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BUSINESS SERVICES

Welcome To Our Profit Centers Sept. 17, 2001

Hotels and restaurants cozy up to money-making IT projects.

By Cheryl Rosen

Hospitality. It's a word that exudes warmth, affability, and openness. But for the hotels and restaurants duking it out in a highly competitive industry built on razor-thin margins, the reality isn't quite so congenial.

The economic slowdown has left its mark. Though the restaurant and hospitality sectors last year contributed 5% of the gross domestic product, employed 19 million people, or almost 14% of the U.S. workforce, and generated \$400 billion and \$93 billion in sales, respectively, more and more high-end business travelers—and leisure travelers—are staying home. That's putting a big dent in revenue.

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Not surprisingly, that's meant slim increases in IT budgets. Preliminary results of a not-yet-released survey of hotel industry CIOs by Hospitality Technology magazine show capital expenditures—including IT investments—up less than 2% on average this year from 2000, editor Rob Davidson says.

CIOs in the restaurant and hospitality sectors are focusing on technology projects that cut costs and also bring revenue into the IT budget.

Examples abound. The IT group at Cendant Corp., parent of quintessential 1950s hotel company Howard Johnson, has turned from support group to new-business generator. After developing a system that aggregates data from transactional and referential databases and then posts it online, the IT department licensed the system to French bank BNP Paribas for "multiples of its original cost," CIO Larry Kinder says. Cendant also sees opportunity in other IT ventures. In addition to buying up transaction-based businesses such as Avis Rent A Car, Century 21 real estate, Coldwell Banker, and car-fleet supplier PHH Arval, and using them to dominate sales in new industries, Cendant bought Wizcom, the former IT arm of Avis, and Galileo International Inc., the erstwhile technology division of United Airlines Inc.

Marriott International and Hyatt, along with Bass Hotels & Resorts, ClubCorp USA, and Fairmont Hotels & Resorts, in May turned their supply-chain automation project into a new business with the launch of Avendra, a purchasing marketplace for hotels. The five founders own, manage, or sell franchises for 4,000 hotels with 650,000 guest rooms in North America and account for \$10 billion of the \$80 billion the hotel industry spends annually. The electronic procurement system, based on GoCo-op software, is still being tested and won't go live until next year, but 40 competitors already have signed on as customers.

Meanwhile, Tom Murphy, CIO of Royal Caribbean Cruises Ltd., is helping underwrite the cost of bringing technology to ships at sea by selling Internet access to guests through CyberCafes in public spaces and CyberCabin wireless boxes they can take back to their cabins for \$100 a week. The boxes link to the ship's PBX system, which uses satellites to send and receive E-mail messages. An average of 30 boxes per ship "is almost always sold out," Murphy says. Although many in the hospitality industry are trimming IT investments, Murphy says the Miami company's expense and capital budgets are up for 2001 and 2002 - evidence of a decision by management to use the down economy to gain on its competitors by forging ahead with IT projects to win customers and streamline operations.

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In a year in which lots of new inventory—in this case, new hotel rooms—has crossed purposes with a softening economy, former Mirage Hotels CIO Glenn Bonner says his focus on avoiding unnecessary costs and earning revenue caught the eye of his new CEO. At the time, Mirage was being acquired by MGM Grand, and Bonner was worried he'd be pushed out. But in a preemptive strike, Bonner drew up a proposal that promised to save \$5 million in IT costs and bring in new revenue by opening the hotel's internal data center to outsiders. Today, as CIO of MGM Mirage Inc., he manages his own data as well as that of Wagerworks.com, a supplier of the automated gaming systems on the casino floors. While online gambling for cash prizes isn't legal, Bonner's preparing for the day it will be by beginning development of an online-gaming system.

The co-location contract between MGM Mirage and Wagerworks has brought Las Vegas-style games to the MGM Grand's Web site and the management of Wagerworks' data into MGM Mirage's IT shop. Bonner and his team manage 26 servers, including a Sun 6500, two Sun 3500s, and 23 Linux and Windows 2000 Intel single-and dual-processor units. The servers host data for eight virtual casinos. Though he declined to say how much revenue any of these IT projects is generating, Bonner says hosting Wagerworks' servers helps pay for the tens of thousands of dollars it costs MGM Mirage each year to manage its own data and helps the Las Vegas company's executives "see us as the long-term manager of that technology."

Bonner spearheaded another source of revenue: MGM Mirage licenses its data-warehouse and messaging technology to another Las Vegas hotel, Mandalay Bay. Bonner and team also plan to license internally developed systems that help MGM Mirage track employee uniforms, manage the chemicals in the Mirage dolphin pool, and sort 90,000 job applications a year.

In addition to the focus on bottom-line returns, connectivity with partners permeates this year's IT projects throughout the hospitality companies in the *InformationWeek* 500. Extranet and wireless links are letting these businesses connect with company -owned outlets and with the franchisees who fly the company flag, providing data to help them manage their businesses, speed delivery, hire and retain workers, deliver better customer service, and improve profitability for everyone.

Carlson Companies Inc., for example, is building on its \$21 million investment in an Oracle-based three-tier client-server infrastructure with a \$1 million investment in the Mobile Access to Carlson Hospitality system, or Mach-1. It's being tested at five sites and uses Compaq's iPaq platform and Microsoft's Windows CE operating

system for the Pocket PC to deliver personalized management reports. Mach-1 replaces a process involving reams of paper that busy hotel managers often don't read. The new anytime, anywhere reports include details such as percentage of inventory sold each day and alerts when occupancy falls below a certain level. Later this year, Mach-1 will link up with the 700 franchisees of Carlson's Country Inns & Suites, Radisson Hotels, and Regent International brands. The Minneapolis company has also begun deploying systems that will enable wireless check-in and checkout of guests.

Darden Restaurants Inc. in Orlando, Fla., the parent of the Olive Garden and Red Lobster chains, as well as of two new brands, Bahama Breeze and Smoky Bones, is building interfaces to its newly centralized back-office systems and MicroStrategy Inc. data warehouse, so its company-owned network of restaurants can access financial data and metrics on guest satisfaction, food quality, and employee retention. The interfaces also cut the time it takes to authorize credit-card payments from 20 seconds to two, CIO Will Anguish says. The \$8 million IT upgrade has 31 full-time Darden and Andersen staffers adding accounts-payable, fixed-assets, purchase-order, project-management, and inventory modules from Oracle, and human-resources systems from PeopleSoft Inc. In addition, new homegrown applications help the company manage the selection and construction of new sites as well as food preparation—especially important for Red Lobster, whose seafood-based product line includes highly perishable ingredients.



Darden Restaurants is building interfaces to speed transactions, CIO Anguish says.

Fast-food company Tricon Global Restaurants Inc. in Louisville, Ky., will spend the next three years to five years bringing to life its vision of the "tightly connected enterprise," which will touch virtually everyone with whom it interacts—including its 30,000 KFC, Pizza Hut, and Taco Bell franchises worldwide. This summer, Tricon began adding content-management software to its existing franchise extranet so restaurant managers can more easily share financial information and best practices. For shareholders, Tricon plans to provide online broadcasts of its quarterly earnings; it's also considering online stock sales. For customers, it's piloting online ordering and coupons—and leveraging those initiatives to recruit new hires from its customer base. Tricon is also evaluating online business-to-business payment systems to replace a legacy electronic data interchange system and expedite communication with and payments to suppliers, CIO Delaney Bellinger says.

Enterprise Rent-A-Car Co. in St. Louis, whose main business is providing loaner cars to consumers who've been involved in accidents, is linking its Unix-based IT shop to a Web site that's accessible to its insurance-company customers and authorized repair shops. To access the site, an insurance agent or a repair-shop employee needs only an Internet connection, a user name, and an ID. CIO Bill Snyder says the system, which links 150 insurance companies and 2,200 repair shops, has cut the time it takes to get customers back in their own cars by half a day and will save the insurance industry \$54 million a year.

For MGM Mirage, consolidating two hotel properties and their IT organizations helped cut costs by \$6.2 million. CIO Bonner stuck an 802.11 wireless transceiver in the cupola of the Bellagio Hotel and pointed it at the MGM Grand, linking the two E-mail networks "until we could run fiber down the boulevard." Then he centralized customer databases from five AS/400 systems and closed three computer rooms. Bonner has also implemented electronic-procurement software from PurchasePro Inc. "We have 23,500 rooms, and that means a lot of bodies that consume a lot of food," Bonner says. The system channels about 60% of MGM Mirage's orders to the 20% of its existing supplier base that's online.

The hospitality companies on this year's *InformationWeek* 500 list are relying more than ever on their IT departments to help them succeed in an industry where a smiling competitor is always waiting to woo customers. That means using technology to generate new revenue, collaborate with partners, better serve customers, and improve business management. Says Bonner, "We're standing up and being proactive about returning value to our company and our shareholders."

Closeup Hospitality & Travel

Rank	Company	Revenue in millions	Revenue Change	Income (loss) in millions	Income Change	IT employees
12	Cendant Corp.	\$4,659	-23.3%	\$602	-	3,100
57	Marriott International Inc.	\$19,781	11.9%	\$479	19.8%	2,950
77	Galileo International Inc.	\$1,643	7.7%	\$149	31.8%	1,526
101	Flying J Inc.	\$4,349	47.3%	\$25	81.6%	120

106	Carlson Companies Inc.	\$31,000	-	-	-	2,400
148	Enterprise Rent-A-Car Co.	\$5,600	18.4%	-	-	1,100
163	MGM Mirage Inc.	\$3,233	132.0%	\$161	87.0%	280
202	Royal Caribbean Cruises Ltd.	\$2,866	12.6%	\$445	16.0%	440
206	Harrah's Entertainment Inc.	\$3,471	14.8%	(\$12)	-105.8%	750
268	Delaware North Co.	-	-	-	-	99
304	Tricon Global Restaurants Inc.	\$7,093	-9.3%	\$413	-34.1%	780
327	Wyndham International Inc.	\$2,499	0.1%	(\$325)	69.7%	115
372	Darden Restaurants Inc.	\$4,020	8.6%	\$197	11.5%	150
430	Lane Hospitality	\$1,000	-	-	-	130
436	Aramark Corp.	\$7,263	7.7%	\$168	12.0%	310
484	CKE Restaurants Inc.	\$1,785	-10.3%	(\$194)	-569.0%	120
492	Sodexo	\$4,734	5.2%	\$63	5.0%	251

Financial data from public information sources. Figures are for most recent fiscal year.
 IT employee information from *InformationWeek* 500 qualifying survey. Requested company footnotes at informationweek.com/855/splash.htm.

SnapShot 500/Hospitality & Travel

Inside companies

Average portion of revenue spent on IT	3%
Portion of IT organizations that sell services or IT products to other companies	41%
Portion of companies that say wireless E-commerce will contribute to E-business revenue stream	82%
Senior IT executive is a member of executive management committee	94%
Average portion of customers included in electronic supply chain	28%

How companies divide their IT budgets

New product and technology purchases	18%
IT consulting and outsourcing	11%
Research and development	4%
Salaries and benefits	35%
Applications	22%
Everything else	10%

How often companies re-examine their IT spending plans

Daily	6%
Weekly	-
Monthly	41%
Quarterly	41%
Twice a year	-
Annually	12%

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