
***THE STRATEGIC HOSPITALITY SCORECARD:
DEVELOPING AN INNOVATIVE FRAMEWORK
FOR THE HOSPITALITY INDUSTRY***

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ABSTRACT

Typically, a product offered by hotels is multi-dimensional. Furthermore, the value chain of hotels characteristically involves several stakeholders from and beyond the tourism industry. The object of this conceptual research project is about transferring the well-known and widely acknowledged management concept of the balanced scorecard by Kaplan and Norton to the hospitality industry. As a result, our Strategic Hospitality Scorecard comes into existence.

The key characteristic of this new framework is the presentation of a mix of financial and non-financial metrics – each compared to a specific target value usually known as Key Performance Indicators (KPIs) – within a single concise report. The introductory part of this

study is divided according to four thematic areas that compose the basis for our Strategic Hospitality Scorecard: First, the important guest dimension represents the output perspective in the original work. Second, an internal hotel perspective focuses on the input perspective by Kaplan and Norton. Third, a financial view on a corporation's return represents the financial perspective typically involved in controlling activities. Fourth and finally, an innovation-oriented perspective focuses on future processes and includes emerging business models in that specific industry. Like in the fundamental work by Kaplan and Norton, these four perspectives go along with a consequent competence-oriented hotel strategy representing a corporation's vision and overarching strategy.

In a second step, each of these perspectives will be investigated from four different stakeholders: hotel managers, tourism partners like consultants, crucial guests, and academic experts in the field. As a main result, our innovative framework of the Strategic Hospitality Scorecard covers a double 360° view – one in a thematic dimension, one from different stakeholders' perspectives. This framework builds the structural basis for our new book on international hotel management offering a hands-on approach for practitioners on their way from makers to winners, which will be published soon.

Keywords: Strategic Hospitality Scorecard, Balanced Scorecard, Strategy, 360° View

1 INTRODUCTION

Typically, a product offered by hotels is multi-dimensional. Furthermore, the value chain of hotels characteristically involves several stakeholders from and beyond the tourism industry. The specific challenge in the hospitality field is about creating memorable, holistic, and consumer oriented experiences (Brunner-Sperding, 2008). On delivering these new experiences, it must be kept in mind that guests will consume a set of individual goods and services that add up to the composite outcome of a visit. The overall judgement of the tourist is influenced by different interrelated products and several service providers in and outside the hotel. Therefore, the cooperation of these key stakeholders is essential. Moreover, the interfaces between them have to be organized and coordinated (Bieger & Beritelli, 2013). In practice, it looks somewhat different in the majority of destinations. The hotel product is often provided by a number of heterogeneous service providers who are made up of fiercely competitive and independent SMEs (Gnoth, 2004). Teamwork within and between the different tourism suppliers that should complement one another and use their common knowledge to enforce their core competencies, very rarely occurs. The object of this conceptual research project is about transferring the well-known and widely

acknowledged management concept of the balanced scorecard by Kaplan and Norton (1996) to the hospitality industry. As a result, our Strategic Hospitality Scorecard comes into existence.

2 The Balanced Scorecard as Core Concept

From its early use, the balanced scorecard has evolved from a simple performance measurement framework to a full strategic planning and management approach. One of its core goals is about improving internal and external communications and monitoring a corporation's performance in the light of its strategic goals. This strategic concept was developed by Robert Kaplan and David Norton as a performance measurement framework. However, the concept initially combined strategic non-financial procedures with traditional financial figures. As such, managers and executives were enabled to realize a more balanced interpretation of organizational performance (Kaplan & Norton, 1996).

The balanced scorecard transforms a corporation's strategic plan from an attractive but passive document into the marching orders on a daily basis. Therefore, it makes sense to use this concept in order to identify improvements and management actions for the hospitality industry. The concept provides feedback for both internal business processes and external outcomes in order to continuously improve strategic performance and results. When fully implemented, the balanced scorecard transforms strategic planning from an academic exercise into the internal body (Kaplan & Norton, 2000).

As illustrated in Figure 1, we adapt the established four perspectives of the balanced scorecard to hospitality matters. First, the important guest dimension represents the output perspective in the original work and deals with the important aspects of guest reviews. Second, an internal hotel perspective focuses on the input perspective by Kaplan and Norton. Third, a financial view on a corporation's earnings represents the financial perspective typically involved in controlling activities. Fourth and finally, an innovation-oriented perspective focuses on future processes and includes emerging business models in that specific industry. Like in the fundamental work by Kaplan and Norton, these four perspectives go along with a consequent competence-oriented hotel strategy representing a corporation's vision and overarching strategy (Kaplan & Norton, 2000).

In a second step, each of these perspectives will be investigated from four different stakeholders: hotel managers, tourism partners like Online Travel Agencies (OTAs) or

consultants, crucial guests and academic experts in the field. As a main result, our framework of the Strategic Hospitality Scorecard covers a double 360° view – one in a thematic dimension, one from different stakeholders' perspectives.

<i>BSC Dimension</i>	<i>SHS Dimension</i>	<i>Manager Perspective</i>	<i>Partner Perspective</i>	<i>Guest Perspective</i>	<i>Academic Perspective</i>
First 360° view		Second 360° view			
<i>Finance</i>	<i>Costs</i>	Increasing direct bookings	Revenue management and cost saving	True cost drivers in hospitality	Cost vs. revenue and sales management
<i>Guests</i>	<i>Online Reputation</i>	Creating guest reviews	Professional portal management	Correlation between reviews and bookings	User generated content
<i>Innovation</i>	<i>Business Models</i>	New business models & new commissions	Meta portals: distribution and pricing	Changing of guest wishes	Innovation management in hospitality
<i>Process</i>	<i>Employees</i>	Lack of skilled employees and consequences	Recruiting 2.0 or 3.0?	Realisation of guest wishes	Study instead of on the job training?
 Strategy – Competence Orientation					

Figure 1: Concept of the Strategic Hospitality Scorecard

3 The Strategic Hospitality Scorecard

3.1 The Financial Perspective on Costs

Based on a corporation's strategy and vision, the financial perspective plays a very prominent role. In fact, before Kaplan and Norton's fundamental work, management tools as utilized in the understanding of controlling and business development mainly focused on that dimension. Although the basic idea behind their balanced scorecard is about broadening a manager's horizon to non-financial goals, a strong orientation on financials

was and is still a fundamental part of a manager's toolbox. As such, our Strategic Hospitality Scorecard employs the dimension on financial goals from that important perspective.

From an aggregated point of view, a corporation's earnings depend on just two dimensions: Its revenues and its costs. Due to the still increasing role of costs in the hospitality industry, we decided to focus on that dimension. From a manager's perspective, commission fees paid to OTAs play a dominant role for hotels. As these fees tentatively rise in practice and new business models come into existence (please confer the respective paragraph), alternatives for hotels are an important and underresearched area. In a similar vein, professional consulting agencies may provide fruitful avenues for finding new revenue channels without ignoring corresponding costs. As such, a strong cost orientation seems promising for yield managers (an introduction to yield management and price optimization can be found at Phillips, 2005 in general or at Mauri, 2007 and 2013 for the hotel industry). In addition, hotel managers during the last decade typically identified cost drivers in other areas. Rising cost pressure in housekeeping and purchase are just a few observable results in practice. However, consequences of cost cuttings in these areas and their (financial) results are still underresearched. Therefore, a comprehensive scorecard needs to involve the question on REAL cost drivers from a guest's perspective to identify the right areas for potential cost cuttings.

As already mentioned in the beginning, revenues are the reversed sides of the same coin. Following the logic of the recently introduced Business Model Canvas (Osterwalder & Pigneur, 2010), costs result from the interplay of key partners, key activities and key resources. Contrary, revenues result from several customer segments and the corresponding communication channels and relationships. At its core, the Business Model Canvas focuses on a corporation's value proposition that can be interpreted as corporate strategy. Therefore, revenue management should always accomplish cost management from an academic point of view.

3.2 The Guest Perspective in Terms of Online Reputation

From a short-term oriented perspective, running a hotel by a strong focus on financial measures may increase profits. However, such a procedure completely ignores the long run. It is not uncommon to hear from hotel managers that they increase revenues and room occupancy rates for the respective year by omitting the holistic, long-term perspective. However, customer satisfaction and loyalty are very important for the

sustainable success of a hotel (Meffert, Burmann, & Kirchgeorg, 2008). During the last years customer satisfaction surveys have gone online, which means a shift from traditional opinion influencing matters (e.g., newspapers, magazines, or advertising) to online review channels. Personal recommendations and reviews have the highest influence on the booking decision (Dickinger, 2008). Guests orient themselves on the average values to make their purchasing decisions. In an investigation on behalf of the German association for Internet journeys more than a thousand Internet users were asked how much they are influenced by reviews when selecting a hotel. 96% admitted to be very or somewhat influenced while only 4% are not influenced. One third of all users change their booking decision after visiting social media pages, such as hotel review portals (VIR, 2011). One of the main tasks of hotels is collecting and communicating reviews to their guests via different touch points (Amersdorffer, Bauhuber, & Oellrich, 2010). A hotel's website plays a major role. Almost all of the interviewed people have visited the hotel's website prior to booking a hotel. Only 2% use social networks like Facebook for their research activities (Teufel, 2010). A hotel website should show current guest reviews, if possible from the biggest and well-known booking and review portals. Software service tools such as Toocan, TrustYou, or RevuePro are capable to aggregate this data automatically. If guests read about other customers' experiences they create an own opinion and price feeling. The OTA portal Expedia observed a 9% increase in the average daily rate following an increase of one point in the evaluation scale. A PhoCusWright study shows that guests of OTAs who visit the hotel sites are twice as likely to actually book. The same effect of doubling the conversation rate can be noted in hotels with ratings of over 3.0 at Expedia (scale from 1 [low] to 5 [high]) (Fritsch & Sigmund, 2013). From a hotel's perspective, it is essential to answer to guest reviews on the booking portals in time. It is recommendable to add comments from the hotel's perspective with a positive tone – in both positive and negatives reviews. In addition to an active communication strategy, the ability to be found in search engines supports such a strategy. There will be a contribution from managers' perspective how to generate more reviews because of a direct relation between bookings and the number of reviews (Gunkel, 2013). Moreover, the most famous review portal in Germany named HolidayCheck provides a comprehensive insight into guests' expectations. Finally, our Strategic Hospitality Scorecard covers an academic perspective dealing with user generated content.

3.3 The Innovation Perspective through Business Models

Looking back on hospitality development during the last years, fundamental changes became necessary throughout the industry. Hotels were forced to transform, reengineer, or rejuvenate themselves through the development, production, and marketing of new tourism experiences or through the reconfiguration of tourism product bundles. Therefore, product development has become more and more important, especially in the face of increasing worldwide competition (Bieger, 2013; Laesser, 2002). Although the relevance and necessity of new products have been recognized, innovation management in the service sector in general and in the hotel industry in particular has received less scientific and practical attention (Kelly & Storey, 2000). In fact, the tourism industry has not been a very innovative sector in the past (Pérez et al., 2003). However, changing conditions primarily driven by new technologies (e.g., e-tourism) and still increasing competition are more and more challenging the whole industry. While traditional business models focus on a large vertical span of activities, new models are distinguished by large horizontal business portfolios with a smaller vertical range typical of manufacturing (Bieger & Rügge-Stürm, 2002). As a meaningful example, business models in the online distribution sector are changing dramatically at the moment. Traditional online business models are based on fixed fees according to received revenues with commissions between 15% and 30% of booking value (the so called cost per order or cost per acquisition models, see Figure 1). With the cost per order business model the hotel has no risk, provides the OTA with prices and availabilities, and guests book and pay directly via the booking portal (e.g., HRS). Until arrival guests are in contact with the OTA and not with the hotel.



Figure 1: Structure of a Cost per Order Business Model

Today, there are even newer “pay-per-click models”, which are more challenging and with a higher risk on the hotel’s side. Pay-per-click suppliers are independent from booking

revenues since these companies receive money for each click – even if there is no realized booking. Hotels have to collaborate with Google licensed interface providers and have to define a cost per click (CPC) budget. In the case of Google Hotelfinder these providers send prices, availabilities and the disposition for a commission of between 0.2% and 3% to Google. Commission is then based on an auction model like Google Adwords – a variable fee depending on the demand. Google lists in maximum 4 booking possibilities – 3 OTAs and the own hotel booking website. Via the hotel’s booking process, guests reserve directly and pay at the hotel. The commission is based on the auction conditions and the potential booking value. Figure 2 explains the connections and relations between hotel, service provider, Google, and guests in more detail.



Figure 2: Structure of a Cost per Click Business Model

These new business models are already established in a similar approach at trivago, HolidayCheck, tripadvisor, and weg.de (Kastner, 2013). Deciding whether to follow this new business models, two main questions are gaining in importance: How high can a hotel auction with the CPC be and what conversion (clicks or bookings) must a hotel receive in order to pay acceptable, saying comparable commission fees similar to pay per order models? The subsequent example investigates these two questions and illustrates that the green marked commission fees achieve profitability. The orange area is still acceptable and the red columns are out of range and much too expensive.

Table 1: Cost Calculation for CPC and CPO Business Models

1. Question: How can a hotel auction with CPC (assumed conversion of 3%), in order to achieve an acceptable commission fee?						
Booking value in Euro	250	250	250	250	250	250
CPC	0,2%	0,4%	0,5%	0,66%	1%	3%
CPC in Euro	0,5	1	1,25	1,5	2,5	7,5
Conversion (assumption)	3%	3%	3%	3%	3%	3%
After how many clicks is a booking?	33,3	33,3	33,3	33,3	33,3	33,3
Cost per booking according to conversion in Euro	16,67	33,33	41,67	50,00	83,33	250,00
Cost per booking according to conversion in %	6,67%	13,33%	16,67%	20,00%	33,33%	100,00%
2. Question: If you want to stay <= 15% commission fee what kind of conversion you need?						
Maximum comparable HRS commission fee	15%	15%	15%	15%	15%	15%
Maximum comparable HRS costs in Euro	37,5	37,5	37,5	37,5	37,5	37,5
How many clicks for EUR 37,50 ?	75	37,5	30	25	15	5
Necessary conversion in %	1,33%	2,67%	3,33%	4,00%	6,67%	20,00%

As a result, the auctioned commission should not exceed 0.6% and the necessary conversion should be at least 4%. Under these conditions a pay per click model can be advantageous. In order to know these numbers, a continuous tracking and intensive communication between hotel and service provider is mandatory. Without a detailed analysis, cost per click business models can be expensive and may result in poor realized bookings.

3.4 The Internal Process Orientation in Means of Employees

Finally, internal processes are of fundamental importance for every corporation. Talking to general managers of hotels independently of the hotel's size, they typically agree that employees play a very important role in hospitality. In fact, this finding corresponds with the nature of a hotel product. Although the experience perceived by guests is influenced by tangible assets such as the interior, intangible assets such as human capital are predominant. As the employment market in Germany is characterized by an increasing lack of qualified employees – especially in the service sector – this issue should be implemented. In fact, from both a manager's and a partner's perspective a hotel should already have started their recruiting strategy to encounter this development. From a guest's perspective, results of unsatisfied expectations are still observable (e.g., in online

review portals). In other words, identifying, recruiting, and keeping qualified employees represent one of the most pestering challenges for hotels.

Additionally, the international market for hotel employees faces another development. Based on the ongoing increasing market share for chain hotels, these large corporations focus on well educated employees. While an apprenticeship was sufficient for an international career in the past, an increasing number of large chain hotels demand additional certificates. Correspondingly, study programmes in international hotel management or in tourism with focus on hospitality on several levels – from bachelor degrees to master programmes to (executive) MBAs – occur in the German education market. Therefore, each hotel manager should be aware of this development that is covered by the academic perspective in our framework.

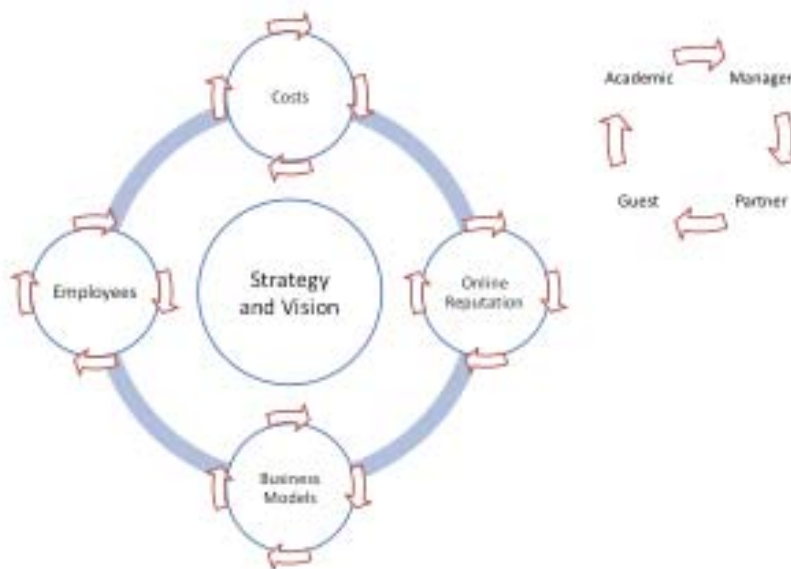


Figure 3: The Strategic Hospitality Scorecard in its Double 360° view

4 CONCLUSIONS

This paper presents a first overview of a newly introduced framework for hotel managers and tourism researchers: the Strategic Hospitality Scorecard. Based on the fundamental work of Kaplan and Norton, we implement the basic idea of their balanced scorecard to

the specific environmental conditions of the hospitality industry. As such, the paper and its corresponding framework helps categorizing the traditional dimensions financials, customers, innovation, and internal processes that are surrounding a corporation's strategy and vision from a hotel's perspective. Therefore, the resulting dimensions of cost management, online reputation, business models, and employees represent four selected important areas for practitioners and scholars in that field. Enlightening these four dimensions from a manager's, a partner's, a guest's, and an academic perspective, a holistic framework – the so called double 360° view – comes into existence. Figure 3 summarizes the basic idea of that new approach in a comprehensive way.

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