

**MIS 3534 Spring 2015 –  
Strategic Management of  
Information Technology  
*Week 3 – IT and Competitive  
Strategies (II)***

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## Today, we will discuss ...

- Core competency
- How IT helps develop core competency
- How IT helps make a core competency valuable and inimitable

## How Do You Choose Your Hotel?

- When you're travelling, how do you choose your hotel to stay?
- based on what information?



## What Do You Want at Your Hotel Stay?

- What do you want at your hotel stay?
- What kind of amenities or perks do you value the most?



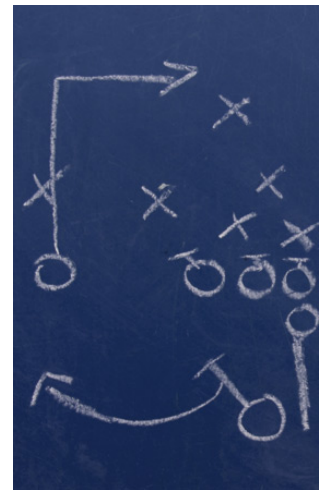
## Your Core Competency

- What's your Core Competency?
- Do you have something that you can do *better than anyone else*?
- Does it guarantee you to get a job? Why or why not?



## Strategy 101 (1/2)

- Competitive strategy: how a business firm competes in a particular business or industry (Institute for Strategy and Competitiveness, HBS)
  - how a company can gain a *competitive advantage* through a *distinctive* way of competing
- Examples?
  - introducing new products
  - lowering prices
  - entering new markets
  - providing superior services
  - M&A, diversification, vertical integration



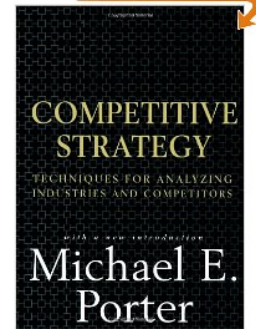
## Strategy 101 (2/2)

- Competitive advantage: strategic advantage a firm has over its rivals within its competitive industry
  - A product or service that customers place greater value than on similar offerings from competitors
  - Some competitive advantages do not last long (i.e. temporal competitive advantages),
    - since competitors keep copying, imitating, or replicating.
- *Sustainable* competitive advantages is a basis for *long-term* profitability for the firm
  - achieving financial performance that *consistently* outperforms industry peers

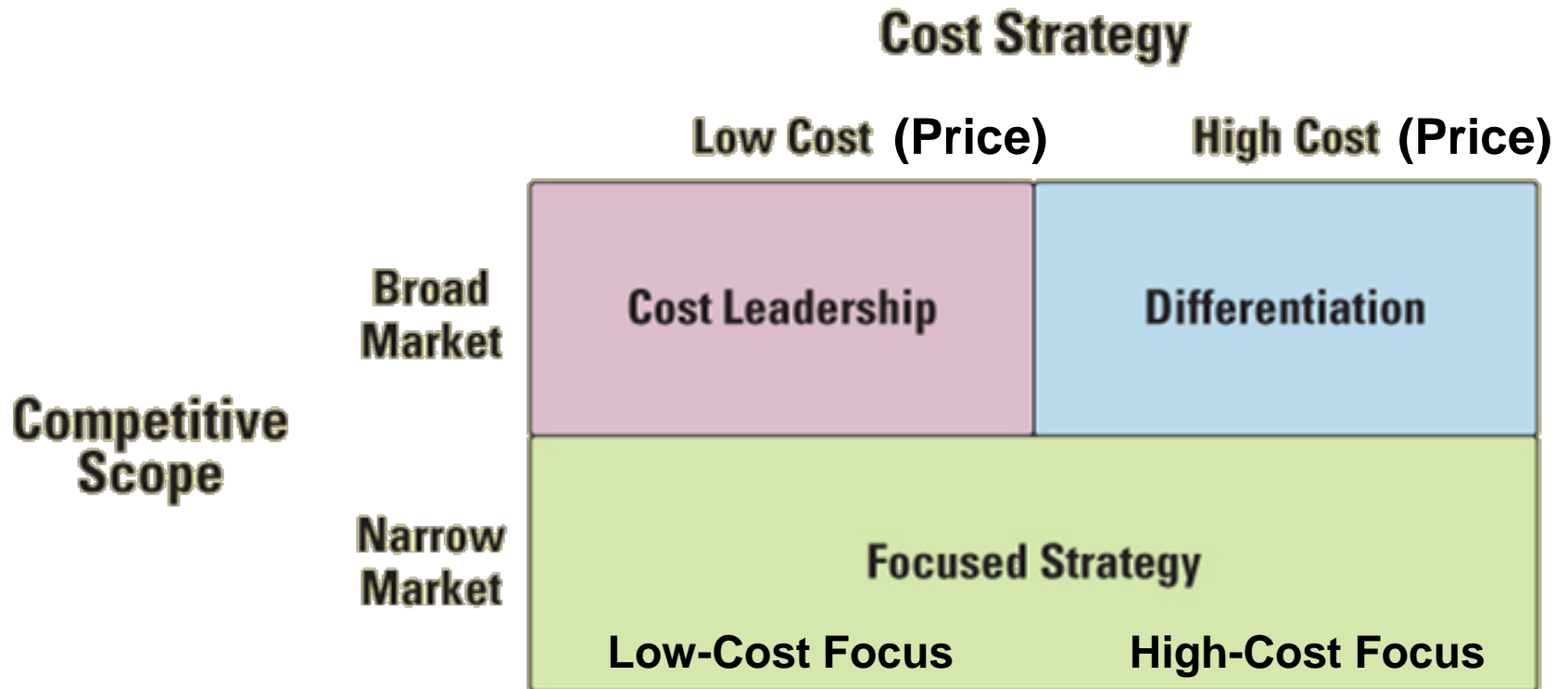
## Steps in Strategy Formulation

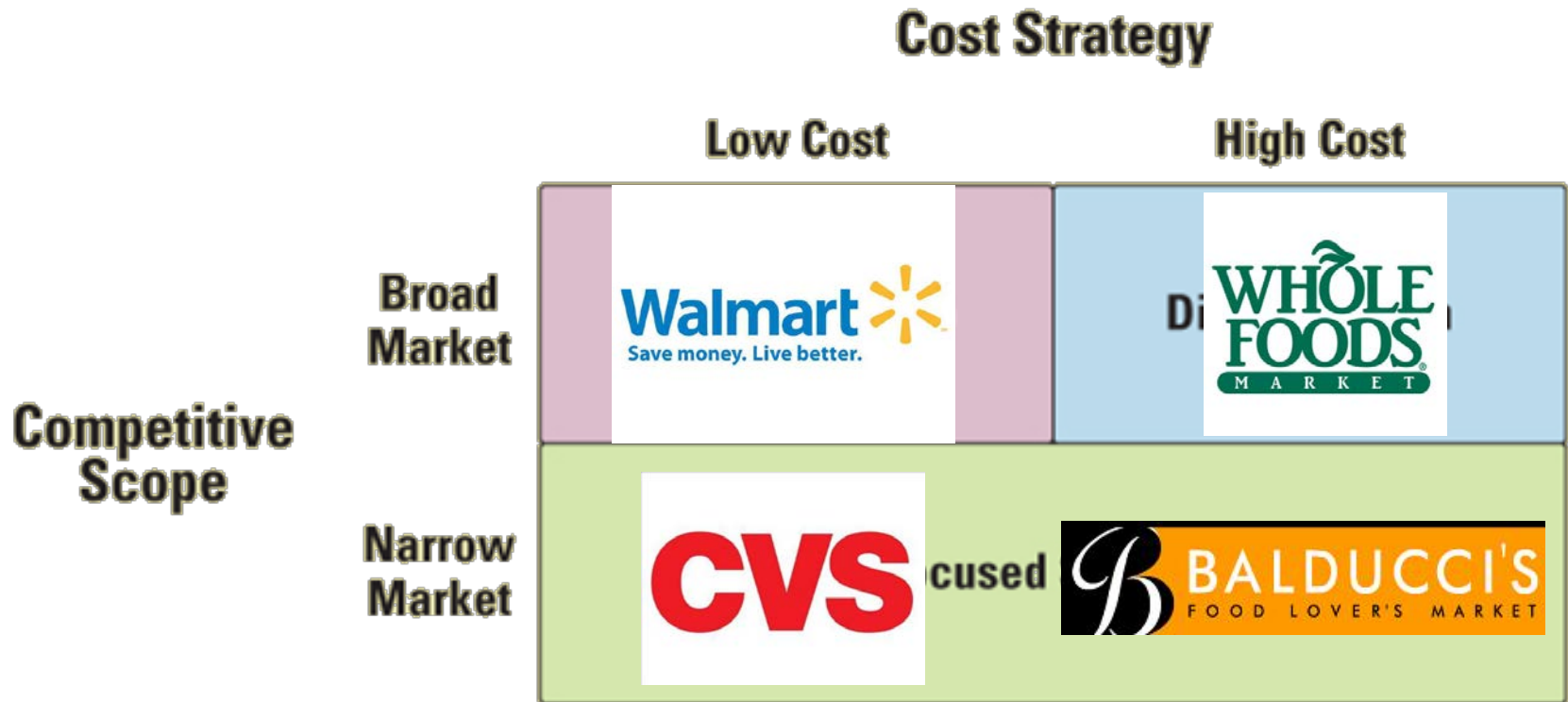
- Where to play: look out industries or markets and figure out which one is profitable
  - The five forces model for competitive analysis
- How to play: choose specific business strategies
  - The three types of generic strategies
- Play with what: know what is needed to succeed in the competitive industry (tools, skills, muscles, ...)
  - Core competencies

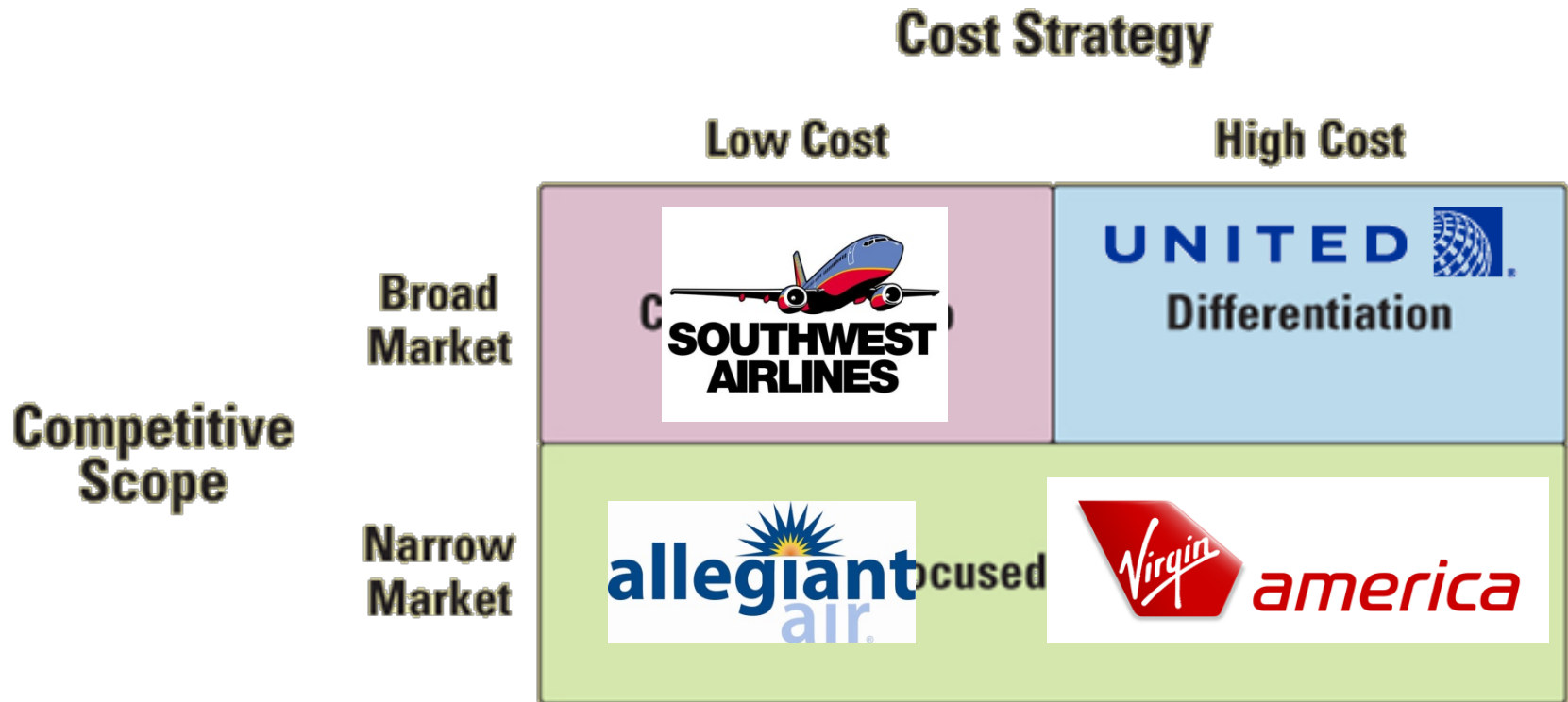




# Generic Strategies

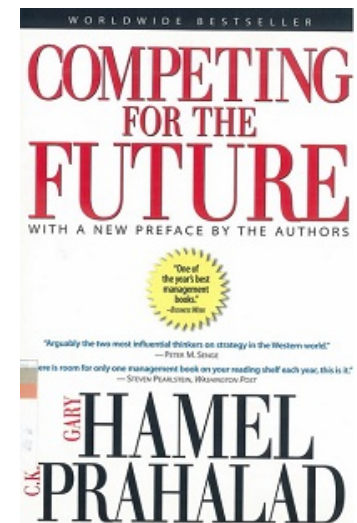






## Core Competency (1/2)

- A specific set of skills or techniques that deliver value to customers and profits to shareholders
  - e.g. production techniques, service knowhow, customer relationship abilities, employee management, so forth
- An ability or activity that a firm can do better than any other competitors
- What would be the core competency
  - of Apple?
  - of Toyota?
  - of Wal-Mart?



## Core Competency (2/2)

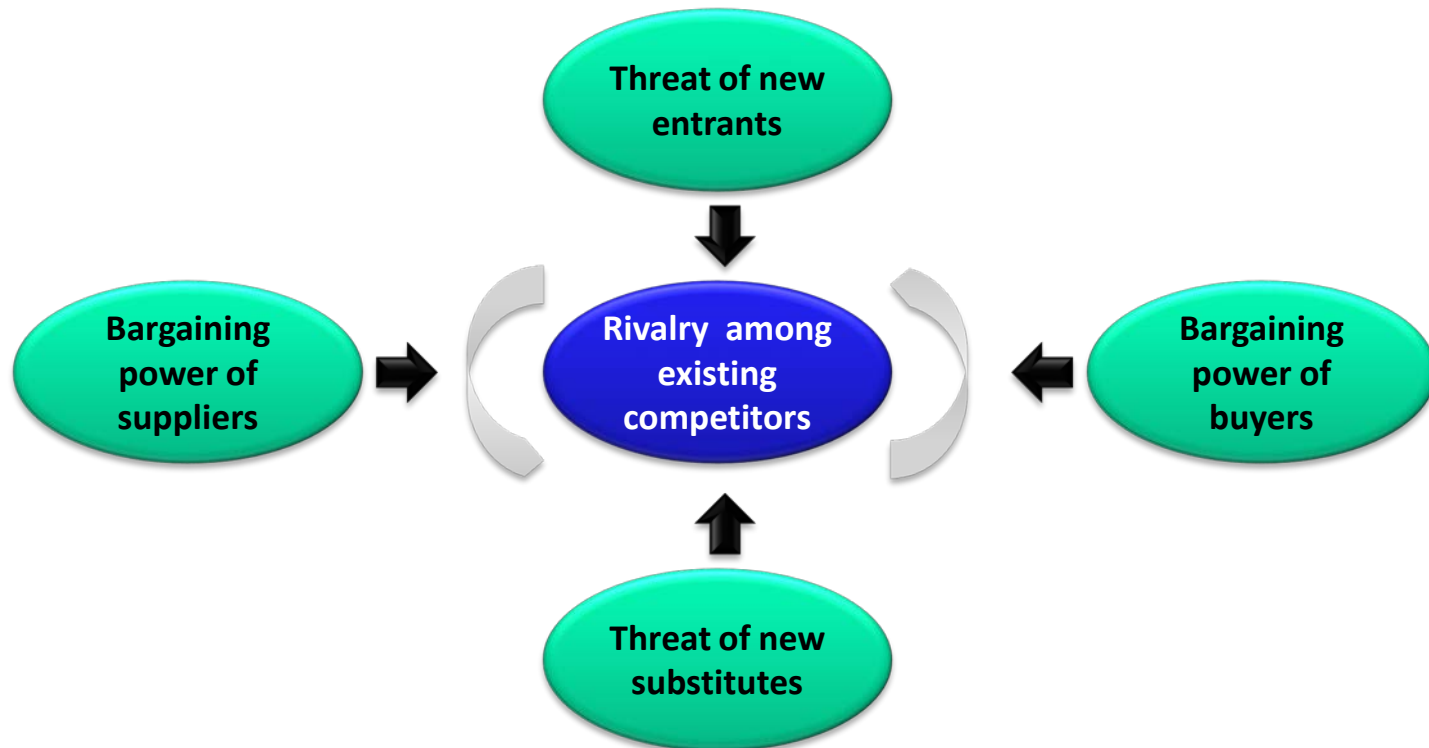
- Choosing a profitable industry or market by analyzing the five forces is not enough for *sustainable* competitive advantages.
- For a competitive strategy to be sustainable, a firm should possess core competencies that are *valuable* and *inimitable*.
- By valuable, it means that the strategy
  - creates value to customers, so that they become more willing to *pay more* (higher prices), and
  - creates profits to the firm (i.e. not expensive to execute)
- If the core competencies are imitable by competitors, competitive advantages are *temporal*.

## Otis's Core Competency

- What would be Otis's Core Competency?
  - product engineering, customer service competencies
- Is it valuable to customers? (Will they pay more for Otis?)
- Is it valuable to Otis? (Does it help Otis create profits?)
  - Yes and yes
- Is it imitable by competitors?
  - It's hard for competitors to match Otis's 100+-years of experiences and engineering know-how.
  - It will take several years for the competitors to match Otis, but Otis would not stand still.

## Lodging Industry (1/3)

- What can be a substitute of a hotel stay?
- How does the Internet change this industry's profitability?



## Lodging Industry (2/3)

- Because of the Internet, price information becomes more transparent. Everyone can search and find the room rates and easily compare one with the others.
- “The rapid speed of Internet technologies and the increasing customer access to information, some argued, accelerated the commoditization process by decreasing the costs that travelers incurred when search and selecting a suitable hotel room.” (p. 7)



## Lodging Industry (3/3)

- Buyers is getting a greater bargaining power, reducing the industry profitability.
- Such new substitutes as video conferencing or personal vacation rentals (airbnb.com, homeaway.com) also undermine the profitability of the lodging industry.
- On the other hand, through the Internet, hotels can better manage the demand and supply by selling rooms that would not have been filled without the Internet.
  - better “yield management”

## Brand in the Lodging Industry

- How important is a brand in the lodging industry?
  - In the industry that is becoming more and more commoditized, brand is a key tool for “differentiation.”
  - A strong brand can reduce the buyers’ bargaining power.
- Does Wyndham have a strong, recognizable brand?
- Does it have an extensive network of properties?
  - No and no
- How can Wyndham successfully compete with such giants as Hilton or Marriott and generate sustainable profit streams?

## Portfolio Composition by Branded Product, March 31, 2002

	Owned/ Leased and Managed	Managed (not owned)	Franchised and Licensed	Total
<i>Wyndham Hotels and Resorts</i>				
Properties	81	20	13	114
Rooms	22,785	7,258	2,697	32,740
<i>Wyndham Luxury Resorts</i>				
Properties	3	3	0	6
Rooms	354	383	0	737
<i>Summerfield Suites by Wyndham</i>				
Properties	27	0	11	38
Rooms	3,458	0	1,648	5,106
<i>Nonproprietary Brands</i>				
Properties	55	7	0	62
Rooms	16,521	1,669	0	18,190

Source: Wyndham International.

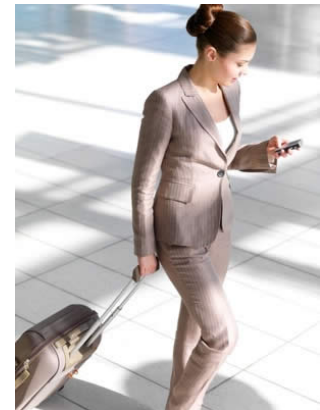
## Exhibit 4 The Structure of the Lodging Industry

### Portfolio Composition of Major U.S. Brands

Parent Company	U.S. Brands	Total Properties	Company Owned	Franchised, Licensed	Management Contract
<b>Six Continents</b>	Holiday Inn Hotels	1,056	5	1,004	47
	Holiday Inn Express	1,083	0	1,078	5
	Crowne Plaza	77	6	51	20
	<i>Total</i>	<i>2,216</i>	<i>11</i>	<i>2,133</i>	<i>72</i>
<b>Hilton Hotels Corp.</b>	Hampton Inns	1,094	1	1,081	27
	Hilton Inns/Hotels	230	40	171	15
	Doubletree	153	10	49	59
	Embassy Suites	155	6	75	57
	Homewood Suites	89	14	59	16
	<i>Total</i>	<i>1,721</i>	<i>71</i>	<i>1,435</i>	<i>174</i>
<b>Marriott International</b>	Marriott Hotels	277	4	39	234
	Courtyard	493	1	236	256
	Fairfield Inn	464	0	412	52
	Residence Inn	362	0	242	116
	Renaissance	53	0	22	31
	<i>Total</i>	<i>1,649</i>	<i>5</i>	<i>951</i>	<i>689</i>
<b>Starwood Hotels and Resorts Worldwide</b>	Sheraton	189	40	105	44
	Westin	57	22	10	25
	Four Points	105	6	84	15
	<i>Total</i>	<i>351</i>	<i>68</i>	<i>199</i>	<i>84</i>
<b>Hyatt Hotels Corp.<sup>a</sup></b>	Hyatt Hotels	120	18–36	4	80–98

## Wyndham's Strategy (1/2)

- Where is Wyndham competing?
  - It is targeting business travelers, who have more willingness to pay more and are less price-sensitive.
- At which area did Wyndham choose to excel?
  - Superior customer service with customization and personalization



## Wyndham's Strategy (2/2)

- How? What is Wyndham's strategy to serve its target customer groups?
  - What's the rationale behind its decision?
  - Does it change any of the five forces? How?
  - What is needed to execute its strategy?
  - Differentiated, unique, personalized service can further reduce the buyer's bargaining power. Wyndham can charge a premium price for its service.

## Wyndham ByRequest (1/3)

- How does this program work?
  - Personalized accommodation and service from A to Z
- What is the role of a ByRequest manager at a Wyndham hotel?
  - He or she is a dedicated manager who has great latitude and discretionary budget.
  - A very capable, talented, top-rated hotelier
  - High commitment of Wyndham



## Wyndham ByRequest (2/3)

- How does IT support this ByRequest initiative?
  - Could this program work without IT and customer information? Absolutely not.
  - Without a centralized infrastructure (database, network, terminals), Wyndham cannot execute its ByRequest strategy.
  - Back in early 2000s, connecting the Internet to all the properties was a big investment.



## Wyndham ByRequest (3/3)

- What's the difference between Wyndham ByRequest program and other conventional guest rewards or frequent mileage programs?
- How many years would it take for an average business traveler to earn a free three-day stay at a Marriott hotel?
  - A team who calculates this correctly (or closely) will get a waiver for one reading brief.



<http://mw.newsblaze.com/story/2008022105002000004.mwir/topstory.html>

[http://www.travelandtooureurope.com/Travel\\_News\\_Details.asp?newsID=14084%20&%20?Category=Hotel%20News](http://www.travelandtooureurope.com/Travel_News_Details.asp?newsID=14084%20&%20?Category=Hotel%20News)

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# Exhibit 5 Operational Performance Measures

## Operational Measures Comparison

Hotel	Year	Rev PAR	ADR	Occupancy
Marriott Hotels and Resorts	1997	\$104.35	\$128.64	77.7%
	1998	\$107.60	\$137.95	78.0%
	1999	\$109.22	\$140.86	77.5%
	2000	\$116.95	\$149.50	78.2%
	2001	\$100.62	\$142.96	70.4%
Hilton Hotels and Resorts	1997	\$ 94.58	\$145.33	74.6%
	1998	\$ 90.54	\$127.19	71.2%
	1999	\$ 92.34	\$130.60	70.7%
	2000	\$ 98.62	\$135.75	72.6%
	2001	\$ 88.48	\$131.13	67.5%

### Exhibit 6 (continued)

**Use ADR = \$145 (industry average)**

	Number of Business Trips Taken <sup>a</sup>	
	2002	2001
1-3	59%	57%
4-5	13%	13%
6-9	9%	8%
10+	19%	22%

Average Business Trip Duration	
Number of Nights	1998
0	14%
1	15%
2-3	35%
4-9	28%
10+	8%

**Exhibit 7 Comparison of Guest-Recognition Programs**
**Program Characteristics by Brand**

Brand Program	How Points Are Earned	Approximate Number of Participating Properties	Number of Points for Free Three-Day Vacation <sup>c</sup>
Marriott Rewards	10 points per dollar spent <sup>a</sup>	2,100	50,000
Starwood Preferred Guest	2 points per dollar spent <sup>b</sup>	700	21,000
Hilton HHonors	10 points per dollar spent	2,100	65,000
Hyatt Gold Passport	5 points per dollar spent	363	36,000

**Estimated number of nights needed for a 3 day vacation**

Brand Program	Average number of points per night-stay	Number of points for free 3 day vacation**	Estimated number of nights for 3 day vacation
Marriott Rewards	1450 (at ADR of \$145, the average for all types of properties)	50,000	34 <b>= 50,000 / 1,450</b>
Starwood Preferred Guest	435 (at ADR \$145)	21,000	48
Hilton HHonors	1450 (at ADR \$145)	65,000	45
Hyatt Gold Passport	725 (at ADR \$145)	36,000	50

\*\* Estimated

**Estimated average length of business trip**

Night stays*	0	1	2.5	6.5	12
Percentage of traveling population	14%	15%	35%	28%	8%
Nights equivalent	0	0.15	0.875	1.82	0.96
Average length of business trip					3.81

\* Range average

**On an average trip, a business traveler stays 3.81 nights.**

**Estimated average number of business trips per year**

Number of trips*	2	4.5	7.5	12
Percentage of traveling population	59%	13%	9%	19%
Nights equivalent	1.18	0.58	0.67	2.28
Average length of business trip				4.72

\* Range average

**On average, a business traveler takes 4.72 trips a year.**

**Estimated number of years needed to accrue a free 3 day vacation**

Brand Program	Estimated number of nights for 3 day vacation	Estimated number of trips (3.81 nights per trip)	Estimated number of years for 3 day vacation (4.72 trips per year)
Marriott Rewards	34	8.92	1.89
Starwood Preferred Guest	48	12.60	2.67
Hilton HHonors	45	11.81	2.50
Hyatt Gold Passport	50	13.12	2.78

**On average, a business traveler stays  $3.81 \times 4.72 = 17.98$  nights a year.**

**Thus, to stay 34 nights, it takes an average traveler  $34 / 17.98 = 1.89$  years.**

## Value/Cost of Wyndham ByRequest (1/2)

- Between ByRequest and other point/mileage programs,
- which one is more valuable to customers? Why?
  - It would take more than 4 or 5 years for less-than-average frequent travelers to redeem a free 3-day stay at a major chain.
  - Thus, conventional guest rewards programs would not be valuable to those customers, which Wyndham is targeting.

## Value/Cost of Wyndham ByRequest (2/2)

- which one is more profitable to the brand (or cheaper to execute)? Why?
- Wyndham's research shows that ByRequest costs no more than other guest recognition programs.
- Cost of ByRequest: extra amenities, training and salaries of ByRequest managers
- Cost of other programs
  - Actual loss of hard cash from free stays
  - The points are recorded as liability in a balance sheet.

**Table 1** Common Student Evaluations of Wyndham ByRequest

Positive	Negative
Best room available on day of arrival	No free nights based on accumulated points
Free welcome amenities	No free merchandise based on points
Free Internet access	No formal membership tiering system
Consistent customized service across all properties in the chain	Preferences may be location dependent (e.g., spectator sports or restaurants)
Keys are pre-checked to ensure they function properly	Preferences may be mood dependent (e.g., wine and cheese versus fresh fruit)
Cross-property guest profiles	
Instant gratification at every stay	
Free local and long-distance calls	



## Imitability of Wyndham ByRequest

- Can competitors imitate or copy Wyndham's ByRequest Program?
  - They can, but it would take several years to copy it.
  - In the meantime, Wyndham can accumulate experiences and more customer information and further improve the program.
  - Imitating ByRequest requires development of the systems, training, and marketing of the program to customers.
  - But there is a bigger obstacle for the competitors in imitating ByRequest.



## Lodging Industry Structure (1/4)



- Which companies are involved in the value chain of the lodging industry?
- What are the contractual relationships between each party?
- Why doesn't a brand owner own properties? or vice versa?
- How different is Wyndham from other chains in this structure?

<http://www.volospalace.gr/photo-gallery-en>

<http://www.yourlogoresources.com/hilton-logo/>

<http://www.justcolleges.com/business-education/hospitality-management/Working-in-Hotel-Housekeeping-Management.htm>

## Lodging Industry Structure (2/4)

- Major hotel chains such as Hyatt do not own the majority of the properties. They are owned and managed by third-party owners/management companies. (Franchising)
- Why? Because that was a way to expand the network of properties quickly
- On the other hand, Wyndham owns and operates most of its properties. It is “vertically integrated.”

Check-In:

Nights: 1

Adults: 1

Children: 0

CHECK AVAILABILITY



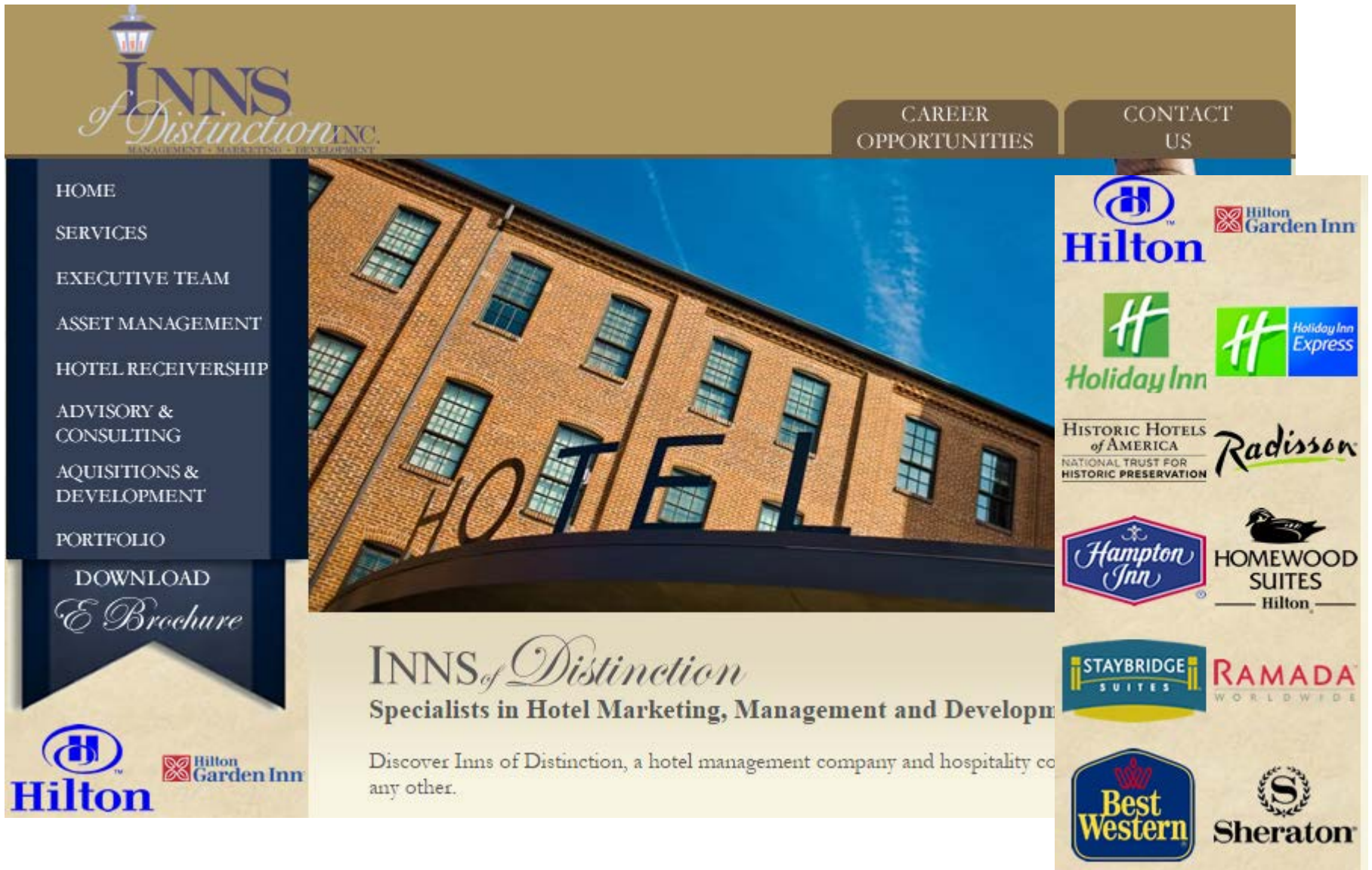
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## Lodging Industry Structure (3/4)



- What are the interests of each party?
- Are these interests same or different? (In other words, are they in the same boat?)
- Which is easier for the brand? Controlling the independent owners/management companies or the fully-owned hotels?



## Lodging Industry Structure (4/4)

- The brand owner, the property owner, and the managing company are NOT in the same boat.
    - The brand owner is interested in improving the overall brand value, while the others are interested in maximizing the profit of each hotel. These interests are not the same.
  - No matter how strong a franchising contract between them is, it is more difficult for the brand owner to control the independent franchisees than to control its own hotel.
    - e.g. Hilton cannot fire an employee of an operating company.
    - It is not easy for the brand to verify compliance of the contract and to fire non-complying franchising hotels.
- (Transaction Costs)

## A Quote from the Case Authors

“convincing owners to put up the investment dollars for capital investments is always difficult. ... As an example of this difficulty, a major chain recently announced plans to change its two-year-old standard mattress, widely considered as substandard. In the announcement, the company stated that it would achieve a 75% compliance in three years. That is, for three years, when they stayed with the brand, guests would have a hit-or-miss chance to find the new bedding and, even after the three years, they would be guaranteed only a three out of four chance of a good night’s sleep. At the heart of the difficulty in quickly replacing the bedding (a capital expenditure) was the necessity to convince its third-party owners to contribute the capital to change two-year old mattresses that had significant useful life left.

## Lodging Industry and IT (1/5)



- Can a hotel operate without functioning IT? Why or why not?
- What are the issues (problems) with respect to IT in this industry?
- Why does the case mention on Page 4 about “a lack of standardization of IT plagued the lodging industry?”

## Lodging Industry and IT (2/5)

- Hotel operation is highly dependent upon IT.
- Yet, IT systems are highly fragmented and disconnected, because the industry is fragmented.
- It is hard for the brand to mandate independent hotels to use the standardized IT system.

## Lodging Industry and IT (3/5)



- Can a brand owner mandate a property owner or an independent operating company to share its customer information? Why or why not?
- Would the brand owner want to share its customer information anyway?

## Lodging Industry and IT (4/5)

- The brand owner and the property owner are reluctant to share customer information.
- They may share some, but not the entire information.
- Customer information is a sacred cow. It's precious asset and a political issue.
- A brand owner (e.g. Hilton) would not want to share its customer information with operating companies that manage competitor's hotel properties (e.g. Sheraton, Marriott) as well.
- Wyndham is relatively free of such a problem.

## Lodging Industry and IT (5/5)



- How is Wyndham's IT infrastructure and management different from that of other hotel chains?
- What are the advantages in Wyndham's IT infrastructure and management ?
- It's standardized and centralized.
- Customer information is shared throughout the properties.

## Once again,

- Can competitors imitate or copy Wyndham's ByRequest Program?
- Can competitors copy the ByRequest IT system?
- Can a brand owner (e.g. Hilton) force an independent property owner or an operating company
  - to implement a similar personalization service program?
  - to set up a new IT system for this program and pay for it?
  - to hire a designated program manager with discretionary budget and managerial freedom to provide personalized services?
- No, no, and no



## Quotes to Note (1/3)

- “Systemwide execution. ... There are companies that can store guest history on particular customers who stay at their property. ... How do you deliver that same information to every property in your company portfolio and be able to deliver on it consistently?” (p. 1).
- The large percentage of prosperities flying the Wyndham flag that were owned by and operated by Wyndham International ... (p. 4)
- “We control 85% of our distribution. So When we want to implement brand standards, we can very quickly do it.” (p. 6)
- Participation in the ByRequest program was mandatory ... (p. 12)

## Quotes to Note (2/3)

- Consistent with one of Wyndham's core values of empowering its employees, ByRequest managers were given considerable latitude in their decision making ... (p. 11)
- Teng : “Marriott, Starwood, and 6C don't have the natural ability to copy ByRequest.”

## Quotes to Note (3/3)

- A significant lack of standardization of IT plagued the lodging industry. (p. 4)
- For example, who owned the guest information? Was it the property owner? ... Many hotels spend millions of dollars acquiring data, but it just sits there. (p. 5)
- We are working to be able to reward customers with real-time recognition through enhanced information systems. (p. 9)

## IT and Core Competencies

- IT is a key ingredient in developing core competencies.
- IT itself is not a source of competitive advantages.
  - IT is available to everyone. It's commodity. It is imitable.
- How to manage and utilize IT in a way that is aligned with competitive strategies can be part of a core competency.
- IT can transform an ordinary organizational competency to be *valuable and inimitable*, so that it becomes a core competency.
  - Without IT, the service capability of Otis or Wyndham would be neither valuable nor inimitable.
  - Without IT, the supply chain capability of Wal-Mart would not be core competency.

## Next Week (1/2)

- Business Value of IT
- Read San Francisco Airport case and write a brief of up to 200 words by 10:00am next Monday.

## Next Week (2/2)

- For the next week's class, we need two volunteers to present
  - Harvard Business Case - "San Francisco Airport"
  - How to calculate financial returns – NPV, IRR, discounted payback period
- One reading brief is waived.
- Sign up at the class site.