

## Cisco Internet Business Solutions Group, Global Hospitality Practice

### The Hospitality Community

After two dismal years, hospitality leaders anticipate that when the economy recovers, so too will the income statements of hotel operators. While there is much ground to be made up, the industry remains hopeful. Business travel, however, is down dramatically from the highs of prior years (12 percent decrease in 2009 alone).<sup>1</sup> With corporations slashing their travel budgets across the board, convention, conference, and group travel have been particularly weak in recent quarters. Research suggests that just as the shock of 9/11 “reset” the relationship between the broader economy and lodging demand, so too has the Great Recession, which established a different economic benchmark that may be long-lasting.<sup>2</sup>

With travel budgets now a fraction of former levels, corporations have turned to technology-driven travel substitution based on virtual meetings. This shift to virtual interaction has been exceptionally successful, and it is likely that technology-based collaboration and travel substitution will continue to disrupt corporate and conference travel patterns.

For some time, the hospitality industry has tacitly acknowledged that travel substitution arising from technological innovation could have negative consequences on occupancy. Increased use of on-demand / live streaming video and the advent of virtual meeting technologies are prompting a re-examination of the potential near-term economic impacts of IT on the hospitality industry. Gartner predicts that video-based meetings will replace 2.1 million airline seats per year by 2012, representing a net revenue decline of US\$3.5 billion for the travel and hospitality industries.<sup>3</sup> In addition, a recent study by the National Business Travel Association found that 81 percent of respondents believe technology serves as a viable replacement for business trips.<sup>4</sup>

Today's global economic challenges, combined with the success of technology-based travel substitution, are causing many to revisit the assumption that hotel demand is waiting in the wings. What if technology-based meetings are deemed enduring substitutes for business travel? It is hard to believe that companies will be willing to surrender hard cost savings and resulting productivity when viable alternatives have emerged to preserve them.



Cisco Internet Business Solutions Group (IBSG)

## Opportunities for Hospitality Companies

The Cisco® Internet Business Solutions Group (IBSG) Global Hospitality Practice works with CXOs from leading hospitality companies to address a broad range of critical business issues—finding new revenue streams, reducing costs, enhancing innovation capabilities, improving customer experience—by developing technology-enabled business strategies.

Based on our research and discussions with hospitality executives, we have identified three major trends that will significantly impact the industry's future:

1. **Video and collaboration technologies for the enterprise**—Video is emerging as the next frontier in technology innovation, with Web 2.0 collaboration tools (for example, YouTube, Facebook, LinkedIn, Twitter, and Skype) and advanced mobile networks making video access the norm for social networking, information sharing, and multimedia communication. Enterprises are quickly assimilating Web 2.0 capabilities into mainstream corporate technology infrastructure and rearchitecting how their employees communicate, collaborate, and create value for their organizations.
2. **Business-travel substitution**—Companies are increasingly relying on video and virtual meeting technologies to cut costs, reduce carbon footprints, and improve productivity. Cisco has made significant strides in using its own video communications and collaboration solutions companywide to achieve these goals. In the first three and a half years of deploying Cisco TelePresence™ technology, Cisco has held more than 230,000 meetings—some 74,000 of which helped the company avoid travel, according to post-meeting surveys completed by employees. To date, travel avoidance has yielded more than \$400 million in savings and more than \$150 million in workforce productivity gains. TelePresence meetings have also reduced Cisco's greenhouse gas emissions by 225,000 metric tons over this period. Coupled with policy changes on internal travel, communication and collaboration technologies enabled Cisco to reduce travel expenses from \$750 million in fiscal year 2008 to \$240 million in fiscal year 2009.<sup>5</sup>

Cisco TelePresence customers have also realized significant benefits. For example, AT&T reportedly reduced employee air miles by 15 percent through extensive use of video and web-based meetings.<sup>6</sup> British Telecom eliminated 860,000 face-to-face meetings, slashed travel costs by more than \$20 million, increased productivity by more than \$150 million, and reduced the company's carbon footprint by 96,000 metric tons.<sup>7</sup> Procter & Gamble cut travel expenses by millions of dollars, eliminating 6,000 flights in the first six months of using Cisco TelePresence.<sup>8</sup>

3. **New meeting experience for large meetings**—Cisco's annual Global Sales Experience (GSX) offsite sales conference is an example of a substantially large event transformed by technology. Conducted for the first time in August 2009, GSX took place over a three-day period entirely through a virtual environment enabled by a high-end user interface. The 2009 conference had 19,000 participants worldwide; not one person had to pack a suitcase, board a plane, or leave his or her office. The virtual environment employed a full palette of technology-based collaboration and video solutions, including a host avatar, participant polling using mobile devices, virtual discussion forums, instant messaging, a virtual "briefcase" (for downloading PDF and multimedia versions of event proceedings, agendas, product brochures, and training materials), note-taking tools, interactive games, video blogs, video on

demand, live video conferences, and video feeds from Cisco TelePresence. Results were astonishing: Cisco saved more than 90 percent of the costs spent on a typical physical gathering, eliminated 211 million air miles and 334,000 hours of travel time, and averted 84,400 metric tons of greenhouse gases. Of interest to the hospitality industry, this virtual meeting saved money in air and ground travel, hotel rooms, food and miscellaneous expenses, and reduced fees for convention space.

## Transforming Hotel Business Models

Not all meetings can be held remotely, and rest assured, face-to-face meetings will certainly endure. But, the increasing sentiment of Cisco IBSG Hospitality Practice experts underscores why the hotel industry must prepare for a coming sea change in how meetings are conducted. We draw on Cisco's experience deploying technology-based meeting solutions such as Cisco TelePresence and on our own engagements with major hospitality companies to provide practical advice on how the industry can commingle virtual and physical meetings to serve their customers' needs. New capabilities underpinned by emerging technologies are transforming business and customer service models. We see two new business models emerging:

1. **Cisco TelePresence as a Service (TPaaS)**—TPaaS allows third-party operators (such as hotels) to integrate Cisco TelePresence meetings into the hospitality meetings business. With TPaaS, meeting participants use Cisco TelePresence in another company's facilities rather than purchasing the equipment themselves. In this way, enterprises and small businesses have access to TelePresence resources without the attendant capital costs. Telecommunications service providers are also actively targeting this space. Tata Communications was an early innovator, opening the first of 12 planned public Cisco TelePresence suites in India and the United States. Tata was also first to establish a global network of public Cisco TelePresence rooms, and has plans to deploy TPaaS in more than 40 major centers and open several dozen more suites in partnership with Starwood Hotels and Resorts.<sup>9</sup> AT&T is also at the forefront of TelePresence innovation, and has partnered with Marriott Hotels and Cisco to deploy TelePresence capabilities in Marriott's "GoThere Virtual Meetings" studios at properties in New York City and Washington, D.C. As part of the project's initial phase, the companies are planning to place Cisco TelePresence in 25 additional locations.<sup>10</sup>
2. **Virtual and Hybrid Meetings**—Unlike Cisco TelePresence, where meeting interaction is limited to a relatively small number of participants on each node, the virtual meetings market targets larger assemblies. Conferences and conventions that accommodate dozens to several thousand participants could be the next meeting frontier reshaped by IT. Virtual-hybrid meetings (physical meetings that incorporate virtual capabilities) promise to redesign and transform the meeting experience, enabling participants to assemble, communicate, interact, and achieve results at a fraction of the currently typical travel investment. The ability to have in-person activities was one of the main reasons Cisco created a virtual-hybrid model for GSX 2010. The conference overall had more than 20,000 attendees, with 62,000-plus joining sessions via the virtual platform. Fifty exhibitors were present in the virtual Solutions Showcase, and more than 15,000 attendees had access to information and experts within the Showcase. At the same time, 1,100 conference rooms were set up

in 168 locations and 69 countries so that attendees could gather to watch conference sessions and participate in celebration events. While communication is easily delivered virtually, recognition and motivation can be challenging to convey in a fully virtual model. This model enabled Cisco to deliver on its goals for a next-generation sales event: communicate, motivate, and recognize.

Though cost reduction is a vital benefit, it is far from the only advantage of virtual meetings. Organizers can also track and measure attendee participation, behavior, and satisfaction—as well as benchmark and scorecard events on the spot. For hotel operators, the challenge will be to combine physical and virtual meeting capabilities in a seamless value proposition for corporate customers.

New players are populating the competitive hospitality landscape. These new entrants resemble technology providers more than hoteliers. Hospitality leaders must monitor emerging technologies to gauge how the meetings business will change in the coming years, and consider the implications for hotels, conference centers, and convention facilities. Video and virtual meetings clearly will impact a substantial portion of the group/meetings business and the transient market. Winners and losers will be determined by their ability to innovate and adapt quickly to this emerging landscape, creating new experiences, services, and business models—and by their ability to grow profitably in the face of evolving industry dynamics.

For more information about the capabilities of the Cisco IBSG Global Hospitality Practice, please visit our website at [www.cisco.com/web/about/ac79/hosp/index.html](http://www.cisco.com/web/about/ac79/hosp/index.html), or contact:

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## Endnotes

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### More Information

Cisco Internet Business Solutions Group (IBSG), the company's global consultancy, helps CXOs from the world's largest public and private organizations solve critical business challenges. By connecting strategy, process, and technology, Cisco IBSG industry experts enable customers to turn visionary ideas into value.

For further information about IBSG, visit <http://www.cisco.com/go/ibsg>.



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