More moderate web-enablement is anticipated for property management systems and project management, although both of these areas clearly represent important opportunities. (See Exhibit 5.)

Respondents report only moderate involvement in business-to-consumer activity such as trading products and services over the web (for example, allowing reservations on their web sites). This activity is followed by more moderate involvement in business-to-business commerce (working with suppliers) and consumer-to-business (such as working with buying consortia and demand collection services). But each of these areas are projected to grow in terms of their significance from 44 to 52 percent over the next several years. (See Exhibit 6.) Predictably, larger organizations are projecting a higher degree of involvement than are smaller ones.

For many hospitality industry organizations, many impediments stand in the way of progress in the adoption of web-

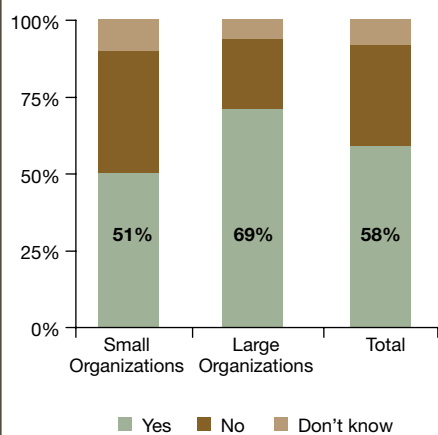
based business models. Heading the list are the proprietary customized technology solutions found throughout the hospitality industry. Other significant impediments to change are closed IT architectures, lack of technology standards, limited internal technology skills within hospitality organizations, unclear business case or "return on investment analysis" associated with IT investment and low level of customer adoption of the web.

The message appears to be clear: This industry must address its IT shortcomings in a proactive and comprehensive manner if it is to benefit from the continuing revolution in eBusiness. And as it does, it will need to find better ways of measuring performance and justifying investment in this important area.

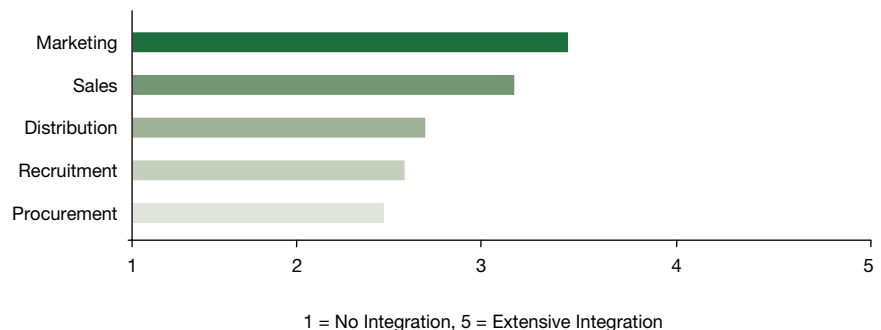
eDistribution

With the high cost of advertising and Internet brand development, many online companies are seeking access to customers via so-called portal arrangements with established gateways such as AOL, Yahoo, Amazon and the like. Our survey showed that one third of respondents report both current and planned relationships with these kinds of portals, with larger organizations more engaged

3 Not All Organizations Have an eBusiness Strategy



4 Sales and Marketing Lead in "eBusiness" Integration (Today)



1 = No Integration, 5 = Extensive Integration



(37 percent) than smaller ones (32 percent).

Are these relationships effective? Both large and small organizations report a slightly higher than average effectiveness rating. Similarly, respondents gave an average rating to so-called hospitality industry portals in providing industry-specific content and resources. It appears that both industry portals and their larger more consumer-oriented cousins need to work harder to earn the loyalty and support of their hospitality industry targets.

For hospitality industry portals, survey respondents rated several revenue sources in terms of their opportunity as revenue drivers. Leading the list are advertising and procurement. These are followed by commissions and subscriptions, with below-average opportunity seen for seller-driven auctioning and software licensing. Notwithstanding the prominence ascribed to the advertising opportunity by survey respondents, hospitality portal companies will nevertheless need to be concerned about declining click-through rates generally on the web and ensure that their business models are structured appropriately.

Since the content on many travel and hospitality web sites tends to range from superficial to expansive, respondents were asked to rate their own web site

presence against a variety of attributes. Hardly an objective view, but the responses illustrated how the industry currently assesses its own efforts on the Internet.

Marginally strong scores were given to such attributes as information, convenience, choice and service, while average scores were provided for trust/security

Notwithstanding the prominence ascribed to the advertising opportunity by survey respondents, hospitality portal companies will nevertheless need to be concerned about declining click-through rates generally on the web and ensure that their business models are structured appropriately.

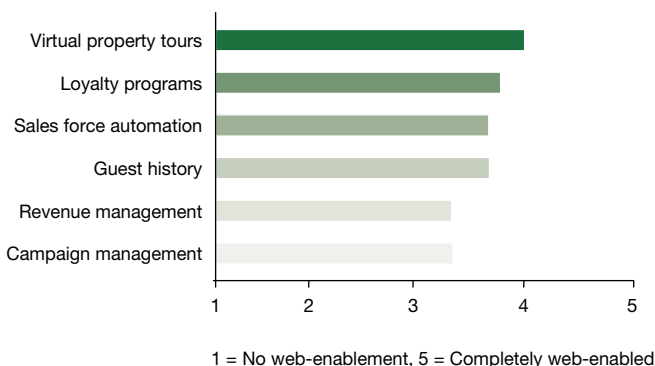
and customization. Finally, marginally weak scores were cited for savings, community and entertainment. (See Exhibit 7.) These last two attributes are going to be critical factors in achieving long-term success on the Internet. People naturally want to have a sense of community — albeit of the virtual sort — just as they do when they go their physical markets to buy products and services. They need to be entertained. Those companies that conquer these factors and raise the ratings described above will succeed while those that continue to ignore them are more likely to fail.

While online reservations are an increasing portion of the total volume of reservations in the industry, not all hospitality organizations' web sites are set up to handle such transactions. Of responding organizations, only 64 percent report that their web sites support the processing of reservations, although this ratio rises to 78 percent in

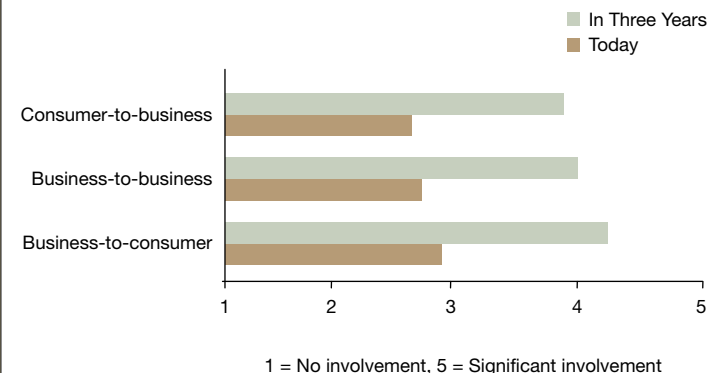
large organizations while only 55 percent in smaller ones. By type of organization, global chains report the highest degree of "web site reservation enablement" (92 percent), followed by franchisors (91 percent), regional chains (81 percent) and individual hotels (64 percent). For the 31 percent who report sites without such reservations capability, however, 45 percent plan to enable their sites within the course of the upcoming year.

In terms of the volume of reservations being taken over hospitality industry web sites, it is the growth anticipated over the next several years that is most striking. Respondents report that their current 4.9

5 Web-enabling Sales and Marketing (In the Future)



6 eBusiness Activity Is Projected to Nearly Double Over the Next Three Years





percent ratio of Internet-based reservations should more than triple to 15.4 percent over the next three years. And while the current ratio to total is lower than previous industry estimates of Internet reservations (undoubtedly driven by the varied profile of the sample), the projected growth rate today is significantly higher than previous estimates.

One of the principal attractions of online distribution for hospitality companies is the opportunity to reduce the high costs of distribution that such companies have historically faced. Between travel agency commissions, GDS fees, switching costs and the costs of a central reservation system, hospitality company executives have complained for years about the onerous costs of their multifaceted distribution systems.

Hospitality company web sites compete for attention with an array of Internet-based travel companies, all vying for attention in one the Internet's hottest B-to-C markets — the travel sector. This \$10- to \$12-billion market is growing fast and in its wake is leaving many hospitality companies with the challenge of how best to keep up. As the Internet revolution took hold, a number of pure Internet-based travel businesses emerged, and

some (such as Expedia and Travelocity) gained traction and staying power supported by large investments. Others have since come and gone.

Hospitality organizations do business with many of these entities. However, their impact on areas of significance to hospitality companies tends to vary. Respondents indicate that the impact has

been marginally positive as relates to Internet strategy, customer satisfaction and competitive positioning, somewhat neutral in terms of their costs of distribution, while marginally negative as it relates to travel agency relationships and pricing.

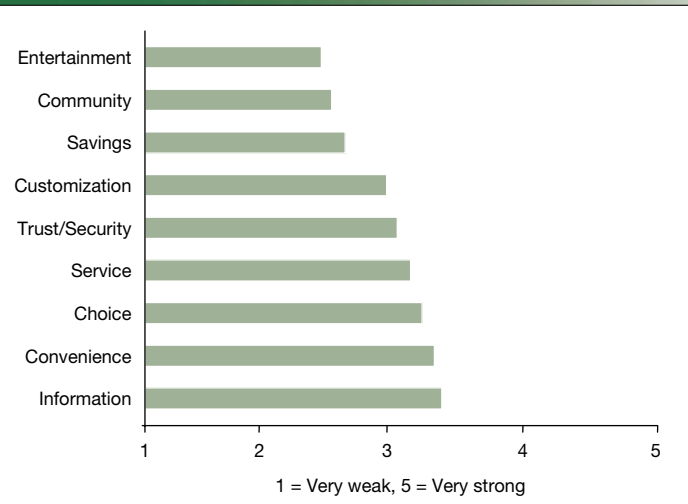
One of the principal attractions of online distribution for hospitality companies is the opportunity to reduce the high costs of distribution that such companies

have historically faced. Between travel agency commissions, GDS fees, switching costs and the costs of a central reservation system, hospitality company executives have complained for years about the onerous costs of their multifaceted distribution systems. Respondents believe, however, that the Internet will finally allow the high costs associated with distribution to be turned around. Twenty seven percent believe their costs will decline by up to 10 percent, with 23 percent suggesting this decline might range from 11 to 20 percent. A further eight percent estimate the decline could be from 21 to 30 percent. Wherever the declines occur, for most hospitality businesses using online distribution for their products and services, one thing is clear — they can expect some significant savings over the next several years.

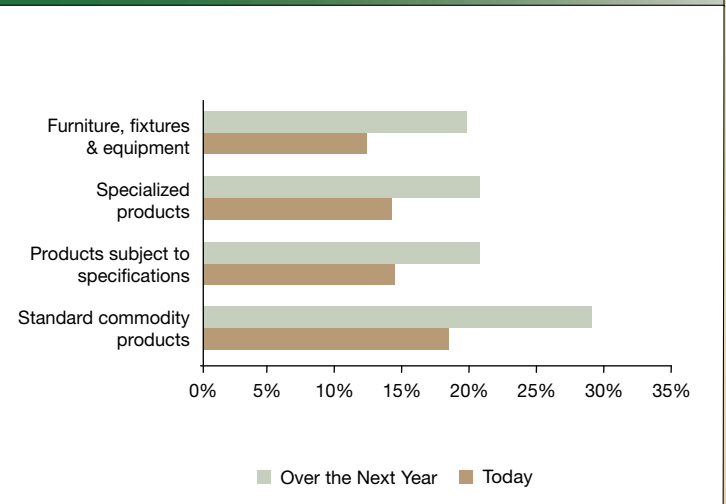
eProcurement

As hospitality industry executives ponder the potential benefits of an eProcurement system, they have a variety of views on what kinds of products and services they might buy online. Notwithstanding the seeming hesitancy about eCommerce, the spending is significant and is clearly set to grow substantially over the next year.

7 The Industry Rates Its Web Presence



8 Buying Online — Standard Products Lead the Way





Of the total spending on standard commodity products, approximately 18 percent is currently purchased online, with this ratio expected to grow to 29 percent over the next year. Similarly, of the products that are subject to specification and those that are specialized in nature, approximately 14 percent is currently purchased online, with this ratio set to grow to approximately 21 percent over the next year. And while the more expensive items found in a furniture, fixtures and equipment budget are not typically purchased online (only 11 percent currently), this ratio is set to nearly double over the next year to 21 percent. (See Exhibit 8.)

As to the value of the general benefits associated with eProcurement, respondents are generally enthusiastic. They see strong benefits in the opportunity for improved pricing, better sourcing and process improvement. Fewer were enthused with the benefits associated with reduced inventory and the elimination of waste.

Knowledge management

In the future, the management of knowledge by a hospitality enterprise will undoubtedly contribute to its competitive

advantage. Knowledge management is a discipline that may be brought to a variety of organizations, not only in business, but all sectors of society. And in an age where information is ubiquitous, the management of knowledge in a structured way that adds value to the enterprise is clearly an area that warrants attention.

For a hospitality organization to harvest knowledge, assimilate it and leverage in a way that makes it a more competent competitor is no easy task, however. It can be expensive—as those organizations whose stock in trade is knowledge can attest.

But with the advent of networked environments that use the Internet and corporate intranets and extranets, along with strategic alliances, outsourced functions and decentralized national and international operations, it’s hard to argue the importance of knowledge management to success. In its simplest state, one of the principal objectives of knowledge management for most enterprises is to distribute knowledge to those who need it most and can use it to the ultimate benefit of the enterprise.

Survey respondents suggest, however, that in the hospitality industry at least,

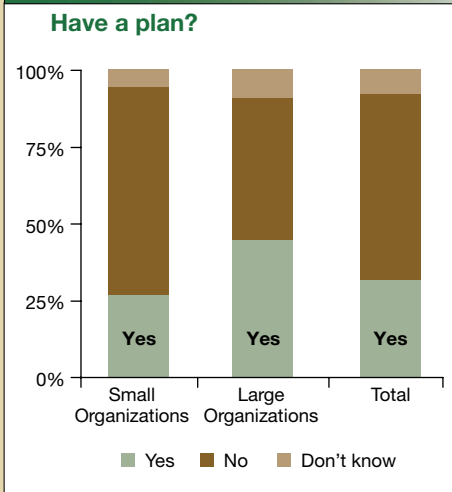
there is not a great deal of planning in this arena. Only one third of respondents report that they have a strategic plan for knowledge sharing, although the ratio is higher in larger organizations (43 percent) than in smaller ones (27 percent). (See Exhibit 9.)

Investing in eCommerce

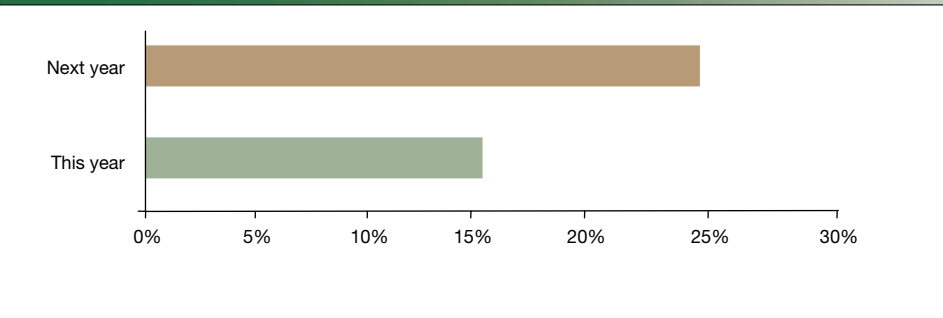
In our previous research on spending on hospitality industry technology—“Hospitality 2000: The Technology” published in 1999—we estimated that hospitality organizations were planning to spend approximately four percent of their revenue on it over the following three years, i.e through 2001. This would have been an approximate one-third increase in total IT spending over their patterns for the prior three years.

In this current survey on hospitality eBusiness, the portion of total hospitality IT spending dedicated to Internet-specific projects is estimated on a weighted average basis at 15 percent currently with an increase to 25 percent expected over the next year. (See Exhibit 10.) This significant two-thirds increase in the ratio of IT resources being dedicated to electronic commerce is clear testimony to the major impact this area will have on

9 Not Much Strategic Planning for “Knowledge Sharing”



10 Internet-related Spending (as Portion of IT Dollars) Is Growing Fast





the industry over the next several years and beyond.

Impact of eBusiness

While eCommerce appears to be a frequent topic in many corporate boardrooms, it receives some attention but evidently not as much as one might expect. Again, we view this as symptomatic of the industry's slow and measured approach to IT and to innovation generally.

While eBusiness opportunities within hospitality may be somewhat slow to be adopted, the Internet is certainly having a significant impact on the industry's customers and its classical market segments—business travel, the conference market and leisure tourism, especially as it relates to distribution. Telecommunications is also being revolutionized, and as broadband becomes more ubiquitous, we can expect to see a potentially negative impact on the growth rates in both the meetings and business markets, especially as teleconferencing steadily

improves in quality and becomes available at much lower cost than it is today.

Interestingly, respondents do not appear to be overly concerned with this impact in either of the business or conference segments. This may be because they have become somewhat cynical about the vague promises of video and teleconferencing in the past, most of which have failed to deliver, at least in terms of quality and cost. We suspect, however, that this time they may be surprised by its growing impact in the next three years.

Our survey reconfirms the growing significance of eBusiness and its impact on the hospitality industry and suggests that more planning needs to be done in this arena. Industry executives clearly need to be concerned with the evolving role of eBusiness in hospitality and its impact on a number of mission-critical areas that will drive success in the future. These include new and innovative approaches to customer relationship management, changing channels of

distribution and evolving business models set within the context of web-enabled networks. For those organizations focused on these trends, there are challenges and great opportunities that lie ahead. For those resistant to change and tied to traditional hospitality business paradigms, the threats could be significant.



Roger S. Cline
Chairman and CEO
Roundhill Hospitality

85 Roundhill Road
Roslyn Heights NY 11577

p 516.621.4499
f 516.625.9282
e roger@roundhillhospitality.com