

Swot analysis of intercontinental hotels group plc

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ABSTRACT

This is an in-depth analysis on market capitalization of Intercontinental Hotels Group Plc., a global hotels company ranked at position 72 in the FTSE 100 index at the close of business on March 2nd 2012. It is a comprehensive analysis of its strengths and weaknesses in strategy and operations, threats in its business environment, current and future opportunities for growth both financially and in its market.

INTRODUCTION

Intercontinental Hotels Group Plc. (IHG) is a global hotels company headquartered in Denham, United Kingdom (Datamonitor 2007). It is involved in ownership, management, leasing or franchising hotels and resorts, through subsidiaries around the world with 4, 480 hotels in about 100 countries and territories (Datamonitor 2007). Its brands include Crowne plaza, Holiday Inn, InterContinental and Staybridge Suites. Listed at the London Stock Exchange (LSE) with a secondary listing at the New York Stock Exchange (NYSE), IHG is ranked 72nd in the FTSE 100 index with a market capitalization of ? 3. 4bn at the end of 2011 (FTSE index report 2012).

The company operates a diverse portfolio of brands across multiple economic segments which cater for multiple price segments from the upper upscale (5-star) segment focusing on the international business traveler, to the upscale (4-star) segment catering both to the business traveler and the leisure traveler down to the midscale (3-star) targeting both domestic business and leisure travelers (Annual report 2010). It makes most of its money from royalty fees of franchises and management fees from the

hotels it manages. IHG provides expertise in hotel management, systems, and marketing leaving investment in property to its partners as it is far more capital intensive. This “ asset-light” operating structure enables the Group to commit less of its capital in development and maintenance its hotels. It only owns a small number of hotels it deems important strategically to its brands.

A major strength for IHG is its preferred brands with its vast portfolio commanding leadership in their market segments (Annual report 2010).

Quality service from these brands strengthen the market position of IHG giving it its competitive edge as it seeks to take advantage of increasing business and leisure travel globally. The group is also keen to grow new innovative brands that meet the unique experiences guests desire.

It has newly launched the EVEN hotels brand, the first mainstream hotel focusing on wellness keen to take advantage of the growth in the wellness sector globally (IHG 2011). This brand fulfills a demand for healthier travel by uniquely providing solutions for all aspects of traveler’s wellness needs in the areas of exercise, food, work and rest. Additionally, its re-launch of its Holiday Inn brand focused on quality and consistency for a better customer experience shows the company’s focus to improving its brands. With these, IHG is positioning itself to benefit from enhanced customer numbers and their demand for specialty services.

IHG’s diversified geographical presence reduces risks associated with operating in a particular region due to adverse geo-political, economic conditions as well as demand fluctuations. The Group is taking advantage of potential growth opportunities that other regions offer and is investing in

expansion in these emerging markets such as China. Growth in these new markets counters slump in traditional markets such as the Euro zone which is experiencing economic and political challenges affecting travel.

Furthermore, presence in far-flung areas of its tourist resorts and getaways also differentiates it from its competitors who mainly focus on major cities. This gives the company an additional revenue stream with more to offer to the customer in terms of diverse locations and experiences.

The Group's global systems and scale is also its strength with it commanding leadership positions in 13 of the top 20 markets around the world accounting for over 80% of global lodging spend (IHG 2011). Its hotels are strategically positioned to benefit from the market segments and nature of travel in the regions. For instance, the segment in the US with the greatest share is the midscale and IHG's Holiday Inn brandfamily is the largest in this segment. The company is seeking to enhance its presence with more rooms in more locations through its pipeline with franchise agreements and signing of additional rooms (hotels) to the group's portfolio (IHG 2011).

The Group also boasts of an innovative web and mobile presence mainly focused on online reservations. Its reservation system consists of 11 global call centers and several local language websites making it the most active on the web in the industry and strategically positioning it to benefit from an increase in online reservations (Annual reports 2010). This channel delivered 19% of rooms revenue through IHG's direct websites in 2011. Also of note is Priority Club Rewards, the group's loyalty program with over 63 million

members which creates repeat traffic and enhances its relationship with its clients (IHG 2011).

The company's balance sheet is robust with a 26% growth in operating profit from \$444m in 2010 to \$559m, with revenue of \$1,768m in 2011 up from \$1,628m the previous year (IHG 2011). These gains allow IHG to invest in accelerated growth strengthening its brands with a lowering of its debt.

Raising finance is a challenge globally as it diminishes the net system for growth. As such, IHG has expectations for growth in the region of 2-3% in 2012. However, perceived as offering greater security through reservation systems, loyalty schemes and international networks, branded hotels are gaining in market share over the unbranded portion of the industry. This perception makes it easier for property owners to leverage on these brands when seeking debt financing. IHG is positioned to gain from this trend with its attractiveness boosted by its offer of great brands and effective revenue delivery through global reservations channels.

Intercontinental hotels group has a weakness in its geographical concentration. The hotel and hospitality industry though fragmented is still geographically quite concentrated with the top 20 countries having over 80% of the world's rooms and the US accounting for 25% of that (IHG 2011). Over half of IHG's revenue comes from the Americas, accounting for 69% of the Group's operating profit (IHG 2011). This large exposure to the US market makes IHG vulnerable in the event of a recession. However, having long-term management and franchise contracts for most of its hotels makes IHG less vulnerable than its competition. Its focus on growing its presence in

emerging markets and globally also seeks to counter such vulnerability with diversification of revenue sources.

CONCLUSION

The strength of IHG's brands, bolstered by their global systems and scale enables the company to perform well in the US and Greater China, key global markets. With its deliberate attempt at strengthening its business through developing its brand portfolio supported by targeted investment. IHG ensures that it benefits from opportunities available in its business environment in spite of considerable uncertainty in the Euro zone and the Americas. IHG is striving to position itself globally to benefit from opportunities in industry trends in the long term, in particular, emerging markets with growing demand and specialty. This it is enabled by its preferred brands, geographic diversity, robust balance sheet and its scalable business model.

APPENDIX

Revenue per available room (RevPAR) – room revenue divided by the number of room nights that are available (can be mathematically derived from occupancy rate multiplied by average room rate).

Occupancy Rate – rooms occupied by hotel guests, expressed as a percentage of rooms that are available.

Pipeline – signed/executed agreements, including franchises and management contracts, for hotels which will enter the InterContinental Hotels system at a future date.

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