

Video Conferencing Prompting Silicon Valley Companies To Cut Travel Budgets

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HHC Note: Attendees of HHC 2008 attended and participated in an HP Halo demonstration at the Halo R & D labs last hear.

Just a few years ago, Advanced Micro Devices executive Linda Starr racked up a million air miles a year in business travel. Now she logs a mere 100,000 miles a year, thanks to sophisticated video conferencing technology.

In a trend that could transform the way companies do business, Cisco Systems has slashed its annual travel budget by two-thirds — from \$750 million to \$240 million — by using similar conferencing technology to replace air travel and hotel bills for its vast work force.

Likewise, Hewlett-Packard says it sliced 30 percent off its travel expenses from 2007 to 2008 — and expects even better results for 2009 — in large part because of its video conference technology.

Both Cisco and HP have dual motives for grounding employees. They want not only to cut expenses in tough economic times but also to promote their own brands of pricey conferencing systems. But the success of the two global tech giants in keeping workers away from airports en masse is sure to catch the eyes of CEOs around the world.

Cisco says more than 300 corporate customers already have deployed its TelePresence conferencing system. HP, whose conferencing clients include AMD in Sunnyvale and Nokia, would not disclose how many clients it has for its system, called Halo. Cisco and HP, in addition to competing with each other, also battle smaller video conferencing companies — such as Tandberg, Teliris, Polycom — for market share in the rapidly growing niche.

Until recently, video conferencing was not something executives could depend on. Corporate networks, for example, lacked the bandwidth to handle video. Connecting far-flung participants required endless fiddling from the company's IT department. Audio and video were often out of sync — so the movement of participants' lips didn't match their words. Then there were the constant freeze-frames and dropped connections — which often resulted in frustrated participants boarding planes for face-to-face meetings.

But the new systems are so reliable that companies have no hesitation to use them to conduct sensitive contract talks and other high-level meetings.

"If you whisper in a Halo room, the person on the other side can hear it," Starr said of HP's system, which was designed with Hollywood's DreamWorks Animation SKG. She once attended a meeting in which one participant tried to shake hands with other video conference participants — who were on the other side of the country.

The top-end systems, which can link multiple sites around the world in one video conference, don't come cheap. HP's Halo ranges from \$120,000, plus a \$9,900-a-month service fee, to \$349,000 with a monthly fee of \$18,000. Cisco's TelePresence video conferencing technology costs \$34,000 to \$340,000 with no service fees. Prices are determined in part by how many people can participate at each site.

Cisco, which plans to limit its travel budget to \$350 million a year even after the economy improves, has set up 530 TelePresence rooms for its 66,000 employees across its global empire. The San Jose networking giant says it has held more than 350,000 meetings since the fall of 2006 — 68,000 of which were substitutes for travel.

That is not good news for the travel industry, already reeling from a recession some experts call the worst in aviation history. Airlines have seen revenue from business travelers drop by as much as 30 percent in some markets, said Seth Kaplan, managing partner of Airline Weekly. The industry is in such bad shape that British Airways recently cut the canapés and chocolates for front-cabin occupants.

Video conference technology "is the wave of the future," said aviation industry analyst Michael Boyd. "It will slow business travel growth as the economy comes back."

It's not the first time disruptive technology has unnerved the airline industry. As fax machines became ubiquitous in the late 1970s and '80s, United Airlines fought back. In a UA commercial from that period, a glum executive tells the troops about losing a longtime customer because "he didn't know us anymore. I think I know why. We used to do business with a handshake — face to face. Now, it's a phone call and a fax." He then hands out plane tickets.

In a study a decade ago, airline expert Alan Bender found video conferences had reduced business travel by about 10 percent. Today's technology is much better and will further cut the need for workers to schlep across the country — or the globe, said Bender, professor of airline economics at Embry-Riddle Aeronautical University in Daytona Beach, Fla.

But in-person meetings are still viewed as critical in the business world, according to Kevin Maguire, CEO of the 16,000-member trade group, the National Business Travel Association.

In the past two decades, repeated claims that technology would dramatically curtail business travel never came to fruition, Maguire added. "That doesn't mean it won't happen, but it's not an easy hurdle to overcome."

Many a jet-lagged employee or executive would welcome the chance of cutting time spent aloft. Before AMD installed Palo Alto-based HP's Halo system, Starr said, she was always tired and often sick: "It just tears you up. When I go to my (Austin-based) CEO and say, 'I need you to meet with HP's (CEO) Mark Hurd,' the first thing out of his mouth will be, 'Hey, can we do a Halo? Do I have to fly?'"

Some in the travel industry are waving the white flag and adopting video conferencing. Marriott International recently announced it would be deploying Cisco's TelePresence technology in hotels across the globe, from San Francisco to Shanghai. Likewise, Starwood Hotels & Resorts Worldwide is also deploying the system at some of its properties.

"We've had interest from various airlines," said Darren Podrabsky, HP's Halo worldwide marketing manager. "A lot of them are taking the attitude, 'This is a trend. If we can't beat them, join them.'"

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