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MARKET REPORT

Offshoring: The Next Level of an "Asset Light" Strategy

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Well, who owns what and which asset is being sold next? Assets are changing hands so fast that it is sometimes difficult to keep track of them. We have seen an exceptional level of transactions in the last five years, together with many changes in hotel ownership and the evolution of new management structures in the hospitality industry. There are two primary reasons that have triggered a frenzy selling: firstly, the real estate cycle; it taught hotel companies the lesson of an "asset light" strategy; and secondly, the split between hotel ownership and hotel operations. Companies are increasingly adopting a strategy of selling owned properties and concentrating on the core business of managing hotels, as they continue to recover from real estate cycles. The proceeds from sale are being used to pay off debt and lighten the balance sheet. Though there is an inherent risk of losing control of the asset, companies safeguard against this risk by entering into long-term leasebacks and management agreements.

So that's where we are now: global players are focusing more and more on their core business and getting out of asset-heavy balance sheets. This is a good start; but have we achieved the highest level of efficiency in the hospitality & leisure industry? I'm afraid the answer is "no". The IT landscape in the industry continues to suffer from multiple fragmented systems which do not speak to each other and processes are decentralised and fragmented with high dependency on paper and manual approvals, leading to lower operating profit and earnings per share. Moreover, labour cost, which contributes significantly to the operating cost, is rising steadily, impacting the margins.

While hotel companies are actively looking to go asset light to free up valuable capital, they need just as much to see how their systems and processes can be made more efficient. Merely continuing to invest capital in the front end (as hotels often do) will not allow these companies to adequately reap the benefits of an asset light strategy, owing to inefficiencies present in the back office. The back end continues to suffer from multiple challenges and is not able to cope up effectively with front end growth. It's time companies explore an opportunity that provides process efficiencies and an asset light balance sheet at the same time.

A lot of the challenges can be addressed while cutting down operating costs, using the key levers of offshoring. You would have heard of offshoring multiple times and wondered: is it the right time for my company? I cannot be more confident that the right time for the hospitality industry has arrived. Its time companies leverage technology as well as global procurement and supply chain management functions to create a flexible and scalable back end capacity which centralises, standardises and streamlines processes while at the same time reducing the operating cost significantly (in the range of 25-32%) by leveraging a global delivery model. The value proposition is that offshoring will not only make the operating cost variable, it will also provide an efficient back office, thanks to the Six Sigma rigor and process discipline of established offshore suppliers like Infosys.

Suppliers of offshoring, realizing the huge potential offered by the hospitality industry, have begun to focus on this sector

and build solutions and capabilities to cater to this particular market. Infosys has forged a strategic alliance with global consulting and services company HVS and is offering solutions specific to the hospitality and leisure industry. (HVS, founded in 1980 by Stephen Rushmore, provides a range of specialized services to the hotel, restaurant, timeshare, gaming, and leisure industries). At the same time, some important players in the hospitality space have started offshoring processes to explore efficiencies and cost benefits. To take an example, Infosys performs the following activities for an outsourced hotel accounting process: Purchase Order Match, Sales & Use tax calculation, and posting in ERP. Hospitality companies looking for ways and means to make their balance sheets light and bring in process efficiencies should definitely consider offshoring as a strategic option. Offshoring as an industry has matured to a large extent, and there are industries and companies that have used this option to as an important lever to gain competitive advantage. Hotel companies have begun to familiarize themselves with this concept and with the hospitality industry poised for huge growth, especially in emerging markets, we expect that offshoring will grow rapidly in times to come.

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