Application Rationalization in the Hospitality Industry

By Clay Dickinson and Cyrus Deyhimi

While not unique in its struggles with legacy information technology (IT) systems, the hospitality industry is notorious for the sheer number of disparate and non-interoperable IT applications it uses to run its business at both the property and enterprise levels. This issue continues to be exacerbated by market dynamics at both ends of the spectrum: increasing mergers and acquisitions, greater product diversity, new distribution channels and aging technology at one end, combined with an unprecedented proliferation of cell phones, PDAs, RFID and other wireless gadgets at the other. All options exponentially increase the demands placed on IT systems. The end result is a bewildering array of redundant or obsolete IT platforms and applications that negatively affect a company's profitability and its ability to develop and execute strategic business initiatives.

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Organizational Impacts

In the current environment of double-digit earnings increases, it is easy for hospitality companies to become complacent and ignore the seemingly innocuous negative effects that disparate applications can have on corporate performance. But, given the cyclical nature of the hospitality industry, this may be the ideal time to take measures to guard against this ticking time bomb, before the negative effects extend beyond mere wasted money and into areas of strategic significance.

Some of these strategic areas include: customer relationships, financial reporting, regulatory compliance, operational inefficiency and strategic attention and legacy system costs. For each of these the following are just some examples of possible negative effects:

1 The inability to obtain a unified view of the customer which precludes customer intimacy, the consistent delivery of customized service experiences and the accurate estimation of customer value.

2 A heterogeneous mix of financial systems, or multiple instances of one, which results in excessive manual data entry, time delays, errors, difficulties in reporting to various stakeholder groups, and which unnecessarily elevates costs.

3 With such diversity of applications, regulatory compliance or compliance with Sarbanes-Oxley, PCI, Patriot Act, Do Not Call and other regulations can be more difficult and very expensive.

4 Regarding operational inefficiency and strategic attention, everything from employee training to consistent enterprise-wide service delivery and revenue generation is sub-optimized. Key executives can be distracted from strategic issues because they are too busy putting out fires.

5 Finally, legacy costs can include the high costs of resources, consultants and vendor support to maintain a diverse portfolio.

Similarly daunting to undertaking the renovation of an old historical hotel without as built drawings, many companies understandably steer clear of application rationalization for fear of opening a Pandora's Box. Moreover, it is difficult to quantify the return on investment of such projects due to the difficulty in linking specific costs with specific benefits. But such hesitation is one cause of the problem in the first place.

Using a consultant with experience with many clients yields immediate tactical wins that can often self-fund the long-term solution. While the complete methodology employs a total life cycle process (Figure 1) that encompasses three main phases: assess, rationalize and sustain, this article focuses only on Phase I – Portfolio Assessment. Portfolio assessments range in duration based on scope and complexity of the portfolio. The primary goal is to quickly produce a business case that maximizes return on investment (ROI) and net present value (NPV), while documenting a clear transition plan.

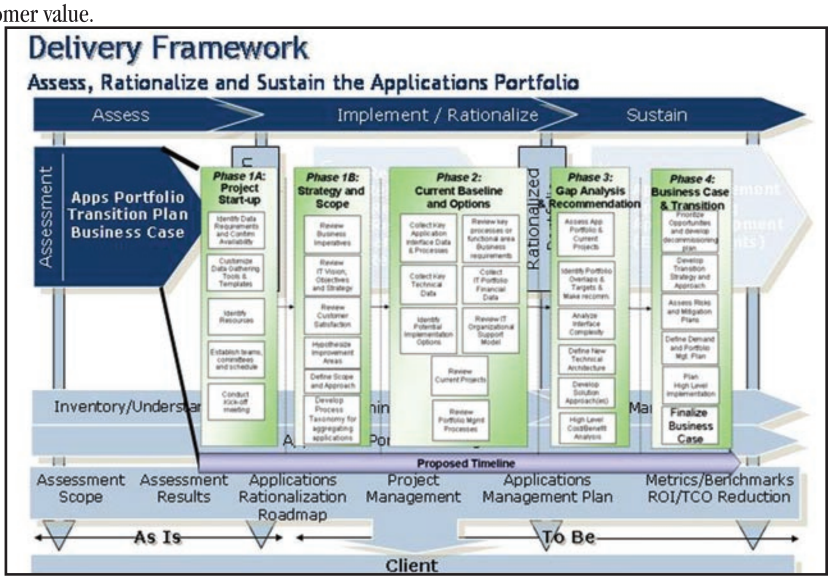

Figure 1. Delivery Methodology for Rationalization

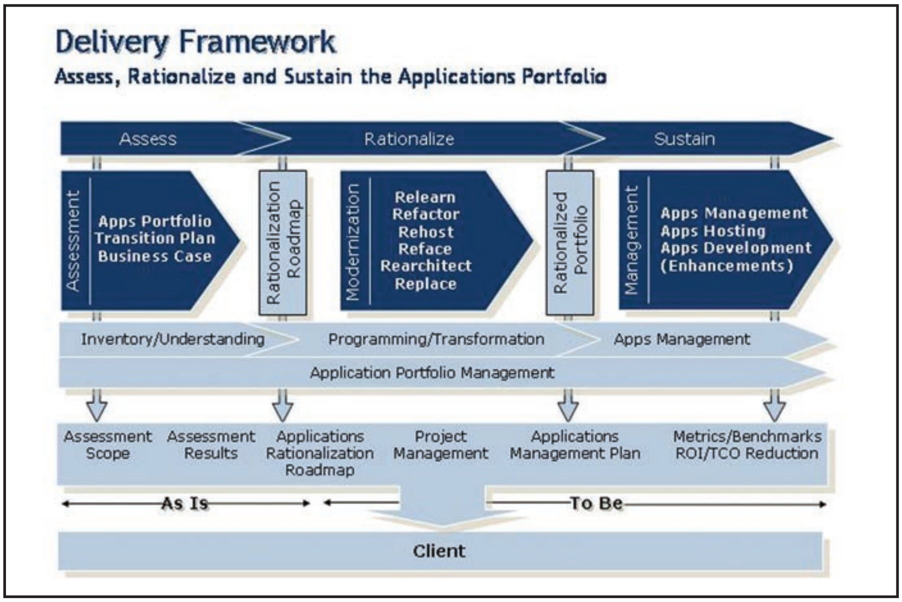

Figure 2

Another critical component of the portfolio assessment is the prioritization of applications based upon an effective methodology similar to that used in analyzing stock portfolios. Applications are ranked based on the ability to yield the greatest NPV and ROI using agreed-upon parameters. This novel approach has proven popular as it focuses investments in those applications that ensure strategic business and IT alignment and deliver concrete business value. The methodology also highlights those qualitative capabilities that may not be specifically quantified in the business case but nonetheless contribute toward creating a sustainable competitive advantage.

A fundamental aspect of this methodology is the organization of the application portfolios around functional areas based on standard industry process models. These best practices process models provide additional value by jumpstarting companies' insights into their own processes and areas of immediate improvement. It is worth noting that a small cadre of experienced business consultants, rather than purely technical resources, that integrate the process models into each company's unique environment can be very effective.

Benefits

Companies that rationalize their application portfolios using a solid methodology have consistently realized organizational and financial benefits. The graphic in Figure 2 demonstrates that the Pareto Principal holds true in that usually 20 percent of applications have the features and functionality required to meet 80 percent of the mission-critical requirements of the business. The challenge is to quickly and cost-effectively identify that 20 percent, stabilize and extend where needed, retire redundant and/or antiquated applications, and allow the savings uncovered to fund higher value-added applications.

In a recent rationalization engagement example 350 applications were identified that could be rationalized, yielding net yearly savings of approximately $100 million or 15 percent the company's application budget. The effort produced a clearer picture of the company's business processes and identified new applications, better aligned with its business strategy to transform it from a product to a customer oriented company.

Application rationalization minimizes the cost and complexity of a client's IT applications portfolio by eliminating redundant or obsolete applications, harmonizing valuable processes and technology platforms, and emphasizing investment in the most valuable applications. Tackling the assessment phase of this process using a proven methodology that identifies and quantifies benefits, produces a business case and creates a transition plan that reduces costs and risks, while bolstering those strategic capabilities, will determine who wins and who loses in the increasingly technology-based and competitive hospitality market of the future.

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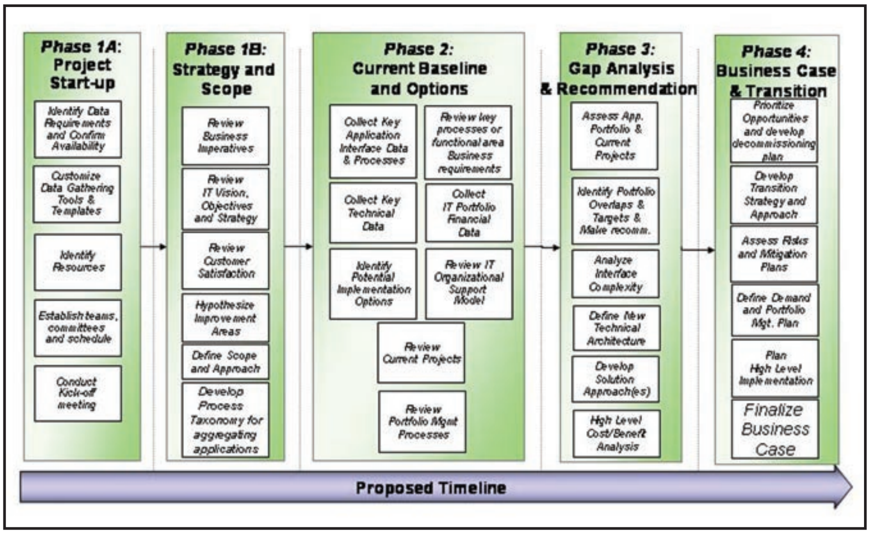

Figure 3 - Phases and scope for monitoring application rationalization.

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