

# Surviving In Turbulent Times Through Outsourcing

May 15, 2008 / By Siddharth A Thaker , Pramod Bhasker

Our article 'Global Hospitality Outsourcing - Winning in a Flat World' published last year talked about rapid transformation in the hospitality landscape. We also discussed the manner in which enhancements in technology and telecommunications have impacted the hotel industry, and how these transformations are acting as able catalysts in a world where geography is rapidly becoming history.

The global hospitality industry has become characterized by frequent changing-hands of hotel assets. Recent years have seen the emergence of new markets, changes in hotel ownership patterns, and new management and ownership structures. Two important developments have come into being: firstly, an increased focus on an 'asset light' strategy; and secondly, the complexity of deal structuring for hotel ownerships and operations. International hotel companies have, for many years now, adopted a strategy of offloading owned assets and concentrating on the core business of managing services and consumer aspirations. In the medium term, hotel management companies are expected to continue to re-align their investments and portfolio allocations in line with real estate cycles in markets around the world.

The proceeds from the sale of assets is helping hotel companies offload debt and restructure the balance sheet. At the same time however, rapid growth and transformation in the macro industry environment has created a set of new competitive pressures for asset classes that were relatively isolated from market fluctuations. It may also be mentioned that an asset light approach entails loss of control over one's asset, and companies often safeguard against this risk by entering into long-term leasebacks and management agreements—hence a complex deal structuring for hotel ownerships and operations.

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 and leisure industry? 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 still decentralized at the unit level. Operations are fragmented with a high dependence on paper and manual approvals, leading to a Gross Operating Profit and Earnings Per Share lower than what could potentially be achieved. Moreover, labor cost (which contributes significantly to the operating cost) is rising steadily, impacting the margins.

While 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. Selling of assets has enabled hotel companies to be free of risky assets; but it has not brought efficiency in the processes. Management companies treat the front end as their priority and have tended to invest significantly in front end processes. However, in most cases, inefficiencies present in back end systems/processes have prevented these process enhancements from yielding the desired result. The back office of a hotel continues to suffer from multiple challenges that limit the hotel to achieve optimum efficiency and it is critical for management companies to explore avenues that can enhance process efficiencies.

Here is where offshoring comes in. The time is ripe for companies to leverage technology as well as global procurement and supply chain management functions to create a flexible and scalable back end capacity, which centralizes, standardizes 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

## Summary

Enhancements in technology and telecommunications have transformed the global hospitality landscape. In this article we evaluate how these transformations are acting as able catalysts in a world where geography is rapidly becoming history.

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Sigma rigor and process discipline of established offshore suppliers.

Suppliers of off-shoring, realizing the huge potential offered by the hospitality industry, have begun to build solutions and capabilities to cater to this particular market. Offshore suppliers are forging strategic alliances with global consulting and service companies and offering solutions specific to the hospitality and leisure industry. At the same time, some important players in the hospitality space have started off-shoring processes to explore efficiencies and cost benefits in processes such as Purchase Order Match, Sales & Use tax calculation, and posting in enterprise level ERPs.

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 centers. As the industry matures in its collective learning and experience, global outsourcing will move into its second phase; that is, to gain benefits 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 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, Accounting, Human Resources, Procurement and Supply chain Management, traditionally done internally in the organization, can be 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 organization can avail of, measurement of tangible benefits is critical. How, and to what extent, an organization will benefit by embarking on the outsourcing journey remains to be seen. 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.