

## **INNOVATIVE STRATEGIES FOR INCREASING BUSINESS PERFORMANCE – BEST PRACTICES FROM THE TOURISM INDUSTRY**

**Croitoru Adina-Gabriela<sup>1</sup> and Firoiu Daniela<sup>2</sup>**

<sup>1)</sup> Bucharest University of Economic Studies, Romania

<sup>2)</sup> Romanian-American University in Bucharest, Romania

E-mail: adina\_gc@yahoo.com

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### **Abstract**

*In a global society, defined by the disappearance of borders of any kind, the unprecedented intensification of competition compels companies, regardless of the economic sector in which they operate, to permanently adapt their products and services to customers' requirements. However, the challenge lies precisely in the fact that consumer demands are in a constantly and increasingly accelerated change. If until some time ago products and services were generally chosen based on value for money, now the trend is to make choices based on the fact that these represent a new concept, a new experience, so that innovation is more and more appreciated and gradually turns into the most appropriate way to bring added value to companies. The concept is evolving fast, however, and innovation no longer refers only to the creation of new products or services, but also, why not, even to the development of new strategies, most often marketing and management strategies, aimed at enhancing performance at the microeconomic level.*

*It is obvious that pioneers in the creation of such successful strategies are primarily companies with economic power and know-how, often multinational companies, which outline directions in this respect and become real business performance models. Concrete examples regarding the use of innovation for achieving business excellence can be easily found in tourism, which is currently the fastest growing economic sector in the world. Thus, development strategies existing especially in the international hotel chains turn into real best practices not only for the hospitality industry, but also for other areas, contributing primarily to the companies' success, but, furthermore, also to increasing the competitiveness of the whole world economy.*

*This article aims to bring to the fore some of the innovative strategies successfully used by one of the largest hotel groups globally and, starting from the analysis of the current state of the hospitality industry in Romania, to identify some ways forward for increasing business performance.*

### **Keywords**

Innovation, competitiveness, business performance, management and marketing strategies, hospitality industry

### **JEL Classification**

L83, O31, O32, Z31

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### **Introduction**

At present, as a result of the global society's sharp dynamicity, the challenges of the economic climate impose the redesigning of strategies adopted by companies in order to attract and retain customers. Intercontinental Hotels Group PLC (IHG), currently the largest hotel group worldwide, represents a successful business model, managing to put customers in the foreground and to permanently correlate offered services with their requirements. A careful customer relationship management and the maximization of long term value for shareholders represent two of the key issues regarding the group's development, its evolution being based on the continuous implementation of the latest technologies. IHG relies on the information and communication technology (ICT) for gaining important competitive advantages, the group being considered, over time, a true pioneer in terms of technological innovations in the hospitality industry.

With a tradition of over 200 years, globally, IHG is one of the most important multinational companies in the tourism industry, with over 4,900 hotels and 726,000 rooms in approximately 100 countries. Regarding the action area, the group divides its activity internationally into four geographic regions: Americas (United States of America, Canada, Latin America, the Caribbean), Europe (United Kingdom and Ireland, Continental Europe), AMEA (Africa, Middle East, Asia), Greater China (China, Hong Kong, Macau, Taiwan).

**Table no. 1 The number of IHG hotels and rooms worldwide**

|               | Number of hotels |              | Number of rooms |
|---------------|------------------|--------------|-----------------|
|               | Opened           | Pipeline     |                 |
| America       | 3,804            | 851          | 473,060         |
| Europe        | 651              | 107          | 105,189         |
| AMEA          | 260              | 152          | 68,789          |
| Greater China | 248              | 209          | 79,838          |
| <b>Total</b>  | <b>4,963</b>     | <b>1,319</b> | <b>726,876</b>  |

Source: *IHG Hotel and Room World Stats*, September 30<sup>th</sup>, 2015

## 1 Intercontinental Hotels Group – successful strategies

IHG's expansion strategy is based on the largest international markets or on those markets that experience the fastest growth, where the group's brands are already present or where there is an opportunity to expand, but, at the same time, on those markets where IHG's operating system can be applied and can bring important benefits. In addition, after the decision to operate on a given market has been made, suitable locations and brands are chosen in accordance with the existing demand. The ten markets currently considered a priority by IHG are the United States of America, Middle East, Germany, Great Britain, Canada, China, India, Russia, Mexico and Indonesia. Intercontinental Group aims at a continuous development based on quality, which means, financially, in the group's management vision, achieving a consistent, sustained growth of cash flows and long-term profit. In order to achieve these goals, IHG has defined its own success model, which is based on several key elements, including: a diversified portfolio of brands, a powerful loyalty program for customers, an efficient services distribution channel, investment in technological development, importance given to all IHG hotels' employees, social responsibility.

IHG holds nine hotel brands in its portfolio, internationally recognized for quality services: *InterContinental Hotels & Resorts*, *Crowne Plaza Hotels & Resorts*, *Hotel Indigo*, *Holiday Inn*, *Holiday Inn Express*, *Staybridge Suites*, *Candlewood Suites*, *EVEN Hotels*, *HUALUXE Hotels & Resorts*. These are complementary and address a variety of customer segments, including from luxury hotels in major cities around the world, to hotels geared towards families, offering an optimal quality-price ratio. Intercontinental's portfolio diversity demonstrates the group's flexibility and willingness to develop taking into account the market demands and emerging opportunities, hotel owners actually being able to choose the Intercontinental brand which best suits their business so that results are maximized as soon as possible. For Intercontinental Group, building a portfolio of brands that resonate with what customers want is critical, the results of this approach being found in the customer return rate in IHG hotels and in the increased length of stay and, consequently, in the continuous improvement of performance indicators. Defining the different brand characteristics is based on extensive market research and behavior analysis of global travelers. In addition, IHG is using its own indicator, suggestively called "Guest Heartbeat", for continuously measuring customer satisfaction and determining their preferences for a particular brand. Improving "Guest Heartbeat" scores represents a permanent concern, aimed at helping to increase the correlation of offered services with customers' needs and requirements. Heavy investments are made in the continuous redefinition of brands so that they correspond to existing market requirements to an as higher as possible degree and, thus, to contribute to increased customer satisfaction. Intercontinental Group continuously focuses on improving processes and reducing costs.

Although traditional segments in the tourism industry are focused on price and supply (luxury, upscale, midscale, economy), IHG believes that a hotel is chosen based on a complex of needs and that the same customer can opt for a different segment of hotel services, depending on the occasion and his needs at that time. Thus, the approach of hotel services offered under the group's brands is a profound one, based first on specific customer needs and, especially, on the occasions on which they travel, IHG segmenting its action market into nine categories, with specific characteristics induced by geographical location. Intercontinental Group focuses on segments considered to have the greatest potential and the highest degree of adaptability in the existing economic context, and each of the IHG brands uniquely responds to distinct needs, the nine categories (designated by IHG as "guest occasions") being the basis for defining the brands portfolio: Wellbeing, Family Time, Romantic Getaway, Short Break Experience, Rest & Go, Mixing Business with Pleasure, Business Productivity, Building Business Interactions, Social Identity.

The Intercontinental Group's development strategy is not lacking the loyalty program addressed to customers, this one being the largest program of its kind in the world, with over 90 million members today. The program was relaunched in mid-2013 under the "IHG Rewards Club" name (formerly, its name was "Priority Club Rewards"), this step having the purpose to make a connection between all of the group's brands and to facilitate their

identification with IHG, leading, moreover, in a very short time, to a 10% increase in the IHG family of brands notoriety. (IHG, 2015)

The distribution channel management system of Intercontinental Group mainly aims at achieving the highest possible revenue at the lowest possible costs. Starting from the technological progress and from the fact that this is more and more part of the tourist experience, IHG divides the trip into five distinct phases (dream, plan, book, travel, share), thus projecting the most appropriate and efficient solutions for the distribution of its services. IHG distribution systems and channels are constantly updated and optimized according to the evolution of technology, providing 69% of total accommodation revenues in 2013 (IHG, 2013).

The investment made for technological development at the group level is considerable, given the rapid evolution that this domain registers and the desire to always keep up with innovations in the industry. IHG has always been a pioneer regarding e-commerce in the hospitality industry, being the first hotel group worldwide to create its own computerized reservation system (CRS), HOLIDEX, but also the first hotel group to offer the possibility of making online reservations on its own website. The group constantly invests in booking platforms and in the mobile telephony segment, but also in providing Wi-Fi access through all of its hotels or in the development of services such as digital check in. IHG adopts a real-time marketing strategy, thus trying to offer its clients experiences at the highest possible level, consistent with their expectations. Among the important issues underlying the strategy are the automation of promotional campaigns according to specific rules (choosing the appropriate promotion method, at the right time, according to customers), the increase of communication with customers from IHG's database who are not members of the loyalty program, the correlation of information obtained through various marketing channels and the implementation of an approach based on the life cycle of promotion campaigns in order to maximize their effects (IBM, 2011).

Throughout time, Intercontinental Group has also invested more and more in improving its website and this, considered to be an extremely important source of revenue from the online bookings point of view, has also become the main pillar of IHG's strategy regarding mobile devices. The mobile version, designed to be more flexible than even a dedicated mobile application, allows the use of IHG's website and making reservations even without having access to a computer. In addition, the mobile website is available in multiple languages, facilitating bookings for international clients.

It's been several years already since IHG adopted a "Big Data" strategy in terms of data collection and analysis, currently getting to use a model with more than 650 variables obtained from different sources (information about IHG hotels, about the competition, about customers etc.). Currently, IHG's success is based mainly on the effective use of obtained information in the decision making process, the group thus managing to continuously offer its customers services that match their requirements, but also the latest innovations in the field. For IHG, "Big Data" not only serves to streamline the entire managerial and operational activities, but also to increase the performance of each hotel of the group, according to the needs and opportunities identified on local markets. (Smart Data Collective, 2013)

Another important aspect regarding the group's development strategy is represented by the human resource, its management considering that promises made to customers regarding the offered services can not be achieved without the help of dedicated and motivated employees. The company has a total of over 350,000 employees, who contribute to its success through passion and the desire to satisfy customer requirements to the largest possible extent. In the context of existing challenges in the recruitment process of employees, IHG's personnel strategy involves attracting, maintaining and developing the most talented people in the industry and is defined in two directions: the development of a "BrandHearted" culture (each IHG brand promises its customers something different, and being "BrandHearted" means that the brand is the core element of any activity) and the creation of an excellent work environment through the development opportunities offered to employees and by encouraging the freedom of expression.

At the heart of Intercontinental Group's activity are, however, responsible business practices, the positive contribution regarding local communities in IHG's action range representing a priority and, at the same time, constituting a significant competitive advantage. Thus, in the group's vision, the focus is set on five key elements that allow, alongside with reaching goals, protecting the environment, creating jobs and supporting indigenous communities:

- *governance and leadership* – high standards of corporate governance, corporate responsibility, internal controls and risk management, compliance with current laws and regulations
- *trustworthy brands* – notoriety, quality services offered to clients while also protecting the environment and local communities
- *people* – ethics, permanent control of internship and training programs
- *services distribution*
- *corporate responsibility* – programs dedicated to managing IHG's activity impact on the environment and local communities ("IHG Green Engage", "IHG Academy" and "IHG Shelter in a Storm Programme")

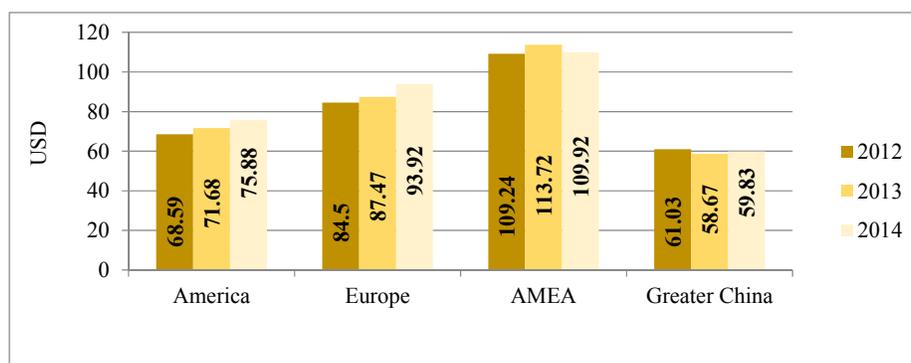
Massive investment both in offered facilities, in the latest technology and in human resources maximize the profitability of the entire group, but also the long-term value provided to shareholders. The financial situation of Intercontinental Group reflects the performance achieved globally, based not only on a quantitative expansion, but also on a qualitative one, in relation to the economic context, demand existing on the global market and identified opportunities:

**Table no. 2 Main performance indicators for Intercontinental Hotels Group (2010-2014)**

|                                      | 2010  | 2011  | 2012  | 2013  | 2014  |
|--------------------------------------|-------|-------|-------|-------|-------|
| <b>Total revenue (USD mil.)</b>      | 1,628 | 1,768 | 1,835 | 1,903 | 1,858 |
| <b>Operational result (USD mil.)</b> | 459   | 594   | 601   | 673   | 680   |
| <b>Gross result (USD mil.)</b>       | 397   | 532   | 547   | 600   | 600   |
| <b>Net result (USD mil.)</b>         | 293   | 460   | 538   | 374   | 392   |

Source: www.ihgplc.com (Annual Reports)

Beyond the strictly economic indicators used to analyze the financial performance of any company, the evolution of specific indicators is more suggestive for the hospitality industry, the most important being the average revenue per available room (RevPAR). This encapsulates the effects of two essential elements – occupancy rate and average room rate (ADR). For IHG, RevPAR recorded values are not only positive, but have increased year by year, indicating an efficient and profitable activity of the group.



**Figure no. 1: The evolution of RevPAR for Intercontinental Hotels Group during 2012-2014, by geographical area**

Source: www.ihgplc.com

Thus, given the results achieved at the entire group level during the 2010-2014 period, both in terms of purely economic indicators and specific hospitality industry indicators, it can be stated that IHG represents an efficient business model.

## 2 Research methodology

Starting from the successful example of the largest hotel group globally, it is interesting to find out what is currently happening on Romania's hotel market and whether the strategies used by IHG internationally could be applied to accommodation units in the country to increase this sector's competitiveness. In order to find out what the Romanian hoteliers' opinion on some of IHG's strategies is and to what extent similar strategies are, more or less, already used, we have conducted a study aimed at highlighting the main courses of action of hotels in Romania meant to increase performance.

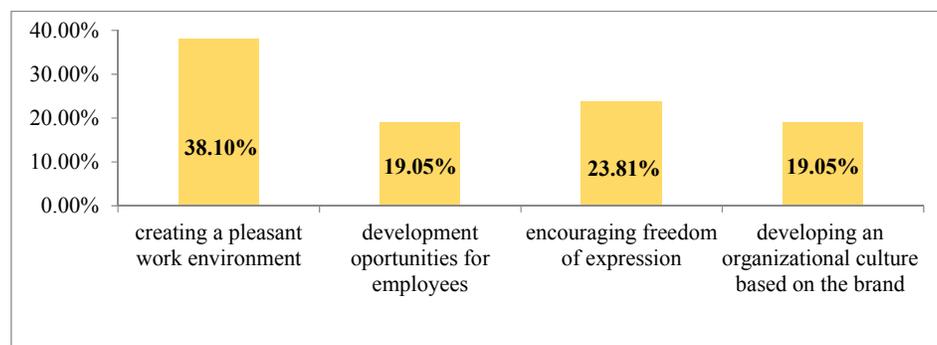
The study was conducted among the most important hotel units in Bucharest, as the main pole that sets the directions at national level, and involved completing a questionnaire on the adoption and implementation of strategies similar to those used by Intercontinental Group. The units included in the survey are both independent hotels (38.1%) and hotels that are part of a hotel group (61.9%). Regarding the structure of hotel units by size, this is proportionate: small hotels (less than 25 rooms) - 28.57%, medium-sized hotels (25-99 rooms) - 38.1%, large hotels (100-300 rooms) - 33.33%. Units classified according to current regulations at two stars (19.05%), three stars (23.81%), four stars (28.57%) and five stars (28.57%) are taken into consideration.

### 3 Results and discussions

Everything starts from clients, so the way a hotel decides to address different segments of tourists is extremely important. Although for IHG the focus is on attracting customers from the most attractive markets, it is obvious that the group is trying to address the needs of an as large as possible number of tourists and to offer them all personalized services. According to the study carried out, in hotels in Romania things are different; these usually try to diversify their services portfolio as much as possible in order to meet the widest range of customers' requirements (61.9% of respondents). 33.34% of those surveyed said that their activity is based on a limited number of customer segments, while only 4.76% said that their strategy starts from those customer segments that come from markets with potential. The significant result obtained in favor of the diversification of supply may be positive considering the fact that hotels are trying to develop by broadening the range of services, but, on the other hand, this strategy can also be a risky one, especially for establishments with limited resources. For these ones, it is desirable that efforts are concentrated on a limited number of services and especially on those services that can be provided at a high quality level.

An extremely important number of questioned hoteliers (85.71%) believe that yes, clients' choices are determined by a complex of needs, the same customer can opt for a different segment of hotel services depending on the occasion and their needs at a certain time. Thus, according to the study, the approach of hotel services in Romania is one based largely on customer needs (52.38%) and on the occasions on which they travel (38.1%), only 9.52% of respondents claiming that they take the origin of tourists into consideration. It is therefore obvious that a strategy such as the one adopted by IHG (customer segmentation based on "guest occasions") could be successfully applied in Romania, leading to increased personalization of the tourist experience. However, nationally, defining the services still takes into account the traditional customer segments, without trying a deepening of this approach, aimed at enhancing the degree of correlation between the offered services and specific requirements of each client. The way services are conceived at a hotel's level is usually found in defining the elements of the brand, so that an eventual redesign of the way hotel services are dealt is closely related to setting new directions for the brand. The survey shows that in only 47.62% of cases a permanent redefining of the brand is tried, most of them being, as expected, hotels that are part of a hotel chain/group, where the brand culture is much more accentuated. This result may indicate the fact that hoteliers in Romania do not make enough effort to constantly reinvent themselves, to redefine their values, to innovate and to improve their offer with new services that exceed customers' expectations. In addition, following the survey, it was found that independent hotels do not have, in their vast majority, a customer loyalty program, which limits to some extent their degree of satisfaction, such hotels being unable to offer loyal customer benefits that could encourage their return.

Regarding the application of the development strategy, the research shows that, in hotels in Romania, the focus is set on the scale and efficiency of operations (38.1%) rather than on investment in human resource development (28.57%), investment in technological development (23.81%) or responsible business practices (9.52%). The result may be surprising and we would have expected that investment in the human resource or in technological development be much more important. Hoteliers in Romania consider that performance means an as high as possible value of operations, although it is well known that in tourism, the human resource is extremely important. Romanian hoteliers should be aware that employees are the ones who contribute significantly to enhancing the quality of offered services, but especially to improving the clients' perception over them. Intercontinental Group's success also starts largely from the fact that the human resource represents a priority for the company. In terms of managing employees, the most important issues on which the management teams of the hotels in Romania focus are as follows:

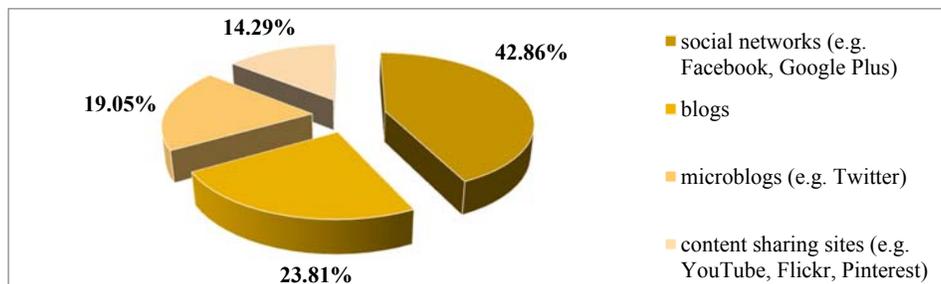


**Figure no. 2: Important aspects regarding hotels' employees in Romania**

*Source: by authors*

In an increasingly digitized society, where the utilization of Internet is higher and higher, online promotion becomes essential for hotels and turns into a real communication strategy with a great number of customer

segments and provides openness to tourists from different corners of the world, barriers of any kind being thus removed. Precisely for this reason, it is important that Romanian hoteliers realize the importance of an online marketing strategy and to follow IHG's example. Currently, according to the study carried out, about 47% of the hotels taken into consideration allocate between 10% and 50% of the total marketing budget to the online marketing segment. Regarding the use of Social Media channels for promoting services in the hospitality industry in Romania, the situation is as follows:



**Figure no. 3: The use of Social Media channels for marketing purposes in Romania**

Source: by authors

A significant percentage of surveyed hoteliers (approximately 72%) say that Social Media presence effectively contributed to improving services, but especially the communication with customers. As well, a great number of them believe that the information and communication technology brings significant advantages to the remediation of eventual problems or flaws identified by customers (61.9%). Unfortunately, however, at the level of most of the surveyed hotels (42.86%), there is no distribution channel management strategy, hotels don't invest too much in the permanent update and optimization of distribution systems and channels according to the evolution of technology.

## Conclusions

In the current economic context, Intercontinental Group represents a real success model for any business in the hotel industry, thanks to the innovative strategies they conceive and apply internationally. The permanent concern for adjusting the services offer to customer requirements represents a key element in terms of achieving performance globally, the group striving to permanently personalize the tourist experience of each client as much as possible, so that their expectations are exceeded every time. For these reasons, IHG represents a model for the hospitality industry in Romania, where, although it seems hard to believe, limitations are imposed not only by the lack of financial resources or the lack of staff training in this field. On the contrary, the change must start from the management's conception and from the redefining of strategic directions, which should bring the customer to the fore and to try a deepening of the knowledge of this one, in order to help overcoming the expectations of any type of client.

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