Evaluating Technology Operating Models

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Introduction

The direct-to-consumer travel industry can leverage technology to drive competitive differentiation and gain first-mover advantage. Achieving these goals requires a specific fit-for-purpose technology operating model (or "operating model"). A technology operating model is a framework that describes how resources are allocated, processes are managed, and decisions are made to drive value creation.

Technology departments benefit from a fit-for-purpose operating model because it provides a clear structure for how internal IT processes work and how the technology organization aligns with the rest of the organization to drive business value. Having a well-defined operating model and well-articulated business objectives ensures effective technology delivery in the pursuit of the corporation's goals.

Unfortunately, most travel companies are locked in legacy technology operating models which, even after massive investments in "more modern" technologies, leave them at a competitive disadvantage to more advanced peers and disruptive, digital commerce intermediaries.

Achieving first-mover advantage
requires a specific fit-for-purpose technology operating model.

Technology and Operating Models

Operating model patterns for large direct-to-consumer travel companies fall into three categories: 1) Integrated Business Service, 2) Product-Centric, and 3) Channel-Centric.[1] These models exist either through a conscious effort to maximize technology effectiveness (Design) or through a series of haphazard decisions based on the how the business evolved over time (Organic). The first two patterns (Integrated Business Service and Product-Centric) are discussed here because most travel companies have evolved into complex, organic implementations of these models.

The last model discussed (Channel-Centric) should be an aspirational goal for direct-to-consumer travel companies. Several leading travel companies are evolving towards the Channel-Centric model. Most, however, are burdened with poorly architected technology operating models that have become more complex and less efficient over time.

ABOUT DJR ADVISORS

DJR specializes in travel-related corporate development, technology due diligence, digital transformation, and demand generation. Our products and services add value to owners, sponsors, and investors.

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[1] *Categorizing Operating Models in this fashion was described in Why New-age IT Operating Models are Necessary for Enhanced Operational Agility, a white paper published by Cognizant in 2015*

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Integrated Business Service Operating Model

For organizations requiring a high degree of business unit autonomy, companies integrate core technology functions directly into business units and tend to outsource commodity functions as depicted in Figure 1, below.

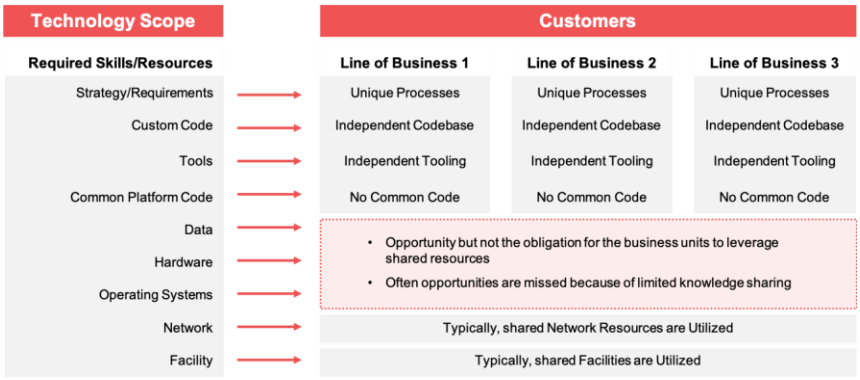

Figure 1: Integrated Business Services Pattern

The Integrated Business Service operating model is suited for large multi-business-unit companies and conglomerates looking to further improve business and technology alignment or wishing to retain the option to divest business units. In this operating model each business line manages its technology delivery capability, and enterprise technology manages shared functions like back-office, network, and workplace systems. The primary benefit of this model is that it provides business units with autonomy to innovate and drive value within their “stovepipe”. The downside of this model is that it leads to duplication of services, a lack of enterprise technology, inconsistent user experience across engagement channels, and higher costs.

In general, this operating model is only effective for conglomerates and specific industry verticals such as healthcare and banking. Other companies fall into this pattern organically, driven by poorly digested acquisitions, ad-hoc decision making to accommodate emerging technologies (e.g., “The Internet”), or by legacy technology constraints.

Although this model has benefits for conglomerates, most companies in the Integrated Business Service operating model accumulate technical debt and inefficiency at an accelerating pace. These impacts are mostly ignored until the weight of the duplication and inefficiencies become impactful and threatens a company’s competitive advantage or interferes with critical business goals. Organizations whose goals are being negatively impacted by the siloed approach that characterizes the Integrated Business Services Operating Model will need to consider a carefully sequenced restructuring activity that embraces change across multiple dimensions: organization, process, and foundational technology.

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Product-Centric Operating Model

For organizations whose revenue is driven primarily by product sales, there is a need for an increased fusion between the product strategy and channel requirements which drive product evolution and technology delivery, as depicted in Figure 2, below.

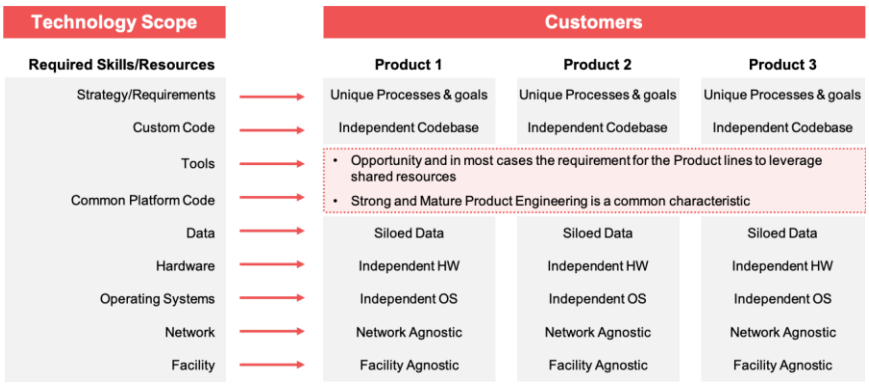

Figure 2: Product-Centric Pattern

The Product-Centric operating model fosters an emphasis on technology stack independence and flexibility to meet product sales and revenue objectives. In this pattern, each product team has mostly independent goals and objectives and may even compete against each other. Because products are highly sales driven, flexibility in individual product offerings is paramount. Agnostic implementation approaches without prescriptive commodity tech services are a goal. The Software Engineering Function is usually a centralized but matrixed function. Other Enterprise technology services operate in an advisor/auditor role without decision rights. This pattern primarily supports B-to-B business models. This pattern is not effective for technology organizations supporting direct-to-consumer travel industry companies.

The Product-Centric operating model is not effective for technology organizations supporting direct-to-consumer travel industry companies.

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Channel-Centric Operating Model

For travel and hospitality organizations whose revenue is primarily driven by direct-to-consumer interactions, there is an acute need for efficient technology supporting interaction channels. In this pattern each channel shares aligned strategies and goals and leverages a robust technology platform, as depicted in Figure 3, below.

In the Channel-Centric operating model, each channel shares aligned strategies and goals and leverages a robust technology platform.

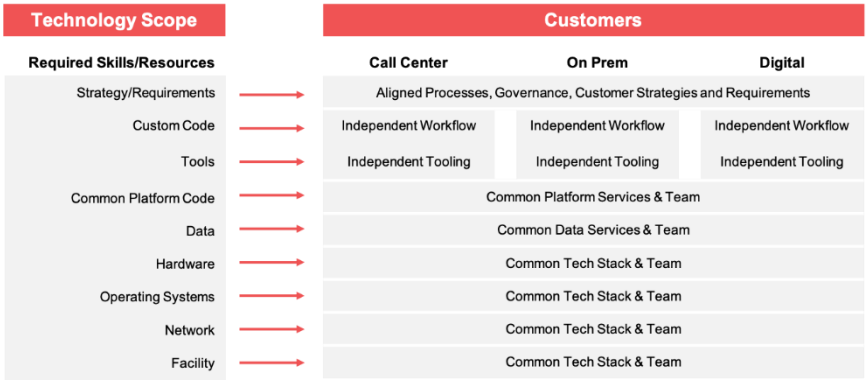

Figure 3: Channel-Centric Pattern

Along with revenue growth, channel shift and brand loyalty are the key business goals. Scalability and differentiating consumer-facing capabilities (e.g., Hilton's digital key) are crucial technology enablers.

Enabling A Channel-Centric Business

A Channel-Centric business requires a platform approach to drive consistent brand value across all channels. Unfortunately, most direct-to-consumer travel companies are poorly positioned to leverage emerging platform technologies. In fact, most technology "modernization" programs expend enormous energy replicating stove-pipe implementations that impede value creation and drive technology operating costs to ever higher levels. To escape this vicious cycle, companies must embrace modern technology precepts such as Digital Mesh.

A digital-mesh-oriented approach features open, composable, and scalable platform capabilities, and encourages rapid business innovation. Channel requirements drive legacy platform deprecation for ever more impactful and seamless travel experiences. In this model, digital drives modernization.

Sadly, in most travel companies, modernization is a poorly understood process of replacing "old" technology with "newer" technology, i.e., modernization for modernization's sake. Conversely, Digital Mesh platform capabilities drive option value. Technology priorities are driven by value creation, and technology debt is retired as a consequence of embracing a Digital-First strategy. Figure 4 below shows a layered implementation approach.

Digital Mesh platform capabilities drive option value. Technology priorities are driven by value creation, and technology debt is retired as a consequence of embracing a Digital-First strategy.

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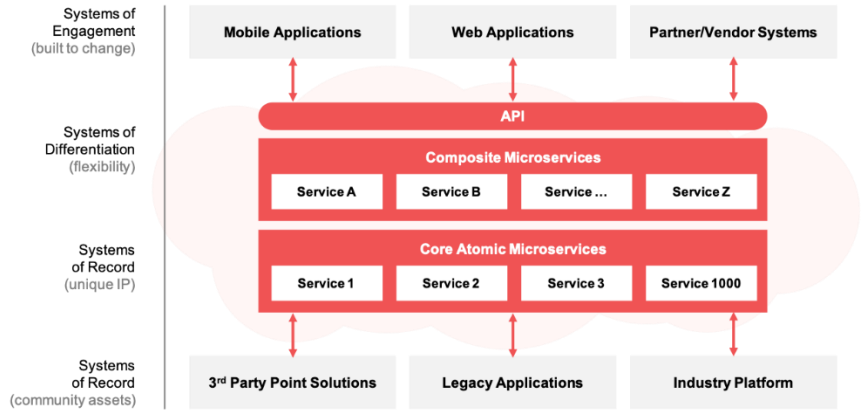

Figure 4: Digital Mesh

Path Forward for a Channel-Centric Technology Organization

Evolving to a Channel-Centric operating model from decades of organizational, process, and technology debt is a complex process. Some suggested tactical steps include:

1. Assess the current state of the organization, including its structure, processes, and culture. This will help to identify any gaps or areas of improvement that need to be addressed as part of the operating model implementation.
2. Develop a plan that outlines the key steps and milestones for implementing the operating model, including timelines, resource requirements, and key deliverables.
3. Develop communication and education plans to ensure that employees and other stakeholders understand the changes being made and their role in the implementation of the new operating model. This can include regular updates, training sessions, and opportunities for employees to ask questions and provide feedback.
4. Identify potential risks and challenges that may arise during the implementation of the operating model and develop a plan to manage them. This can include assessing the impact of changes on different areas of the organization and identifying potential areas of resistance to the new operating model.
5. Design and implement the changes to the organizational structure, processes, and culture. This effort may include creating new roles and responsibilities, implementing new technology and tools, and redefining governance and decision-making processes.
6. Engage in a structured process to produce a technology roadmap that supports critical business goals. Value creation should drive modernization and platform design principles should drive product selection and project sequencing.
7. Establish monitoring and feedback mechanisms to measure the effectiveness. This can include regular reviews, key performance indicators, and employee satisfaction surveys.

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Conclusion

Nearly every direct-to-consumer travel company of any significant size is currently engaged in one or more digital transformation or modernization programs. Some, like Southwest, will be forced through regulatory pressure to “modernize” legacy technology. Others will embark on aggressive modernization programs driven by advisors and technology vendors. If measured objectively, most will fail.

In general, travel companies are seemingly unaware that their technology organizations are poorly positioned for value creation. Without a mature, fit-for-purpose technology operating model, companies will continue to make poor investment decisions, which will manifest in ever-rising operating expense and more massive capital investments.

This is not inevitable. Over the past five years, technology has entered a renaissance age with infinitely scalable compute and modern technology delivery processes that should drive technology costs lower and value creation to new heights. To leverage this value creation opportunity, the Technology organization for a direct-to-consumer travel company must assess how it measures against a best practices framework for Channel-Centric operating models. Aligning the organization and value-creation processes around this framework will reduce costs, mitigate risk, and enable the organization to drive value creation at an accelerated pace.

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