



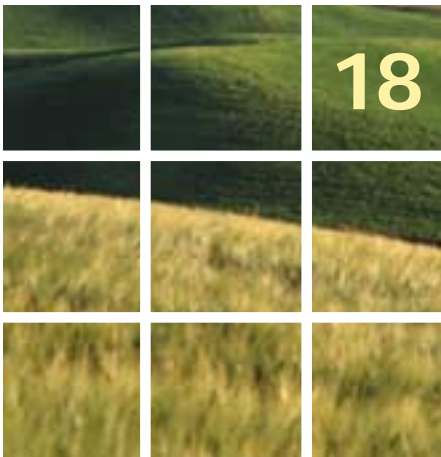
In times of uncertainty, business executives have more than a normal share of things to keep them awake. Some of the most obvious worries surrounding today's business environment across all industries and geographies include the recessionary economy, a vacillating and occasionally swooning stock market, skittish customers, competitive pricing and worried lenders.

Human capital

Heading the list of "stay awake" issue categories for most industry executives is human capital—running the gamut from recruitment, training and development to motivation, retention and compensation. Hospitality is a people-intensive business—not only lots of customers to worry about serving well but also multitudes of employees or, as they frequently say in

BY
ROGER S. CLINE
CHAIRMAN AND CEO

Up at Night Hospitality's "stay awake" issues



Beyond these, there are others causing sleep deprivation—the collection of issues that keep our busy industry leaders up at night. We call these hospitality's "stay awake" issues. And as issues, they need to be articulated as questions—the kinds of questions that CEOs should ask themselves and their senior management teams. These issues fall into a number of broad categories:

- Human capital
- Customer relationship management
- Distribution
- Brand management
- Cost control/operating efficiency
- Metrics
- Capital
- Growth and development
- Procurement

At Andersen, we focus a great deal of attention on these areas by defining the issues and designing solutions for their resolution. In this first of two articles¹, we will present some of the most significant issues within the first five of the above nine categories. In our next article, we'll cover the balance.

the trade these days, associates.

As we found out in our survey² on people in the industry, one of the problems is that hospitality enterprises tend to view human capital management from an administrative rather than a strategic point of view. While human capital strategy should be high on everyone's agenda, it is especially important in an industry like ours that's beset with high levels of turnover, low levels of motivation, challenges with training and development, and disadvantages relative to other industries in terms of image, reputation and pay scales. Gone are the days when a personnel director can fulfill this need from a mid-level position within the organization. Such a function must report to the top and be seen as fundamental to the success of the organization.

High turnover of people is extremely expensive. As with customers, it is a great deal more productive to invest in the retention of existing employees than to recruit and develop new ones. Root course analysis deployed in areas of the company with high levels of turnover

¹ The second in the series will appear in the next issue of *Hospitality and Leisure Executive Report*

² Hospitality 2000: The People, published by Arthur Andersen 1997©



needs to identify factors that are both controllable and intractable, with solutions developed to mitigate the factors that can be controlled.

The hospitality industry also needs to learn from both its own industry leaders and from best-practice companies in other sectors. One theory in hospitality management is that a clear relationship exists between employee and customer satisfaction, which in turn drives profitability. While it's a simple theory, it's evidently not adopted by all. Hospitality managers don't always measure employee satisfaction adequately enough to foster and manage this virtuous sequence. For some companies, the presence of a particular culture can also either hinder or help progress. In mergers, for example, conflicting cultures are frequently the principal causes of failure of companies to deliver on the promises of organizational synergy.

Managers face a number of questions related to human capital:

- How can we manage our human capital more strategically?
- Does our human capital strategy, organization and culture foster development and retention of our best people?
- How do we adequately develop our executive talent?
- How do we ensure that our compensation program is adequate to attract and retain the best and the brightest?
- How can we mitigate the high costs of employee turnover?
- How can we encourage employee loyalty?
- Do we adequately measure employee satisfaction?
- Does our culture support or hinder growth? How might we change the culture, if necessary?

Customer relationship management

If human capital is the number-one worry, not far behind is how to relate to customers. Placing the customers at the very

center of an organization's universe is a generally accepted business practice these days—but, at least for most hospitality enterprises it's easier said than done.

First, hospitality companies must migrate from their traditional focus on physical assets to one of customer orientation. Customer relationship management, or CRM, is a popular topic in today's business literature and reflects the set of values most companies have

be to define guest loyalty enhancements, revenue enhancement potential and costs savings and then the metrics used to measure performance of the CRM system.

Designing and developing a complex CRM system requires a broad base of marketing, organization, technical and financial skills. The existence of third-party owners of hotel properties (under management or franchise agreements) presents particular challenges in obtain-



embraced but, again, with a lot of variation in how it is interpreted and implemented.

The challenge for management is to provide clarity of vision and then drive the company's CRM strategy toward this singular vision. Managers typically have a variety of opinions as to where to place emphasis, especially if as is frequently the case, resources are limited and capital must be allocated or phased.

Like so many hospitality IT projects, CRM is frequently launched without an adequate business case in place, making the process of measuring and monitoring progress quite challenging. The task at the front end of any CRM project should

ing buy-in to an enterprise-wide CRM system, since management may not control the investment decisions and, in the franchising context the ownership of customer data is an issue.

Management also needs to ensure that CRM drives increased productivity in sales and marketing by restructuring the process to ensure it leverages everything a CRM system can deliver. Unfortunately, so-called loyalty programs don't always house a hospitality company's most loyal or valuable customers. Behavioral, attitudinal and demographic factors must be triangulated to truly value the customer asset.

Loyalty programs are generally very



expensive and with some exceptions may not be worth the investment—the ROI on such systems is often ignored and capital is wasted. Also, hospitality companies very seldom engage in comprehensive and effective market research. Guest comment cards, for example, are a very poor and primitive system and yet are used throughout the industry. More sophisticated methods must be developed to better understand customer attitudes.

The typical hospitality company has many customer touch-points (the hotel, the central reservation system's call centers, the website, the sales office, global distribution systems), some of which the company doesn't always control or where there is little deployment of technology to capture customer information.

Thus, the "stay awake" issues for the hospitality industry executive considering, embarking-on or managing a CRM system appear to be as follows:

- How should CRM fit into our overall strategy?
- What are the key elements of a successful CRM system?
- Which elements of CRM are appropriate for our enterprise?
- What is the business case for CRM?
- What is the process for design and development of a CRM system?
- What are the constraints presented by varying ownership, management and franchise systems throughout our portfolio?
- How will CRM improve the productivity of our sales and marketing people and marketing expenditures?
- How should we measure customer loyalty?
- Do our loyalty programs improve customer loyalty? What is the ROI on such programs?
- How can we improve our market research and integrate the results into a CRM system?
- How can we integrate the multiple

customer touch-points of our business?

- Who within the industry deploys best practices in CRM?
- What are the lessons learned from other industries' experiences?
- How ready is our organization for the financial investment and cultural change that moving to a sophisticated CRM system will require?

Distribution

With the advent of online travel distribution solutions, the traditional agency relationships between hotel suppliers and travel agencies and wholesalers are changing rapidly. As a result, customer relationships are being disintermediated,

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and industry marketing executives need to track and understand the fast-changing dynamics of this sector.

On the basis of Andersen's global research study on e-Business³, Internet-based room reservations are projected to grow from five to 15 percent of total bookings over the next two years. And Internet-influenced reservations (where information is sought on the net but reservations are made to call centers or hotels) is growing exponentially. But many hospitality websites can't take reservations, and only a few have a single image of their rooms inventory (i.e., one that appears the same from all booking points).

With distribution channels in a state of flux, hospitality companies must continually review each of their relationships and systems of distribution and look for new opportunities to distribute more of their product to both wider and more focused audiences at reduced cost.

The priority for most hospitality companies is to reduce the high costs of distribution which over the years have escalated due to the various fees paid to intermediaries. Since e-Distribution represents the lowest-cost solution (at least at the margin), companies need to increase the proportion of their reservations booked electronically; however, they require a sound e-Business strategy and implementation plan to get there. Progress in e-Commerce is often hindered by the lack of a system to measure results—again a plan is needed to ensure the implementation of such a system.

Following the dot.com bust, a number of companies in the e-Distribution game

are either gone or are struggling to survive. Large suppliers in the meantime are building online strength with some of them broadening their reach through the acquisition of additional channels of distribution or the formation of strategic alliances in key spaces.

Despite the recognized benefits of yield management (promising revenue increases of five to seven percent), most hospitality enterprises have not embraced the concept in a structured way and don't have yield management integrated into other key systems, such as CRM.

Some of the distribution "stay awake" issues appear to be:

- How are the distribution channels in the travel, tourism and hospitality sectors changing?
- Are we in a sound position to benefit

³ Hospitality e-Business: The Future, published by Andersen, 2001©



from these changes? What are our vulnerabilities and how do we mitigate them?

- Do we have the right distribution relationships in place? Where should we look for new and more productive ones?
- What should the role of electronic distribution be in our overall sales and marketing strategy?
- How is the consolidation in distribution likely to impact our business?
- How can we reduce the cost of distribution?
- Have we optimized our opportunities on the Internet? Do we have the right metrics in place to measure our results?
- Do we have a clear Internet strategy?
- How should yield management be integrated into our distribution system?
- Should we focus on maximizing direct reservations via our own website or look for strategic alliances (whether inside or outside the industry) to drive leverage and efficiency in online reservations?

Brand management

Branding has become a critical component of success and enterprise value in the international hospitality sector. Although there is far greater use of brands in the U.S. than elsewhere in the world, the use of brands and the recognition of their critical role is growing rapidly.

Brand loyalty is very shallow in the hospitality industry, and for some constituencies (especially third-party owners and independent management companies) the relative values of alternative brands are open to much questioning. Key responses to this issue are tight market research that monitors customer loyalty and CRM systems that relate behavior to attitudes.

With hundreds of different branded products and services competing in

various segments of the hospitality sector, the issue of how to optimize an individual property's performance and a chain's results frequently revolve around brand positioning and the supporting management infrastructure.

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The challenge for many brand managers is the lack of consistency that is endemic in the industry as a result of the multiple constituencies involved in capital spending decisions and high turnover and low sophistication of those who deliver the brand—the hotel employees. While this is particularly true in franchising, it is also prevalent in the management contract business. Since a brand is a promise of consistency, brand managers need to reconcile these conflicting interests if a branding strategy is ever to succeed.

Brands are also extremely expensive to build in today's environment. Success has generally come to those companies who have tightly engineered the product, taken on the financial responsibility for its early development and have taken these steps in a strong upturn in the real estate development cycle (hardly the current environment). As a result, critical mass has been an elusive target for most brand builders.

With the challenges of building brand loyalty and the difficulty of measuring success, many hospitality companies continue to struggle with these fundamental issues. Although successful brands add significantly to enterprise value, they are rarely valued in the normal course of business.

As hospitality industry executives ponder the issues around branding, here are some questions they need to ask:

- What is our brand strategy?
- What are our existing and prospective customers' attitudes to our brands?
- Is our enterprise adequately supported with optimum brand positioning and brand management?
- Are our brands appropriately positioned in the marketplace?
- Do we have the right mix of brands?
- How do we maintain product and service consistency in support of our brands' value?
- Should we build or buy brands in the future?
- How should we build brand loyalty?
- How would we measure success?
- How do we value our brands?
- How do third-party owners and investors value our brands?

Cost control/operational efficiency

We decided to address the issues surrounding cost control and operational efficiency last in this article, but not because they fall to the lowest level of priority. To the contrary, cost control is an area that is front and center for most companies, especially in the face of a continued economic recession and



particularly in the aftermath of the events of Sept. 11. Both of these factors have brought into sharp focus the need for companies and hotel properties to cut costs and reorganize in the face of sharply reduced and fluctuating business volumes.

With the increasing volatility of the business cycle, the vulnerability of the sector to declines in economic growth and the current sharp downturn in trading conditions, hospitality companies need to find new and innovative ways to trim costs without jeopardizing long-term asset values (both physical and intangible). While companies frequently revisit their strategies, they less frequently reevaluate their business model and organizational structure to ensure that it is well-synchronized with the strategy.

In the three major areas of enterprise activity (customer relationship management, infrastructure and product development), few companies have the requisite core competencies in all functions within each of these areas; thus, we've seen the growing popularity of outsourcing.

The hospitality industry has a variety of alternative business forms, some of which appear well-suited to the particular circumstances of a company and its strategies and others much less so. However, companies that short-change the investments they need to make in their organizational assets do so at their peril.

In an era in which cost cutting and productivity are in sharp focus, the issue of how to deliver corporate support and services to the field is on many corporate agendas. With large corporate infrastructures, many companies are reassessing

how they might reorganize to better serve the needs of the field. They're also reassessing labor productivity standards to design models for better scheduling and optimum utilization of human resources.

Finally, for companies with international growth and development goals, the traditional models that succeed in the home market frequently need to be completely reengineered for success internationally.

For our industry's executives up at night, what are the questions they may ask in this arena?

- How do we get our costs under control and ensure they are in sync with the likely changes in our revenue outlook and cycle?
- Do we have the optimum business model in light of our corporate strategy?
- What is the best approach to trim costs in a sharp down-cycle?
- What should be the role of outsourcing in our business?
- Which business models in the hospitality sector appear to produce the best results and why?
- Do we invest adequately in our organization? Where should we allocate our organizational capital and why?
- What impact will the current trends in the marketplace (both as to the way the industry is structured and the way our customers behave) have on our enterprise and how should we restructure in response, if at all?
- How do we need to change our model as we grow internationally, if at all?

- How should we evaluate the role of the corporate center relative to the field? Where should we be by function on the centralized/decentralized spectrum?
- How do our costs compare to our peers and to successful companies in other industries?

While we have attempted in this article to surface the most significant issues that industry executives must contend with these days, this surely is the easy part. A far tougher challenge is producing the right answers and executing against a plan. Looking at the hospitality industry "stay awake" issues in a strategic, objective and current mode, however, should enable discussions on the appropriate areas of focus and improve the odds of crafting outcomes that move the meter in terms of business performance.



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