

THE ENTERPRISE OF THE FUTURE

...IN THE TRAVEL INDUSTRY



Based on interviews with more than 1,100 CEOs worldwide, the IBM Global CEO Study revealed five core traits of successful enterprises of the future. Here we explore the key implications for travel companies.¹

HUNGRY FOR CHANGE

Rising fuel costs. Inflation. Economic uncertainty. The constant vigil against security threats. It's no wonder eight out of ten travel industry CEOs expect major changes for their organizations over the next three years. The question is: are they prepared to manage these shifts? This answer is critical since financial outperformers across industries reported more past success managing change than underperformers. We also found that while CEOs in other industries are struggling with talent shortages and accelerating technological change, these factors are much lower on the travel industry agenda. Is this because travel industry CEOs have these issues under control? Or could it be that they are not fully leveraging employee development and technology advances to help manage the challenges ahead?

Implications: Travel companies cannot allow the urgency of cost-cutting to overshadow the importance of long-term agility. Hertz is one business that has done both: the rental car company has boosted its profitability through ongoing process and technology change.² Since risk and uncertainty are here to stay, travel CEOs must equip their companies with flexible processes and infrastructure that enable rapid change. They must turn organizations fatigued by change into ones that are energized by it.



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"We have driven change in the industry, but I'm not sure whether our company has managed internal change well."
CEO, North American hotel chain
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● DISRUPTIVE BY NATURE

Travel industry CEOs are clearly convinced of the need for business model innovation: 88 percent said they were making extensive changes (that's 20 percent more than the cross-industry average). But only one in five are attempting innovations designed to shake up the entire industry. Some examples of business model innovation are emerging: Airlines like European carrier Ryan Air are in hot pursuit of non-ticket revenue streams, such as in-flight gambling and Internet use.³ Amsterdam-based Schiphol Airport also is focused on generating non-aviation revenue through its "AirportCity."⁴

Implications: Although progress is being made, travel companies generally have been slow to innovate, often ceding first-mover status to disruptive new entrants such as US-based Zipcar, whose vehicle-sharing service is rattling traditional car rental services and automakers alike.⁵ To stay ahead, travel companies need to consider all types of business model innovation – and establish an agile and flexible infrastructure that allows them to innovate rapidly and constantly. For travel companies, commoditization and brand agnosticism are significant threats; to mitigate these risks, travel companies need innovative, differentiated business models.

● GENUINE, NOT JUST GENEROUS

Like their peers in other industries, CEOs of travel companies recognize customers' rising expectations related to corporate social responsibility (CSR) – and 70 percent believe this trend will impact their businesses positively. However, in terms of investment to capitalize on CSR opportunities, travel industry CEOs are in catch-up mode. They're planning a 43 percent increase over the next three years, which will bring them closer to the cross-industry average.

Implications: Although travel companies have historically considered CSR as a cost savings measure, some enterprises are realizing its potential as a growth engine. They see opportunities to solve significant social issues while creating commercial value. Marriott International, for example, is simultaneously strengthening its brand and its workforce through a program that equips welfare recipients with the skills necessary to gain and retain a job. The program's one-year retention rate of 70 percent far

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"We've done very little collaboration for innovation – our work with suppliers is more focused on pure cost reduction."
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CEO, Asia Pacific logistics services provider
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exceeds that of traditional welfare-to-work hires (45 percent).⁶ In addition to internal efforts to fly “greener,” airlines such as Asian leader Cathay Pacific have established programs that allow socially conscious flyers to buy carbon offsets that fund initiatives to reduce carbon emissions.⁷

BUILDING YOUR ENTERPRISE OF THE FUTURE

We look forward to learning more about where you think the travel business is heading – and working with you, as you build your Enterprise of the Future. For additional information about the IBM Global CEO Study, please visit ibm.com/enterpriseofthefuture

To discuss these industry implications further, we invite you to e-mail one of the following contacts:

Global	Bing Yeo	bingyeo@us.ibm.com
Americas	Brian Goehring	goehring@us.ibm.com
Asia Pacific (excluding Japan)	Eric Conrad	eric.conrad@sg.ibm.com
Japan	Tatsu Watanabe	TATSUW@jp.ibm.com
Northeast Europe	Goetz Volkenandt	goetz.volkenandt@de.ibm.com
Southwest Europe	Charles Vincent	charles.vincent@nl.ibm.com
IBM Institute for Business Value	Maureen Stancik Boyce	staboyce@us.ibm.com

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Route 100
Somers, NY 10589
U.S.A.

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NOTES AND SOURCES:

- 1 We conducted 1,130 interviews with chief executives, general managers, business leaders and public-sector heads in the course of completing the research for our third biennial Global CEO Study. Here we focus on the responses of the 20 travel industry interviewees.
- 2 Hertz Global Holdings, Inc. Webcast Analyst Meeting. May 28, 2008.
- 3 Rabinovitch, Simona. “Chicken, fish or scratch-and-win?” *The Globe and Mail*. January 6, 2007.
- 4 Mezzasalma, Nicole. “Schiphol Group results down despite good retail performance.” *DFNI Magazine*. August 21, 2008.
- 5 Frankel, Alex. “Zipcar drives toward the future.” *msnbc.com*. April 15, 2008.
- 6 Kanter, Rosabeth Moss and Ellen Pruyne. “Pathways to Independence: Welfare-to-Work at Marriott International.” Harvard Business Publishing. October 22, 1998.
- 7 “About Fly greener.” Cathay Pacific. http://www.cathaypacific.com/cpa/en_INTL/aboutus/flygreener