By Clay B. Dickinson

Lodging Industry Transformation
How Will it Affect Your Company's Future?

The hospitality industry is in the midst of a fundamental business transformation that will affect virtually every facet and stakeholder in the industry. The drivers behind the transformation are many and the ramifications substantial. But the real significance lies in ascertaining what new skills, capabilities and supporting infrastructures will be required to best capitalize on the opportunities while mitigating the challenges. Although traditional competencies will remain essential, they will no longer be sufficient to truly succeed in tomorrow's lodging environment.

What Transformation?

The essence of the transformation of the hospitality industry is its evolution from a more product-focused, physical asset-intensive industry to a more customer-focused and brand-intensive one. The end goal has not really changed – it remains maximizing value for the investors, owners and managers of hotel assets. So it is really the "means to the end" that is in transformation.

Lodging companies' historical emphasis has been on developing physical products and supporting services in accordance with the perceived wants and needs of their customers, and then deploying the sales and marketing and distribution resources necessary to sell those products and services to said customers. In short, a product-focused strategy.

In the future, companies' activities will be oriented toward developing an understanding that transcends the merely physical, and encompasses the emotional and psychological wants and needs of an ever more precisely defined set of target customers. Companies will then use this insight to market a wider array of products and services through strong brands designed to build loyalty across a customer's lifetime.

Although the shift from a product- to customer-focused strategy may seem subtle, the affect it will have on lodging companies will be far-reaching and substantial. The capabilities and infrastructure required to acquire and make sense of the customer information – let alone to "operationalize" those insights into sales and marketing strategies and at property-level operations – are by no means trivial. Indeed, they will provide a variety of opportunities and challenges.

Business Opportunities and Challenges

One of the most important aspects of the industry's transformation is the impact it will have on a company's day-to-day business going forward. Here are some of the ramifications that will create a variety of opportunities and challenges:

• **Impact on traditional competencies.** Transaction-intensive activities such as central reservations, call centers, and back-office processes become more automated ,they will be less important as sources of competitive differentiation.

• **Guest facing IT investment.** The nature and direction of IT investment will change ever more toward technologies that add value and directly affect the guest.

• **Operationalized customer relationship management.** Hotel companies still have difficulty putting customer knowledge to use. Putting this knowledge into the hands of the right people at the right time such that it affects the guest experience will be essential to competitive advantage.

• **Workforce management.** The above will affect the future design and management of the workforce. Support functions will be centralized into the most cost-effective locations, while self-service and mobile technologies will enable a host of innovative combinations of traditional guest facing positions.

• **Organizational flexibility.** This will be critical to success. The only constant is change. Therefore, technologies that can interoperate within dynamic value ecosystems will be key to sustainable competitive advantage.

The business impacts summarized above produce a series of opportunities and challenges. Whether something is an opportunity or a challenge is often a question of perception. Here are some of the more pressing issues.

• **Strategic focus.** Companies have the opportunity (need) to reassess their strategic focus in order to develop the capabilities required to build powerful brands and deliver unique customer experiences.

• **Re-evaluation of core competencies.** Transformation is changing the relative importance of what gets done, but technology is revolutionizing how and where it gets done. Companies must reexamine how to most cost-effectively undertake non-core activities without compromising the business.

• **Enabling IT.** Unless IT can overcome the perennial challenge it faces as "cost to be minimized," little is likely to change. Reducing the costs of non-core activities creates a huge opportunity to obtain funding for key strategic IT initiatives.

• **Global sourcing.** The increasingly global nature of hospitality operations creates another real opportunity exists to both lower costs and create more customers through global sourcing.

• **Competing claims on the customer**. A widening array of products and services can make "who owns the customer" unclear, creating the need for holistic view of the customer and an opportunity to leverage technology.

• **Measurement/ROI.** A growing challenge is demonstrating the value of transformational activities. Cost transparency and process effectiveness are benefits of new ways to undertake traditional activities. New (SOA) technologies lend themselves to more precise measurement and greater re-use.

The lodging industry is in the midst of a fundamental business transformation that is neither forgiving or for the faint of heart. Success will require near-flawless execution, or the negative repercussions could be devastating. A company cannot afford to hang its entire value proposition to the promise of a strong brand and then fail to deliver on that promise.

In the future, the relative importance of some traditional competencies will diminish, while new competencies and capabilities will become necessary to remain competitive. A properly executed transformation can be largely "self-funding" mechanisms as IT enables lower costs and increased efficiency and effectiveness of core and non-core business processes, freeing up funding for revenue producing activities.

Successful transformations will demonstare the truth of the axiom, "Success rewards the prepared." Companies will need to think through their transformation strategy, determine their strategic focus, assess their own strengths and weaknesses, and consider working with partners experienced in the activities that are either no longer core to the business or for which they are not internally well prepared.

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