

Global Hospitality Outsourcing - Winning in a Flat World!

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In the last few years the hospitality space has seen a rapid transformation. Much has been said and written about how emerging markets such as India and China are becoming the new centre of gravity for the hospitality world. Enhancements in technology and telecommunications are able catalysts where geography is rapidly becoming history. Rapid growth and transformation within the industry has created a new set of competitive pressures for markets that were relatively isolated. The global hospitality playing field has been levelled and the resulting impact on growth and profitability continues to push leading hotel companies to explore more efficient business models and raises the following key questions for the industry:

Cost

- Are the cost structures better than industry averages?
- Is there a clear view on core vs. non-core functions?
- Is there scope for converting a large portion of the business support cost to variable cost?

Focus & Stakeholder Alignment

- Are processes within each strategic business unit and within geographical regions structured appropriately?
- Have shared service centers given the expected returns?

Growth Alignment

- Is the company 'acquisition ready' operationally?
- Is the company operationally ready to expand into growing markets and geographies?

Controllership

- Does the executive level have a consistent and standard view of information across businesses and geographies?
- Is the company being able to meet its regulatory requirements?

It will be safe to assume that in today's world no corporate strategy is complete unless it addresses the impact of global off-shoring on the organization's bottom line. Derivation of enhanced value through cost optimisation, efficiency and transformation of processes, functions, products and various businesses is imperative. Traditionally organizations have aligned their back offices to a functional productivity model that is constituted around the existing structure within the company. While these models have worked for some, there are common themes of inefficiencies that run across captive back-office operations of organizations and these inefficiencies impede the ability to optimize business performance. Having tested the transformational process and proof-of-concept with various industries across functional verticals, global outsourcing of key functions to external third party vendors is now slowly but surely becoming a key element of corporate boardroom agendas.

The initial business case for outsourcing emerges by way of significant opportunities in labor cost arbitrage. Organizations have realized this potential and are beginning to move their non-critical, people intensive segments to third party vendors or establishing captive units and shared service centres. Typical services that can be off-shored would include functions such as 24/7 global reservation centres, customer helpdesk, outbound sales support, frequent guest program management, RFP response centre and other similar services. As the industry matures, in its collective learning and experience, global outsourcing will move into its second phase; that is, to gain benefits, the that extend beyond cost arbitrage. There will be a rapid shift away from tactical off-shoring to a more transformational approach that seeks not only to leverage low cost labor but also to

Summary

The global hospitality playing field has been leveled. Transformation within the industry has created a new set of competitive pressures that were relatively isolated and continues to push hotel companies to explore more efficient business models.

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transform the organization by making it more efficient, more flexible, more productive and better equipped to handle external market dynamics. As the market for outsourcing services within the hospitality industry undergoes a significant shift the potential for work that can be done offshore will increase, leading to products and industry-specific solutions that span the entire gamut of hospitality services. Core operational functions such as finance and accounting, human resources, procurement and supply chain management which were traditionally done internally in the organization can off-shored to remote locations. This change is also being driven by the phenomenon that service providers are developing global capabilities to perform complex hospitality operations and processes. The process and vertical domain expertise of service providers will efficiently be leveraged by industry players to design vertical specific solutions and service end-to-end functions within hotels.

While it is true that there are various opportunities in the outsourcing space that an organisation can leverage upon, measurement of tangible benefits is critical. How, and to what extent, an organisation would benefit by embarking on the outsourcing journey is itself a million dollar question. Below are some areas of transformation measurement that can be used as a reference.

People, Processes and Technology Alignment

Through technology enablement and operational effectiveness of the service provider, a greater degree of integration can be achieved. Having analysed a prototype organisation we understand that often high end resources are involved in low value activities and processes are not aligned to the right stakeholders. The challenges are further enhanced by presence of non-standard delivery levels with high degree of fragmentation and the lack of a solid process backbone to support inorganic and new market growth areas. The technology landscape is dotted by the presence of multiple vendors often resulting in disparate systems and applications resulting in limited integration and consolidation of infrastructure.

Enhanced Customer Experience

Outsourcing of customer and sales support functionalities to a single offshore location will result in a one-stop window for customers. Since most relationships will be driven by service level agreements, functions will be process driven and therefore there will be better clarity, better resolution and faster responses resulting in improved 24X7 customer service delivery.

Operational Effectiveness and Productivity Improvements

Service providers are capable of providing customised real-time asset, brand and enterprise level information through automated reporting and statistical consolidation. Assessment of development and investment risk to validate entry strategy in key global markets through economic research and functions such as development and tracking of performance indicators, trend based forecasting, budget reviews, compliance audits and statutory reporting can be also be outsourced, thereby resulting in committed operational efficiencies, enhanced productivity and better knowledge management.

At HVS, global hospitality outsourcing was an opportunity we spotted early and have formed a global strategic alliance with Infosys BPO Ltd. The alliance seeks to combine the outsourcing capabilities of Infosys and the hospitality consulting expertise of HVS to design specific solutions for the hospitality industry. Our outsourcing solutions will be tailor made to enable your operations work more efficiently and, at the same time optimize costs.