Hospitality Upgrade's CIO Summit 2003

"Technology is an applied science, i.e., it translates the discoveries of theoretical science into practical application to man's life. As such, technology is not the first step in the development of a given body of knowledge, but the last; it is not the most difficult step, but it is the ultimate step, the implicit purpose, of man's quest for knowledge."

~Ayn Rand, excerpted from "Apollo 11," *The Objectivist,* September, 1969

The hospitality industry's second annual CIO Summit was hosted in the countryside of Virginia, a setting steeped in history and progress. The venue was Lansdowne Resort and Conference Center, renowned for executive gatherings and picturesque placement along the Potomac River. Considered highly accessible from the Eastern Seaboard as well as international hubs, the Summit's location was proximate to one of the world's greatest centers for commercial, cultural and political activity, Washington, D.C.

by Elizabeth Ivey

Along with the staff of *Hospitality Upgrade*, Sally Kelly of BearingPoint Consulting produced a successful sequel to last year's inaugural Summit, envisioned long ago by Publisher Rich Siegel. IBM and InfoGenesis were generous in their sponsorships. HFTP continued in their role as the founding association. By invitation only, CIO attendance rose to 30 with increased representation from the gaming community, management companies and the cruise segment. There was also a larger international delegation this year, reinforcing the need for a global perspective.

While not yet a time-honored tradition, there is little doubt that the CIO Summit will continue to grow in size and importance. How could it not? There are more CIO positions being created as more industries acknowledge the power of information. Likewise, the scale and scope of the CIO's role in the evolution of the hospitality industry will not be reduced and will only become more relevant.

Agents of Change

In many ways today's CIO is representative of the discerning traveling public. Most of them spend as much time on the road as they do at home. They have reasonable technology requirements while traveling: ample workspace, reliable communications, ubiquitous cell phone coverage and in-room Internet access. As road warriors they also appreciate relatively healthy cuisine and a few options to help them "unplug" at the end of the day.

Other observable traits of the CIO: Most of them consider themselves agents of change. They accept a lack of charted territory in their field. They connect people within and beyond their organization, and help manage uncertainty by seeking visibility through a window on the future. Willfully, the CIO is among the most progressive of executives within their organizations despite the resistance that typically accompanies any form of change. Perhaps unknown to them, this trait of CIOs makes them somewhat kindred *despite* widely varying personal styles and organizational agendas. Today's CIO role demands leadership and interpersonal skills not previously fostered in technologists.

Judging by the topics covered at the Summit in the past two years, I can testify that there is nothing easy about the CIO's job. Their daily duties are certainly much more cerebral than arranging bridal luncheons, perfecting the art of bed making, crafting clever advertising, procuring fine wines or administrating employee benefits. Interwoven with almost every facet of property and enterprise operations, the massive responsibility of information managers is infinitely more challenging than turning over a full house during back-to-back citywide conventions. For this reason it is especially enjoyable to see them relax among their contemporaries in casual surroundings.

Summit Warm-Up – Interpersonal Skills

Last year it was suggested that there be more social and informal networking time. Many participants chose to arrive early for a round of golf on Lansdowne's world-class course. Rain prevented the opening night social from taking place on the terrace, but the festivities could hardly be dampened when the well-appointed buffet offered unlimited lobster. The sponsors addressed the attendees after dinner that evening in order to maximize time for the topical presentations of the following day.

Marvin Erdly, manager of IBM's Business Consulting Services, Hospitality and Leisure practice, welcomed the attendees and reiterated IBM's commitment to the industry. He emphasized the two most dominant forces shaping the hospitality and leisure industries in the coming years–globalization and technological innovation. "Experience Rules," an executive summary published by IBM Business Consulting Services, was distributed to all attendees. The insightful paper shares Big Blue's vision for the hospitality and leisure industry, circa 2010, and can be downloaded from the IBM Web site.

To paraphrase, "*globalization, the co-mingling and interdependency of economies, allows and inspires diverse peoples to go places and interact in ways that were previously unconceivable. Technology will continue to enable unhindered access to information, as well as the effortless and instantaneous nature of communications. The effects of scientific advancement will accelerate an evolution in customer demographics and preferences, allowing micro-segmentation of populations, while the widespread dispersal of wealth will result in a quest for new sensations and experiences.*"[1]

Karl Willig, president and CEO of InfoGenesis, was particularly enthusiastic about the opportunity to learn more about the challenges faced by CIOs. Willig attributes his company's 97 percent customer retention rate to a genuine willingness to listen and respond to the evolving needs of their clients and the industry at large. He cited his company's continued aggressive investment in product develop-

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ment and commitment to building lasting relationships as key to their sustainability.

The Summit Commences

The Summit format consisted of three presentations, two breakout sessions from which the CIOs would choose, one public service announcement and one panel. This year's format seemed conducive to more audience involvement. The attendees were much more vocal, frequently challenging presenters as well as their fellow CIOs – a high-spirited and opinionated group of executives indeed.

The first presentation of the day examined the **Sarbanes-Oxley Act** and the implications for IT. Doug Harvey of BearingPoint summarized the comprehensive legislation, sometimes referred to as S-Ox or SOA. Enacted in mid-2002 following the widely publicized collapse of some of the country's largest publicly held corporations, its primary purpose is to restore investor confidence in corporate accounting and reporting practices through improved internal controls. Certain provisions of the act were immediately effective while other provisions will continue to be implemented.

Applying only to publicly held companies that file in the United States, SOA increases responsibilities for executive boards and audit committees, as well as the penalties for wrongdoing. New standards make it mandatory for companies to improve record and document management, accelerate financial reporting through automation and strengthen governance policies. To support the new requirements, new and/or enhanced processes, training and technology will no doubt need to be implemented across all industries. The challenge to CFOs and CIOs will be striking a balance between integration investments and process improvement initiatives that turn compliance with the law into a competitive advantage.

If you have material weaknesses in your data gathering, then you are more likely to have trouble compiling the necessary information. The goal is to reduce the time and labor spent tracking information required to comply by automating the processes that support data gathering and management verification of that detailed information. "Keeping the reporting process from becoming a quarterly/annual nosebleed exercise," said Harvey, "is the underlying challenge." There are many pilot projects in the works, but it must be understood that very few companies have ever done this before. This year will bring more opportunities to validate the approach to SOA compliance. There is not enough precedence for a definition of "good practice" at this time, much less an articulated "best practice."

Privately held groups and independent properties are not subjected to the stringencies of this regulation, although they would be wise to watch closely and follow the examples set by successful public peers. In this era almost any operation can benefit from improved processes and better document management. As stakeholders begin to the see the benefit of full disclosure and transparency, they may come to expect the same accountability and reporting efficiencies from their privately held interests.

Carol R. Van Cleef of *Katten Muchin Zavis Rosenman* gave an update on the **Patriot Act and related legislation**. As part of its broader anti-money laundering efforts attacking terrorism, the Department of the Treasury has proposed regulation for the handling of and reporting of funds by the travel industry. The perceived risk of money laundering and terrorist financing through the travel industry is an imminent concern, one that may burden the travel industry and other industries not currently under the scope of the Treasury Department's review.

The Patriot Act effectively broadened recordkeeping and reporting requirements of the Bank Secrecy Act (BSA), not only permitting, but requiring the collection of more information from a larger number of organizations. It expanded asset forfeiture powers, added new money laundering predicate offenses, increased civil and criminal penalties, and enforced a transparent business environment. Essentially, the FBI can knock on your door anytime and ask for your customer transaction records. There are no exceptions – no business and no individual is above this law. As many Americans take to the streets in protest, compliance with this law has also created a new mandate for technology spending with emphasis on customer identification programs.

A **Privacy and Security Legislative Update** was provided by Alexine Von Keszycki, also of *Katten Muchin Zavis Rosenman.* She discussed the changing attitudes toward privacy and trends in regulation surrounding electronic commerce. Fueled by high profile incidents, pending legislation creates the need for mechanisms that detect, monitor and respond to breaches that might compromise personal data. A review of the EU Directive on Data Protection was also provided and she noted that Safe Harbor participation among hotel companies remained low (only two chains) despite the global reach of the industry. Now is also a good time to review your company's privacy policy statement. How do your statements and practices stack

The amphitheatre at Lansdowne was a very lively place during the afternoon session on "Creating the Strategic IT/Business Relationship to Drive Success." Sally Kelly of BearingPoint tried to keep the enthusiasm manageable, which

wasn't always easy. Nick Price, the CIO at the Mandarin Oriental Hotel Group was emphatic when explaining the role technology should play. Notice the eyes in both pictures; it was a very intense session.

up to domestic and international requirements? What representations are being made by the organization other than the Web site? Are you practicing what you preach?

"Ethical hackers" Matt Miller (*BearingPoint*) and Guy Denton (*IBM*) shared their vision for **security** (along with a few exploits) reminding that hospitality is a hyper-vulnerable industry. The development and use of wireless applications is increasing along with the risks associated with them, but this shouldn't deter hotels from evaluating emerging technologies. There are many ways to reduce the risks, but it is difficult to completely prevent the compromise of data and networks. Protect your operation and yourself against increasing liability through enforceable policies, established protocols and estimated risk. "Securing the perimeter" is a daily responsibility, while the ability to restore data and/or connectivity and recover from an attack should also be reviewed frequently by executive management.

Concurrent to the presentation on security, Atique Shah (*GSI Commerce*) gave a compelling argument for a more scientific approach to **CRM**. He cited successful targeted marketing initiatives employed by retail sites, as well as the NBA. Tracking and analyzing behavior that leads to purchase has never been easier than it is with e-commerce. Over time it becomes obvious what promotions elicit a high degree of response from which demographic groups. By supplementing known customer information with data from commercially available marketing databases, more individuals (likely to demonstrate similar buying behavior) can be reached. Design of a Web site and transaction process should support the experience that is relevant to the most likely purchasers.

A Public Service Announcement from Hotel Technology-Next Generation (HTNG)

"Over the past year, the HTNG initiative has moved from vision to reality," Nick Price, CIO of Mandarin Oriental and HTNG board member, assured his colleagues during an abbreviated presentation of the groups' accomplishments to date. They have assembled a board of directors (primarily comprised of hotel CIOs), added an executive advisory group (HTNG founders and other industry figures), established officers and bylaws, incorporated and signed up initial members. They also conducted a live webcast with approximately 50 participants from the vendor and HTNG community to review the organizations' objectives and proposals for action. What's next? An initial set of vendor workgroup meetings is set to take place. More information on HTNG and the workgroups can be obtained at www.htng.org.

Alignment

The final presentation was a panel titled "Creating the Strategic IT/Business Relationship to Drive Success." Otherwise known as alignment, this word gets heavy air time these days, but in what context for hospitality? Simply stated, alignment is effectively investing in and implementing new technology that supports previously defined organizational objectives, enterprise efficiency and individual business unit needs.

Steve Crosby (*BearingPoint*), Paula Puleo (*The IDT Group*) and Russell Plantizer (*Lazard Technology Partners)* discussed with the CIOs some macro-industry needs and the outlook for investment in the hospitality technology marketplace. Broadly speaking, most hotels need to sell more rooms and services, or at least sell them more profitably. Guests need to be serviced to or beyond their expectation levels. Companies also need to respond quickly to future challenges—some anticipated and others completely unforeseen. As most of these needs can be addressed through better use of technology, addressing them adequately requires a little cash and more than a little psychology.

Unrepentant venture capitalist Russell Plantizer expressed genuine interest in the industry, but wants to find the best return for his multi-million dollar investment. (He's clearly not interested in a philanthropic donation.) Like many others, he sees the industry as almost untapped, waiting for a dominant supplier to emerge; however, he is enlightened to the challenges that make the hospitality industry far from a sure thing for investment.

The industry outsiders also shared relevant observations, in most cases confirming what the CIO recognizes as the fundamental hospitality conundrum: how to deliver better service *and* improve profitability. Paula Puleo expressed concern for the alarming oversight of the basics. Aside from lack of training and tools that deliver real service, most organizations lack the analytics to identify and retain the top 5 percent to 10 percent of their best customers. She stressed the importance of working with whatever data is available, while figuring out what the next investment should be. Though far from perfect in its current state, there is valuable information to be found in customer data.

Speaking of actionable information, globe-trotter Steve Crosby was pleasantly astonished when an Oberoi hotel employee wished him happy birthday while half way around the world in India. What is it that impresses us about this? Was it the availability of the information, the ability to act on it (what was the probability he would be in that hotel on his birthday?) or the initiative of the individual willing to make a personal connection with

Mike Kennedy, the CIO/VP Hotel Group from Cendant Corporation, questions a point made by one of the presenters. Interactive was the best description of all the sessions at the 2003 CIO Summit.

the guest? Most likely it was a lucky combination of all three, but it inspired us to hear that it had occurred.

The discussion eventually turned to the use of managed services and application service providers. The facilitators questioned the CIO audience on why these trends have gained so little ground in the industry. ASP has failed as an outsource strategy, but adoption as an in-house capability appears viable; such as a franchisor acting as an application service provider to the franchisee, or management company hosting and maintaining financial systems deployed to the managed property.

It was suggested that flawed funding models prevent the proliferation of these technologies. Ironically, very few hotel operators have any idea what they actually spend or how much they should be spending on such mission-critical technology. General consensus once again was that there are no good metrics indicating how much should be spent on systems. A good portion of the leaders somewhat sheepishly acknowledged that most of their organizations put less than 1 percent of total revenues toward technology investments.

The above fact is all the more befuddling due to the apparent willingness to pay commissions exceeding 20 percent of revenues to a multitude of intermediaries. Everyone seems to agree that continued reliance on such intermediaries is the fastest track to commoditization. While this is a strategy that most hotel companies are reluctant to accept, others may find success in doing so. The experts finally asked the CIOs to consider how ready their organizations would be to use the most desired technology if it were handed to them free of charge and with minimal disruption. Ah, introspection and wild speculation ensued…it continued through the cocktail hour.

Well-known lecturer Dr. Lalia Rach, dean of the Tisch Center for Hospitality, Tourism and Sports Management, NYU, took the podium after dinner. Part history lesson and part motivational speech, she reminded us of an age when people journeyed to hotels to experience innovation that was not yet available to the masses. Using analogies to the great industrialists and inventions that forever changed the face of travel, she challenged the CIOs to be inspired by the possibilities for differentiation.

As the majority of the industry travels on a collision course with commoditization, the quest for customer knowledge, business intelligence and attainable advantage continues. To borrow again from IBM "Experience Rules," successful hospitality companies of the future will promote customer centricity, personalize with precision and focus on the fundamentals – guest service, revenue management and brand building through experience.

The burden upon chief technologists and information officers has never been greater, yet the opportunities to control organizational (and individual) destiny remain abundant. Despite the gratifying potential for progress, the CIO alone cannot exact this organizational change. The desire to do so must come from the leadership, from those willing to take measured risks and to *create* something that did not previously exist. Forward-thinking technology leaders must prepare personnel, re-invent sales and distribution and leverage advances in technology both inside and outside the industry.

In closing, a final philosophical challenge from Ayn Rand who wrote, "Men have been taught that it is a virtue to agree with others. But the creator is the man who disagrees. Men have been taught that it is a virtue to swim with the current. But the creator is the man who goes against the current. Men have been taught that it is a virtue to stand together. But the creator is the man who stands alone."

Elizabeth L. Ivey is a senior technology strategist with HVS International, a global hospitality consulting firm. She can be reached at (303) 443-3933 ext. 220 or eivey@hvsit.com.

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1 "Experience Rules," IBM Business Consulting Services' vision for the hospitality and leisure industries, 2003.

2003 CIO Summit ATTENDEES
taken from group photo on page 19

Front row (left to right): Eduardo Petriati, *Costa Cruise Lines* (standing); Vineet Gupta, *Fairmont Hotels & Resorts*; Brian Garavuso, *Interstate Hotels and Resorts*; Clive Taylor, *The Savoy Group*; Jane Durment, *The Marcus Corporation*; John Novak, *La Quinta Inns, Inc.* (standing)

Second row (left to right): Mark F. Hedley, *Wyndham International* (standing); Mike Kistner, *Best Western International, Inc.* (standing); Nick Keriakou, *Marriott International*; Carol Campbell Beggs, *Sonesta International Hotels Corporation*; Marshall Andrew, *Station Casinos*; Leopoldo Toro, *Grupo Posadas*; Rodney Thiel, *Benchmark Hospitality* (standing)

Third row (left to right): Shannon Knox, *Destination Hotels and Resorts*; Mike Kennedy, *Cendant Corporation*; Gary Thomson, *Choice Hotels International*; Jules Sieburgh, *Host Marriott Corporation*; Tony Del Mastro, *Loews Corporation*; Jim Crosby, *Prime Hospitality Corporation*

Fourth row (left to right): John Cahill, *Affinia Hospitality*; Scott Gibson, *Kerzner International North America, Inc.*; Glenn Bonner, *MGM Mirage*; Nick Price, *Mandarin Oriental Hotel Group*; Myles Cyr, *Carnival Cruise Lines*; Dan Garrow, *Mohegan Sun*; Tom Murphy, *Royal Caribbean Cruises Ltd.*

One of the breakout sessions was "Ethical Hackers." Talk about an oxymoron. Those in attendance were very focused as the speakers shared how they hacked into different sites and where hotels might be vulnerable.