



Hospitality & Travel: Room Service Behind The Scenes

Cutting costs and improving service aren't always mutually exclusive

By Paul McDougall, InformationWeek
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Despite signs of an uptick, the hospitality and travel industry is, for the most part, still mired in post-9/11 doldrums. Corporate travel hasn't returned to previous lucrative levels, and the war in Iraq and the SARS scare have further dampened spirits. To get their share of those who are venturing out, and to serve them more profitably, major hotel and restaurant chains are turning to infrastructure consolidation, customer-relationship management, and other IT-led projects. Additionally, many companies in the hospitality business are considering moving some operations offshore to reduce labor costs.

"We're trying to reduce cost and constantly improve service," says Glenn Bonner, VP and CIO at MGM Mirage in Las Vegas. "Those aren't mutually exclusive."



Marriott's Melnick:
Infrastructure consolidation has meant faster time to market and savings.

Photo of Howard Melnick by Chris Usher/APIX

Infrastructure consolidation tops the list of cost-cutting projects at many big-name companies in the industry. Marriott International Inc., the sprawling hotel and resort conglomerate that encompasses 17 brands and more than 2,600 operating units, recently upgraded and combined the two yield-management systems it was using to handle guest transactions. The systems shared many processes but resided on separate architectural platforms. Changes in the systems required multiple, one-off enhancements that were managed by two different groups within the company. That resulted in unnecessary costs, says Howard Melnick, Marriott's senior VP of applications services. Over the past year, Marriott has developed a single, centralized revenue-management system, called One Yield. It features a thin-client, Web-based design. Among the system's benefits, Marriott officials say, is that it speeds time to market for strategically important enhancements. The system also features software designed to facilitate better forecasting and immediate reaction to changing market conditions.

At Darden Restaurants Inc., Will Anguish, VP of corporate systems, recently oversaw the completion of a PeopleSoft human-resources implementation to cover a workforce of 130,000 at familiar chains, such as Olive Garden and Red Lobster. The project, begun two years ago, let Darden replace a number of mainframe applications. The new system is less expensive to operate and better equipped to provide more information about payroll and benefits to a workforce that's often in flux. These features can be

key to employee retention in the restaurant business, where staff turnover is typically high.

"Lower turnover translates directly into improved customer service, because you end up with more people who know what they're doing," Anguish says. Darden's goal: reduce turnover among its restaurant workers by 10% to 15%. "We can do that in part by letting them know that this is a great place to work. A lot of them didn't even know they can get pet insurance through the company," Anguish says.

MGM Mirage also is consolidating its guest-management systems. Its New York, New York hotel in Las Vegas is moving off its own system and will share data and transaction processing with sister hotel MGM Grand. The move became possible after MGM Grand removed its slot-management software from its Stratus high-availability servers, creating excess capacity. Consolidation "always made sense from a business perspective, and now it makes sense from a technology standpoint," Bonner says. As a result of the move, upgrades and enhancements to the system will benefit both hotels at once.

To improve efficiency, Carlson Companies Inc., the privately held operator of several hotels and travel-services companies, including Radisson Hotels and Resorts and Carlson Wagonlit Travel, has rolled out its Great Works initiative. It's a collection of Six Sigma projects that Carlson implemented with The Hackett Group division of AnswerThink, an online consulting firm. Carlson executives say the program yielded more than \$50 million in profit improvement in 2002 and will add more than \$100 million to the bottom line in 2003.

Among other things, the process identified a weakness in Carlson's CRM program. "We have very robust capabilities, but they're too specific to our brands," CIO Stephen Brown says. Carlson is now building a system that will integrate customer data from across its product groups to facilitate joint marketing. "We'd like to know which of our hotel customers might be good candidates for our cruise-ship promotions and target them accordingly," Brown says. The initiative also revealed that Carlson could save money by moving more operations offshore. Hosting vendor Corio Inc. provides Carlson with application-development services in India. Now Brown is looking to move call-center operations to that country.

Not all hospitality executives believe offshore outsourcing is right for the industry. Darden considered outsourcing HR functions, Anguish says, but "we were never able to get it to the point where it was cheaper than what we can do ourselves." MGM Mirage's Bonner says customer interactions are too valuable to place in the hands of a third party, let alone one half-a-world away that employs workers who, in all likelihood, have never been to Las Vegas. "We train every worker to own their customer interactions; that means doing everything they can to solve a problem and passing it off to someone else as a last resort," Bonner says. "That's not going to happen in an offshore situation."

It's a sentiment that resonates with any road warrior who's called a central-reservations number to ask for a restaurant recommendation near his or her hotel. "What you mostly get is stunned silence, so I'll definitely give more business to someone who can demonstrate local knowledge," says Christopher Bristow, who logs roughly 200,000 miles per year as CEO of New York City talent agency Creek & River Inc.

More travelers like Bristow may soon be on the road again. A recent survey by Accenture indicates that business travel is set for a modest rebound. Four out of five respondents to the survey say travel at their companies will increase or stay the same over the next six months.

That's welcome news for Hilton Hotels Corp., where net income fell 29% in its most recent quarter,

ended in June. To help boost those numbers, tech staffers have been pursuing what Delia Molinski, director of IT business processes, calls "the final chapter of standardizing our technology platform." The initiative includes migrating property-management technology in 135 hotels from several legacy systems to a single system, called QonQ, which features robust improvements to CRM that can be used by individual hotels in the Hilton chain. By the end of the year, Molinski says, all 2,100 hotels that the company operates will be using QonQ.

Industry experts say that in a weak market, effective use of CRM becomes more crucial as companies compete for the same set of travelers. "The market isn't growing much, so any growth that you do get as an individual company is going to come at someone else's expense," says Julian Sparkes, a partner in Accenture's transportation and travel-services group.

But customer-facing initiatives aren't enough, Sparkes says. To operate as efficiently as possible, travel and hotel companies need to ensure that their electronic presence is strong within the myriad networks that form the global-travel web. That rings true for Bonner, who says the uncertain political and economic times mean that many travelers are no longer comfortable making reservations well

in advance of arrival dates. Rather, they use the Internet to shop around and make last-minute plans.

To ensure it gets a good share of that market, MGM Mirage is upgrading its direct Internet booking capabilities and connecting its reservation systems to those of online wholesalers, such as Expedia and Travelocity. A pilot project with Expedia should be in place by January 2004, Bonner says. The companies are using Microsoft's .Net Web-services technology to let Expedia's search system perform live queries into MGM's reservation system and come up with the best rates in real time. "That's much more profitable for us than setting a block rate three months in advance and selling to a wholesaler," Bonner says, adding that the .Net interface is an essential buffer. "If we let third-party systems ping our systems directly, it would crash our network." At Royal Caribbean Cruises Ltd., CIO Thomas Murphy has been trying to "keep it all afloat" while maintaining a cap on head count. The cruise line's new Niku passenger-management system provides a real-time operating environment for a number of business processes. It proved handy when the cruise line took delivery of Brilliance of The Seas, a 962-foot ocean liner capable of carrying 2,100 passengers. Adding the ship's cabin inventory into Royal Caribbean's reservation systems was relatively easy given Niku's Web-based front end.

A new partner portal embedded in Niku lets travel agents receive commissions online, view all transaction histories in a single pass, and perform account reconciliation in real time. Guests also can log on to part of the system and fill out embarkation forms online, an important time saver that helps get ships out to sea faster. Royal Caribbean also has centralized a number of administrative functions, such as finance and accounting, contract review, and administration, a move expected to save the company \$5 million over the next three years.

With the market improving, the travel and hospitality industry is proving that reducing costs, generating new revenue streams, and serving customers aren't mutually exclusive.

INDUSTRY LEADERS

Rank	Company	Revenue in millions	Income (loss) in millions	IT employees
5	Hilton Hotels Corp.	\$3,847	\$198	566

6	Carlson Companies Inc.	\$19,800	--	1,010
21	Cendant Corp.	\$18,110	\$1,205	3,600
44	Marriott International Inc.	\$8,441	\$277	1,719
75	Royal Caribbean Cruises Ltd.	\$3,434	\$351	284
88	Wyndham International Inc.	\$1,677	(\$522)	86
109	MGM Mirage	\$4,031	\$293	230
124	Sabre Holdings	\$2,057	\$214	1,850
279	Darden Restaurants Inc.	\$4,654	\$232	174
310	Starwood Hotels & Resorts Inc.	\$4,659	\$355	--
363	Flying J Inc.	\$4,600	--	120
414	Aramark Corp.	\$8,770	\$270	445
449	Cracker Barrel Old Country Store Inc.	\$2,067	\$92	110

Financial data is from public sources and company supplied.

Revenue is for latest fiscal year.

Employee data is from InformationWeek 500 qualifying survey.

SNAPSHOT

INSIDE COMPANIES

Average portion of revenue spent on IT	4%
Average percentage of industry applications and business processes that have Web-based front ends	51%
Companies with real-time business processes in place	86%

HOW COMPANIES DIVIDE THEIR IT BUDGETS

Hardware purchases	15%
Services or outsourcing	10%
Research and development	5%
Salaries and benefits	38%
Applications	19%
Everything else	13%

INDUSTRY FINANCIALS

Average year-over-year revenue change	0%
Average year-over-year net-income change	74%

DATA: INFORMATIONWEEK RESEARCH

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