

2015

Hospitality CIO Survey Results



Hospitality Upgrade

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INTRODUCTION

Industry Plans for IT Investment

Hospitality Upgrade partnered with HP to survey hospitality industry chief information officers (CIO) about their plans for IT investment, solution sourcing, and the strategic role of the CIO. Respondents included hospitality-related organizations of various sizes and geographic locations.

Specific survey questions and responses are shown below.

In the conclusion of this report, HP offers a summary of CIO responses to key challenges and opportunities with a clear focus on driving business performance, operational efficiencies, and cost controls. Based on those survey findings, HP also offers a clear vision of how hospitality CIOs expect to leverage IT as an enabler to understand guest expectations, increase customer service, and drive innovation in a secured environment.

55%
OF RESPONDENTS
REPRESENT LARGE
INTERNATIONAL
CHAINS.

RESPONDENTS

Representation of the Market

A wide variety of respondents participated in the survey, with most representing the hotel industry and more than half the respondents representing large international chains. While hotel chains from around the world participated in the survey, most were located in the United States.

In addition, the mix of respondents represents a diverse spectrum of Smith Travel Chain scale segments from independent to luxury, and therefore a good representation of the overall hospitality market.

Is your company regional, national or international?

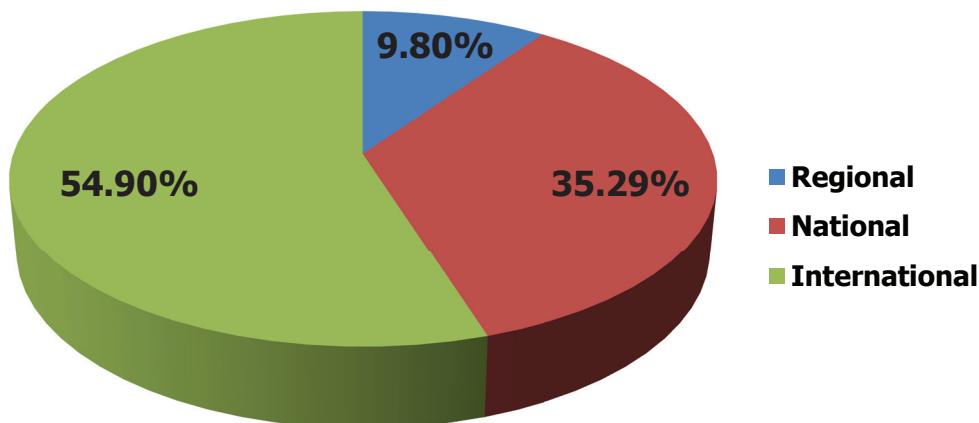


Figure 1

Breakdown of survey respondents.

MAIN AREAS OF FOCUS

Investment Allocation

There are five main areas of focus that emerged this year (in order of importance).

- 1) Improved Financial Performance
- 2) Customer Experience
- 3) Information Security
- 4) Service Performance
- 5) Mobility

75%
OF CIOs SAID A
MAIN AREA OF
FOCUS OVER THE
LAST 12 MONTHS
WAS ON IMPROVED
FINANCIAL
PERFORMANCE.

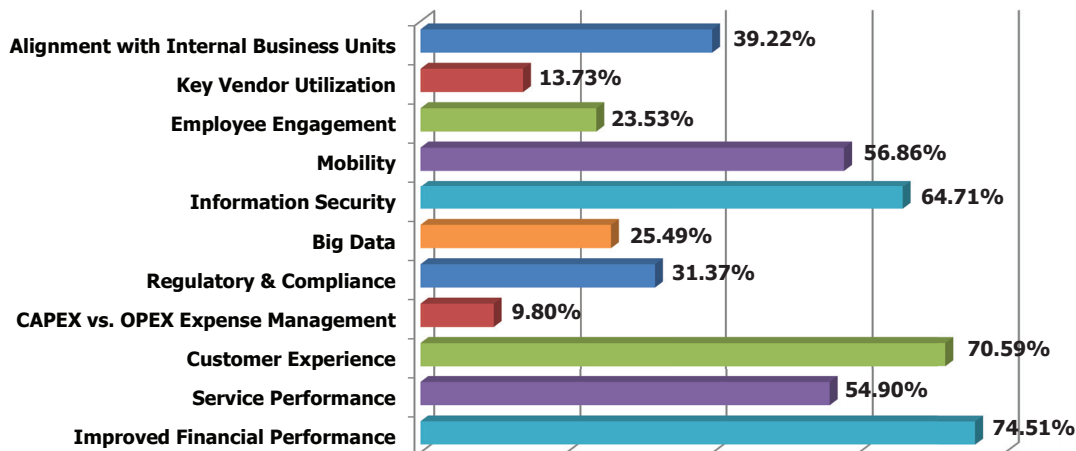


Figure 2

CIOs were allowed to choose from 11 areas of business focus.

Improved financial performance is in line with the significant investment that many of the hotels are making in revenue management and channel optimization. CIOs have been tasked with making data a strategic and competitive weapon in the ever-increasing distribution arms race against OTAs. Later in the survey we will see that CRM is also an area of strategic importance and will be utilized to enhance financial performance as well. Real-time decisioning at the point of purchase will allow the revenue manager to tailor pricing to the specific guest. This will enable a greater uptake and higher margins on stays. Improved financial performance can also be a result of improved guest experience.

Customer experience is highlighted through investments in Wi-Fi, self-service offerings, and in-room experience. Wi-Fi investments continue around coverage and the insatiable demand for more bandwidth. Strategically guests should be able to access their content and use the infrastructure in the room to view their content on the guestroom TV. Due to this guest streaming of video content, bandwidth capacity planning has been extremely challenging and the need to increase bandwidth at the property level will demand increased investment. Self service through mobility and e-commerce continues to register as a priority to make the guest experience as seamless as possible regardless of the channel that the guest decides to use. It is preferred that when guests book through the brand's e-commerce channel that they have a better experience than through the OTAs, giving guests confidence that they are getting the same or better pricing. Finally, the in-room experience needs continual improvement and the sophistication of the television solution, temperature control and even locking systems are areas that need to be significantly enhanced. Soon, the Internet of Things (IoT) and sensors within the room and on property will begin to make their way into the customer experience. This will enable hotels to easily fulfill guest requests, as sensors will be used to locate and ensure environmentals are set appropriately.

As cyber threats continue to escalate, the importance of information security is top of mind for most hospitality CIOs. The fragmentation of ownership in the hotel structure makes coordinated security programs and actions difficult to administer and opens the door for vulnerabilities. Third-party security services are becoming more the norm and will continue to assist the CIO in battling cyber threats. Operators must realize that threats are no longer just kids in a basement that get recognition for their exploits. The threats are well organized and well funded enterprises that are in the cyber crime business.

Service performance spans the gamut between IT stability and improving hotel operations. Cloud investments have helped CIOs lower costs and enhance IT service capability. Hotel operations are thirsting for IT to help them better connect with guests and be able to quickly track and remedy guest issues.

Mobility helps connect the guests and improve staffing efficiencies. Guests are beginning to do everything from booking to filling out their post-stay surveys all on their mobile devices. These same mobile devices will begin to open doors and change channels on the TV. As far as hotel staffing, smartphones are starting to use “push to talk” with hands-free communication and are replacing clunky radios. These same devices are receiving routed text messages from guests to fulfill requests in a timely fashion. CIOs have invested time and energy working on robust platforms to ensure that this capability can be brought to the mobile experience. However, most CIOs have just scratched the surface on mobility’s potential and these platforms will continue to be more robust and change with the ever-increasing demands of the guests.

INVESTMENT

Significant Change From Previous Years

The vast majority of respondents stated their budgets are increasing. Some of the increase will be a result of organic growth but the majority will come from targeted investments. All chains are currently growing and expanding, hence the investment levels continue to grow and match the rate of growth.

Operational efficiency, customer experience and the broad term of innovation encompass many areas of focus, so it is nice to see that budgets are aligned with CIOs’ priorities and focus. The areas of focus have a higher probability of success if the resources are applied accordingly.

This is a significant change from past years, as budgets have been flat and squeezed due to the economic downturn. Looking ahead there should be no reason for this not to continue. The nature of the projects in which CIOs are investing will require multi-year investment and continued enhancements.

THE NATURE OF THE PROJECTS IN WHICH CIOs ARE INVESTING WILL REQUIRE MULTI-YEAR INVESTMENT AND CONTINUED ENHANCEMENTS.

**What are your company’s top three reasons for investing in new technology?
(Ranked from #1-3)**

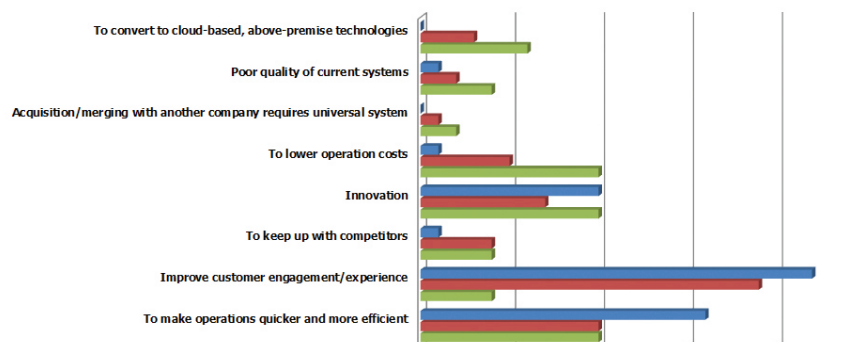


Figure 3

The CIOs picked the top three reasons they chose to invest in new technology.

INVESTMENT

12 Months Out

For the next year, investment in the focus areas will continue. However, we start to see the rise in the importance of CRM/business intelligence. With these practices hotels will gain a better understanding of guests and will start to personalize experiences including pricing of rooms and ensuring guest preferences are recorded and delivered. Investment streams will continue to rise. One does not put in an enterprise data warehouse and leave it alone, as needs change and evolve as other uses are discovered.

One of the areas that should continue to increase is the rise in solutions for handling Big Data. As the aforementioned rise in the CRM and business intelligence continues, the need to continue to refine data and expand the sources of data will also continue to grow. Big Data solution should continue to rise in prominence over the near term.

82%

CLAIMED THEIR
COMPANY PLANS
TO INVEST IN
MOBILITY.

In which technical areas will your company invest over the next 12 months?

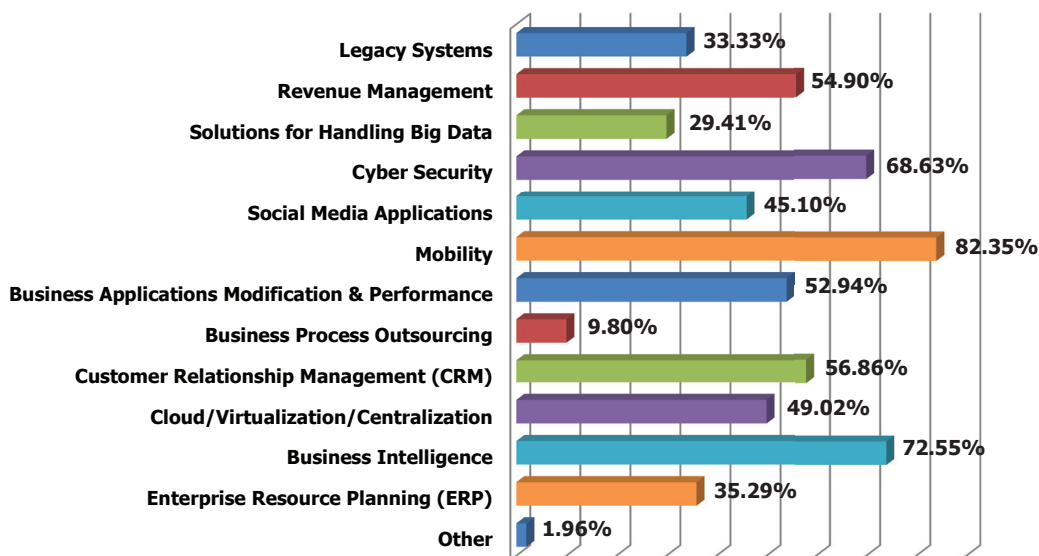


Figure 4

Planned areas of investment.

OUTSOURCE VS. INSOURCE

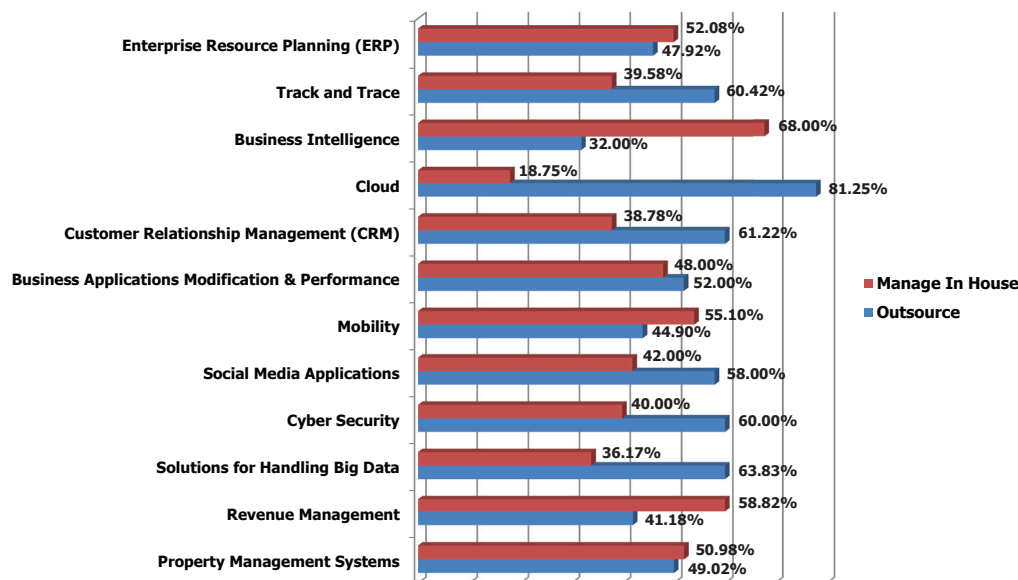
Measuring Solutions

It seems that many of the respondents were comfortable in having most of the core functionality of the hotel outsourced vs. insourced. Of course, the cloud dominated this category with the majority preferring an outsourced solution. However, business intelligence was seen as more of an insourced function, which makes sense since data may be best interpreted by those who know the related business function the best. We also see an even split on the PMS, which is interesting as more and more hotels are moving to an above-property solution instead of off-premises solution. The PMS is the bellwether for an above-property solution. As more providers start to offer a stable and secure-hosted PMS solution, more organizations will continue to gravitate to strategy. The expectation is that outsourcing will continue to grow for the PMS solution.

The move to outsourcing also starts to shift the innovation curve. Hoteliers have learned that they can deliver increased innovation by jumping on the innovation curves of solution providers. What is being transformed is the nature of the maintenance budgets. CIOs have traditionally been stuck with budgets at 80 percent maintain and 20 percent innovate. Now with the cloud, the nature of the 80 percent is being transformed and innovation is being introduced by the solution provider or other ecosystem partner. So what traditionally looked like maintain, can now be a source of innovation as hotels start to choose and evolve with the right partner.

The nature of the ecosystem starts to dictate the pace of change that can be introduced. This cadence is generally faster than what hoteliers experienced in the past. For example, if you are with a hosted provider you generally have limited choice on the time windows for maintenance and upgrades. Some solutions introduce these upgrades seamlessly and your ecosystem has innovation introduced without any disruption. This is different than in the past where significant regression testing was required to move forward and the pace of change was dictated by hotel operations. Thus the maintenance streams of the operating budgets are now the wellspring of time-paced innovation.

For each of the following, do you see more benefit in outsourcing the solution or managing it in house?



81%
OF CIOs SEE
MORE BENEFIT
OUTSOURCING
CLOUD SOLUTIONS.

Figure 5

Respondents weighed the benefits of outsourcing or managing solutions in house across 12 categories.

BUSINESS PROCESS OUTSOURCING

Increasing a Trend

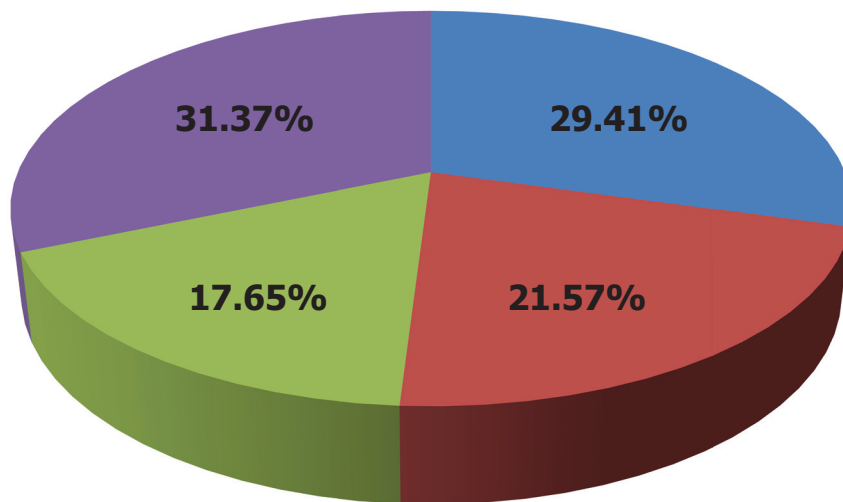
Business Process Outsourcing (BPO) is one of the ways many hotel chains are able to reap the benefits of scale and decrease costs. More than 83 percent are either considering or will look at BPO within the year. This is a trend that will continue to increase since high quality options are available and operational processes have become more streamlined.

Over the years, hotels have been working on standardizing their processes and many have similar processes across their installed base. The natural extension is BPO. Now third-party specialists can reduce costs and offer a high-quality solution and many of the respondents are taking advantage of this.

83%

OF CIOs ARE EITHER
CONSIDERING OR
PLAN TO LOOK AT BPO
WITHIN THE YEAR.

Specifically related to BPO, your company:



- **Currently leverages a third party**
- **Would consider leveraging a third party in the next 12 months**
- **Would not consider leveraging a third party in the next 12 months**
- **Would consider at a later time**

Figure 6

Measurement of business process outsourcing to a third party.

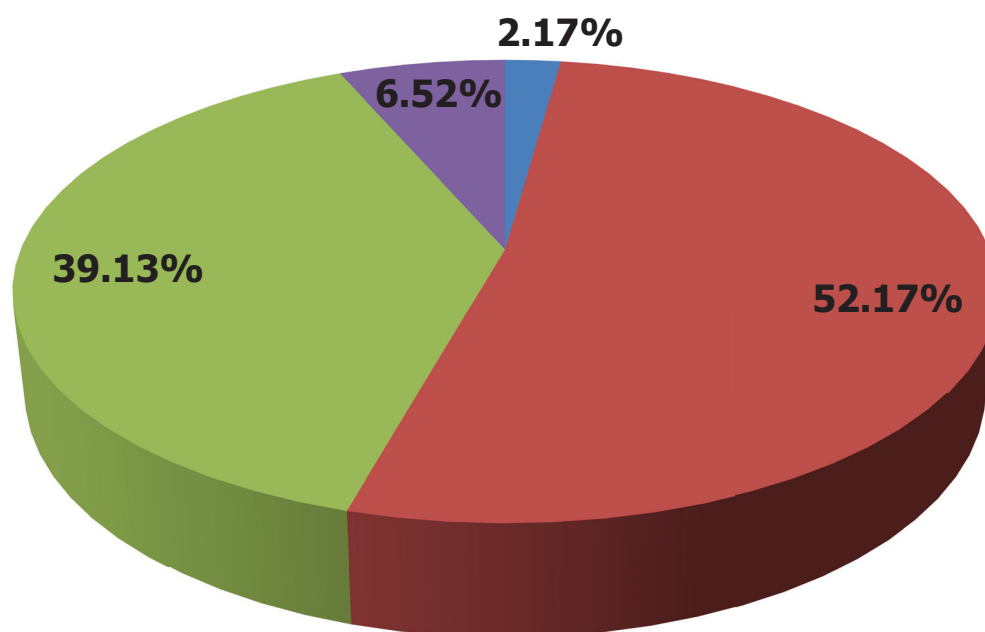
BIG DATA

Game Changing Implications

Big Data remains to be uncharted territory for many in the hospitality industry. However more than 93 percent feel there is value and possible game changing implications to Big Data. As the CRM capability begins to mature at the guest level and properties are able to marry Big Data to the individual guest profile, hoteliers will begin to draw a complete picture of the guest. They will be able to track preferences and special occasions. There is also a view that Big Data will start to offer insight and provide real-time decision making, and offers can be more targeted. Naturally revenue and guest satisfaction should rise.

MORE THAN
93%
OF CIOs FIND
SOME VALUE AND
POSSIBLY GAME
CHANGING
IMPLICATIONS TO
BIG DATA.

To what extent do you think that Big Data will provide your company differentiation in the market?



- **Total Game Changer**
- **Significant Impact**
- **Reasonable Impact – Worth Exploring**
- **Minor Impact**

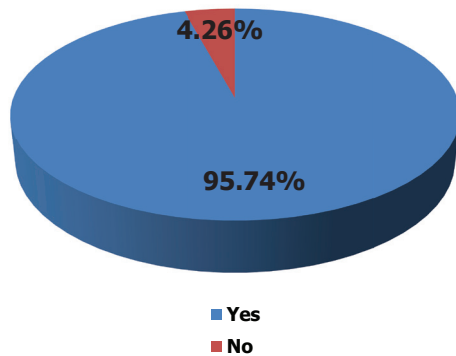
Figure 7

Respondents predict the differentiation that Big Data will provide in the market.

CLOUD

Greater Speed and Operational Flexibility

Does your company currently make use of cloud technology?



What is the best option when investing in the cloud?

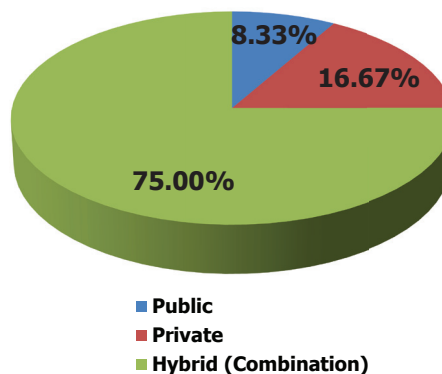


Figure 8 (Left)

Overall cloud adoption.

Figure 9 (Right)

Respondents weigh the best option when investing in the cloud.

The move to the cloud has been inevitable and more than 96 percent of the respondents said they are using the cloud in some fashion. Most cited that moving to the cloud gave them greater operational speed and flexibility. In addition, having access to advanced innovation and solutions were also a byproduct of cloud adoption. Most of the cloud usage is in private and hybrid cloud installations with a small minority in public clouds. Over time as cloud adoption is more of the norm, the expectation would be that the 8 percent of public cloud investment will grow over time.

Cloud migrations may be a viable alternative to the normal on-premise server.

96%
OF RESPONDENTS
REPORTED THAT
THEIR COMPANY
CURRENTLY USES
CLOUD TECHNOLOGY.

(If answered "no" to making use of the cloud)
Why hasn't your company decided to use the cloud?

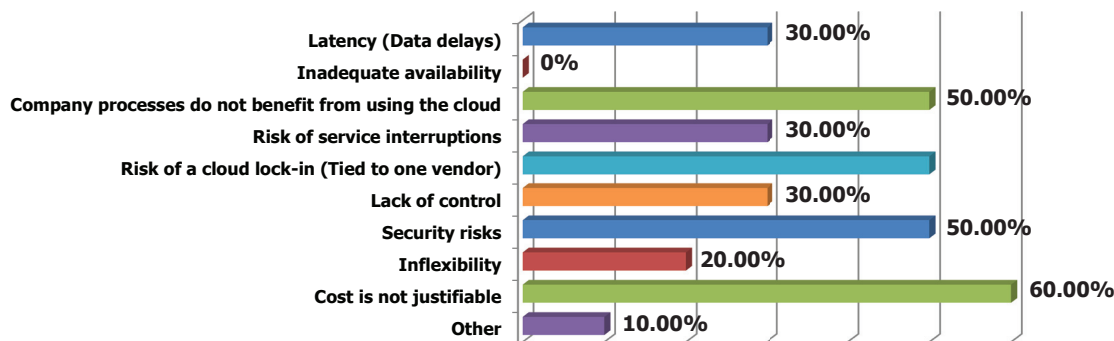


Figure 10

The most cited reasons when companies decide not to use cloud services.

ACTIVE PROJECTS

Consistent With Previous Focus Areas

The active projects are once again consistent with the aforementioned focus areas. The study saw that more than 92 percent are involved in some level of Wi-Fi enhancement. Guest self service is in the 73 percent range, and rounding out the top three is in-room projects at 67 percent. Guest self service and enhanced in-room offerings should translate to an improved guest experience, driving incremental revenue and greater operational efficiency.

Self-service initiatives should bring the convenience of the modern day to the hotel. Being able to have the guest control his or her experience will give him or her more options during the stay. Some segments will tailor self service where it will assist. For example, some brands will invest in kiosks while others will focus more on the mobile experience. Self service will be utilized where the guest is most comfortable. You will start to see that self-service solutions that hotels offer will reflect the brand.

92%
ARE INVOLVED IN SOME
LEVEL OF WI-FI OR
BANDWIDTH COVERAGE
ENHANCEMENT AS
AN ACTIVE PROJECT.

**If “active projects” and/or “limited investment
but exploring” check all that apply.**

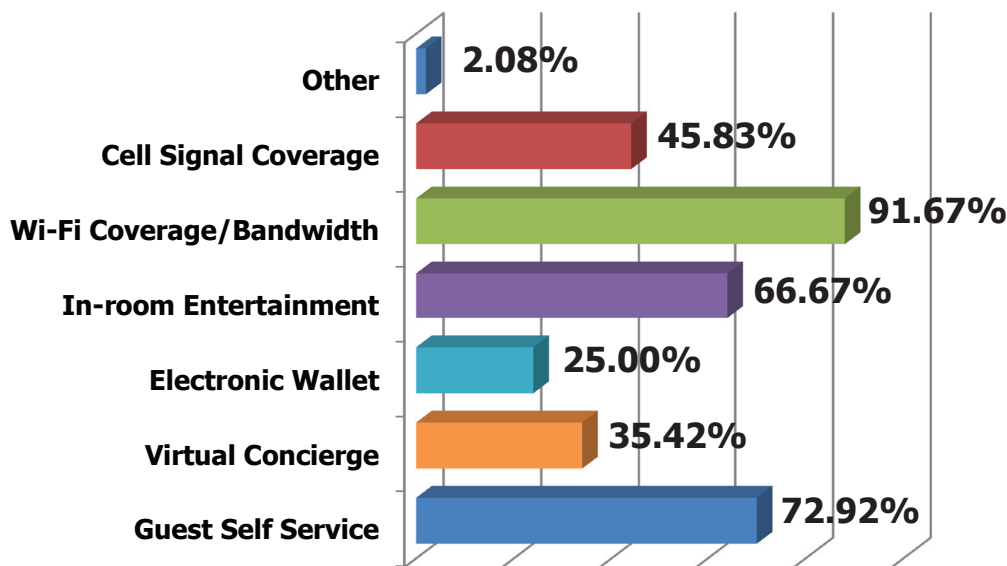


Figure 11
Active investment focus
areas.

MOBILITY

Customer Experience

With an overwhelming majority, customer experience is the top mobility priority. Global mobile phone penetration continues to grow. More individuals in the world own a mobile phone than a toothbrush. This rate of adoption coupled with the advanced capability of the smartphone should enhance and improve the guest experience. All aspects of a guest's journey should be able to be accommodated through a mobile device. Booking and confirmations should be easy and timely. Many of the stay elements should be automated from opening the door lock to setting the temperature in the room. As guests leave, their post-stay surveys or social posts should be easily facilitated through mobility. Mobility is central to our everyday lives and should be the same with our hotel stays.

75%
SUGGESTED THE
CUSTOMER
EXPERIENCE
SHOULD BE THE
TOP MOBILITY
PRIORITY.

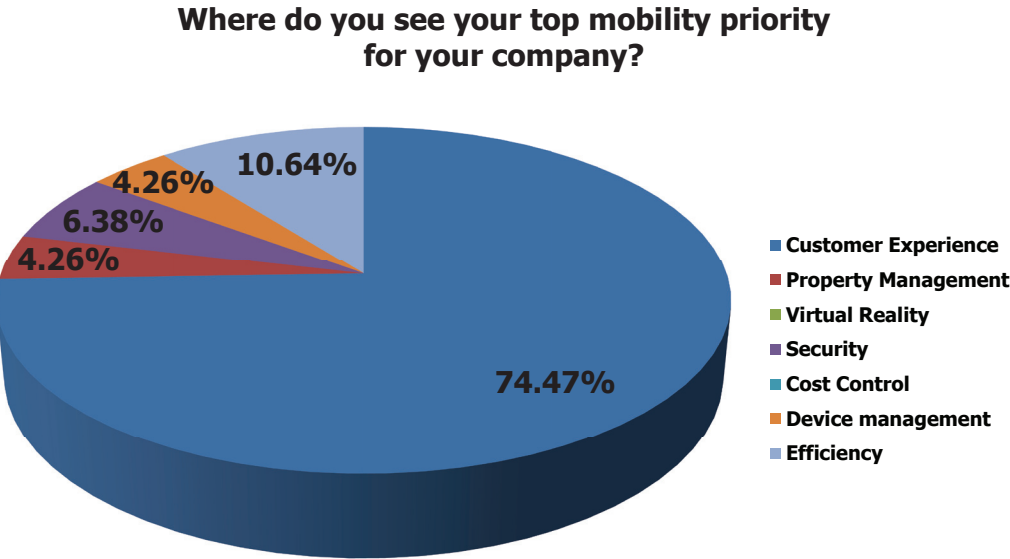


Figure 12
Top mobile priorities.

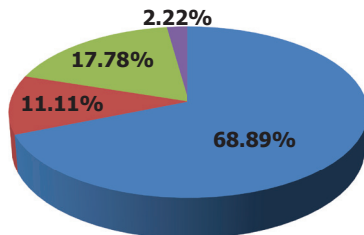
STRATEGIC ROLE OF THE CIO

CIOs are an Integral Part of Operational Decision-making

Finally, we get to the strategic role of the CIO and how it has evolved to a seat at the executive table. Of the respondents, 69 percent would like to report to the CEO, but in reality only 43 percent are currently reporting to the CEO. There are 40 percent of the CIOs that are reporting to the CFO and a small percentage are reporting to the COO. However, no matter what the reporting structure, 70 percent have a seat at the operational board of the executive management team. So regardless of where the CIO reports, the CIO is able to affect strategy and be an integral part of operational decision making.

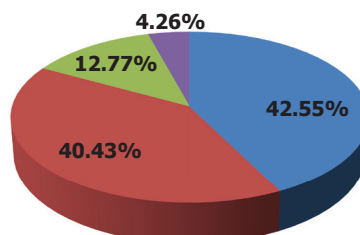
70%
OF RESPONDENTS
HAVE A SEAT ON
THE EXECUTIVE
MANAGEMENT
TEAM.

In your opinion who should the CIO/Head of IT report to?

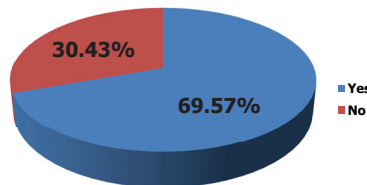


■ CEO ■ CFO ■ COO ■ Someone else on the board

Who does the CIO/Head of IT currently report to?



Does your CIO/Head of IT currently sit on the operational board or executive management team?



■ Yes
■ No

Figure 13, 14, 15

Breakdown of the strategic role of the CIO.

In addition, CIOs are involved in 87 percent of the vendor selection process. This is a very important statistic for the vendor and third-party communities. CIOs are looking for high-quality products that are easy to integrate into their ecosystems and have a low operating cost.

What do you look for when selecting your solution provider?

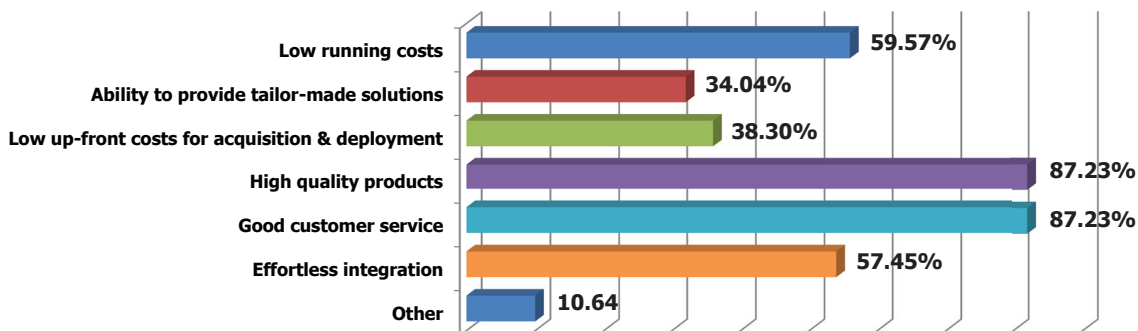


Figure 16

Top things that CIOs look for in the vendor selection process.

CONCLUSION

Expanding Investment Into 2015

Hoteliers are expanding their IT investment in 2015, and are focusing their strategic initiatives on enhancing the guest experience and providing guests with greater control and flexibility in how this interaction occurs. This improved guest experience is expected to drive incremental revenue and improve operational efficiency.

Enabling this greater control over interactions requires properties to expand Wi-Fi bandwidth and improve information security as guests take advantage of self-service capabilities. In addition, efficient and timely data analytics are the foundational element in supporting real-time decision making around the guest experience, providing guests with relevant promotional offers, and driving real-time dynamic pricing.

Hoteliers will also need to control costs by efficiently managing the workforce to support increased demand and occupancy with limited staff increases. To support those efforts, the main areas of investment cited by CIOs include cloud services, Big Data, mobility and enterprise security.

Of those using Big Data, most are focused on analytics and reporting, mainly for product and market segmentation, financial modeling and customer visibility. Almost all are using cloud technologies, with most investing in hybrid clouds, typically to support customer relationship management, revenue management, sales and catering and business intelligence activities.

The CIOs saw the benefits of outsourcing certain activities, particularly for handling cloud and Big Data, cyber security, social media, track and trace and customer relationships. More than three quarters are currently, or would consider, leveraging a third party for IT services. And finally, when selecting vendors to support technology initiatives, respondents are chiefly interested in high-quality products and good customer service.