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Boutique DESIGN New York, a new hospitality interiors trade fair, will coincide with the 94-year-old International Hotel/Motel & Restaurant Show (IH/M&RS). Designers, architects, purchasers and developers will join the hotel owners/operators already attending IH/M&RS to view the best hospitality design offerings as well as explore a model room, exciting trend pavilion and an uplifting illy® networking café.

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Founded in 1922, Cornell University's School of Hotel Administration was the first collegiate program in hospitality management. Today it is regarded as one of the world's leaders in its field. The school's highly talented and motivated students learn from 60 full-time faculty members – all experts in their chosen disciplines, and all dedicated to teaching, research and service. Learning takes place in state-of-the-art classrooms, in the on-campus Statler hotel, and in varied industry settings around the world. The result: a supremely accomplished alumni group-corporate executives and entrepreneurs who advance the industry and share their wisdom and experience with our students and faculty.

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With an exclusive focus on global hospitality and tourism, Hsyndicate.org (the Hospitality Syndicate) provides electronic news publication, syndication and distribution on behalf of some 750 organizations in the hospitality vertical. Hsyndicate helps its members to reach highly targeted audience-segments in the exploding new-media landscape within hospitality. With the central idea 'ONE Industry, ONE Network', Hsyndicate merges historically fragmented industry intelligence into a single online information and knowledge resource serving the information-needs of targeted audience-groups throughout the hospitality, travel & tourism industries… serving professionals relying on Hsyndicate's specific and context-relevant intelligence delivered to them when they need it and how they need it.

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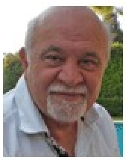

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What's next for IT spending ?

After some belt-tightening during the financial crisis, will IT spending bounce back in 2010 ? HILARY MURPHY and INES GHORBAL, both Professors at the ECOLE HOTELIERE DE LAUSANNE, share with the Hotel Yearbook the results of their recent study on this subject.

The most recent report from Gartner (July 09) predicts that IT spending, across all sectors, will further fall by 6 % in 2009 and confirms the overall impression that difficult financial times are ahead for IT spending. This report also adds that « This is a marked drop compared to a March Gartner forecast, when the analysts predicted a 3.8 % decline in IT spending. Analysts explained that continued weak IT spending during the recession and exchange rate fluctuations had led Gartner to lower its forecast. »

Given this global picture, what is the impact on the hotel industry ? How is IT spending at the property levels affected, and how are IT managers handling budgets at this difficult time ? Here we present a review based on figures collected over the last two years (financial reporting 2007, 2008) and discuss the changes in IT expenditure between 2007 and 2008. This provides insights into IT spending, in the midst of the economic crisis, for not only hotel companies but also the wider IT supplier market and future evolution of IT expenditure in the sector and provides some possible predictions for 2010.

Benchmarking IT spending at property level

In the hotel sector, much of the IT- related data exists at the corporate level and little is gathered at the hotel level. IT benchmarking at property level helps to understand where an individual hotel property ranks in comparison to other properties in its competitive set with regard to IT spending. Such comparisons not only provide supportive evidence for IT managers when bidding for budget allocation, but it also supports IT suppliers, who can customize their product offering for the hotel sector.

The main challenge is to set benchmarks (where few existed before) and decide on which metrics are useful to measure to support both IT managers and suppliers. This is why we collaborated with the CIOs and VPs of some of the key European hotel companies (e.g. Starwood, Rezidor, Golden Tulip, Four Seasons, Mandarin Oriental Hotel Group, Jumeirah Group, Corinthia, etc.) to design the benchmarks of this research. Launched in 2008 by the Lausanne Hospitality Research (LHR), the IT Benchmark report tracks IT spending at property levels on an annual basis. The 2008 report covers IT expenditures for a total of 213 properties and 127 hotels in the 2009 report. The report contains key metrics and analyses resulting from data supplied from mid-scale and upscale properties throughout EMEA. These key metrics not only cover demographic data about the property but also annual operating figures from 2007 & 2008 reports (i.e. : Gross Operating Revenue (GOR),Gross Operating Profit (GOP), and IT expenditure/usage data which revealed CAPEX and OPEX spend, IT spend per room and CAPEX/OPEX breakdown).

To help figure out the impact of the economic turmoil on hotel IT spending, we highlight the figures that reveal changes in IT spending in the data set of our report. The benchmark covers all EAME properties, but here we focus on the three main European regions that highlight changes and trends. We extracted a comparable European sample, with both the 2007 and the 2008 figures, comprising (1) Northwest Europe, (2) Central and Eastern Europe and (3) Mediterranean. In this comparison we examined, in 2008, 213 properties (50,623 rooms) and 57 properties in 2007 (14,349 rooms). One of the advantages of a yearly report is that it not only offers a comparative view of how IT spending at property level across regions and service levels, but is also presents insights into new trends in the industry, if tracked over time. After 2008's economic meltdown, it is interesting to review the 2007 and 2008 actual spending and examine the impact of the economic downturn on IT expenditures in hotels throughout that time frame the marks the beginning of the economic downturn, mid-2008.

Property operating indicators : What has changed from 2007 to 2008 ?

It seems that during the 2007-2008 period most hotel managers in the European regions adjusted for the slowdown by increasing their ADR (Table 1), while the hotels in the Mediterranean region decreased it (by a sharp 35.6 %) to keep attracting their customer base. Statistics from the WTO (World Tourism Organization) confirm these observations as the 2009 WTO Barometer indicates that Europe was the region that recorded the strongest decrease in tourist arrivals in the second half of 2008, while countries in North African and the Mediterranean region still recorded growth during that same semester.

Regional differences, 2007 vs 2008 : Occupancy, ADR, GOR & GOP

	EAME North-West Europe		EAME Central & Eastern Europe		EAME Mediterranean	
	2007	**2008**	**2007**	**2008**	**2007**	**2008**
Occupancy	69.2 %	66.6 %	66.1 %	64.0 %	63.7 %	64.2 %
% change		*-3.9 %*		*-3.7 %*		*0.7 %*
ADR-Average	139.11	148.27	112.02	118.06	277.42	178.22
% change		*6.6 %*		*5.4 %*		*-35.8 %*
GOR-Average	13,450,725	15,373,046	15,373,046	11,864,576	23,117,183	25,436,318
% change		*14.3 %*		*94.8 %*		*58.7 %*
GOP-Average	5,310,340	8,236,692	4,089,712	2,814,462	5,102,136	2,446,226
% change		*55.1 %*		*-31.2 %*		*-52.1 %*

The benchmark, however offers interesting bottom-line comparison across the three regions. GOR has improved for the all regions with the Mediterranean hotels leading at a 58.7 % increase of its GOR. As for the bottom line (GOP), it is gloomy for the Mediterranean region, also negative for the Central and Eastern Europe, while Northwest Europe managed to increase it by 55 %. These results reveal that the operating expenses for the Central European and Mediterranean region increased from 2007 to 2008 to widen the gap between GOR and GOP.

From a service level perspective, Table 2 reveals a trend differentiating mid-scale from up-scale also appears in the 2007-2008 period. Mid-scale properties show growth in occupancy, ADR, GOR, and GOP, whereas in 2008 the upscale hotel sector experienced a significant decline in its operating indicators. The increase in both occupancy and ADR for mid-scale hotels reflects an increase for the demand of this type of product. One explanation might be that travelers have been « scaling down » from upscale to mid-scale hotel stays. It could be led by corporate travel declining and budget-tightening (or « being seen to be » visibly tightening budgets). Internally, the margins of mid-scale hotels are maintained with an increase of 55 % of their GOP while the up-scale hotels have witnessed a decrease of 7.6 % in their bottom line reflecting their decline in both occupancy and ADR.

Service level, 2007 vs. 2008: Occupancy, ADR, GOR & GOP

	Mid-Scale		Up-Scale	
	2007	**2008**	**2007**	**2008**
Occupancy	65.74 %	67.50 %	68.24 %	62.57 %
% change		*2.7 %*		*-8.3 %*
ADR-Average	99.16	109.83	210.23	193.22
% change		*10.8 %*		*-8.1 %*
GOR-Average	7,914,178	14,792,985	17,929,878	15,778,272
% change		*86.9 %*		*-12.0 %*
GOP-Average	2,871,203	4,454,936	6,321,041	5,842,733
% change		*55.2 %*		*-7.6 %*

Property IT spending : What has changed from 2007 to 2008 ?

Interestingly, overall a higher average IT spent per room is reported between 2007 and 2008. CAPEX (IT) spend per room has increased to €304 in 2008 (from €187 in 2007). As for average reported OPEX (IT) spend per room is €427 (€378 in 2007) in all EAME regions.

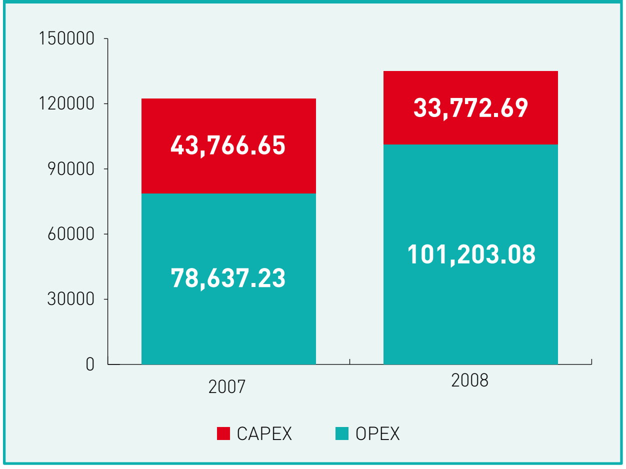
Subtle variations, however, exist at a regional level. In the Central and Eastern European region, IT expenditures per property decreased by 13 % (from €128.87 to €111.61 per property), in line with declining occupancy and GOPs (Table 1). In the North Eastern European region, it has increased by 4 % (from €129.26 to €134.98), in line with increasing ADR, GOR and GOPs. Finally, in the Mediterranean, average IT expenditures per hotel has stagnated (€157.99 in 2007 and €156.36 in 2008) despite declining ADR and GOP.

One explanation for this dissociation from the evolution in the financial trend would be that the slowdown in tourist demand has occurred during the last months of 2008. According to the UNWTO World Tourism Barometer, international tourist arrivals actually increased from 2007 to 2008 by 1.9 %. As for the time ahead, WTO experts predict that the 8 % decline, worldwide, in international tourism occurred between January and April 2009, confirming a slowdown in tourism activities. In short, IT spending increased from 2007-2008 when demand grew (rather slowly), but times ahead are likely to be different as tourism slows down and further cost cutting will be required.

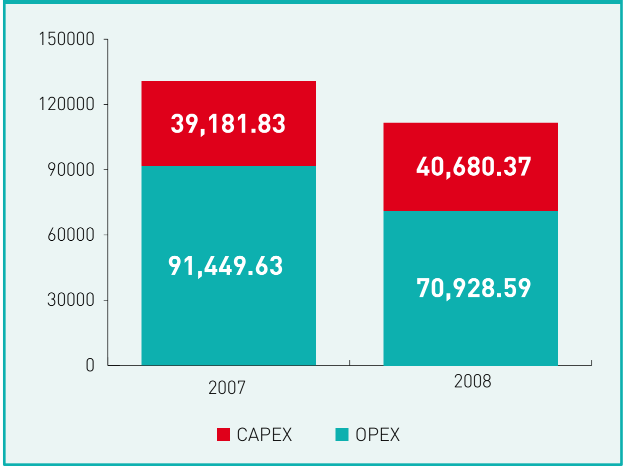
Capital Expenditures (CAPEX) are acquisitions of tangible and intangible fixed assets. As an asset, and from an accounting standpoint, they are listed in the balance sheet and are depreciated, for example at property level management, hardware, cabling, and many IT applications. CAPEX may also involve upgrading to a corporate system. In hotels, the CAPEX budget is allocated to replacing fixed assets, expand business and other investments in the assets of the hotel. Operating Expenditures (OPEX), on the other hand, are the operating expenses allocated to IT. They are recorded in the profit and loss statement of the hotel as an expense incurred to IT, for example IT services, maintenance. As a result, OPEX expenditure reduces both the bottom line and the cash flow in the hotel.

Internally, at the property level, the most significant change noted is a *shift in IT expenditure from OPEX to CAPEX.* A closer look at the reports of the actual expenditures of 2007 and 2008 reveal an interesting trend in the way hotels have allocated their IT expenditures. The most significant shift that we observed in the sample is *related to the balance of capital expenditure (44 % from 33 %) and operating expenditure (54 % from 64 %) for all EAME.* Chart 1 illustrates this with actual

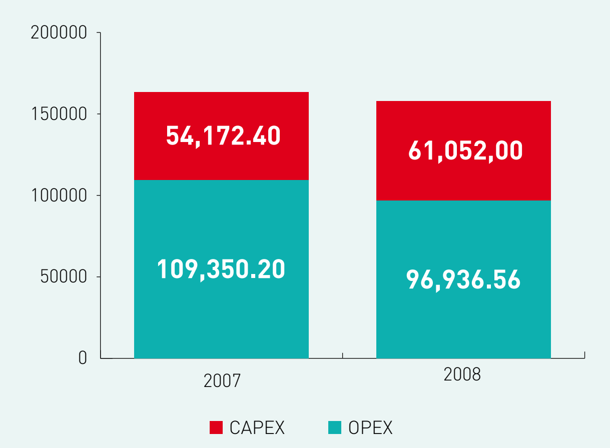
Average CAPEX-OPEX in EAME, North-West Europe 2007 vs. 2008



Average CAPEX-OPEX in EAME, Central & Eastern Euro 2007 vs. 2008



Average CAPEX-OPEX in EAME, Mediterranean
2007 vs. 2008



Hotel service level, 2007 vs. 2008 : OPEX vs. CAPEX

	Mid-Scale (3-4 stars)		Luxury/Upscale (5 stars)	
	2007	**2008**	**2007**	**2008**
OPEX-%	41.60	31.37	30.64	27.07
% change	*-24.59 %*		*-11.63 %*	
CAPEX-%	58.40	68.63	69.36	72.93
% change	*17.52 %*		*5.14 %*	

No. of rooms (hotel size), 2007 vs. 2008
OPEX vs. CAPEX

Rooms	**0-100**		**0-100**		**0-100**		**0-100**		**0-100**	
	2007	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**
% OPEX	66.35	50.66	67.39	74.41	68.16	79.60	70.92	63.17	61.96	64.03
% change	*-23.65 %*		*10.42 %*		*16.78 %*		*-10.93 %*		*3.34 %*	
% CAPEX	33.65	49.34	32.61	25.59	31.84	20.40	29.08	36.83	38.04	35.97
% change	*46.63 %*		*-21.53 %*		*-35.93 %*		*26.65 %*		*-5.44 %*	

figures for the three regions that are the focus of this paper. The shift from OPEX to CAPEX is more evident in mid-scale properties though all service levels experience a reduction in OPEX. The shift from OPEX to CAPEX spending is more noticeable in smaller hotels (with fewer than 100 rooms) and in properties with 301-400 rooms. The shift from CAPEX to OPEX is more noticeable in mid-size properties 100-300 rooms.

The fact that companies made commitments with regard to IT spending prior to the occurrence of the events is a possible explanation for this shift in the OPEX-CAPEX breakdown. In other words, we can suppose that some CAPEX was decided well before the economic meltdown when travel and expense predictions were more optimistic. In reaction to the drop in tourist demand, managers decreased their OPEX but could not act upon a CAPEX decided *ex ante*. This would mean that, although the overall IT spending increased between 2007 and 2008, this is a result of budgets planned and allocated in 2006 and 2007. During these years, hotel companies were still planning on investing in IT, and given the lag time between negotiation and commitment from IT budgets along with the fact that tourism activities were still increasing between 2007 and 2008 in certain regions, this may explain why overall IT spending increased between 2007 and 2008, despite the onset of the economic crisis.

The example of the Central and Eastern European region further confirms this point. Indeed, out of the three regions in our sample, the Central and Eastern European was the first of the three regions to be affected by the economic slowdown (WTO Barometer and Table 1 above). It is also the only one to have decreased its average IT spent. The 2007 and 2008 years revealed early signs of the general economic downturn as the effects on tourism were only perceived starting from ▶

the summer of 2008, with the Central and Eastern European region being affected first.

In the last issue of the UNWTO World Tourism Barometer, experts mention that « as expected the negative trend in international tourism that emerged *during the second half of 2008 intensified* in 2009 ». This slowdown had an impact on both occupancies for all regions, particularly ADR in the Mediterranean region for this sample. However, IT budgets were already allocated, and managers could only act on reducing OPEX during the second half of 2008. This may explain the slight increase on reliance on CAPEX rather than OPEX. Our interpretation is that managers have allocated these expenditures to CAPEX (or re-directed budgets) as a reaction to the beginning of the slowdown in the industry. In other words, when the economic activity decreased, margins in hotels shrank and managers allocated these expenses to CAPEX to support the bottom lines of the hotels.

So what about 2010 ?

Considering the pessimistic forecasts for travel and tourism, we expect that overall IT expenditure will continue to be reduced for 2009 and into 2010, or at least that the shift from CAPEX to OPEX will be maintained. In fact, the benchmark shows that the impact of the crisis has not been seen on all IT budgets in the hotel industry, but it is expected to be more apparent in the coming year. In particular, we could reasonably expect that further reductions in IT spending in hotels are anticipated for all the regions if occupancy rates and ADR continue to decline. Specifically, with the exception of Africa where arrivals are expected to grow by 1-5 %, travel and tourism in all other regions is expected to suffer from the continuing economic downturn. In terms of IT spending, properties in Europe, Asia and Middle East should expect belt tightening during 2009 and 2010 as a result of a decrease in their activities and either the overall IT spending or OPEX will be reduced proportionately.

The hospitality and travel section of the last Gartner reports that a 12.5 % decrease in IT spending should be expected. Based on our analysis and the WTO travel forecast, we anticipate that this decrease will be less important at the property level in the EAME region.

« While the global economic downturn shows signs of easing, this year IT budgets are still being cut and consumers will need a lot more persuading before they can feel confident enough to loosen their purse strings, » wrote Richard Gordon, research vice president and head of global forecasting at Gartner in 2009.

A positive factor emerges from this gloomy perspective : the potential of CAPEX expenditures to finance more long-term investments in IT. Of course, this would imply more « ownership » of IT assets in the context of a worldwide IT market where more IT assets are being divested to third parties. However, by shifting the budget from OPEX to CAPEX, there are benefits from alleviating costs and avoiding further reductions in cash in hand. Simply by allocating to CAPEX, hotel chains may pursue investing in IT despite the expected economic downturn.

Finally, exchange rates must be considered in our interpretation of these figures as they affect both travel and IT spending. In those budgets that are translated to dollars (e.g. as done in some multinational hotel companies), the exchange rates between Euro, dollar, and pound sterling have been volatile over the recent period of economic instability, impacting not only final costs but also confidence to purchase, particularly outside the Euro-zone. At CIO level, this confidence to purchase has wider implications, bringing close scrutiny of the IT governance process, more control of tight budgets and more consideration of local IT projects in the prevailing economic downturn. ■