

Ossian to eTourism – A Lost Opportunity

Around 1995 an STB director had a vision. At the time, the Internet was still unknown to many, ATB members relied entirely on conventional marketing and booking was done by telephone, a particularly inefficient process when arranged between different ATB regions. The vision was of a single network enabling integration of functions such as membership records, Quality Assurance certification, accounting, availability & booking. Members would be able to post their availability direct to the network so that all parts of the country would be able to access the data. A website would enable access to a world market. It was a far-sighted and comprehensive plan, which would require co-operation between STB, ATBs and Industry.

Initial work on the "IT project" served to identify the complexity of the problems and the need for a highly skilled team to develop the solution. By 1997 an experienced project manager, had been recruited and a team of top-rank IT specialists formed. By early 1998 the name "Ossian" appears in STB minutes the project being under the control of Visitor Services director Tim Oliphant. By the end of that year, concern was being raised by the board that marketing funding was being cut by the Scottish Executive to fund Ossian and a request was made that additional funding be provided.

By early 1999, board members were requesting a date when Ossian would go live and reference to 44 presentations to ATBs was made. Official launch of the project was scheduled for March 1999. Prior to that date, the board noted a paper on the ATB's readiness to adopt Ossian, and the chairman, Lord Gordon said *"there was an urgent need to ensure sufficient strategic level support was applied to Ossian"*.

By April, an analysis of the e-commerce system by the Ossian team was presented to the board, who agreed to develop links with *"our supermerchant"* (believed to be Bank of Scotland). It was further stressed that the biggest single benefit of Ossian to Scottish Tourism is its information database. In May the board noted that *"Ossian was well on track"*, but indicated concern that only 57% of membership forms had been received from ATBs, notably none from Edinburgh & Glasgow. By September, reference to the e-commerce pilot being trialled with dummy bookings appears and Peter Lederer reported that he had been highly impressed by Ossian. A budget bid for the Scottish executive was also being prepared.

It is at this point in time that a change of direction occurs, one that would seriously affect the future of tourism in Scotland. In the October meeting, a reference to *"additional funding for Ossian not being available"*, appears. Later, a report on Ossian by Deloitte & Touche, unmentioned in previous minutes is referred to. The minutes state that *"The main recommendation (by Deloitte & Touche) is to work as quickly as possible to securing a PPP and that recommendation and the others were endorsed by the board"*. Examination of the actual report by D&T, however, reveals the following:-

"The disadvantages (of retaining an in-house team) referred to are listed in the report as:-

- *All the risks of Ossian would be retained in-house*
- *The operation of a system such as Ossian is not a core STB business and, therefore, then appropriate operating environment would not be available.*
- *No expertise would be imported from other systems.*

As a result of such disadvantages it has been the intention of STB management to transfer Ossian to some structure separate from STB departments as the system moved from a developmental to an operational phase."

It appears therefore that rather than the STB board adopting the advice of consultants Deloitte & Touche, they were simply following their own decision to free themselves from the risk of failure of the project by transferring it into the private sector. Given that STB had formed, and was managing, a top class team of IT experts to create Ossian, the justification that Ossian *"is not a core STB business"* seems ludicrous, while the third excuse that *"expertise would be not imported"* is feeble. Hence after two years of hard work and with the project on the point of

achieving success, it was to be dumped on the private sector. STB minutes are noted for not detailing controversy amongst the board members, but evidence from ex-STB personnel who were involved, but who are unwilling because of confidentiality restrictions to speak publicly, indicates that a number of board members were totally opposed to the decision, believing rightly that the concept was flawed. Chief Executive Tom Buncle was instrumental in pushing for the PPP and with support from some other directors gained the vote. Information has also been received that Wendy Alexander, then minister responsible for tourism, was enthusiastic to cooperate in a politically fashionable PPP scheme.

A factor likely to have influenced the decision was the unrealistically optimistic financial projection offered as part of the D&T report. Income was estimated using two methods, suppliers & users. In the former case an assumption was made that *"the improved distribution channel offered by Ossian would increase occupancy rates by 2.5%"*. In the latter case, statistics for website visitors were factored by a percentage based on "look-to-book" ratios of other websites. Both calculations gave approximately the same result, around £1.3 million for 2003. Both assumptions were of course unsound, implying as they did that an increase in business volume, for businesses, STB & Scotland, would occur simply due to the provision of a national on-line booking system. Commonsense tells us that the nature of the process that is occurring is one of transfer from conventional means to Internet use, and as such no extra volume can be anticipated on that basis alone.

The decision to convert to a PPP having been made, development on the project was suspended while the tendering process was implemented, a process that would take around 18 months and involve significant costs. As a result, many key technical staff members left as morale sank. The project manager also left, allegedly summarily dismissed without explanation. It should be noted that up to this point all evidence of the technical quality and performance of Ossian supports the contention that it was technically sound and fit for purpose, with only relatively minor issues still to be resolved. The D&T report concludes that *"Overall, the technical architecture adopted and the technical components used within the Ossian system appear sound –"*.

A report by technical consultants published some 7 months later reported that *"Project Ossian is based on a strong and stable technological platform upon which it is perfectly possible to implement a fully functioning system"*.

During 2001, as the process of seeking tenders was rolled out, various problems emerged. In February, Partnerships UK withdrew from the process. By March ATB concerns were surfacing & minutes reveal that *"we are currently finalising agreement with Partnerships UK with a view to them re-joining the project. ATB Co will be formed soon. Concerns from some ATBs are being dealt with. If they are addressed successfully, the invitation to negotiate (ITN) will be issued by 31st March and we will use this fact to promote the project."* During May, the board made it clear that ATBs would be expected to co-operate by providing a letter of comfort to indicate their commitment. By June, one of the original four bidders for the PPP had dropped out. Several months later a further bidder also dropped out as evidenced by minutes. By December only one contender remained and minutes stated that *"ShlumbergerSema (SLB) has been chosen as the preferred partner for the public/private e-business joint venture. We are working towards final completion by 31st March 2002. It is important fully to engage ATBs and make sure they sign up to the joint venture, even though it is likely to be a difficult period for them as local structures are reviewed. SLB is also very keen to work with ATBs. But ATBs do have concerns about potential loss of revenue as a result of the joint venture. In addition, some ATBs are already facing the prospect of financial deficits on current trading, even without further loss of income. After discussion, members agreed that the various scenarios for dealing with the ATB situation should be set out in a paper for the tourism minister"*.

It was now evident from the latter statements that ATBs were to be forced into compliance and by February 2002 board minutes reveal further pressure being put on ATBs to co-operate, including a ministerial letter. By March further pressure was being applied, making the statement that there would be *"no additional funding."* By May, all ATBs except Glasgow & Western Isles had capitulated to the blackmail and minutes reveal how funding was to be denied. In the case of Glasgow, with massive levels of financial support from Glasgow Corporation this was not a problem, but Western Isles would suffer and later surrendered also.

Around June of 2002 incredulous ATB members were becoming aware of what had been done behind their backs. Despite being membership organisations, no prior notification was made to their members by any ATB so far as is known and the first ATB accommodation providers knew about the contract with eTourism Ltd. was that it had been signed. ATB executive committees were advised that there was only one option on the table and hence reference back to membership was not appropriate. In Dumfries & Galloway 180 B&B & guest house proprietors (90%) signed a petition calling on the ATB to rescind the contract, but to no avail.

Earlier in the year, the Scotexchange.net website forum began to present a discussion between concerned individuals in tourism related organisations who had become aware of the PPP project. Almost all the input from industry sources such as SIGTOA, Wilkinson Golf, Whiteholme Publishers, Tayleure Mayde Golf Tours, Best of Scotland Holidays and many others were highly critical of the concept of the PPP. Many individuals gave impassioned pleas to the STB (now known as VisitScotland) to reconsider the project, providing highly competent arguments as to why it should not be proceeded with. The detailed arguments were later lost as the Scotexchange forum was abandoned, most likely as a result of the growing criticism of VisitScotland & visitScotland.com expressed on its pages. At least one hard copy has survived, however and is in the author's possession.

By July 2003 the website and call centre was in operation. While industry discontent continued to surface, minutes showed that “ - *It was reported that bookings through visitScotland.com have now exceeded £3.5m.*” Later in the year minutes showed further progress, though on-line booking was as yet not operational. “*e-Tourism: Over £5.2 million worth of business was generated from accommodation bookings and over 385,000 calls have been handled by the venture to date. The “£1m in one month” booking milestone was reached in July and weekly average bookings now exceed £250k. Software difficulties have resulted in a delay to the implementation of online booking.*” In October the board again reported that “*VisitScotland.com is progressing well. Joint operational meetings with VisitScotland and visitScotland.com have been held with ATBs. Philip Chalmers has been brought in from SchlumbergerSema for six months to assist with communications. Most of the criticism regarding the concept has been dispelled and concerns now relate specifically to operational issues. Online booking has now gone live and other innovative work is ongoing behind the scenes.*”

The following year saw the original CE, Steve Langmead leaving and a new CE, MarcoTrufelli (someone with actual hospitality industry experience) being recruited. 4000 bookings to date was reported.

During the year, Schlumberger Sema was taken over by Atos Origin, a French owned multinational IT company. An interesting reference comes to light at the end of the year when the board discusses its IT policy within VS (i.e. separate from eTourism Ltd). It will be remembered that the reason that Ossian was abandoned as an in-house project was that IT was not a core activity of the STB. The costs of VS's own internal IT systems are now estimated at over £1 million. (Ossian development costs were running at around £2 million pa in 1999, but on-going operational costs would have been a much lower figure.)

During the first half of 2005 minutes regularly reflected underperformance and cash problems.

As the appendix to this paper proves, losses were mounting. Frequent and contradictory references to being “in line with overall plans” & “targets not being met” continue to appear.

Minutes over the year variously recorded the position as:-

“*- operating in line with overall financial targets although the numbers of calls and bookings had grown less than anticipated.*”

“*The venture remains good value to the public sector -*”

“*The possible cash shortfall later in the year would be covered by the bond facility.*”

“*- initial business targets had been over-optimistic and these targets had not been met.*”

“*- vs.com was containing costs well and minimising outgoings but we are looking for a significant quantum leap forward in the near future*”.

“ - The joint venture has a solid base and is performing well against current targets. -”
“ - Financial performance has been good although the company is behind initial business targets.”

By May the board was advised that *“- calls to the contact centre are below plan. There are two possible reasons for this: (i) behavioural; and (ii) visitscotland.com tends to market itself to a web-savvy audience.”* Again we see the recurrent insistence that *“- revenue is in line with the Business Plan. While visitscotland.com is making a loss, it is less than planned.”*

By mid 2005 the position was clearly worsening, the minutes revealing a statement by the CE that there was *“little or no prospect of receiving the original loan”*. Further capital would apparently be necessary to upgrade technology to keep pace with further developments. This, bearing in mind the fact that the original £7.6 million loan was still outstanding, no repayments of either capital or interest having been made to date. Accumulated losses by the end of the year would in fact exceed the value of the loan. By late 2005 mention of an “exit strategy” was made for the first time. Board minutes during the latter part of the year mention that *“it is unlikely that additional funding will be made available.”* Questions were being asked *“whether the issue was one of marketing.”* With the unsurprising answer *“that VisitScotland markets the website on all its activity.”* *“Disappointing web conversion”* was attributed *“partly to functionality”*. Again it was mentioned that *“visitscotland.com does not have the necessary money to invest in this to succeed.”* Finally the board concluded that *“Now is the time to take stock before moving forward. This might involve additional funding and might involve additional risk. A paper outlining proposals will be presented to the Board.”*

During early 2006 mention is made of a new “technology supplier”, Tiscover, and that an offer of shares was being made in exchange for reduction in fees. (It is difficult to understand why a new supplier was being sought if as had always been claimed, the current partner Atos with its acquisition of Sema, was such a highly qualified company in the field.) The matter of VisitScotland increasing its shareholding in return for a reduction of the concession fee also comes to light. It appears that owning a larger share *“would assist in addressing reputational issues.”*

At a later meeting the fact that Atos Origin *“is supporting the current deficit”* is mentioned. By the end of 2005, eTourism was effectively bankrupt, the accumulated losses having exceeded the original loan. (Why Atos should have chosen to bail out the company is unknown, perhaps to avoid embarrassment, having been involved in such a disastrous project.) Mention of technology weaknesses again surface. A board member asks *“whether the reduction in contact centre bookings was reflected in a move to the web.”* Comment was also made *“that web performance was up 55% on last year.”* & *“problems remained regarding the conversion rate”* and that *“the proposed change in technology supplier would hopefully address this issue.”*

Minutes for the May meeting of the board revealed some details of the restructuring of eTourism. Atos was to write off part of its investment (Notes to the 2005 accounts showed around £5.7 million in loan stock & interest) and VisitScotland to acquire some extra shares, with Tiscover being given a tranche. Clearly the transfers of shares at nil reflect the value of the company at this point. It is also difficult to understand what benefit Tiscover foresaw in its acquisition and why it was prepared to fund the company with a substantial loan.

June minutes recorded that the deal with Tiscover was almost concluded and that the Minister had been briefed and was comfortable about the changes.

The conversion to Tiscover’s new website and booking platform took place around November as referred to in minutes. The change required all data to be exported to Tiscover’s headquarters in Austria. (It is interesting to note that Tiscover is believed to be a wholly owned subsidiary of the Austrian Tourist Board. The question of all Scotland’s tourism data being held and processed by a competitor destination must surely raise concerns):-

Details of the new platform were being revealed to the board in October, presented as improvements. What was not being disclosed was that the Tiscover system mapping facility was very poor, while initial entry presentation thumbnails were so small as to be almost indistinguishable. Although speed was improved, numerous other defects also came to light. Contact details of providers were hidden as before. Generally feedback from industry would be that the change was overall detrimental. By November the board were being advised that the *“the current variance from the Business Plan will improve towards the end of the financial year. Losses are due largely to lower footfall in Tourist Information Centres (TICs) which is in line with the increase in people using the website to make their bookings. With the transfer of VisitScotland.com’s technology platform to Tiscover, VisitScotland.com will be able to capitalise more fully on this trend towards web bookings.”*

By early 2007, it was becoming evident that the change of technology was not having beneficial results. Less than 10% of serviced providers were allocating any rooms to eTourism. Many others were not providing availability information and of those who were, many were doing so tactically to get their listing to the top of lists, with no real desire to take commissioned bookings from the call centre. The recurrent theme of failing performance persists. The board was now being told *“that there remain concerns about conversion rates in respect of web sales. It is possible that conversion rates are not as high because there is not sufficient available product.”* A further fundamental review of the business plan is agreed. (One wonders how long this can go on!)

In February, new products are mentioned. These are in fact Directory Listings and Web-in-a-box. The latter item is an attempt to sell providers what is claimed to be a website, but what is in actual fact simply an extension of their listing on Visitscotland.com. The “website” will have exactly the same data as their normal entry, though on a differently presented web page. Search engines, however, will not find this page for various technical reasons. Although a booking button of the page allegedly allows them to take commission free bookings it is unlikely that many people will find it to press.

Over four years from the launch of the PPP, the company has failed to thrive. In the process it has alienated the majority of VisitScotland’s former ATB members. VisitScotland itself has suffered as a result of its allegiance with eTourism and as a result has lost many of its customers. Right from the beginning the PPP concept was flawed as was seen by many enlightened people at the time and now. By now, eTourism Ltd. must be approaching insolvency again. The time is therefore ripe to cut losses and restore the website to its correct place, owned by the public sector. There is no reason why the website should not be run by a private sector company, but the basis must be to provide a specified service for the industry on a fixed price basis, not to make profits from accommodation by competing with its own business customers.

A.F. Keith

On behalf of the Association of Dumfries & Galloway Accommodation Providers

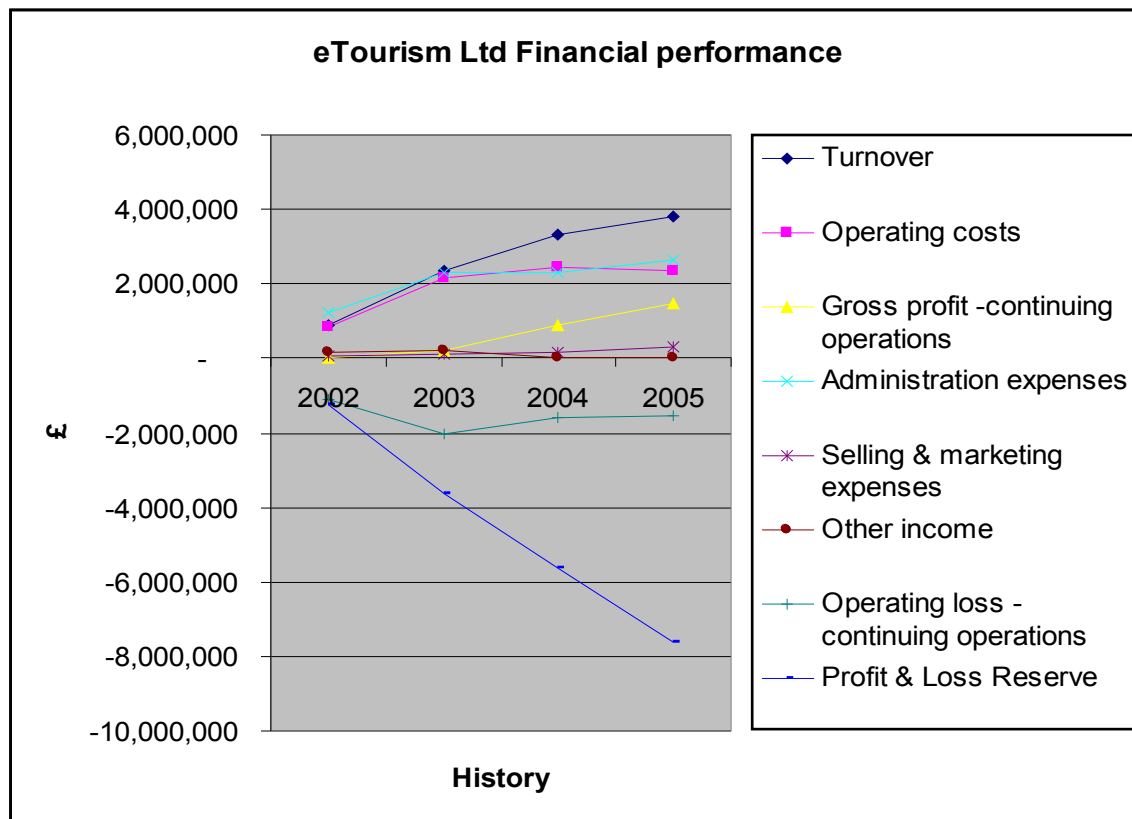
May 2007

APPENDIX A.

Etourism Ltd. Analysis of financial performance 2002 - 2005

	2002	2003	2004	2005
Turnover	878,974	2,349,790	3,323,997	3,805,804
Operating costs	842,196	2,139,941	2,446,066	2,348,375
Gross profit -continuing operations	36,778	209,849	877,931	1,457,429
Administration expenses	1,233,391	2,298,628	2,302,419	2,662,034
Selling & marketing expenses	61,305	137,779	162,743	311,153
Other income	146,723	208,277	-	-
Operating loss - continuing operations	-1,111,195	-2,018,281	-1,587,231	-1,515,758
Profit & Loss Reserve	-1,248,911	-3,623,685	-5,617,183	-7,635,847

Figures taken from accounts posted at Companies House



N.B. The above figures were current at end 2005 and do not include writing off of debt and additional loans occurring in 2006. The financial re-structuring would have the effect of lifting the P&L reserve back to a level around 0, but have no effect on the trends clearly indicated on the graph, notably the flattening turnover curve and the steeply descending P&L reserve line.