6 The Internal Environment: Capability

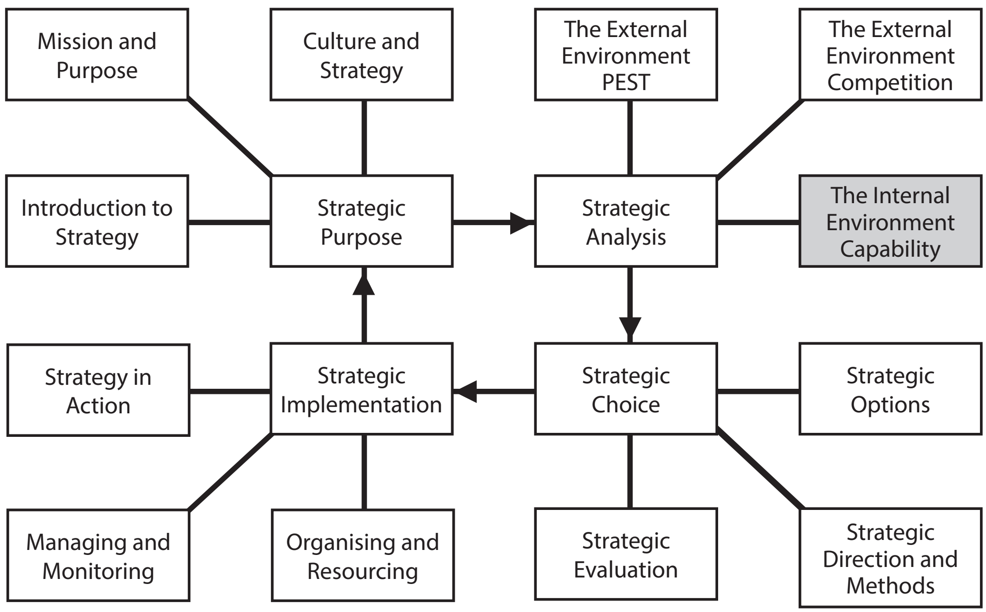

Figure 6.1

Learning outcomes

After studying this chapter and related materials you should be able to understand:

- Resources and competences
- Resource audit
- Performance monitoring and control
- Evaluation of products
- SWOT analysis

and critically evaluate, explain and apply the above concepts.

Introduction

Analysis of the opportunities and threats in the external operating environment is useful in revealing strategic potential for an organisation or destination. The external environment is of course common for all entities. Attention is now turned to the organisation or destination itself where resource deployment analysis considers strategic capability. Here we are able to discern considerable differences between tourism entities. The main analytical techniques for conducting such a capability analysis include: first, resource auditing, which identifies the level and type of resources that an entity is using; next, performance monitoring and control asks how well an entity is using its resources; and finally, products and services are subject to evaluation. Capability analysis indicates the organisation's current and potential strengths and weaknesses and reveals its core competences. Capability views of strategy emphasise how competitive advantage can be achieved by effective deployment of resources. In the last section, this chapter pulls together the analytical tools developed here and in the previous chapters in the form of SWOT analysis.

Case study 6 examines the capability of the InterContinental Hotels Group and relates these capabilities to its mission and to its performance analysis.

Case study 6: InterContinental Hotels Group (IHG)

InterContinental Hotels Group (IHG) is a global hotel company operating several famous hotel brands – InterContinental, HuaLuxe, Crowne Plaza, Hotel Indigo, Even Hotels, Holiday Inn, Kimpton Hotels & Restaurants, Staybridge Suites and Candlewood Suites. In 2014, it boasted a five per cent share of the global industry's supply of rooms with around 4800 hotels across nearly 100 countries. IHG's vision is to "bring true hospitality to the world through Great Hotels Guests Love". The strategy of IHG is "to be first choice for hotel guests and owners, by building the best operating system in the industry, focused on the biggest markets and segments."

The strategic priorities of IHG are based around value creation through what it calls its "winning model" and superior shareholder returns. Specific objectives include:

- Strengthening the portfolio of preferred and differentiated brands
- Building scale in key markets
- Creating a long-lasting relationship with guests and delivering revenue to hotels through the lowest cost
- Direct channels
- Offering a proposition for owners which is highly competitive and drives superior returns
- Executing its asset-light strategy in the most attractive, high-growth markets and industry segments

- Taking a disciplined approach to capital allocation
- Investing for the future growth of its brands
- Driving sustainable growth in profitability and
- Delivering superior shareholder returns over the long term.

Plate 6: The InterContinental Hotel, Goa, India

The history of IHG witnessed mergers and diversification before focusing on hotels. InterContinental started in 1946 as part of Pan American Airlines. In 1981, the group was sold to Grand Metropolitan which in turn sold it on to the Saison Group in 1988. The Saison Group subsequently sold InterContinental to Bass, a UK brewing company, in 1998. Bass sold off its brewing arm in 2000 and changed its name to Six Continents. In 2003 Six Continents plc split into two subsidiaries companies: Mitchells and Butlers concentrated on restaurants, and IHG concentrated on a portfolio of hotels and soft drinks (Britvic). IHG became a separate company listed on the UK and US stock exchanges and in 2005 Britvic was sold off. In 2012 IHG launched EVEN Hotels with a focus on wellness and responding to market opportunities in healthier travel. In the same year IHG launched its upmarket international hotel brand HUALUXE Hotels and Resorts designed specifically around Chinese traveller needs. In 2015, IHG acquired Kimpton Hotels & Restaurants the world's largest independent boutique hotel operator. China is a priority market for IHG. It was the first international hotel organisation to enter the country in 1984 and by its 30th anniversary in 2014 it had opened 241 hotels with a room capacity of 78,194 and operations in China contributed 11 per cent to the group's operating profit. Providing for Chinese tourists outside China is also a priority and IHG has a China-Ready programme that provides training for hotel staff in Chinese cultural, food and beverage tastes and preferences.

In terms of resources, IHG only owned 9 of its hotels in 2014 and its business model, which is increasingly typical in the hotel industry, is to concentrate on the management of hotels which are owned by other parties, and on franchising its hotel brands. This is called an "asset light " strategy. IHG manages 735 hotels but the largest part of its business is made up of the 4100 hotels that operate under franchise agreements. In other words its key capability is expertise in hotel management, operating systems, branding and marketing. Hotel property ownership is a capital-intensive business and requires different business capabilities to that of hotel management. For this reason, IHG leaves investment in hotel properties to others. IHG's decision whether to franchise or manage hotels depends largely on market maturity, owner preference and the particular brand. In mature markets such as the US it operates mainly franchises. However in emerging markets such as China it operates predominantly managed businesses operating hotels on behalf of their owners.

IHG measures its performance through a set of Key Performance Indicators (KPIs) related to its strategy and achievement of high-quality growth. The KPIs are organised around its strategic framework of Winning Model and Targeted Portfolio; Disciplined Execution; Doing Business Responsibly and Delivering Superior Shareholder Returns.

Key Results for 2014 included:

- Profit before tax: no change
- Earnings per share: no change
- Revenue per available room: up 6.1 per cent
- Net room supply: up 3.4 per cent
- Carbon footprint per occupied room: down 3 per cent compared to 2012 baseline
- Water use per room in water-stressed areas: down 4.2% compared to 2012 baseline

IHG also benchmarks its performance against competing branded hotels groups in their peer group. These are groups of a similar size and who operate in similar market segments (e.g. Accor, Hilton, Marriott and Starwood).

Performance related pay is an important way to motivate staff and ensure a close focus on achieving strategic objectives. Accordingly discretionary remuneration for directors is related to successful performance against combinations of these and other success measures and include targets for:

- Guest satisfaction
- Employee engagement
- Earnings before interest and tax (ebit)
- Relative net rooms growth
- Relative RevPAR (revenue per average room) growth
- Relative shareholder returns

In 2014, the CEO of IHG, Richard Solomons, earned £2.6 millions in addition to his basic pay, benefits and pension contributions through performance related payments.

The key strengths of IHG are built around the following:

- A strong portfolio of preferred brands: InterContinental Hotels & Resorts was named 'World's Leading Hotel Brand' at the 2014 World Travel Awards.
- Talented people providing the guest experience
- Size which enables IHG to benefit from economies of scale
- Direct digital and voice channels with effective yield-management practices