9 Strategic Evaluation

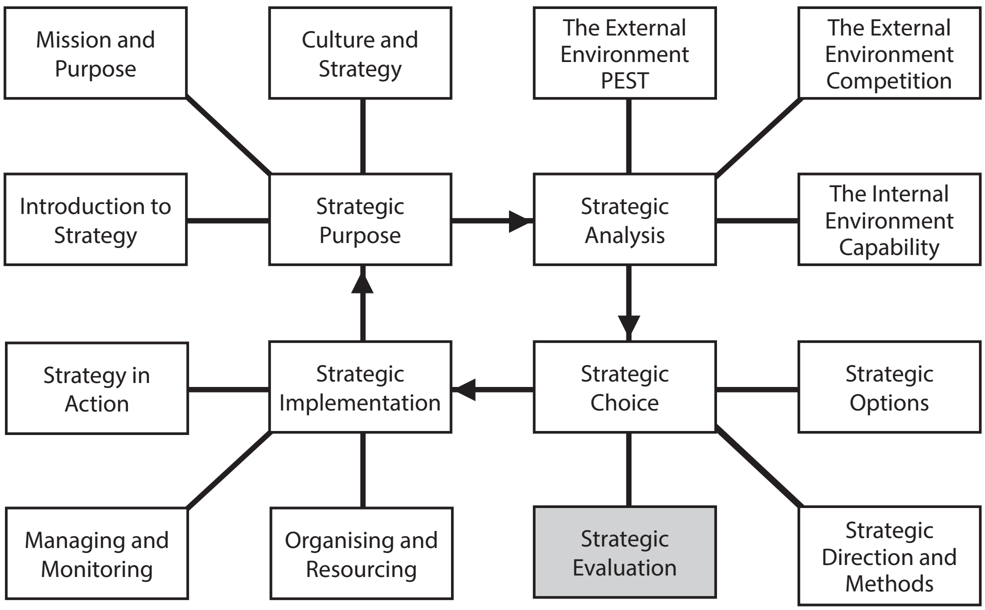

Figure 9.1

Learning outcomes

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

- Suitability analysis
- Acceptability analysis
- Feasibility analysis
- Ranking.

and critically evaluate, explain and apply the above concepts.

Introduction

This chapter introduces a framework for evaluating strategic options. There are three essential questions used to evaluate a strategy or competing strategies:

◊ Does it fit our situation?

◊ Do we want to do it?

◊ Can it be done?

These questions are examined using:

◊ Suitability analysis

◊ Acceptability analysis

◊ Feasibility analysis.

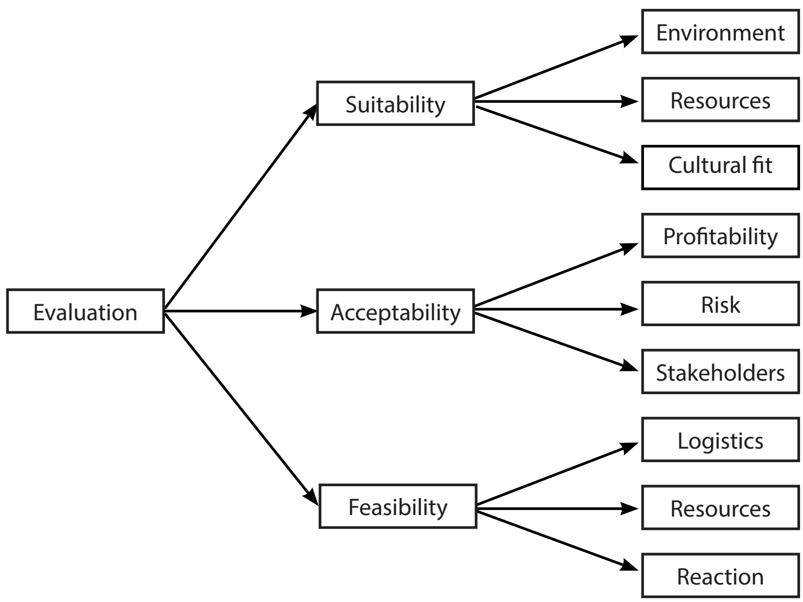

Figure 9.2: Evaluation framework

Suitability analysis: tests whether a strategy fits the situation facing an organisation.

Suitability analysis considers the fit of a strategy in terms of C-PEST factors in the external environment, as well as considering an organisation's resource capability and culture. Acceptability analysis reviews strategy in relation to the aims and missions of an organisation. Feasibility examines whether an organisation is able to muster the necessary resources to follow a particular strategy, and scrutinises plans in terms of their logistics and likely competitor reaction. Of course not all of these aspects will necessarily apply to every strategic option. A ranking matrix can help in strategic decision making, particularly where strategic impacts are mixed. Here, competing strategies are awarded scores according to how well they meet particular criteria.

Case study 9 presents the strategy of merging TUI Tourism and First Choice to form TUI Travel and the subsequent merger of TUI Travel and its German parent company, TUI AG (2014), and covers aspects of suitability, acceptability and feasibility.

Case Study 9: The TUI merger

The 2007 Merger: TUI Tourism and First Choice merge to form TUI Travel plc

In 2007 the boards of TUI AG and First Choice recommended a merger between TUI Tourism and First Choice to form the £12 billion travel group TUI Travel plc. This followed soon after their key rivals Thomas Cook and MyTravel had agreed to join in a £3 billion merger. TUI's shares closed up 10 per cent in Frankfurt, while First Choice's rose by more than 8 per cent in London after the merger plans were announced. The main conditions of the merger include approval by a majority of First Choice shareholders and clearance by the European Commission under its Merger Regulations. Clearance by the Commission was subsequently given, subject to TUI divesting its ownership of Budget Travel in Ireland, where First Choice's ownership of Falcon had led to concerns over monopoly power in the market.

The suitors

The portfolio of TUI Tourism comprised around 3200 travel agencies, 70 brands, 120 aircraft, 40 inbound agencies and access to over 165,000 hotel beds. Its products ranged from package holidays to component parts offered on the Internet. First Choice had a portfolio of 80 brands, 33 aircraft and 420 travel agencies. Its strength has been its development of differentiated and exclusive products and a successful acquisition strategy. Profits of each company prior to the merger are shown.

Profit for the year (€m)	2006	2005	2004
TUI Tourism	(563.9)	72.0	115.0
First Choice	72.3	80.3	45.8

Competitive strengths

The competitive strengths from the merged Group were forecast to include:

- The breadth of operations including flights and accommodation, package tours and niche travel products, organised into the four sectors of Mainstream, Specialist, Activity and Online Destination Services.
- A strong portfolio of over 170 brands, including leading brands such as TUI, Thomson, First Choice, JetAir and Sunsail.
- A variety of distribution channels in all major source markets.
- The opportunity to cross-sell differentiated travel products into the combined markets of the merged Group.
- A leading position in the attractive long-haul market segment.
- Enhanced economies of scale.
- Sophisticated Internet travel offerings.
- Experience in making acquisitions.

Synergies

A merged group would combine the resources of each of the companies to create a comprehensive business that would satisfy most needs of the travel consumer including the independent traveller, the traditional package holidaymaker and more specialist requirements focusing on a variety of controlled distribution channels.

The merger prospectus estimated that the merged group would result in cost benefits of around £100 million per year offset by restructuring costs of about £130 million in total. Cost synergies would arise from economies of scale resulting from consolidation of the First Choice and TUI Tourism operations. Specifically these were forecast to stem from improvements in the operational efficiency of the combined charter airline operations and the rationalising of duplicate central functions, overheads and retail distribution capability.

Strategy and objectives and of the merged group

TUI Travel's primary strategic objectives are:

- To be one of the world's leading leisure travel groups by providing customers with a wide choice of products with the flexibility to meet their changing needs.
- To deliver earnings growth and margin expansion through the combination of organic development and selected acquisitions.
- To deliver cost synergies and maintain a lean and efficient business model.
- To maximise shareholder value.

(Merrill Corporation, 2007, p.19)

TUI Travel planned to operationalise this strategy through the following objectives:

- Offering a comprehensive range of travel products
- Increasing its share of controlled distribution
- Developing the brand portfolio
- Improving yield management
- Maintaining an efficient and flexible business model
- Making quality acquisitions.

The 2014 Merger: TUI Travel PLC merged with TUI AG to become The TUI Group

In 2014 TUI Travel and its German parent company, TUI AG, merged to create the world's largest tourism business. The 'new' TUI Group was to be headquartered in Germany but listed on the London Stock Exchange. It consists of tour operators, 1,800 travel agencies, online portals, six airlines with 145 aircraft, over 300 hotels with 210,000 beds, twelve cruise liners and incoming agencies in all major holiday destinations around the globe. It has a customer bases of 30 million and employs 77,000 workers worldwide. Following the merger the 'new' TUI group plans to expand its portfolio by adding 60 new hotels and four new ships. The benefits of the merger include: