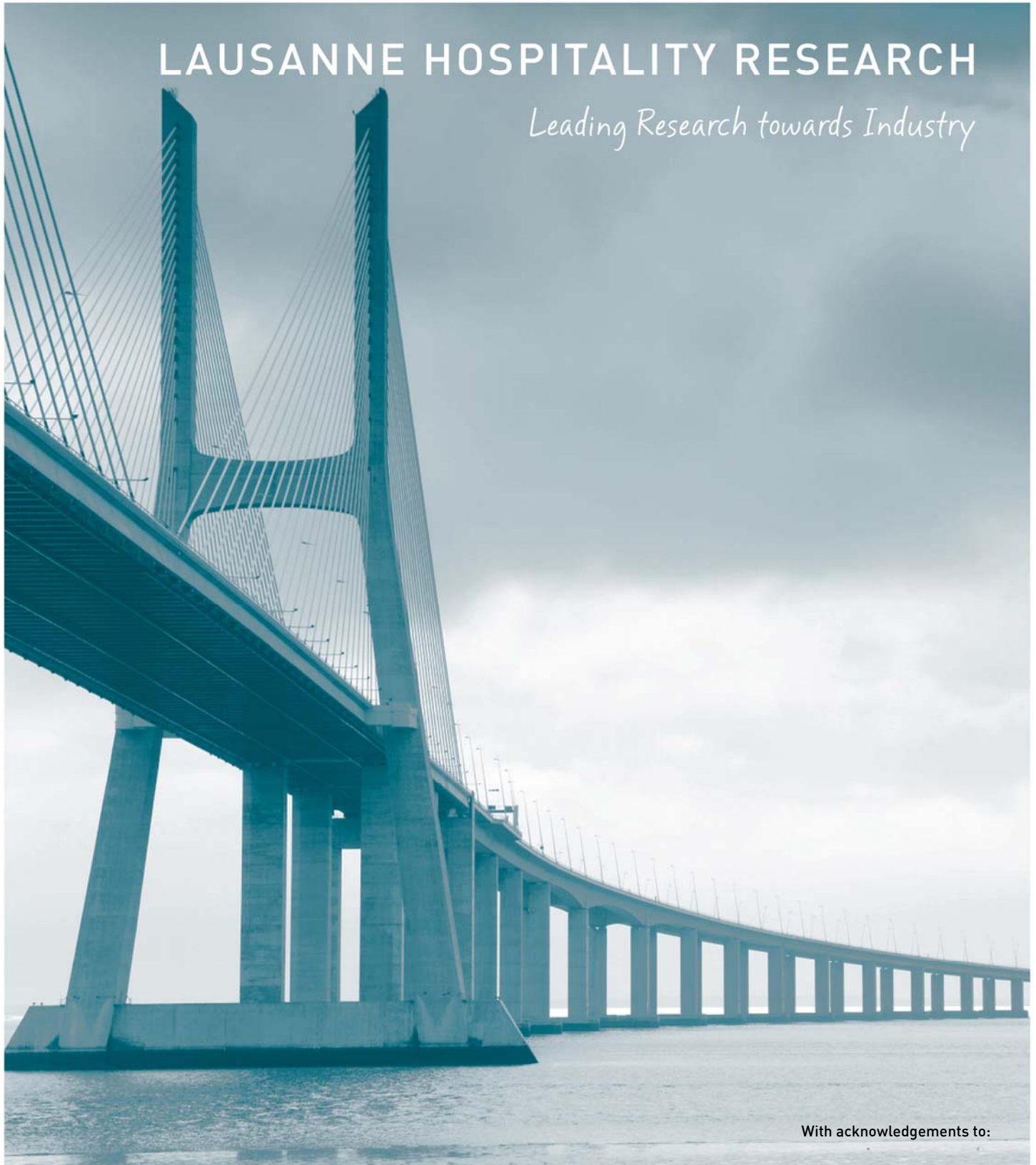


IT BENCHMARKING at PROPERTY LEVEL
for Europe, Africa & Middle East (EAME)
Dr. Prof. Hilary C. MURPHY



With acknowledgements to:



IT BENCHMARKING at PROPERTY LEVEL for Europe, Africa & Middle East (EAME)

Dr Prof Hilary C. Murphy

This report contains information for owners, GMs and IT managers, at property, regional and corporate level on comparative IT spending. Over 400 properties responded to this independent study (265 used for this report) and it contains key metrics and analyses resulting from the data supplied from midscale and upscale properties throughout EAME.

This is the first report of its kind and the main emphasis will be to provide a view of IT expenditure and provide comparative data that, mapped over time, will reveal a productive analysis of IT expenditure of (and for) the hotel industry in EAME.

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IT BENCHMARKING AT PROPERTY LEVEL-EAME

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Executive Summary

This report analyses and interprets the data from an independent survey of EAME properties, proposes IT benchmark figures at regional and property level and provides an overall view and directional indicators of EAME IT spending.

A review of these properties reveals that ADR varies widely between regions, with mid-scale properties having an average of 117.41 euros and up-scale of 124.18 euros. Occupancy for both mid-scale and up-scale is approximately 66% and the average size of property is 230 rooms.

Some key results that focus on **all regions and properties** (e.g. averages, ranges) are highlighted below in this executive summary, with brief reference/benchmark to existing, generic IT benchmark reports. Though the majority of properties reporting are upscale (4-5 star), some breakdowns are included in this summary that compare midscale and upscale properties.

- **Average property IT spend** is **135,527** Euros. The highest regional average is E A M E – Middle East at 164,966 Euros per property.
- A breakdown of **total IT spending reveals CAPEX (IT) at 33% and OPEX (IT) at 67%**. This compares to the Gartner figures of CAPEX 29% and OPEX 71% for EAME in 2007 & 2008.
- The average reported **CAPEX (IT) spend per room is 187 euros and average reported OPEX (IT) spend per room is 378 euros**. Highest reported CAPEX (IT) per room is in E A M E - Mediterranean at 323 euros per room. Highest OPEX(IT) is also E A M E – Mediterranean at 610 euros per room
- In terms of **IT SPEND** (measured by total IT/GOR), the overall average is **0.92%** (for up-scale properties this is 0.87%, and mid-scale 1.07%). This is relatively low when compared with the 2.0% reported by Gartner in 2007 & 2008 for Hospitality and Travel and also to EMEA figures (all business sectors) of 4.4% in 2007, 4.3% projected for 2008.
- Overall average **IT SPEND** (measured by OPEX/GOR) is **0.61%**, (0.58% for up-scale properties and 0.71% for mid-scale), lower than figures reported by Computer Economic (*all business sectors) at 1.8% for 2007.
- **IT as % of operating expense** varies between regions from **1.24%-1.67%**- this is again lower than the Gartner figure of 2.6% for the Hospitality & Travel sector and 7.2% for the EAME region.
- **IT Yield (measured by total GOP /IT) has an overall average of 36.01** euros, the highest yielding region is E A M E – Middle East at 82.41

euros. The figure for **IT Yield** (measured by total EBITDA / IT), has an overall average of **10.01** euros with the highest yielding region E A M E – Middle East at 34.60 euros

- The measure of **IT Value**, here expressed as a scatter plot of operating margin (i.e. GOP as % of Total revenue) and IT Spend (as % of Total Revenue), shows the relationship between level of IT investment and operating margin **with (approx) 1% of IT investment related to 30-45 % of operating margin, this compares to Gartner (2008) data for Hospitality & Travel which is 2% of IT Investment relating to 10 % operating margin.** At regional level, only the Central European region has a consistent picture of "IT value".
- The **distribution of IT allocation** gives breakdowns here of ranges of hardware **spend from 11.04- 33.27% , software & license fees 22.48- 34.70% and corporate fees of 4.80- 14.00%** (excluding AFIO at 0.04%). This compares with EAME figures from Gartner at 17% hardware, 21% software, 25 % "outsourcing" and Computer Economics (US) figures at hardware 39% and software at 42%.The highest regional average for **IT consulting expenditure** is E A M E – North-West at 6.78% of total IT spend and significantly lower in other regions .e.g. Middle East region at 1.69%.
- The **average length of service of IT personnel is 5.3 years.** This, however, only relates to <50% of the properties reporting, as many properties indicated that "IT service not on-site", is "outsourced to 3rd parties" or is a "shared resource" (and therefore difficult to determine at property level).
- Other issues in terms of **IT projects and costs that concern reporting properties are;** "costs to support in-room IT", "IT- related training costs", "costs of periphery/ consumable items", "phone and data communication costs"- which consume 6-10% of budget. Furthermore, the IT "department" is not always considered a cost centre, making revenues/ costs difficult to allocate.

It is clear at all the levels (EAME, REGIONAL & PROPERTY) of analyses that have been completed to date that the level of IT spending is much lower than averages reported in other sectors (and reports) and that there is wide variations between EAME regions. Detailed charts that further illustrate regional data are on pages 10-26 of this report.

The most significant outcome of this research report is the possibility to track these metrics over time, on an annual basis, to build predictive models and provide the hotel industry with a set of key IT metrics to appraise IT performance.

Design of the Research

This survey was designed in collaboration with CIOs of the major European hotel companies and with reference to existing IT benchmark reports (particularly the

Gartner Report, 2008 and Info-Tech Report, 2007) which are mainly aimed at ALL sectors but, in this first instance, serve in this report as a point of comparison (due to lack of existing, reliable, available, generic annual benchmarking specific for the hotel sector).

After an extended period of consultation and refinement with industry experts, the main survey was launched online during May- June 2008. Data validation was performed through normalizing the data, validating with “authoritative sources” and supplementing with other publicly available financial and market reports. The survey itself had three main dimensions; **demographic data about the property** which described the property, **financial data** which provided annual figures from 2007 financial reporting and **IT expenditure/usage data** which revealed CAPEX and OPEX spend and distribution of IT spend. Though this particular report features IT benchmark figures, broken down by EAME region, other dimensions in the survey were measured, e.g. number of “intelligent computing devices” (also reported by Gartner,2008 & Info-Tech,2007) and “retained in-room revenues”, however, not all results are published in this report. The final data set comprises over 8500 data points and further analysis is anticipated.

Simplicity and shared meaning on terminology was deemed critical to promote completion and cooperation from a representative sample of hotels. Though every effort has been made to include all comparable data, this has not always been possible; therefore when too few data comparison points are available or relevant, they are omitted.

Implications and Constraints

- This report and data presented should be considered as one *source of comparative metrics*, others e.g. parsing the data by “management style”, property size could also be considered.
- The stated levels of spending are “actual” as opposed to projected and that 2007 reported financial, market and IT data have been reported and should be considered as “historical data” that describes not explains. This report should be considered in the light of internal information available and specific market conditions at regional and property level.
- The increasingly evolving model of hotel ownership and, particularly the increase in the “management contract” style of management within EAME has consequent impact on capital expenditure (CAPEX) and operating expenditure (OPEX) that are reflected in this data set where the “contract management” model prevails.
- There is a general (all sector) move towards allocation of IT spend from CAPEX to OPEX (Gartner, 2008) and particularly in EAME regions, partially attributable to increased “leasing/renting” of both hardware and software or to the IT investment cycle.
- Though some inferences and relationships can be offered, other factors; particularly occupancy rates, local IT costs, high ADRs in regions such as the Middle East, significant contribution to GOR from other revenue streams e.g. F&B, SPA (that may have relatively associated low technology costs) must be considered when interpreting the data.
- The latter half of 2007 saw the beginning of the economic downturn in the economies in EAME, which has now evolved into stagflation and possible recession with consequent impact on both the regional and property budgets.
- Though the Gartner (and also Info-Tech & Computer Economics) statistics are used (albeit “lightly”) as a source of comparative data, their reporting companies have higher IT budgets (\$3 million) and GOR (\$0.1bn) than most hotel property level budgets. The (Gartner) EAME respondents constitute 502 (out of total 1794), of which only 1% were from the “Hospitality & Travel” sector (5 in total?), which further emphasises the need for EAME Hotel property level benchmark data.
- The age of the property and/ or stage of renovation, recency of change of ownership and management “cycle” will all (in)+directly impact on IT investment and expenditure.

Overview of Data and Charts

The statistics gathered are broken down into the following for ease of comprehension and presentation,

SECTIONS:

Section 1: The Demographic Descriptions of properties

Section 2: EAME Regions Average Total IT Spending

Section 3: Breakdown of Total IT Spending

Section 4: IT "YIELD"

Section 5: IT "VALUE"

Section 6: Allocation of IT Spend

One of the first key considerations was to first define what comprises "IT spend". For this survey, and therefore for consequent longitudinal surveys, it is clearly defined as ***"horizontal technologies used throughout property, including operational (PMS) telephony, in room, not including marketing e.g CRS, hosting"***.

Additionally, there are over 20 currencies of financial reporting in EAME, consequently, UBS conversion rates were used for consistency and all currency data in this report are in euros. Needless to say, some reporting hotels reported "interesting data" and where outliers distorted the statistics, they were omitted.

This project was devised to help IT managers compare at property and regional level with that of their "competitive set" Although the response was a statistically valid size, presumptions and inferences about the data and analysis must be carefully considered in the context of the property, hotel ownership and region. Moreover, regardless of the efforts to validate the data supplied by properties, the statistics produced are dependent on the quality of the data reported. For most hotel companies the major financial reporting is annual and should be within standard corporate and financial procedures, however, figures may be allocated, "adjusted" and reported in a variety of ways, including interpretation of CAPEX and OPEX.

Conclusions and Comments

These benchmark figures provide an overall view and directional indicators of EAME IT spending at property level, but are only the first step in building a “useful” model of return on investment. It is clear at all the levels (EAME, REGIONAL & PROPERTY) of analysis that have been completed to date that the level of IT spending is much lower than averages reported in other sectors (and reports) and that there is wide variations between EAME regions. Caution must be exercised in using the benchmark figures, e.g. in the case of IT (OPEX) as a % of gross revenue, in terms of allocation of IT or other business resources as IT statistics alone do not measure IT efficiency or efficacy (or indeed ROI) nor are they a measure of “success”, as other determinants and extraneous factors should be considered.

These benchmarks may help to guide decision-making in allocation of scarce IT resources, particularly in the current economic conditions. However, an understanding of the “business value”, IT capacity and the “maturity of deployment” of IT at property level are critical factors for exploiting these benchmark figures. Furthermore, tracking the key metrics on an annual basis will provide a more valuable tool for strategic IT deployment.

Section 1: The Demographic Description of Respondent Properties

The European, Africa & Middle East (EAME) market is broken down into 5 key markets as follows.

Market Breakdown-EAME

E A M E – AFIO (Africa & Indian Ocean) e.g. South Africa, Senegal, Tunisia, Algeria, Cameroon, Egypt, Morocco, Seychelles Island

E A M E – North-West Europe e.g. Belgium, France, Netherlands, Switzerland, UK, Denmark, Sweden, Ireland

E A M E – Central & Eastern Europe e.g. Austria, Germany, Hungary, Greece, Poland, Turkey, Czech Republic

E A M E – Mediterranean e.g. Italy, Croatia, Israel, Spain, Portugal, Malta

E A M E – Middle East e.g. UAE, Saudi Arabia, Yemen, Qatar, Syria

Chart 1- Market Breakdown of Respondents (265 in total)

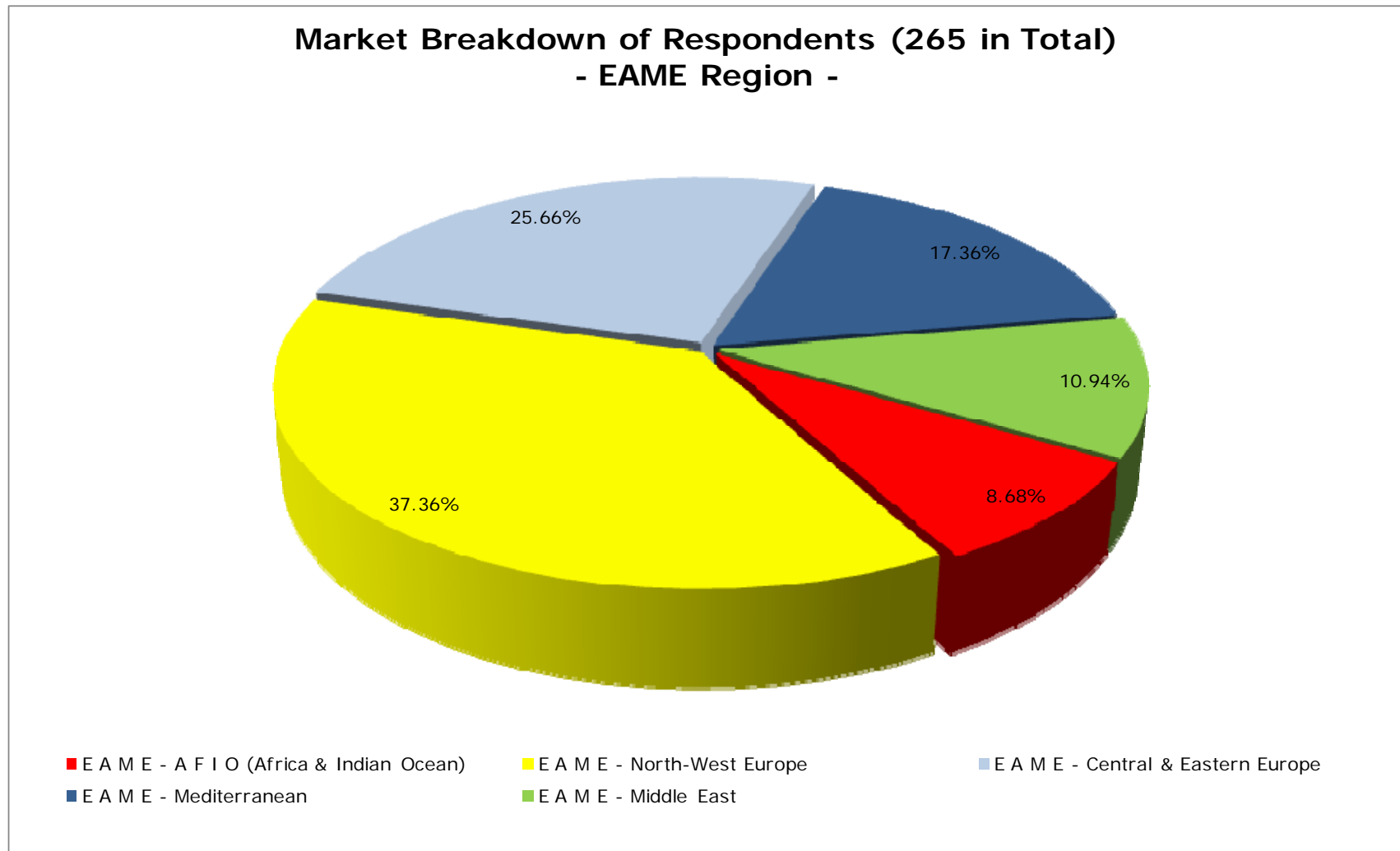


Chart 2- Ownership of Respondents in EAME (265 in Total)

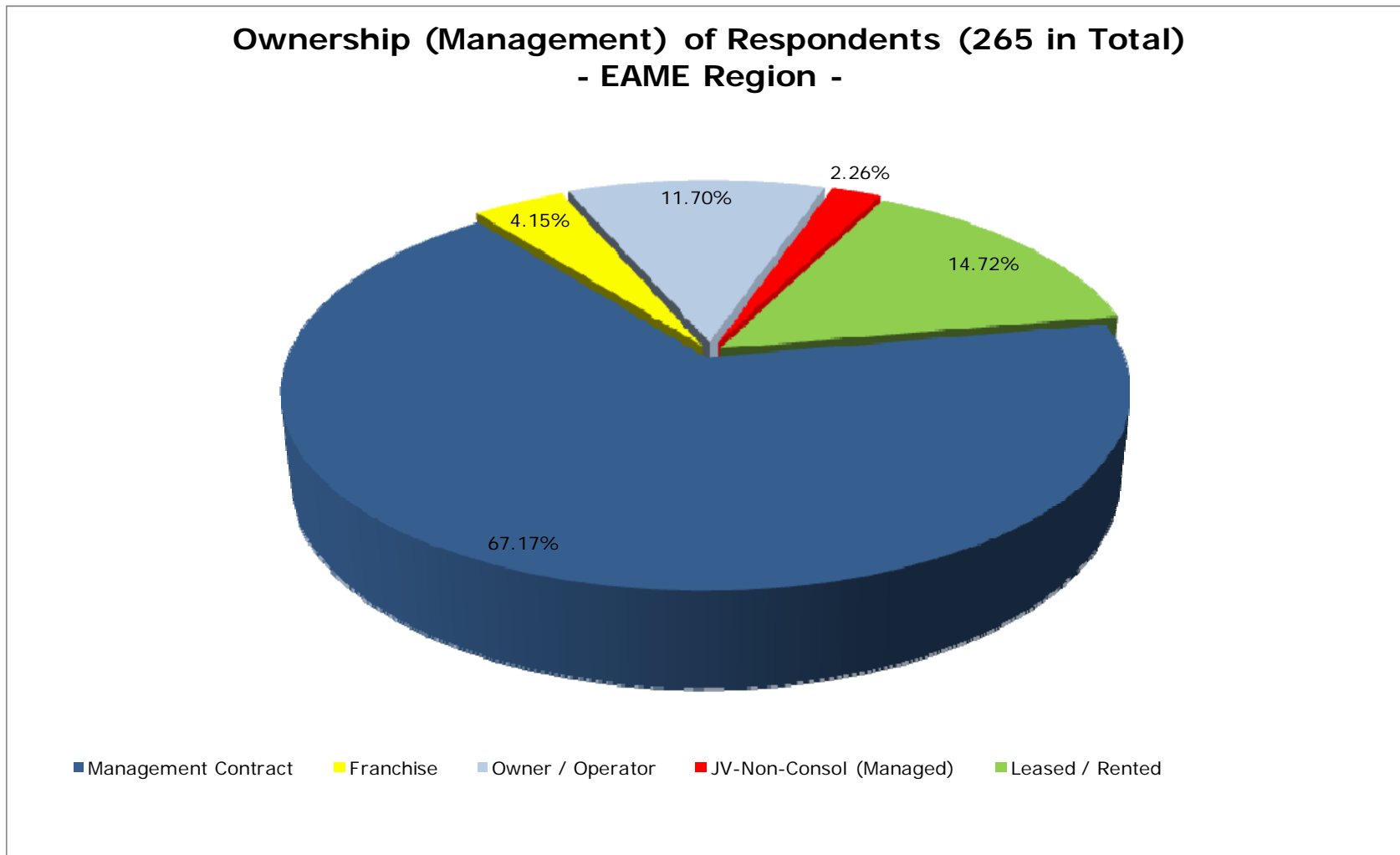
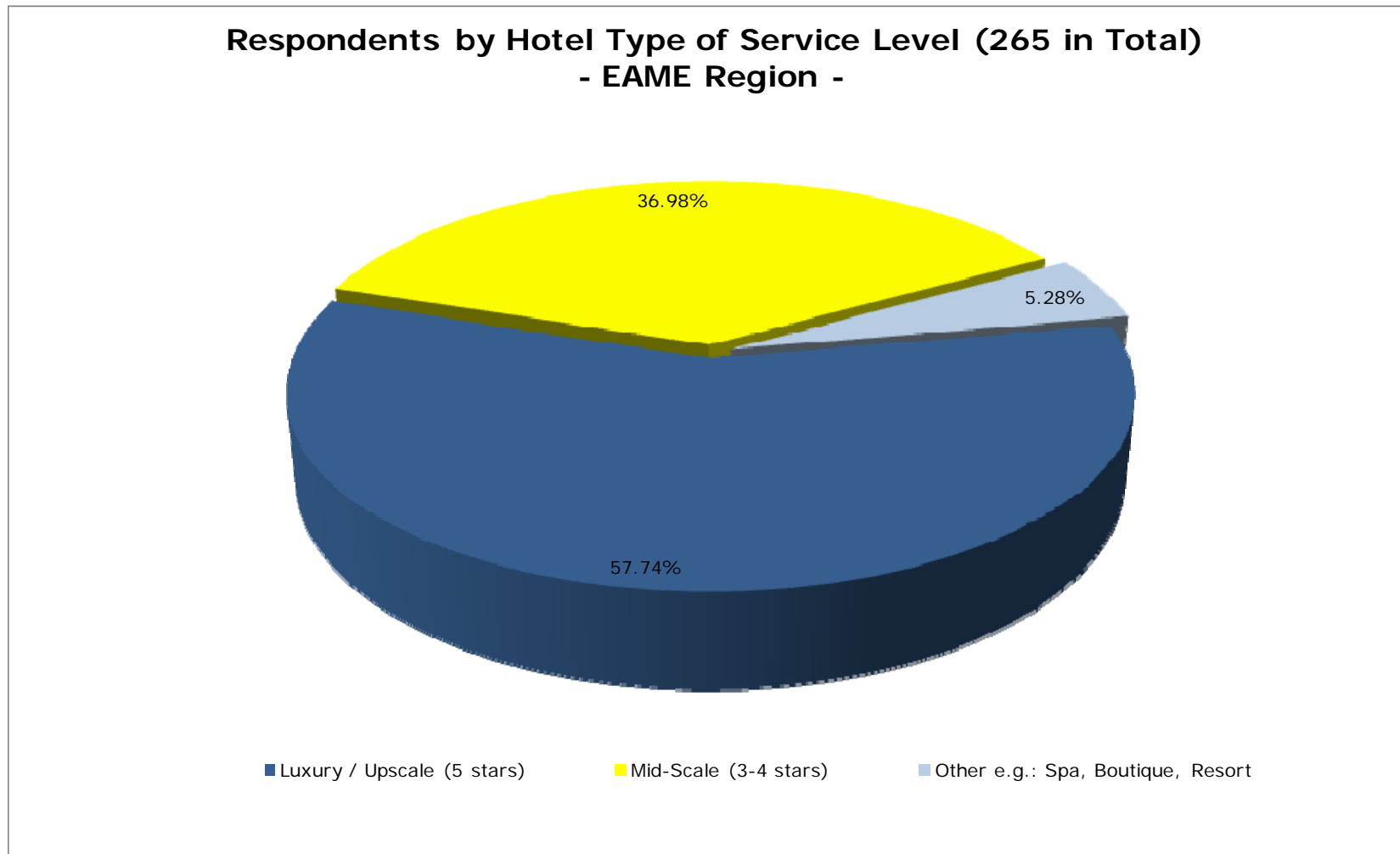
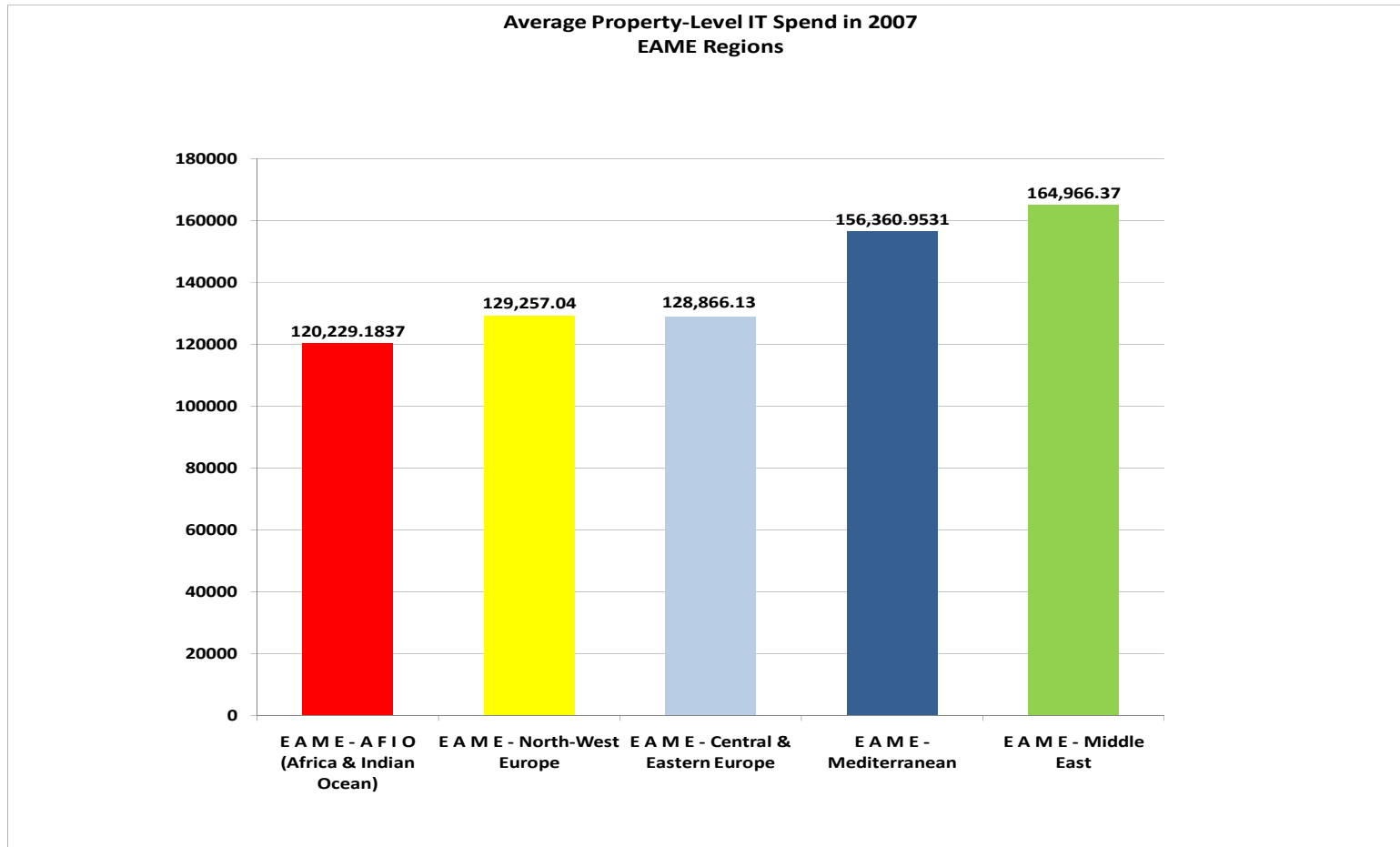


Chart 3: Breakdown of EAME Properties by Hotel Type of Service Level



Section 2: EAME Regions Average Total IT Spending

Chart 4: Average IT Property Level Spend by Region



Section 3: Breakdown of Total IT Spending

Chart 5: Regional - Average IT Spend per Room in 2007

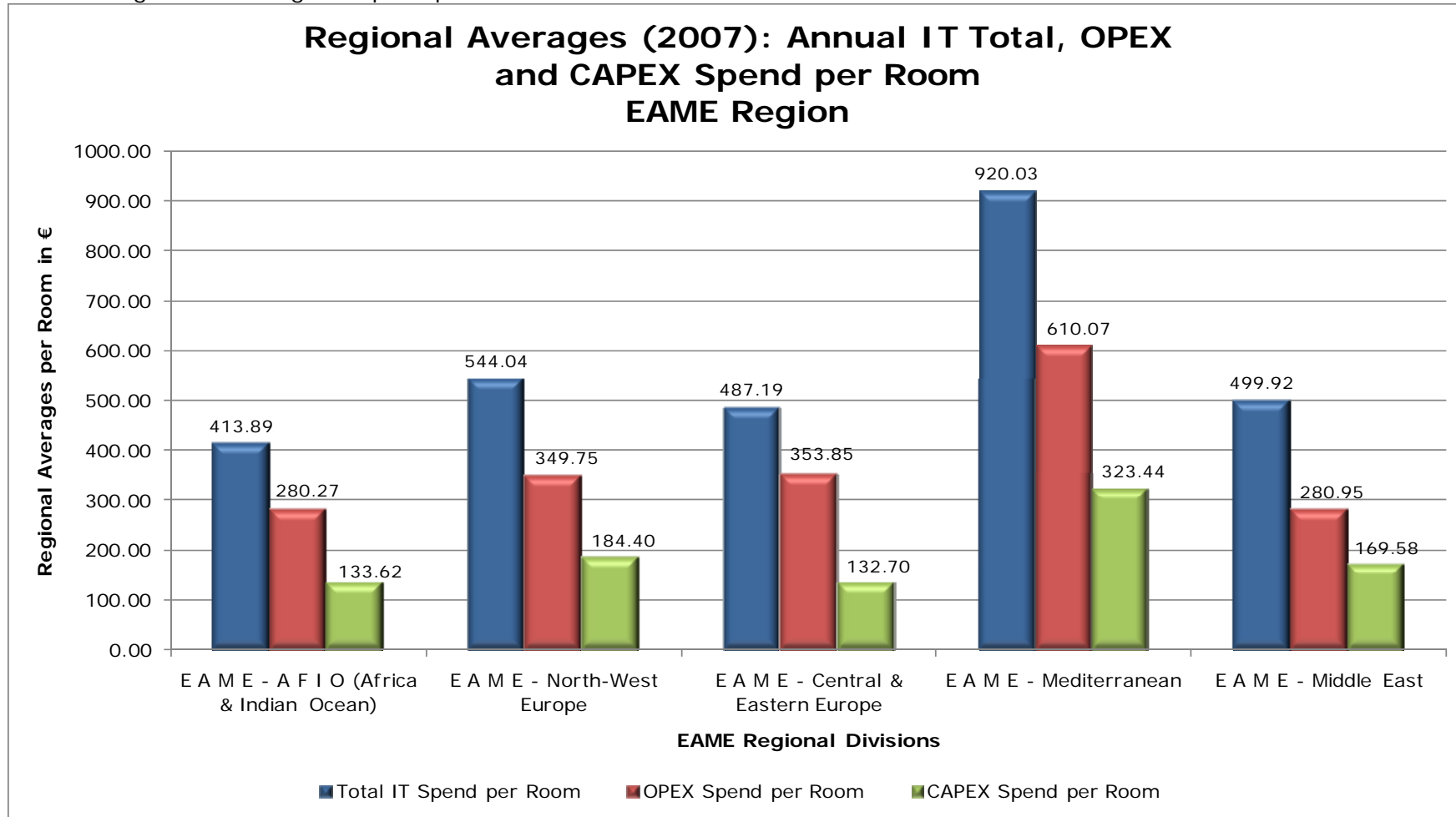
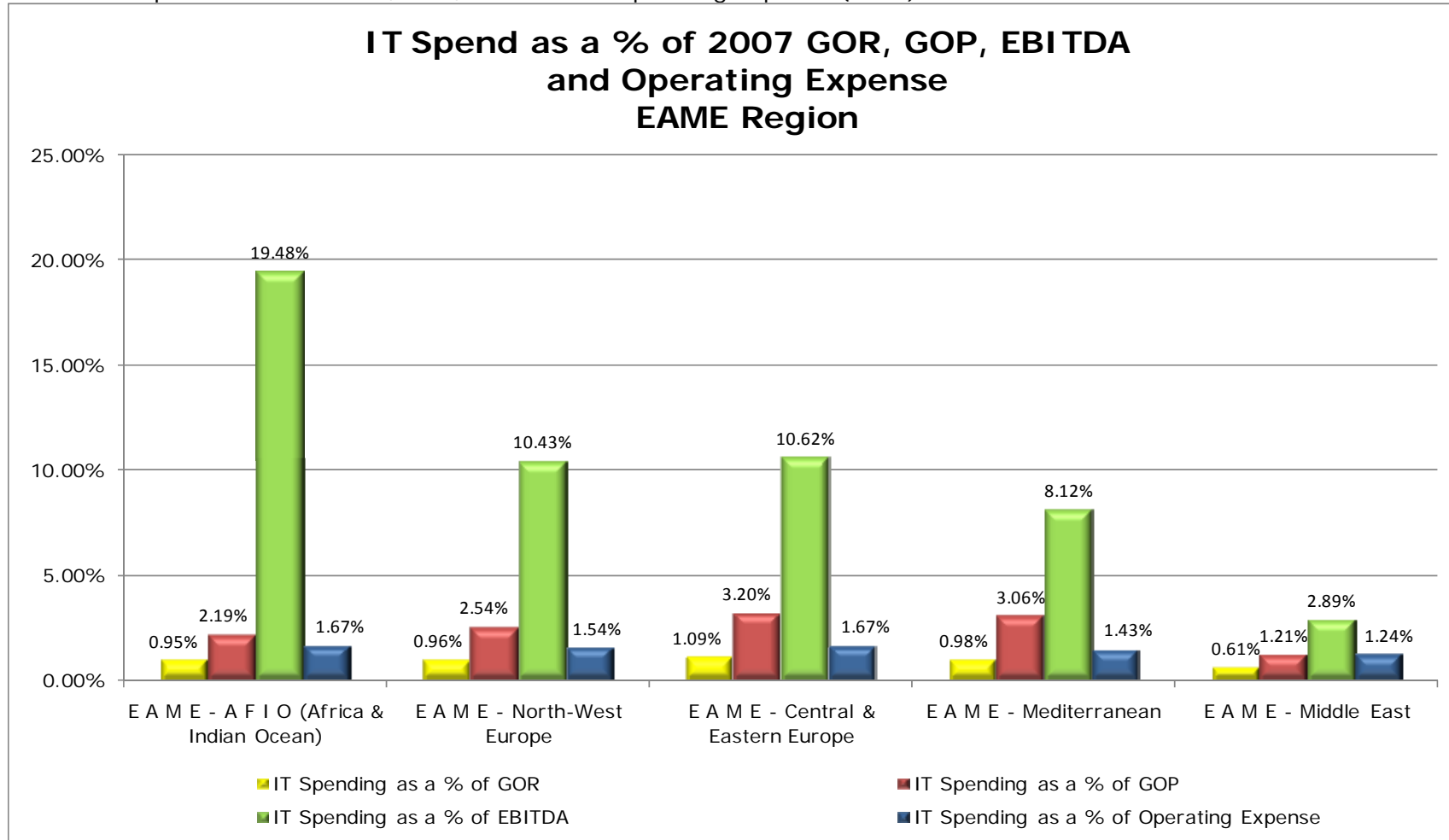


Chart 6: IT Spend as a % of GOR, GOP, EBITDA and Operating Expense (2007) - EAME



Section 4: IT "YIELD"

Chart 7: Total Revenue Yield to Annual IT Spend by EAME Region in 2007

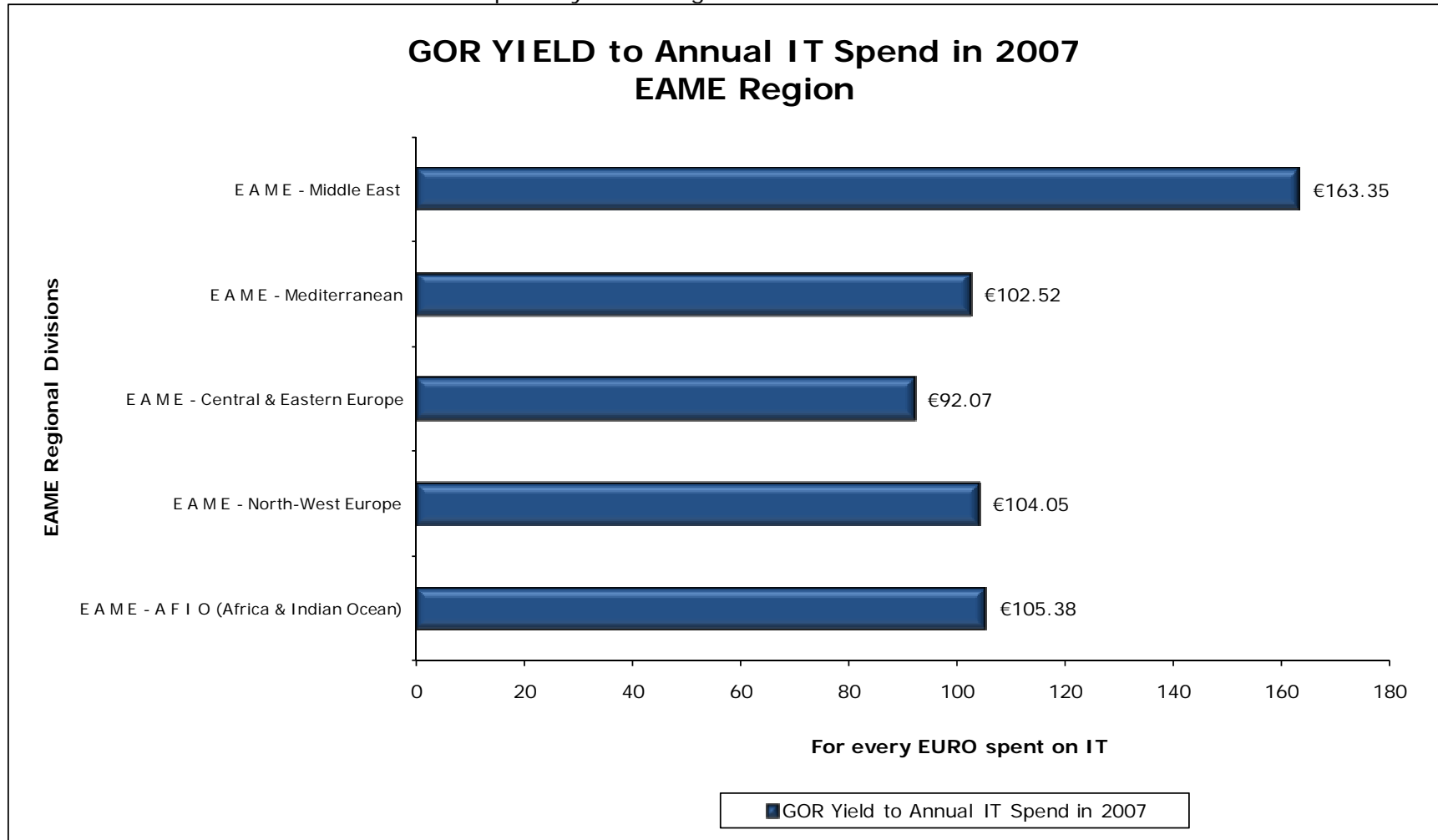


Chart 8: GOP Yield to Annual IT Spend by EAME Region in 2007

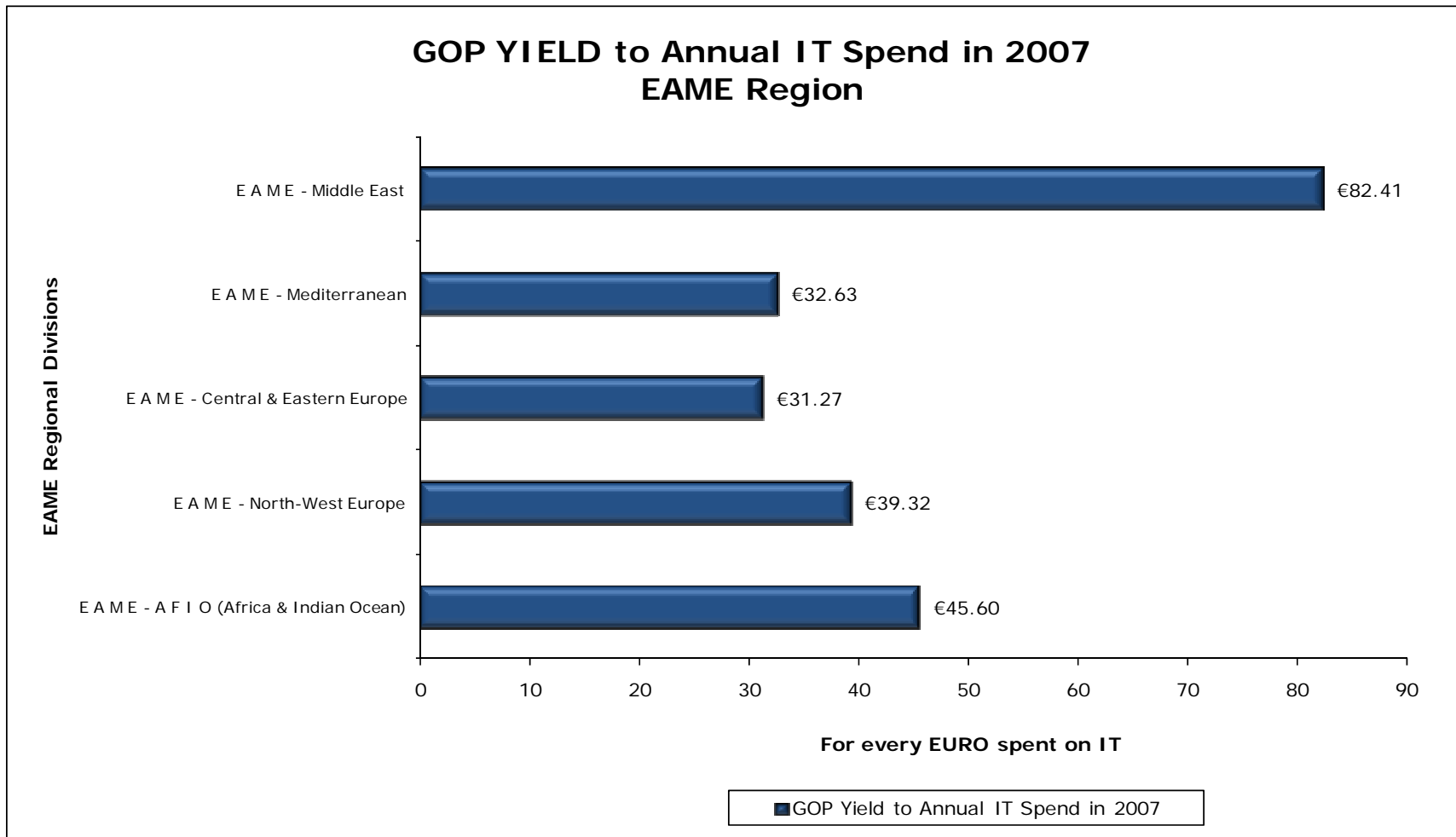
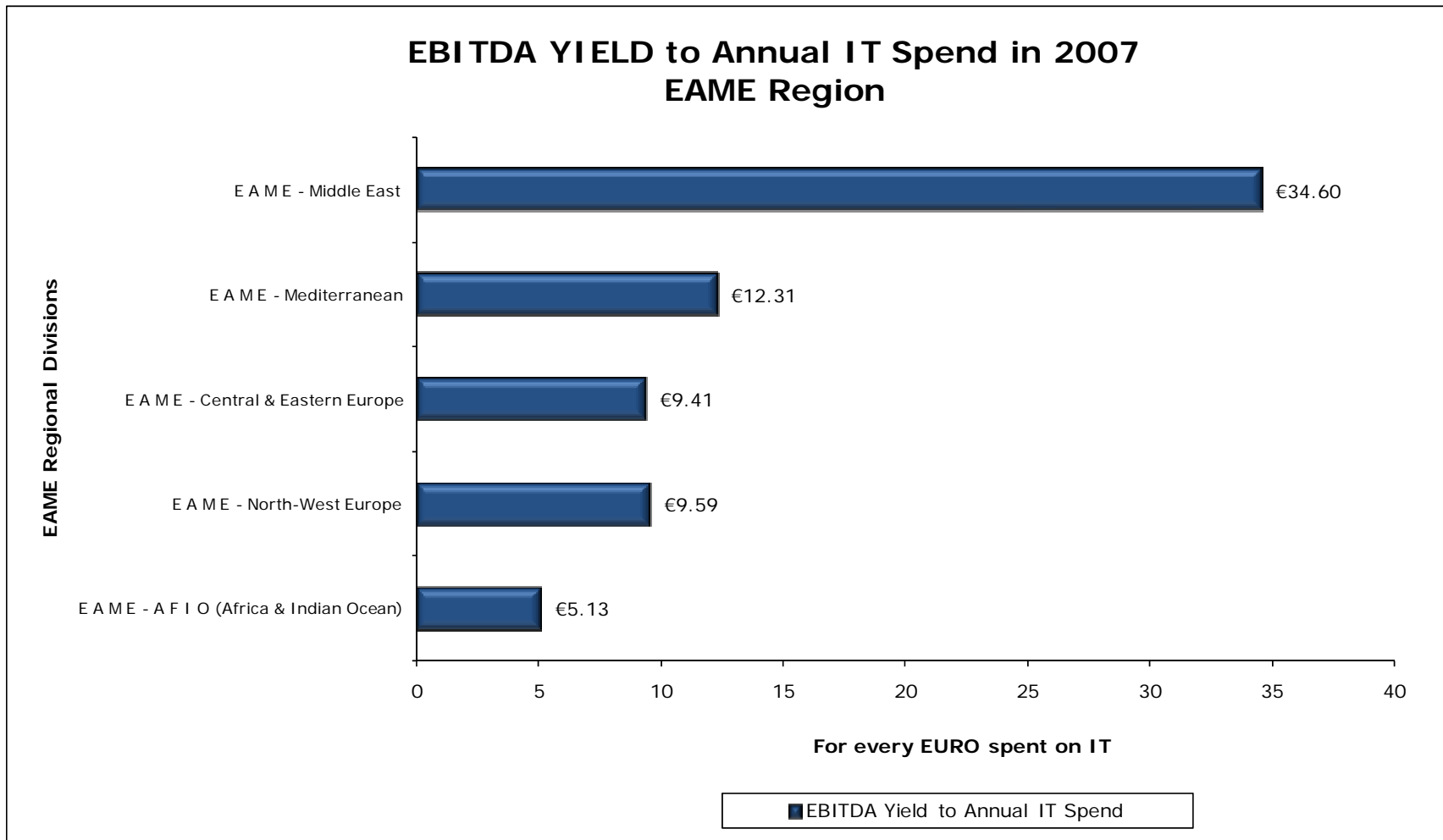


Chart 9: EBITDA Yield to Annual IT Spend by EAME Region in 2007



Section 5: IT "VALUE"

Chart 10: IT "Value" Chart (Annual IT Spending as a % of GOR versus Operating Margin in 2007) in EAME

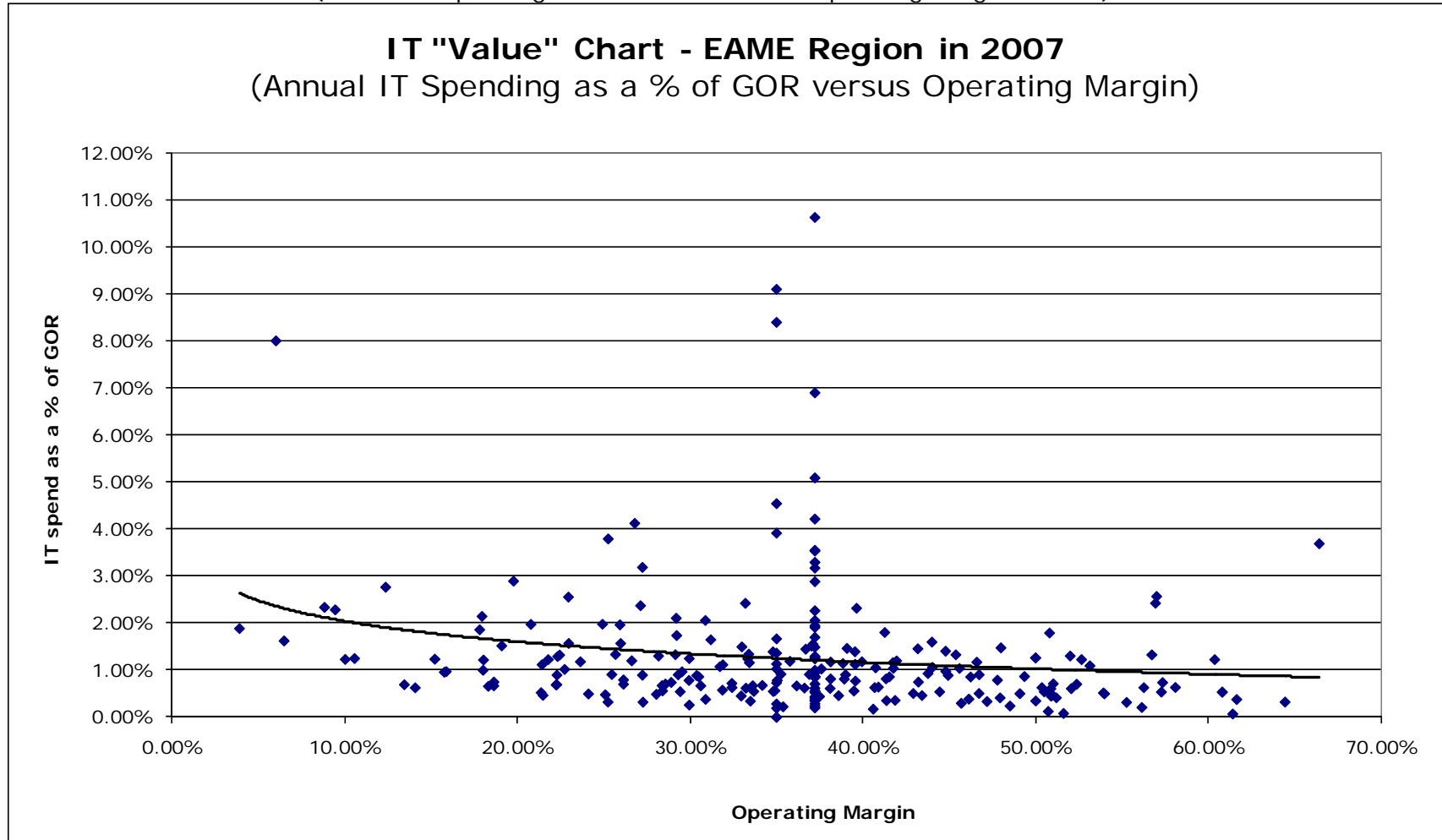


Chart 10a: IT "Value" Chart (Annual IT Spending as a % of GOR versus Operating Margin in 2007) in EAME- North West Europe

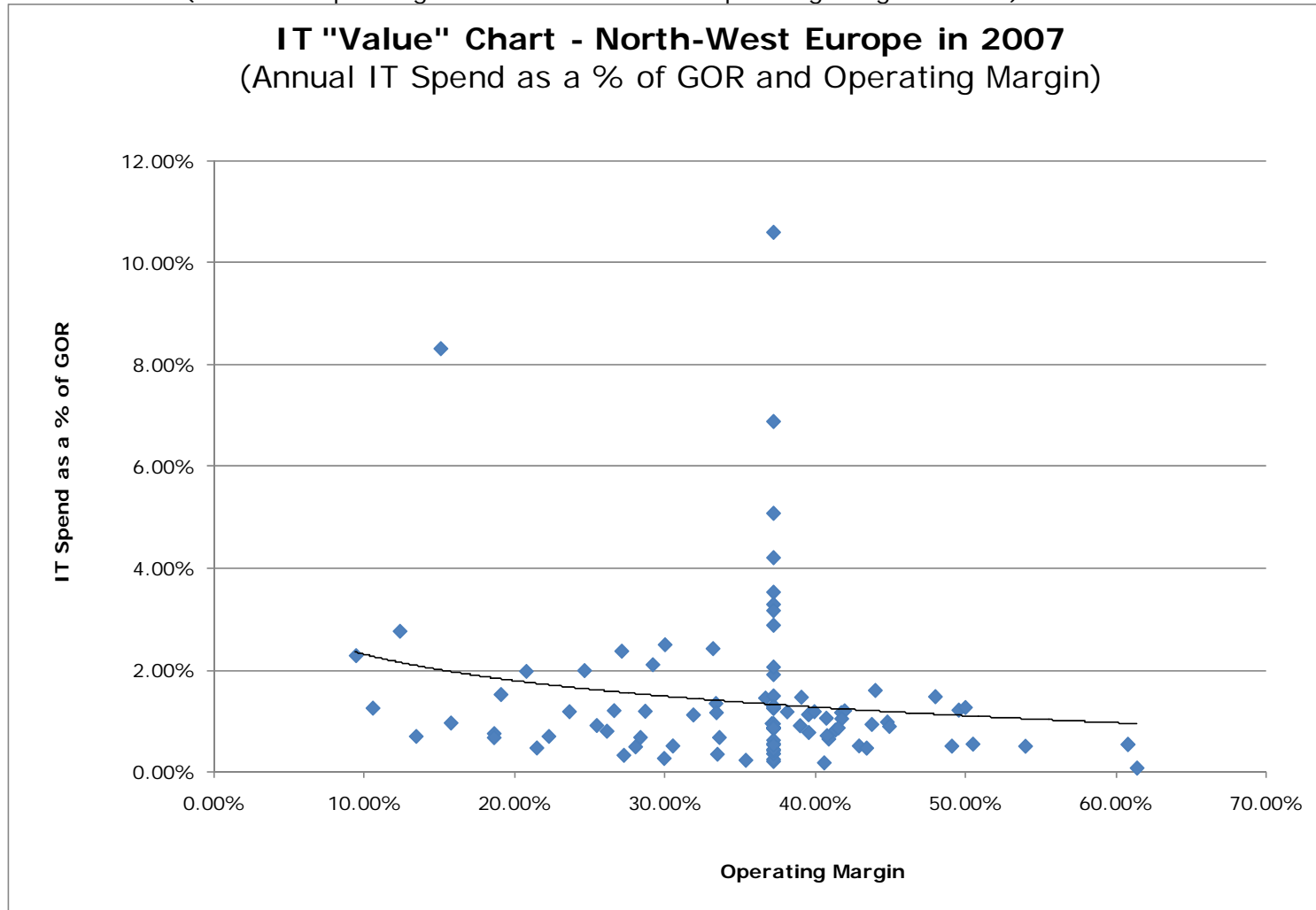


Chart 10b: IT "Value" Chart (Annual IT Spending as a % of GOR versus Operating Margin in 2007) in EAME- Central & Eastern Europe

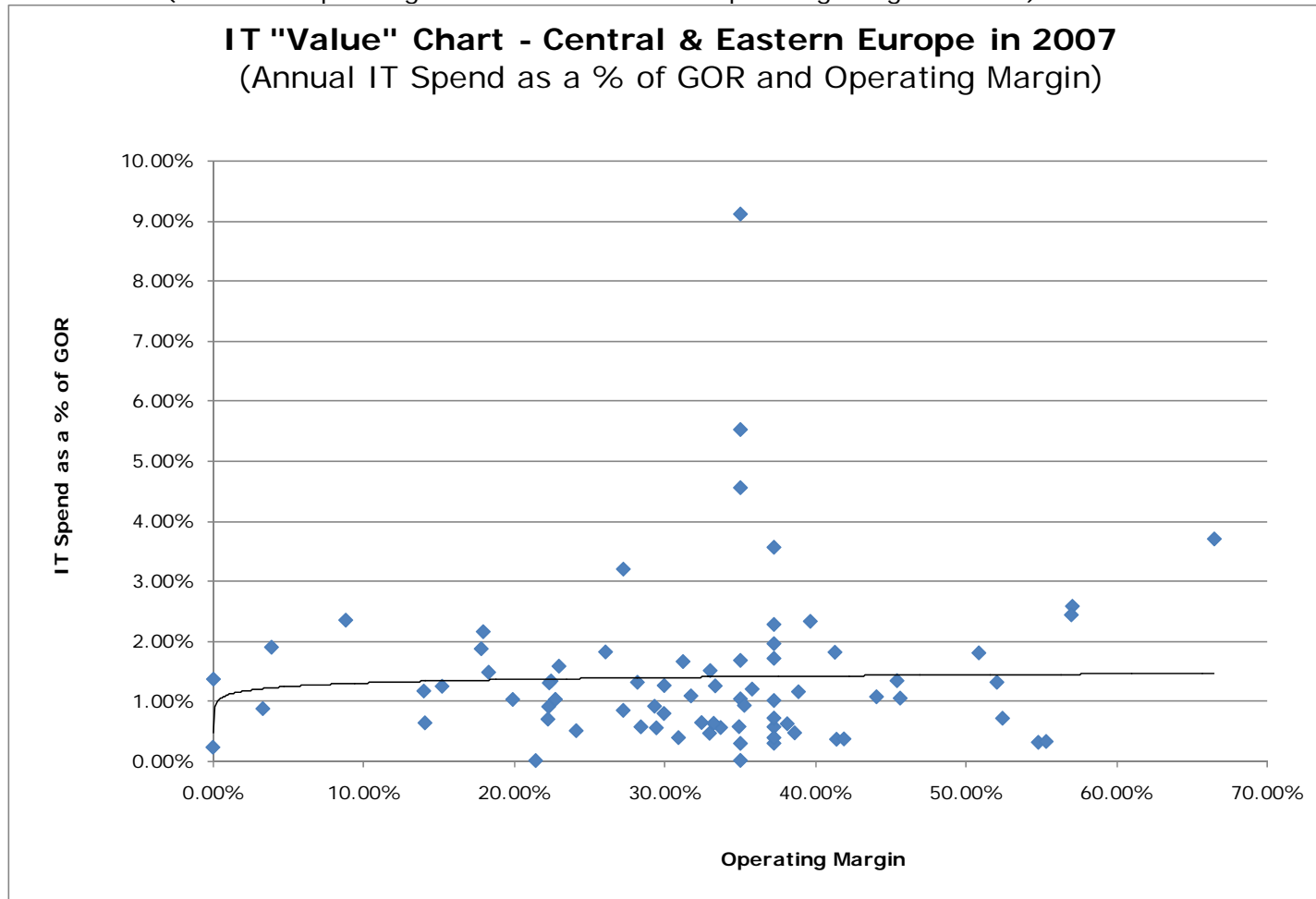


Chart 10c: IT "Value" Chart (Annual IT Spending as a % of GOR versus Operating Margin in 2007) in EAME- Middle East

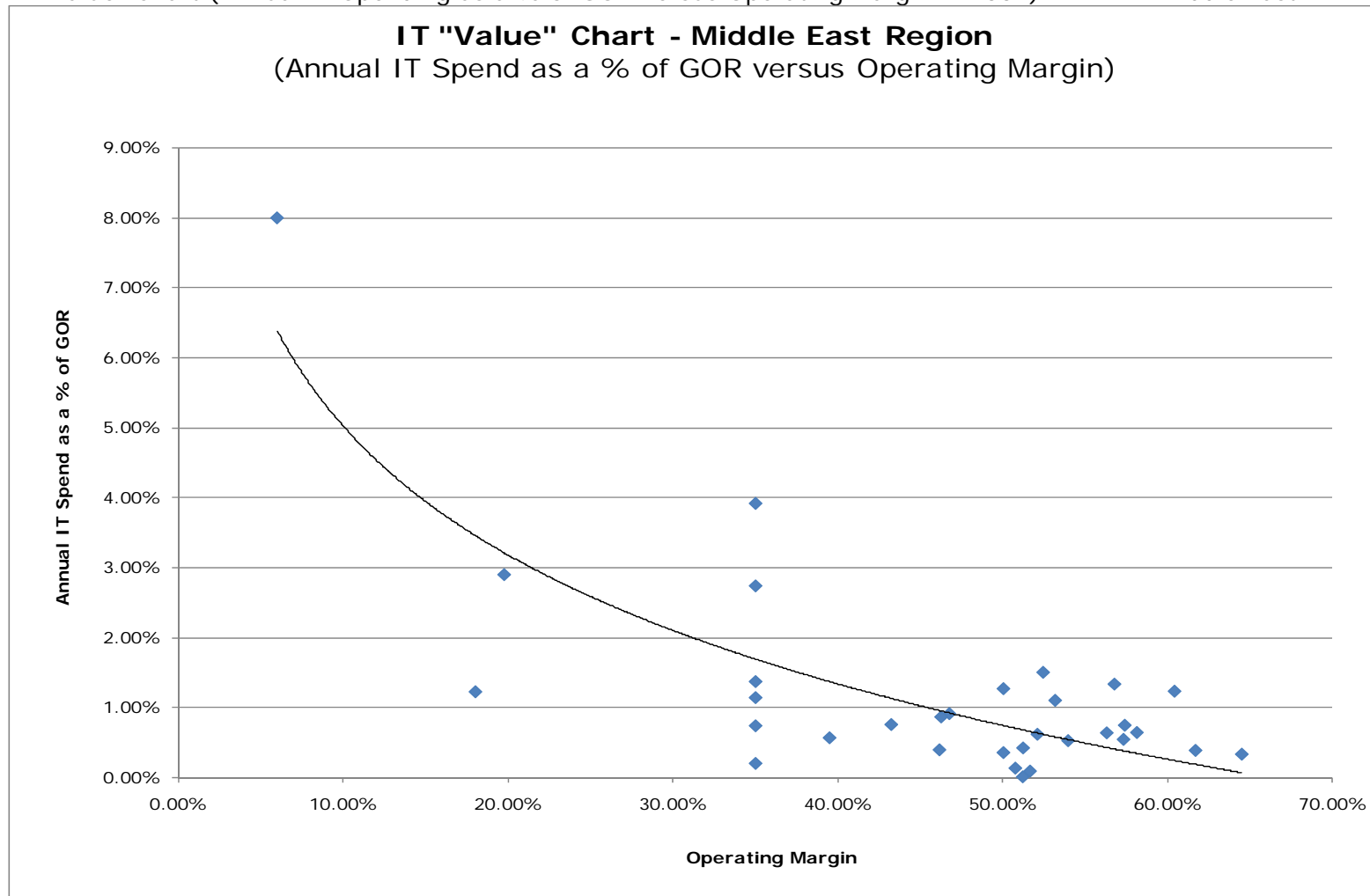
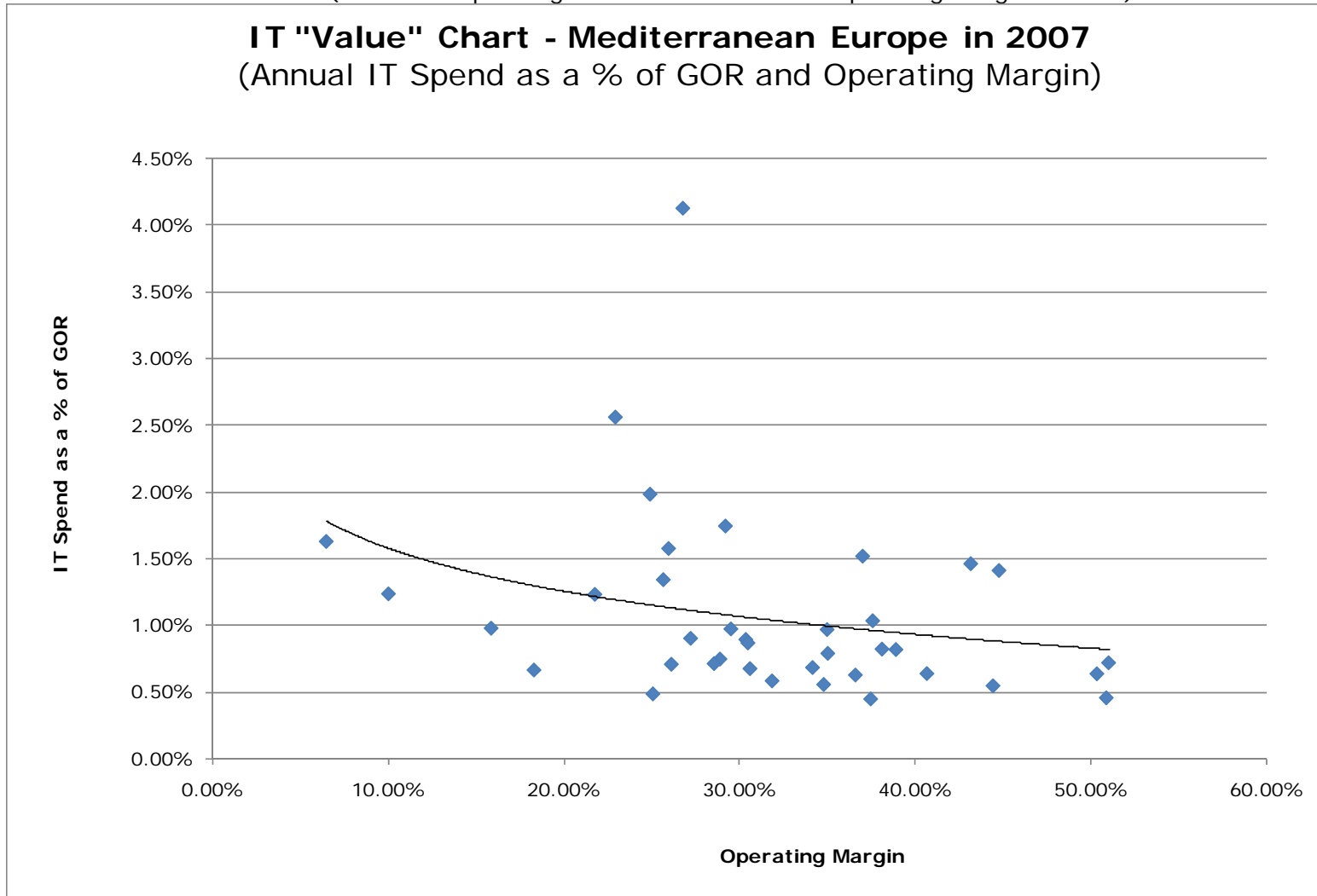
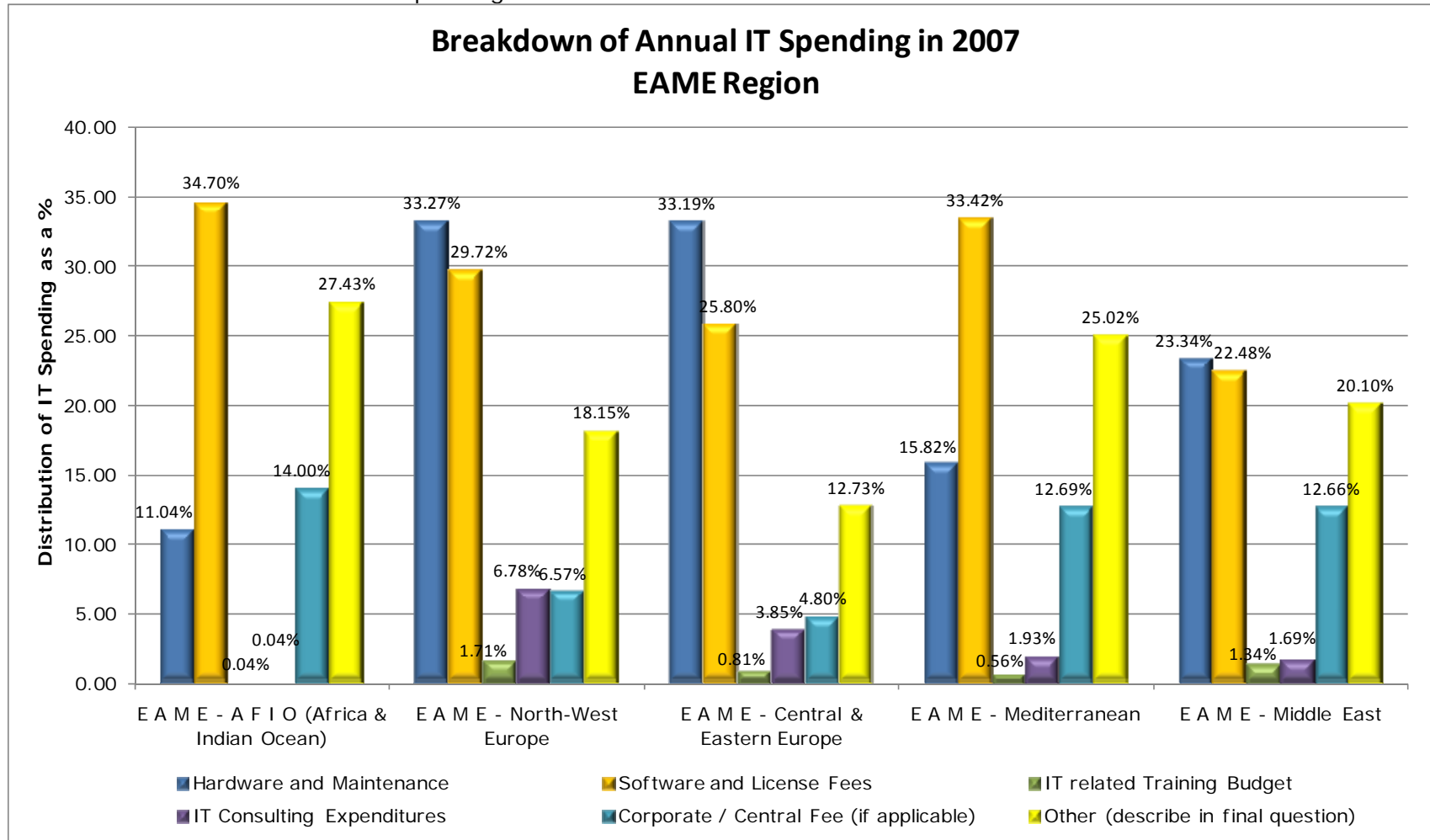


Chart 10d: IT "Value" Chart (Annual IT Spending as a % of GOR versus Operating Margin in 2007) in EAME- Mediterranean



Section 6: Allocation of IT Spend

Chart 11: Breakdown of Annual IT Spending in 2007



About the author of this report: Prof. Dr. Hilary C Murphy, PhD, MCIM, MPhil, dip BITS, BA, teaches and researches at Ecole Hotelière de Lausanne (EHL) in the strategic deployment of technology and e-marketing. Over the past 14 years she has researched and published articles on these subjects in trade magazines and in international academic journals and also delivered key papers at international conferences.



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