Teaching Case

Outsourcing a High Speed Internet Access Project: An Information Technology Class Case Study in Three Parts*

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ABSTRACT

In early 2004, the Hilton Hotels Corporation (HHC) required that all of its hotels (both owned and franchised) install high-speed Internet access (HSIA) in all of their rooms by June 2004. This case focuses on how one of its franchise properties located on the northern gulf coast of Florida (the Hilton Sandestin Beach Golf Resort & Spa—hereinafter referred to as the HSB) responded to this mandate. The (A) part of the HSB case includes the industry situation for the HSB in 2004 plus the details surrounding the initial phase of the HSIA project. Also presented in this part are descriptions of how and why the HSB management made the decision to use a wireless (versus wired) solution as well as to outsource both the installation of the HSIA wireless hardware and the customer support aspects of the HSIA project to what turned out to be a less than experienced vendor. The (B) part of this case describes the situation at HSB after the high speed internet system was installed and made operational, as well as the various problems that the system and its lack of customer support created for the hotel. Part (C) details the actions of the new HSB General Manager who arrived in late 2004 after the initial HSIA implementation and how he resolved the issues that had been created by his predecessor.

Keywords: Outsourcing, Strategic planning, Project management, Hospitality industry, Broadband, Customer service

OUTSOURCING A HIGH SPEED INTERNET ACCESS AT THE HILTON SANDESTIN BEACH GOLF RESORT & SPA (A)

1. INTRODUCTION

It was a glorious summer day in the summer of 2007. Mike Chouri, the general manager of the Hilton Sandestin Beach Golf Resort & Spa, stood on the top floor of the main resort building and surveyed the property. Off to the south, the sugar white beaches reflected the sun almost like the white-out of a blizzard, leading his vision on out to the shimmering blue green of the Gulf of Mexico. Down below the main hotel building, Mike could see the spot that would soon become the new executive suites wing of the resort and he contemplated the changes and new options it would bring. He could also see the lower rooftops that held the last of the antennae used as wireless repeaters and connection points for the wireless broadband network that had formerly been used by the resort. Standing there, Mike reflected on the problems

that had been created during the implementation of the high speed internet access at the resort over the last three years and considered what lessons had been learned and how these lessons could be shared with others in the hospitality industry.

2. OVERVIEW

In early 2004, the Hilton Hotels Corporation (HHC) required that all of its hotels have **H**igh **S**peed **I**nternet **A**ccess (HSIA) available in all guest rooms by June 2004, a very short lead time for a complex project affecting more than 2,300 properties and almost 400,000 individual guest rooms. Other than issuing this mandate, HHC did not provide any guidance to its properties or establish any standards for implementation. Thus, the exact methods and technologies that would be used to accomplish this directive were left up to the individual properties.

One of the HHC properties affected by this strategic corporate decision was the Hilton Sandestin Beach Golf Resort & Spa located in Destin, Florida, on the northern coast of the Gulf of Mexico. Because of the time frame established by HHC, the management of the Hilton Sandestin Beach (HSB), along with the hotel's IT staff, had to make rather quick decisions regarding how to implement HSIA including determining the type of service (wired or wireless) to provide, the hardware and software which would be best suited to its particular physical layout, the needs of its guests, and how to qualify and select which vendors to use.

3. HILTON HOTELS CORPORATION HISTORY

Conrad Nicholson Hilton was born in the New Mexico Territory in 1887 and entered the hotel business by buying the Mobley in Cisco, Texas, in 1919. This hotel catered to oil field workers and, after observing their work habits, Hilton began renting rooms to them for eight hour periods that coincided with the shift schedules of the oil companies. This greatly increased the revenue stream from the hotel and, in 1925, Hilton used these revenues to build the first hotel to carry the Hilton name in Dallas, Texas. By 1943, Hilton had expanded his hotel properties to the point where the brand became the first coast-to-coast hotel chain in the United States and, three years later, the Hilton Hotels Corporation (HHC) became the first hotel chain to be listed on the New York Stock Exchange (University of Houston, 2009; Funding Universe, 2009).

The Hilton Hotels Corporation continued to grow both by the construction of new properties and the acquisition of existing hotels including the Sir Francis Drake in San Francisco, The Plaza and the Waldorf-Astoria Hotel in New York City, and the Palmer House in Chicago. Furthermore, Hilton quickly saw the possibilities of world-wide expansion and believed that he could contribute to world peace in the post World War II years by using his hotels to promote global economic development. As part of this philosophy, Hilton built hotels in such places as San Juan, Madrid, Istanbul, Havana, Berlin, and Cairo; and the Hilton name thus became a world-wide brand (University of Houston, 2009).

The acquisition of the Promus Hotels Corporation in 1999 expanded the HHC family of brands to include Hampton Inn, Doubletree, Embassy Suites, and Homewood Suites. This acquisition along with others allowed the Hilton Hotels Corporation to increase its customer base by providing a wide range of hotels, to a variety of market segments, at a variety of price points. In terms of quality, the Hilton Family of Hotels dominated the 2005 J.D. Power and Associates North America Hotel Guest Satisfaction Index Study, with Hampton, Hilton Garden Inn (for the fourth straight year) and Homewood Suites by Hilton (for the third straight year) each earning first place rankings in their respective categories. Hilton was the only hotel company with three top rankings. In addition, the Hilton, Doubletree and Embassy Suites brands all improved their respective customer satisfaction scores compared to the 2004 report (Hotel-Online, 2009).

As of July 2007, the Hilton Hotels Corporation owned, managed, or franchised more than 2,800 hotels and 480,000 rooms in all 50 states and 75 countries and territories. The success of the Hilton brand made the firm a sought after acquisition target and in July of 2007, it agreed to being acquired by The Blackstone Group, a real estate and corporate private equity operation in an all-cash transaction valued at approximately $26 billion (BusinessWire, 2009).

4. HILTON SANDESTIN BEACH OVERVIEW

The history of the Hilton Sandestin Beach Golf Resort & Spa can be traced back some 40 years to 1963 when Frank L. Flautt, Jr., co-founder of the property, graduated from the University of Memphis (then known as Memphis State University) and began working with Holiday Inn in its Memphis headquarters. A few years later, Fred V. Alias, who became the other co-founder, graduated from the University of Mississippi and also joined Holiday Inn.

The Holiday Inn chain had been founded by Kemmons Wilson in 1952 following a cross country family car trip the previous year, during which he had been upset with the quality, pricing, and consistency of the hotels available along the post World War II highway system. By 1964, Holiday Inns owned or franchised 500 properties conveniently located near the quickly expanding interstate highway system that was spanning the country. These properties catered to both business and family travelers and provided the consistency and quality that had been lacking in the industry.

Wilson was an innovator in many ways and was copied by others in various industries. Much as Ray Kroc would later do with McDonalds, Wilson promoted standardization, customer value, and quality control. To ensure operational uniformity, he opened the Holiday Inn Innkeeping School (which again Kroc would copy with his Hamburger University) to train the company's personnel and he employed phantom guests (i.e., inspectors) to make unannounced visits to each property and grade the operation on various measures including how it treated its guests. Franchisees with low or failing scores were given a choice: either bring their motels up to system standards or lose their franchises.

Wilson also recognized the potential for computers in the motel business and, in 1965, he contracted with IBM to develop and install the first computer based reservations system called "Holidex" that allowed guests or travel agents

to check the availability of rooms anywhere in the system and place reservations by calling a central telephone number rather than having to call individual properties. The brand name "Holiday Inn" quickly became synonymous with travel and even a generic term for roadside accommodations. As the first nationwide chain of branded motels, Holiday Inn was the model that others such as Howard Johnson's, Best Western, and Days Inn tried to emulate (Wilson & Kerr, 1996).

Holiday Inn thus provided a wonderful training ground for those aspiring to careers in the hospitality industry. After joining Holiday Inn in the 1960s, both Flautt and Alias worked in a series of positions that allowed them to learn all aspects of modern hotel management.

Flautt worked heavily in franchise sales, initially in the domestic market as Director of U.S. Franchise Sales and later as Senior Vice President for International Franchise Sales where he honed his skills in finance, real estate evaluation, development, and personnel selection. According to the biography posted on his company's web site, one of Flautt's major strengths was "his ability to attract some of the finest professional managers, not only at the property level, but also in operational supervision, accounting, real estate and all industry sectors" (Sandcastles, 2006). Alias' responsibilities were also primarily in sales and ultimately he was in charge of all Holiday Inn sales offices located outside of the continental United States.

In 1969, Flautt left Holiday Inn to become President of W. B. Johnson Properties in Atlanta, which at the time was a large Holiday Inn franchisee and subsequently founded the Ritz Carlton Hotel Company. A few years later in 1973, Alias also left Holiday Inn and joined W. B. Johnson serving in a variety of positions including as the company's Chief Operating Officer and Vice Chairman. Flautt left Johnson in 1974 when he formed Flautt Properties to manage a number of Holiday Inn hotels. Alias stayed with Johnson until 1982.

Because of their past associations, Flautt and Alias decided to go off on their own in 1982 and formed Sandcastle Resorts with the goal of developing projects throughout Florida. At that time, Flautt had been responsible for owning and/or managing 39 hotels with some 9,500 rooms while Alias had been involved with 25 others providing over 9,000 rooms. The level of expertise that these two men brought to the new company was nothing less than astounding.

One of their first developments was to be located on the Northern Gulf Coast of Florida near what, in the early 1980s, was still a sleepy, little fishing and beach area known as Destin. In order to secure enough funding to construct the property, Flautt and Alias pre-sold the guest rooms as time shares to investors in 1983 and the facility was opened as the HSB in 1984 as a 400 room hotel. Because of the success of the HSB and his desire to develop condominium projects throughout Florida, Flautt sold Flautt Properties in 1990 to concentrate full time on the activities of Sandcastle Resorts. A complete renovation, expansion, and upgrading of the property occurred in 1998 which took the facility to almost 600 rooms and provided more than 30,000 square feet of meeting space with a single seating banquet capacity of 800. More than 400 people are currently employed at the property Sandcastles, 2006; Hospitality Jobs Online, 2006).

Today, the HSB is the largest and most profitable franchised Hilton hotel (out of 159) in the world. The vision to recognize the potential for growth in the Destin area in the early 1980s has paid off exponentially for Flautt and Alias some 20 years later (Sandcastles, 2006). In a 1999 interview, Frank Flautt was quoted as follows: "The [Hilton] is probably conservatively worth $125 million to $150 million today. The property alone, which includes about 1,000 feet of beach frontage, is worth about $20 million to $25 million. If I'd just bought land instead of working, I'd be wealthy and retired" (*Memphis Magazine*, 1999). Bringing those 1999 numbers up to date, they would be in the order of $160 to over $190 million for the property as of late 2009 (AIER, 2009).

5. HOTEL INDUSTRY SITUATION—2004

During the 40 years from 1960 to 2000, the hotel and lodging industry had experienced almost exponential growth with annual sales going from $3 billion to $97 billion and the average daily rate (ADR) per room increasing from a mere $10 to over $85 (Hood, 2009). One of the major reasons for these dramatic changes had been the explosion of "dot com" businesses during the late 1990s and the related increases in both business and leisure travel which resulted from the economic prosperity of the period.

However, things began to change soon after the turn of the century when the "dot com" bubble burst and the subsequent national economic recession which followed. In late 2001, when the economy appeared to have regained some stability, albeit at a lower level, the events of "9/11" changed the way travel, both business and leisure, was viewed for many months. Because of limitations put on air travel following the 9/11 attacks and the resulting psychology of fear that gripped much of the country, travel went down. This decline in travel had disastrous consequences for the hotel industry that continued through 2002 and 2003 (see Figure 1 below).
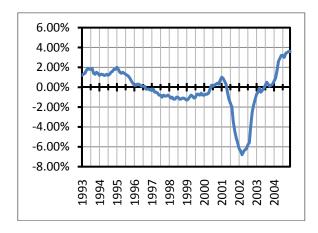

**Figure 1. Changes in the Annual Lodging Industry Occupancy Rate Percentages—1993-2004
From: Hood (2009)**

By the end of 2004, the hotel industry had recovered from the 2000 economic downturn and from the 2001

terrorist attacks although it had also used price cutting and offered various free add-ons to attract customers, especially leisure customers. As a consequence, the ADR for the industry had declined to pre-2000 levels and, while overall revenues and profits were still down, they had begun rising slowly as room rates began to increase again (Hood, 2009).

During this period of recovery, fierce non-rate competition between competitors became even more of an issue. Hotel chains were constantly attempting to provide more value to their customers in an attempt to establish loyalty and gain repeat business. Customer reward programs, complimentary meals, and improved room features were but a few of the myriad of inducements that were tried by various properties to retain and attract customers.

Linda Hirncise, partner and manager of the global travel and hospitality division at J.D. Power and Associates in Westlake, California, stressed the importance of upgrading guest rooms to meet the needs of the customers when she said, "We now know that this year, irrespective of market segment, the No. 1 driver of overall guest satisfaction is guestroom experience" (Higgins, 2004a, p. 4). The key to accomplishing this high level of guest satisfaction is to provide the right services at the right time.

As part of their recovery efforts in the post 9/11 world, many hotel chains targeted business travelers by offering additional services and amenities to meet their specific needs including special diets (e.g., low carbohydrate or vegetarian), morning newspapers, and special fitness centers. Improved and expanded business centers and services were also part of the new mix of offerings by hotels as more and more travelers wanted to have at least e-mail access when they were on the road regardless of whether it was for business or for pleasure.

In the late 1990s, a few hotels began offering internet access in their business centers and a very few began providing some method for guests to access the internet from their rooms without having to physically go to a central business center. By 2004, HSIA in guest rooms had become so widespread that it was one of the services that business travelers had come to expect and demand. According to a survey conducted by the American Hotel & Lodging Association, only 7 percent of hotels provided in-room HSIA in 1998, while 50 percent did so by 2004. Additionally, whereas wireless HSIA had not even been considered in 1998, by 2004 some 35 percent of properties offered it. At the same time, of the hotels that provided either wired or wireless HSIA, only 22 percent charged an additional fee for it (Higgins, 2004b). By 2004, the issue was thus not whether to offer HSIA but whether to charge an additional fee for it. Jon Leven, senior V.P. of marketing for U.S. Franchise Systems, expressed the viewpoint of many guests when he stated, "Fees at hotels are a real irritant to guests and it's no secret that more people are making hotel decisions based on availability of broadband and its costs" (Higgins, 2004a, p. 22).

6. HILTON HOTEL CORPORATION'S HSIA MANDATE

Given that most hotel chains had recognized the demand for HSIA by 2004, many of them established HSIA standards that their properties and franchisees were required to adopt.

The Hilton chain was no exception. The standards that the Hilton Hotels Corporation established mandated that its hotels have HSIA available in all guest rooms by June 2004. In addition, Hilton also required that ten percent of guest rooms have bridges by August 2005 in order to reduce the number of access points required to connect users as well as to reduce costs. The one major item that the HHC failed to include in its requirements was the identification of a standard protocol for the hardware and software to be used throughout its system in order to insure compatibility and to standardize installations.

7. HILTON SANDESTIN BEACH'S HSIA DECISION

In early 2004, the IT department at the HSB was comprised of only three people (see Appendix A for the Sandcastles Resorts & Hotels IT Organizational Chart). The department's primary responsibilities were to maintain the hotel's IT/IS capability and to support the hotel staff's IT/IS needs by providing reliable servers, networks, and systems. In this regard, the IT staff assisted every hotel department including accounting, the back office, the front desk, sales and marketing, reservations, and operations (Riley, 2005).

Given its total lack of experience with either the installation or management of a high speed network system, the IT department decided that a vendor should be contracted to install the HSIA system in all of the HSB guest rooms. Furthermore, by outsourcing the installation of the system, along with the requirement for the vendor to provide the hardware/software support and customer service aspects of the HSIA project, the IT department could continue to focus on its primary job of maintaining the hardware and systems used by the HSB staff. Thus it was decided that to be eligible for the HSIA contract, any vendor would need to be qualified to install an overall system that would meet the vague requirements of the HHC HSIA mandate, as well as to also be able to provide the requisite technical and end-user customer support for the system. These decisions ended up being about all of the RFP requirements planning that the HSB IT staff did prior to advertising the project (Bollhalter, 2005; Allen, 2005).

Having never done an IT outsourcing contract like the HSIA project, the HSB IT staff contacted the CIO of its management company, Sandcastles Resorts and Hotels, for assistance in choosing a vendor for project installation and support. After reviewing the situation, Glenn Bollhalter, the Sandcastles Resorts and Hotels CIO informed the Hilton Sandestin that he had not been pleased with any of the vendors used by Sandcastles Resorts for previous HSIA installations and thus did not feel that he could recommend any specific company to HSB. After further discussions, it was determined that the final vendor selection decision for the project would be left to Don McQuade, the HSB CEO, and Teresa Gunter, the HSB General Manager, with input from Glenn Bollhalter.

McQuade, Gunter, and Bollhalter all agreed that any high speed internet project needed to meet the Hilton HSIA standards as a minimum, but that still left many unresolved issues. In subsequent discussions, Bollhalter convinced McQuade and Gunter that a wireless configuration would be less expensive to install than a wired system because less hardware (i.e, cable and equipment) would be needed while

at the same time providing the same level of service as a wired network. Based on Bollhalter's recommendations, the HSB management group decided that a wireless HSIA would satisfy the HHC mandate, provide the same level of service as wired HSIA, and save the hotel money overall. Although not specifically stated at the time, system cost had become a primary decision variable to the principals.

In the vendor selection process that followed, the pool of bidders was reduced to three companies for final consideration. Of the three, Bollhalter recommended selecting the company with the most experience in HSIA project installations, while McQuade and Gunter were more swayed by proximity and price, with very little research being done during the selection process to verify vendor supplied information or to check their references from past jobs.

Ignoring the recommendation of the Sandcastle's CIO, whose opinion they had initially sought, McQuade and Gunter chose Panhandle Air Net (PAN), an Internet and data solutions company from nearby Fort Walton Beach, Florida. Although PAN assured the HSB management that it had the capability to effectively install a complete, *de novo,* wireless HSIA system in the hotel, it also indirectly admitted it had never done such a large scale project before or done one in a large hotel property. In the end, PAN was chosen primarily because of three factors:

- its bid of $23,000 per year was $20 to $30 thousand less *annually* than either of the other two vendors;
- it was a local company; and
- it promised 24/7 customer support service to both guest users and to the hotel staff.

8. HSIA INSTALLATION

As indicated above, the RFP prospectus that was used by the HSB IT department provided only limited information to the bidders and thus PAN only had a vague idea of what requirements and specifications were actually desired for the proposed wireless system when it won the contract. Further complicating the project for the Hilton Sandestin was the fact that the contract did not specify performance requirements, such as the maximum allowable downtime percentages or the maximum amount of time per month that the system would not be 100 percent operational. The contract also failed to specify the requirements of the 24/7 support service that was expected of the vendor (Riley, 2005; Allen, 2005).

By electing to go with PAN, the HSB management basically placed the project in the hands of a group of perceived experts and gave them full control of the project. The main requirement that was stressed by the HSB IT staff was the necessity to meet the Hilton Corporate HSIA standard which was extremely vague and only required that some form of HSIA (wired or wireless) be available in all guest rooms. Another requirement that the HSB IT staff added for the system involved charging the wireless usage fee directly to a guest's credit card rather than to the guest's room account. While it was believed that this would alleviate the workload of the front desk staff by not requiring them to keep track of these charges on a guest's room account, the

requirement added another level of complexity to the overall system (Riley, 2005; Allen, 2005).

PAN began the wireless HSIA installation for the HSB in April 2004. Based on the hotel's architectural design drawings it had reviewed during the bidding process, PAN had specified in its bid that approximately 30 access points would be necessary for the installation and that the entire installation phase would be completed in only two weeks. However, after being awarded the contract and actually touring the facility, PAN discovered that it would be difficult to penetrate the many odd angles of the building, and it was determined that an additional 14 access points would be needed. These additional access points would add a little over a month to the installation process; but fortunately for HSB, the contract did call for PAN to cover these additional costs as well as the costs of the first month of service when the system would be unavailable to guests due to testing (Riley, 2005; Allen, 2005).

The HSIA agreement between the HSB and PAN was written for only one year and called for the HSB to pay PAN a flat fee of $1,900 a month for the service, or nearly $23,000 per year, which included all installation, testing, and support costs. Based on the HSIA fees charged at other flagship Hilton hotels, the Hilton Sandestin decided to charge its guests $9.99 per day to connect to the service. By simply dividing the monthly fee it would pay PAN by the hotel's number of rooms and average occupancy rate, the Hilton Sandestin management believed that this charge would not only cover PAN's monthly fee but provide a profit to the hotel as well, although no true proforma analyses were done at the time.

In the end, the HSIA project was designed and implemented in such a way that the Hilton Sandestin IT staff provided very little assistance or input to PAN during the installation phase with the IT staff being mainly used as escorts to provide access to various parts of the hotel. The IT staff felt that it was PAN's responsibility to know how to properly install the hardware and be able to provide adequate post-implementation end user support as well (Riley, 2005; Allen, 2005).

OUTSOURCING A HIGH SPEED INTERNET ACCESS AT THE HILTON SANDESTIN BEACH GOLF RESORT & SPA (B)

Part (A) of this case described the hotel industry situation during the early years of this century and the mandate from the Hilton Sandestin Beach Golf Resort & Spa's (HSB) corporate franchiser (Hilton Hotels Corporation—HHC) that required that the HSB install a **H**igh **S**peed **I**nternet **A**ccess (HSIA) system in the property by June 2004. In order to comply with the mandate, the HSB's management considered two options for the HSIA project: a wired installation using coaxial cable that would have to be retrofitted throughout the property's 600 rooms or a wireless installation using a small number of wireless access points that would have to be installed throughout the hotel. In addition to the wired or wireless decision, there were also two options for how the overall HSIA project would be done: outsourcing the entire HSIA project to an external

vendor or doing an in-house installation by the HSB's three person information technology staff.

Part (A) of the case described the background issues related to these options and the decision processes used by the HSB management team that elected to outsource a wireless HSIA system to a local vendor who was to provide both the installation of the HSIA and the technical support for the users of the system. Part (A) ended with the installation of the wireless HSIA equipment by the vendor selected to provide that service. Part (B) of the HSB case starts immediately following the conclusion of Part (A) with the implementation of HSIA service at the HSB and details the problems that the two earlier decisions (using a wireless protocol and outsourcing the installation and technical support) created.

1. IMPLEMENTATION ISSUES

As indicated in Part (A) of this case, the wireless HSIA installation was completed by the local vendor, Panhandle Air Net (PAN), prior to the June, 2004, deadline established by Hilton Hotels Corporate headquarters. PAN, which had never attempted a project of the scope and complexity of the one at the HSB, had been awarded the contract primarily because of its low bid and its verbal assurances that it could handle both the installation and the technical support. Since the primary decision criterion of the HSB's parent management had been to have the HSIA serve as a profit center for the hotel, it viewed PAN's low bid to be more important than its track record and references. According to the contract the HSB signed with PAN for the installation and support of the wireless system it was projected that the system would generate approximately $5,000 in revenue per/month for the HSB which would net the hotel an average profit of nearly $3,000 per/month after paying PAN's $1,900 per month service fees (Riley, 2007).

Almost immediately PAN realized that it had underbid the project and discovered that it would have to install approximately 50 percent more access points than it had estimated due to the hotel's irregular shape and that the installation part of the project would take more time than had been estimated. Still, all of the wireless access points were in place prior to the deadline. If hotel guests using the system encountered any problems, they were to follow in-room user help instructions in order to be connected with support operators who were representatives of PAN and who were supposed to provide 24/7/365 support via an 800 telephone number.

The HSB and its guests began experiencing problems with the HSIA as soon as it was activated. Fortunately for the HSB, when the contract with PAN had been drafted, it had specified a fixed cost for the HSIA installation and for PAN to cover the costs of the first month of operation in order to trouble shoot the installation to make sure it worked as promised. While both HSB and PAN worked on a variety of problems with the wireless network during the first month, many of the issues persisted.

Ed Darnell, a Systems Analyst at the HSB, described the ongoing and pervasive problems with the HSIA as follows: "the system was plagued by broken access points leading to less than acceptable downtime percentages, which in turn, led to a large number of guest complaints" (Darnell, 2005). For the business traveler who values time as much as money, a HSIA system that failed on a regular basis created a lot of dissatisfaction and, in the end, customer service complaints became more damaging to the reputation of the HSB than did the direct issues relating to the hardware and software.

Another common complaint made by the guests was that PAN's wireless system was too complicated. April Allen, another Systems Analyst at the Hilton Sandestin Beach, said that guests had trouble connecting to their companies' virtual private networks (VPNs) which would allow them to use their employers' software and e-mail systems. She blamed this type of connectivity problem on the non-intuitive configuration of PAN's wireless system (Allen, 2005).

The frequent outright failures of the HSIA and the difficulty users experienced in obtaining 800 number customer support precipitated yet another problem for the HSB. Although the HSB management had not specifically required 24/7/365 support of the HSIA in the contract it signed with PAN, PAN had offered verbal assurances that such support would be provided through an 800 number customer telephone system. Based on this, the three person in-house HSB IT staff was under the impression that PAN would provide complete customer support to the Hilton Sandestin Beach guests. Guests, however, complained regularly that not only did a PAN support representative not answer their calls, but they did not receive call backs after leaving messages about their HSIA problems. Ed Darnell stated that, "even when the property IT staff had initiated a call to the vendor, there was only a 50 percent chance of receiving a call back" (Darnell, 2005).

When hotel guests either could not connect with a PAN customer service representative and/or did not receive a fairly immediate call back, they directed their problems and frustrations to the HSB IT staff. Since the primary role of the HSB IT staff was to support the back office IT needs of the hotel and since the HSB IT staff was comprised of only three people whose work schedules were during normal business hours, it was difficult for them to address the guests' connectivity issues since they mainly came up after regular business hours. The combined lack of support by both PAN and the HSB's IT staff infuriated guests even more and the hotel's IT staff's comment card scores dropped significantly after the implementation of PAN's wireless system because of guest frustrations. It was one thing to not have HSIA to offer to the customer, but it was an entirely different situation to offer HSIA, have the customer pay for HSIA, and then have them not be able to use the system or get a response from either the customer support number or the hotel providing the service. Ironically, a system that was supposed to provide better service to guests had generated customer dissatisfaction where none had been before the installation of the HSIA (Riley, 2007).

2. EXTERNAL ISSUES

Shortly after the initial implementation of the wireless HSIA, the northwest Florida Gulf Coast was hit by several severe weather events and 2004 became one of the most hurricane

plagued years in recent memory for the entire state of Florida. Hurricane Ivan, which came ashore on the eastern edge of Mobile Bay, was especially destructive for the northern Gulf coast. Although the Hilton Sandestin Beach hotel is located some 110 miles from Ivan's landfall, it was in the destructive northeast quadrant of the storm and much of the beach area from Mobile to Panama City was devastated (see Figure 3 below for the size of the storm).
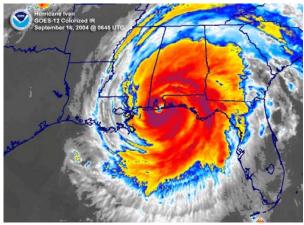

Figure 2. Hurricane Ivan

Due to its distance from Ivan's landfall and owing particularly to its higher-than-the-surrounding-area location, the HSB was not significantly damaged during the storm. The real impact of Hurricane Ivan on the HSB was not in terms of direct damage to the property but in the effect the hurricane had on the psyche of potential visitors to the area, due largely to the over hyping of the devastation reported by the various news media. Thus, even though the Sandestin area was quickly back in business, during the fall of 2004 (after the hurricane) and through the winter of 2005, less than 150 rooms of the 600 rooms in the HSB were occupied on any given night, unless there was a big meeting being held at the hotel. This unexpected slow season was a mixed blessing of sorts in that while it greatly impacted the bottom line of the hotel in a negative way, it also gave the HSB staff a brief respite during which they pondered what to do about the HSIA project.

3. INTERNAL PERSPECTIVES

It was not an overstatement to say that the HSB's IT staff was extremely critical of, and dissatisfied with, PAN's wireless system as well as with the lack of support provided by PAN. In trying to come up with possible solutions to the HSIA service and performance issues, staff members analyzed the lessons they had learned from the PAN project. One of the potential solutions was to renegotiate the contract with PAN and try to strengthen the existing wireless infrastructure. However, the IT staff had witnessed firsthand the very real drawbacks of using a poorly designed wireless HSIA, including its lack of speed, reliability, and connectivity (including connectivity to guests' VPNs), as well as the significant impacts these issues had had on customer satisfaction and, ultimately, on the profitability of

the property—which is what finally got the attention of the HSB's owners.

In particular, the IT staff felt that the current wireless HSIA system was plagued by the ineffectiveness of the wireless access points. While the IT staff knew from personal experience that the wireless access points continually failed throughout the hotel, they failed in certain areas (and thus for certain rooms) more frequently than others due to the building's irregular shape. The staff blamed a large portion of the failures with the wireless system on PAN's lack of experience with a project of this magnitude and complexity and felt that a wired solution would have been more stable and inherently less error-prone. The staff also believed that a wired system would eliminate most of the user issues by providing an Ethernet cable that would directly connect into guest's laptops and provide connectivity regardless of the location of the guest's room. In the event that a hotel guest's computer was only setup for wireless access to the internet and did not have a LAN card or Ethernet connection, the guest could obtain a wireless bridge from the HSB's front desk at check-in. The purpose of the wireless bridge, in essence a portable wireless access point, was to provide an interface from the guest's computer (with wireless networking) to the wired high speed hotel network and then to the internet. All in all, the IT staff did not believe that PAN had the technical expertise to provide a workable wireless system and was now convinced that a wired HSIA (which PAN could not provide) would be the best long term solution.

The issue was viewed differently from the perspective of the HSB's owners (Sandcastles Resorts and Hotels) who were located in another city far removed from the actual problem. From their perspective, the biggest problem with going to a wired HSIA solution was the same issue that had been behind the selection of the wireless solution in the first place: cost. When the HSB had been built, it had not been designed for and was not currently set up to incorporate the premise wiring necessary to support a wired HSIA solution since such technologies did not exist at the time of construction. To now retrofit a wired HSIA solution would require the very costly rewiring of all 600 guest rooms in the HSB property. Not only would this be a very costly process, it would also be a very lengthy one due to the necessity of actually running physical cable throughout the property.

In essence, the management team of the HSB's parent organization did not see the value added in spending the $250,000 required to install a wired internet infrastructure in all of the guest rooms (Riley, 2005). Being from the "old school" of hotel management, they could understand making a similarly sized investment in new carpet or new furnishings, but since they were not very technologically oriented, they could not understand making such an investment in customer IT. The fact that the desires of the hotel guests were changing in terms of wanting more than a bed, a bathroom, and a television set had eluded the corporate management team. By late 2004, hotel guests were increasingly computer savvy and were increasingly making their accommodations decisions based on the availability of internet connectivity. HSIA was no longer viewed by business, or even vacation, travelers as a luxury; it was becoming an expectation.

**OUTSOURCING A HIGH SPEED INTERNET ACCESS
AT THE HILTON SANDESTIN BEACH
GOLF RESORT & SPA (C)**

1. SOLVING THE PROBLEM

In December, 2004, a new general manager assumed overall responsibility for managing the HSB. Mike Chouri was no stranger to the hotel/hospitality industry having spent over 20 years in hospitality management and having come to the HSB from another large hotel chain (Chouri, 2007). When Mr. Chouri arrived at the HSB, there were many challenges facing him, not the least of which was assisting in the recovery of the northwest Florida gulf coast hotel and resort industry from the devastation wreaked by Hurricane Ivan just three months before.

As Mike Chouri worked to acclimate himself with the staff and operations of the HSB, he saw one persistent and recurring theme: a high level of customer dissatisfaction with the HSIA service provided by the HSB. Not only was the actual HSIA system viewed negatively, but the perceived unresponsiveness of both the 800 number customer service line and the HSB's IT staff to reported problems with the wireless system was exacerbating the overall situation.

In the months since the HSIA had been offered, the hotel's front desk staff had quickly learned that it did no good to try to explain to an irate customer that the support for the wireless network connections was the responsibility of a third party contractor. To an angry, dissatisfied customer, the HSB was the location where the customer was staying and the HSB was ultimately responsible for all the amenities, including the wireless HSIA. Since these guests could look at their credit card bills and see charges for a service they did not receive, they felt justified in downgrading the hotel on its customer satisfaction surveys and some had even written to the Hilton Hotels Corporation seeking a refund of the charges. It was unknown how many of these customers had left the property with such a bad taste that not only would they end up not returning but they would also share their negative stories with others who would end up not choosing to stay there—a business loss that the hotel would never even know about.

One of the lessons that Mike Chouri had learned over the years in the hospitality industry was the importance of customer satisfaction and he knew that the current dissatisfaction with the HSB's internet connectivity for its guests could quickly become a snowball rolling downhill. After personally reviewing the situation and analyzing the HSIA network problems in detail with the HSB IT staff, Chouri became convinced that a wired system would provide the best resolution for the customer relations nightmare which had been created by the current wireless structure.

At the same time Chouri was deciding what needed to be done, he also knew that the HSB's owners would balk at the $250,000 price tag for the installation of a wired system. Further complicating the situation was the fact that the HSB's parent company's management team was not on site to witness the increasingly negative customer satisfaction rooted in inadequate HSIA service and only seemed to care about the bottom line on the daily and weekly reports.

Chouri also recognized that in customer service, as in so many other service business activities, the memory that customers retained of any lodging, dining, or entertainment activity was only as good as the worst experience they had had during that event. Since hotel guests tended to only remember and communicate their worst experiences, this could more than offset the hard work and diligent efforts of many hotel staff to make their stays enjoyable. Therefore, a cost effective solution to the HSIA problem became a top priority for Chouri who saw the direct linkage between providing a positive HSIA experience for his guests and improving the hotel's bottom line in the long run (Chouri, 2007).

As mentioned earlier, even in the brief time between when HHC mandated that all of its properties provide HSIA and the time when Chouri arrived at the HSB, the expectations of guests with regard to having HSIA available in their lodging facilities underwent a significant change nationwide. Moreover, in less than four years, HSIA went from being a nicety to being a deal breaker for many travelers. By 2005, a large number of low cost, budget hotel chains advertised free HSIA as an amenity designed to attract the "road warrior" who might not have chosen that hotel chain in the past. For the HSB, having a workable HSIA solution was fast approaching the point where it would be a strategic necessity rather than a mere competitive advantage.

A strategy that hotels had used in the past when faced with high cost projects such as HSIA was to form a limited partnership with a service provider for the specific project. The service provider would install the desired amenity on the hotel's property and, in return, would share the revenues generated by the amenity with the hotel for a specific period of time. Thus, the service provider invested in the service infrastructure and the hotel provided the captive customer audience. However, after the dot.com bubble burst of the late 1990s, telecommunications companies were no longer as eager to enter into those kinds of revenue sharing partnerships as they once had been. A major reason for this reluctance was that the payback period usually offered by the hotel was considered too long to justify the investment since technology was changing so rapidly. The fear was that the investment might become obsolete before the service provider could recoup its initial investment, much less make a profit.

In summary, this was the environment Chouri faced at HSB in early 2005: no budgeted money to buy a wired HSIA solution outright; declining customer satisfaction due to the problems with the current wireless HSIA network; increased competition from other hotels offering free HSIA; no telecommunications company wanting to partner with the HSB on a revenue sharing arrangement; and a personal goal to provide superior customer satisfaction for all customers at the HSB.

In order to address the problems in light of these seemingly insurmountable obstacles, Chouri had to think outside the box. It was a given to him that customer satisfaction had to be restored or else nothing else would matter in the long term. Sadly, his assessment of the importance of customer satisfaction over the long run was not shared by the owners of the HSB who only saw a

positive revenue stream coming from the current HSIA and found no reason to change what was being done since they did not view the reports of customer dissatisfaction as being significant. To them it was obvious, why would there be positive revenues if the customers were so dissatisfied?

Being convinced that a wired solution was the answer to the problems that plagued the current HSIA network, Chouri faced a double whammy: the HSB owners did not want to commit $250,000 to the project and he could not find a telecommunications company that wanted to install the wired HSIA network on a revenue sharing basis (Chouri, 2007). Furthermore, in order to minimize any down time, the solution had to be one in which a wired network configuration could be installed concurrently with the operation of the existing wireless network providing for an orderly transition to the wired network while maintaining the HSIA services and revenues.

About this time, Chouri was approached by representatives from iBAHN, an international telecommunications company with whom he had worked in the past at other hotel properties. Founded in 1998, iBAHN is a worldwide leader in providing secure wired and wireless broadband services for hoteliers and meeting organizers and is in the business of "creating public networks across public spaces" (iBAHN, 2007). Chouri quickly negotiated a two-phase revenue sharing contract with iBAHN which called for iBAHN to install a wired HSIA network in the HSB during 2005 and, at the same time, the HSB would gradually transition guest rooms from the wireless network to the wired iBAHN network. When the full installation was to be completed in January 2006, iBAHN would get 75 percent of the revenues generated by the wired HSIA system for the first 18 months of the network's operation. This would allow iBAHN to more quickly recoup its initial investment in the infrastructure upgrades required for the wired solution. At the end of the 18 months, the revenue sharing arrangement would change to where the HSB would receive 60 percent of the revenues and iBAHN would receive the remaining 40 percent. Also as part of this agreement, iBAHN would make its existing customer support network available to the hotel and be in charge of all guest help calls, thus relieving the HSB's IT staff of that responsibility.

Because of its expertise in installing and servicing hotel based HSIA systems, the implementation and transition phases of the project were completed without any major problems. PAN was relieved of its contractual obligations but did not return to the hotel to remove all of its equipment. As of the summer of 2007, iBAHN and HSB are still happily sharing revenues from the wired HSB HSIA project and the HSB's owners are pleased to see an increasing revenue stream with virtually no customer complaints (Chouri, 2007).

*NOTE

This case was developed solely to provide material for class discussions and is not intended to serve as an endorsement of any actions, a source of primary data, or as an illustration of effective or ineffective management techniques applied to any specific situation. Some of the events and/or information presented in this case may have been disguised or changed in order to protect confidentialities and/or create discussion points.

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Richard Platt is an associate professor of MIS in the Department of Management & MIS, College of Business, University of West Florida, Pensacola, Florida. His teaching and research interests include strategic planning for information systems in organizations, information systems implementation strategies, and successful strategies for teaching MIS via e-Learning technologies. Dr. Platt has presented at numerous regional, national, and international conferences and his research has appeared in journals such as *The Journal of Education for Business*, *Journal of Information Technology Case and Application Research*, *International Journal of Services and Standards*, and the *Southeast Case Research Journal.*

William B. Carper is a Professor of Management at the University of West Florida, where he also served as Dean of the College of Business and as the Associate Vice President of Academic Affairs. He received his BA from the University of Virginia, MBA from William and Mary, and PhD in Strategic Management from Virginia Tech. His research has been published in such journals as the *Academy of Management Journal*, the *Academy of Management Review*, the *Journal of Management*, *Business Horizons*, *Hospital and Health Services Administration*, and the *Journal of Systems Management*. Dr. Carper has served as President of both the SE INFORMS and the SE DSI organizations and has received the Distinguished Service Awards from each; he has also served on the Boards of the Decisions Sciences Institute the Southern Management Association, and the Southern Business Administration Association. Dr. Carper's current teaching assignments are focused on the areas of business ethics and small business/entrepreneurship.

Michael McCool has lived in Northwest Florida since his father was stationed at Eglin AFB in 1987. He attended the Florida State University and graduated in 2002 with a BS in Statistics. After graduation, Michael returned to Destin where he began to work for the Hilton Sandestin Beach Golf Resort & Spa as the Assistant Director of Guest Services. He enrolled in the University of West Florida's MBA program and graduated in 2006. While still working at the Hilton Sandestin, Michael recently started his own business by opening a Snap Fitness franchise in Fort Walton Beach in 2008.

APPENDIX A

Sandcastles Resorts & Hotels IT Organizational Chart
Chart derived from interviews with Allen (2005),Bollhalter (2005), Riley (2005, 2007), and Darnell (2005)

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                         ┌─────────────────────────┐
                         │   Glenn Bollhalter       │
                         │   CIO                    │
                         └─────────────────────────┘

┌──────────────────────────────────────┐
│  Glenn Bollholter/John Riley          │
│  Alexandria Hilton                    │
│  Sunrise Hilton                       │
│  Daytona Beach Holiday Inn Express    │
└──────────────────────────────────────┘

        ┌──────────────────────┐        ┌──────────────────────────┐
        │  John Riley          │        │  Glenn Bollhalter (Acting)│
        │  Director of Systems │        │  Director of Systems      │
        │  Sandestin Beach     │        │  Baypoint Marriott        │
        │  Hilton              │        └──────────────────────────┘
        └──────────────────────┘
                                                   ┌──────────────────┐
   ┌────────────────┐  ┌────────────────┐          │  Bryce Smith     │
   │  Ed Darnell    │  │  April Allen   │          │  Systems Analyst │
   │  Systems       │  │  Systems       │          └──────────────────┘
   │  Analyst       │  │  Analyst       │
   └────────────────┘  └────────────────┘
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