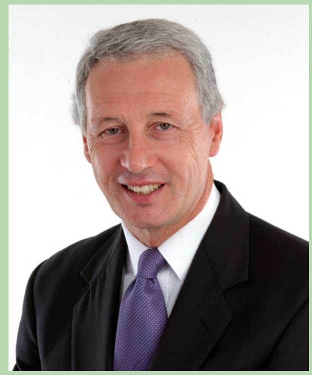
HOTEL SOFTWARE GIANTS MERGE: WHAT DOES IT MEAN FOR YOU

The challenges and issues arising from the merger of two of the leading property management system (PMS) suppliers in the world of hospitality IT are examined in this article by Mike Preston.

When companies merge together following an acquisition there are many challenges that result. Recently two of the largest PMS suppliers on the world stage joined forces when SoftBrands Inc acquired Hotel Information Systems (HIS). This article reviews some of the key issues arising and how they are being addressed, the impact on the hotels that are customers of these suppliers and the implications for the hotel technology marketplace.

Some acquisitions fail due to poor planning, bad post-acquisition management or overly high expectations to start with. Others fail due to unforeseen conflicts or simply a clash of cultures. There is always an element of risk involved in any acquisition, whether large or small. So a deal to the value of approximately \$27-million carries a significant potential downside as well as the obvious benefits. It is interesting therefore to look at the acquisition of HIS by SoftBrands to see how they addressed these challenges and how successful they have been in meeting them.



The author of this article, Mike Preston, is an information technology consultant for the global hospitality industry. The founder of Prismea Consulting, he is based in the UK but travels widely and knows the South African market well. He has written for Hotel & Restaurant before.

KEY ISSUES

To most people looking at the merger of two leading players in the hospitality IT market, the basic logic is easy to see. Add 2 and 2 and you make 4, which potentially could become 5, or more, as costs can be saved, market credibility grows and wider markets can be targeted. On the arithmetic theme you also have to subtract the non-trivial costs in management man-time and professional fees of carrying out an acquisition of this size.

There are always major issues and conflicts to resolve when merging businesses. There are two sets of just about everything – staff, products, product strategies, technologies, market position, marketing collateral, clients, offices, suppliers and business partners/distributors being the most obvious ones.

For this particular deal, in terms of global positioning and marketshare, there was little overlap. SoftBrands was a listed company on Wall Street, HIS was privately owned. SoftBrands was stronger in Europe than North America; HIS was stronger in North America and Asia Pacific. SoftBrands focused on the independent and small groups whilst HIS was committed to the group and chain market. So, in reality, the fit was very good.

There was some duplication of offices, for example in the UK. However this has enabled a small HIS office to be merged into the larger SoftBrands office in Reading to save costs and facilitate team-building.

One other benefit is the centralisation of support. SoftBrands has built a service network around its globally supported, 24x7 customer service centres that will now benefit all of HIS products.

The rationalisation also extended to third parties where choices needed to be made within areas of spa management, business intelligence and other products.

PRODUCTS

The product positioning is interesting. Again at first glance there seems to be a conflict. SoftBrands historically was a big-league player with its LANmark PMS (Legacy Property Management System) but, as this highly functional system has been viewed as slipping behind in terms of technology and style to compete for new sales, the emphasis has moved to Medallion PMS.

HIS has always been at the top end of the market – the hotel chains and large properties. The jewels in the HIS crown were the Epitome (PMS and Business Intelligence) and Core (Corporate Information Systems and Central Reservation System) products. The strength of these systems is not only the width and depth of the features but their technology – full .NET and Java browser architecture. For hotels this means the CRS/PMS systems can be web-based with remote access from anywhere and ideal for large centralised systems managed from head office, with all the benefits that brings.

So here too there is a neat fit with a two-tier strategy, Medallion at the small-medium hotel sector and Epitome as the high-end solution – and also a clear replacement for LANmark as hotels decide to upgrade. Interestingly enough, the UK continues to have a strong demand for the PORTfolio PMS system which is heavily used throughout the UK and Ireland and will continue to be enhanced for those markets.

Furthermore SoftBrands has leveraged the HIS Core technology as the foundation for a new service offering called Karyon that provides real-time connectivity to online sources of hotel reservations and thousands of online travel sites.

The business partner channel (companies selling and supporting SoftBrands and HIS products) in territories where no direct offices exist, would again appear to overlap in some cases. And they do. However the duplication of territories is small, SoftBrand's Medallion partners are mainly European based, capitalising on the multi-lingual, multi-currency features of the product. HIS had no partners in Western Europe at all. In some countries there are now two partners but SoftBrands is not concerned. They competed successfully before, and they address different sectors, so there is no issue.

HOTEL PERSPECTIVE

What was the view of the hotel clients? What did an HIS hotel client think when he heard the news of the acquisition? Would the new company still support his product and what would happen to his support agreements?

In South Africa there was no real issue with the acquisition as SoftBrands had a direct office whereas HIS only had a business partner. SoftBrands clients were only affected positively as they suddenly had a new product road-map and HIS hotel clients saw a local supplier to give on-hand South African resources and services. Indeed one SoftBrands hotel user, a LANmark client for 13 years, requested a presentation of Epitome immediately the acquisition was announced.

Village & Life, a tourism and hospitality company in Cape Town, is another Medallion user. "We see the acquisition as a positive step," said finance director Johannes Lategan. "SoftBrands is now an even greater force in the market and we, as a hotel user, have a wider range of products to plan our IT strategy."

In the UK, HIS client Mark Howman, systems manager at an Epitome user, the St Giles Hotel, was confident from the minute he was informed of the acquisition. "It was clear that epitome would be the go-forward product and now it will be backed by a much larger organisation," commented Howman. "Already we have seen a more structured approach to product releases which gives us great confidence going forward."

MARKET IMPLICATIONS

From a wider market perspective the combination of these two established suppliers can only be good for the hospitality industry. This acquisition has given a real competitive edge to the market with a compelling new alternative for global chains and independent hotels alike.

A refreshing approach from SoftBrands is its attitude to competitive products. The policy is to embrace these products within an open architecture. Key to this strategy is Karyon, which manages a hotel's rate, availability and booking information though one system, regardless of the property's PMS system. The focus is the client – who needs the right data, in the right place, at the right time – irrespective of which systems it comes from!

SUMMARY

In overall terms it was a very shrewd acquisition by SoftBrands – merging the strengths of its Wall Street listing, global offices, strong management and business partner channel with the technology from HIS, its complementary offices and business partners. Feedback from consultants and clients is positive and the assimilation has gone smoothly.

In summary the potential pitfalls have been avoided, largely because of the fit of the two businesses, which despite the first impression, is extremely good. As far as hotels are concerned the deal is good news whether their supplier is SoftBrands, HIS or indeed any other supplier. ■