

The Integration and Development of Franchising in China

——Take InterContinental Hotel as an Example

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Abstract: This paper has conducted in-depth research on the franchise business model of InterContinental Hotels and its application in the Chinese hotel industry. Using the franchise business model has brought benefits to InterContinental Hotels, including brand expansion, increased market share, additional revenue streams, resource consolidation, and risk sharing. Through the SWOT analysis, this paper analyses the strengths of Intercontinental Hotel's high brand awareness, including perfect comprehensive facilities, broad global distribution network; the weakness include high franchise costs, strict operating standards; the opportunities include market demand growth, opportunities and economic fluctuations needed for emerging market expansion, and the threats include strong competitors, and put forward the use of InterContinental Liquor. The brand advantage of the hotel enhances the user experience and explores the development strategy of new market opportunities. The article has also discussed the applicability of the franchise business model and the role of the government in franchise development. At the same time, this experience has extensively explored the franchise business model of InterContinental Hotels and its application in the Chinese hotel industry.

Keywords: franchise, SWOT analysis, InterContinental

1. Introduction

In recent years, franchising has become a very important part. At present, more than a dozen famous international hotel management groups around the world, such as Intercontinental and Sheraton, strictly follow the standards and procedures established by the group headquarters for both fully commissioned management and franchise style franchises [1]. More than 11 percent of the US economy, franchising opportunities lead economic growth [2]. Franchised businesses are estimated to represent approximately \$739.9 billion in output in 2011, growing at an obviously speed higher than all payments in the US [3]. Furthermore, the impact of franchising allows the franchiser to rapidly expand their business scale and brand influence at a lower cost. The franchisee, with the support of the franchisor's mature operational resources and management assistance, can enter the market quickly and conduct business smoothly, resulting in a win-win situation for both parties. However, there still exists a gap between theory and implementation. Franchised hotels may not fully adapt to the Chinese environment and require an urgent need for transformation. The franchisees

themselves need to make decisions on how to choose franchise hotels and create distinctive brands that integrate with local characteristics.

Moreover, the impact of franchising allows the franchiser to expand their business scale and brand influence quickly at a lower cost. The franchisee, benefiting from the franchiser's mature operational resources and management support, can enter the market swiftly and conduct business successfully, resulting in a mutually beneficial situation. However, there is still a disparity between theory and implementation. Franchised hotels may not completely adapt to the Chinese context, necessitating a pressing need for transformation. Franchisees need to make their own decisions on how to select franchise hotels and create distinct brands that blend with local characteristics.

2. Case Study on InterContinental Hotels & Resorts

2.1. Background Description

InterContinental Hotels & Resorts is an internationally renowned luxury hotel brand established in 1946, headquartered in London, United Kingdom. According to the 2018 annual financial report of InterContinental Hotels Group, the average revenue per available room of InterContinental Hotels Group increased by 2.5% year-on-year in 2018. Among them, the performance of Greater China region is the most outstanding, with an average revenue per saleable home in 2018 increasing by 6.9% year-on-year [4]. As one of the brands under the InterContinental Hotels Group (IHG), InterContinental Hotels is renowned for its high-quality, unique luxury experiences, and exceptional service. The hotels are located in major cities and vacation destinations worldwide, with over 170 hotels and resorts in nearly 60 countries. However, there are some issues with its product portfolio. The hotel group has a large volume of rooms, with a total of over 600 rooms. However, the hotel's large banquet hall area is relatively small, and the number of hotel conference halls is relatively small [5]. InterContinental Hotels provides guests with comfortable and unforgettable experiences through elegant designs, exquisite dining and entertainment facilities, luxurious rooms and suites, and profess (Table 1).

Table 1: Year-on-year change in cash flow of International Hotel Group in the first half of 2022.

Brands of International Hotel Group	Business Activities	Investment	Fund Raising
Marriott International	71.75%	-26.39%	-573.23%
Hillii Hotel	276.00%	-571.43%	62.65%
Hyatt Regency Hotel	760.34%	327.66%	-787.50%
Wyndham Hotel & ShuFam Village	34.44%	1455.56%	53.62%
InterContinental Hotel	1.16%	27.03%	79.64%
Selected International Hotels	55.60%	27.20%	-1146.04%
Grand Hotel	1462.22%	-2,39%	9.08%

According to data shown in Table1, the group's revenue for the first half of 2022 was \$1.774 billion, representing a 52.16% year-on-year increase, and the net profit was \$216 million, reflecting a 350% year-on-year growth. The data indicates that in the first quarter of 2022, InterContinental Hotels opened five hotels (with over 900 rooms) in the Greater China region, resulting in a net increase of 9.9% in the system size.

Despite the challenges posed by the pandemic, 32 new hotels were signed in the first quarter, including 10 Holiday Inn Express hotels and 12 Crowne Plaza hotels. Meanwhile, the number of hotels expected to open in the second quarter is projected to double compared to the first quarter, showing strong growth momentum.

2.2. Franchise Business Model

Through the franchise business model, InterContinental Hotels Group (IHG) is able to rapidly expand the presence and coverage of its brands. Franchisees introduce IHG's brand into new markets and open new hotels, thereby expanding IHG's market share and awareness. The franchise business model brings benefits to IHG such as brand extension, increased market share, additional revenue streams, resource consolidation, and risk sharing. It helps increase market share by allowing IHG to quickly enter new markets and collaborate with local franchisees, leveraging their geographical and cultural understanding for higher market penetration. This helps IHG gain market share on a global scale and maintain competitiveness against rivals. The franchise business model expands revenue streams by providing additional sources of income for IHG. Franchisees pay franchise fees and a share of operating income to IHG. These fees and shares become revenue for IHG, aiding the company's profitability. The franchise business model allows resource consolidation, enabling IHG to focus its resources on core operations. Franchisees are responsible for the daily operation and management of the hotels, reducing operational burdens for IHG and allowing them to concentrate on brand strategy, marketing, and global operational strategies. Franchising also helps share risks, as franchisees, as owners or management companies, assume operational risks for the hotels, including operating costs, staff management, and market risks. This allows IHG to mitigate risk exposure while expanding its business globally. In summary, through partnerships with franchisees and opening more hotels worldwide, IHG can solidify its leadership position in the hotel industry and achieve continued business growth.

2.3. SWOT Analysis Model

SWOT is an often-used strategic process of management techniques. SWOT analysis shows that the strategy formulated can be based on strengths, eliminate weaknesses, and fully utilize opportunities to offset threats, thereby combining internal and external factors to better achieve the development trend of future decision makers [6].

2.3.1. Strengths

High brand recognition and comprehensive facilities are advantages for franchised hotels. The ability to provide brand recognition is a significant strength for franchised hotels. InterContinental Hotels Group is a globally recognized hotel brand with a good reputation and high brand awareness. This brings brand premium and market competitiveness to franchisees. The strict management model of franchising provides comprehensive facilities. IHG offers high-quality facilities, including comfortable rooms, dining options, meeting facilities, fitness centers, etc., attracting a wide range of customers. The extensive global network is also an advantage. Large, established firms also need franchisee resources to fulfil their expansion plans and to accelerate network growth to counteract competitive forces from new entrants [7]. IHG has numerous branches worldwide, and franchisees can benefit from this global network, gaining group-level market support and resource sharing.

2.3.2. Weaknesses

High franchise fees and strict operational standards increase operating costs and resource investment for franchisees. High franchise fees constitute a major disadvantage. Many independent businesses folded encounter powerful franchising business system in which local enterprises pay taxes to a franchisor and contribute their hard work and capital in order to exchange a famous brand and a common-trustful system [8]. Joining IHG as a franchisee requires payment of certain franchise fees and a percentage of revenue to the franchisor. This may increase the operating costs for franchisees,

which could be challenging for startups. Strict operational standards are also a weakness. IHG imposes strict operational standards and quality requirements on franchisees. This necessitates more time and resource investment from franchisees to ensure compliance with brand standards but may also limit flexibility and innovation.

2.3.3. Opportunities

Market demand growth and expansion into emerging markets present opportunities for franchised hotels. Market demand growth creates opportunities for the tourism and hotel industry. There is a continuous increase in global market demand for tourism and hotels, and franchisees can leverage IHG's brand influence and market share to capture these opportunities and expand their business. The expansion into emerging markets is another opportunity for franchised hotels. Some emerging markets are experiencing growing demand for high-quality hotels and international brands. IHG's franchising approach can help franchisees enter these markets and gain a competitive advantage in a competitive environment.

2.3.4. Threats

Competitors and macroeconomic fluctuations are the primary threats faced by franchised hotels. Intense competition from numerous competitors is one of the threats. The hotel industry is highly competitive, and IHG faces competition from other international brands and local hotels. Franchisees need to address competition from different markets to maintain business sustainability and competitive advantage. Economic fluctuations impact the operations of franchised hotels. Economic downturns can affect people's travel expenses, and the hotel industry is susceptible to economic conditions. Franchisees need to be vigilant about the impact of economic fluctuations on consumer demand and operating costs.

3. Suggestion

Based on the SWOT analysis of InterContinental Hotels Group (IHG), several key strategies can be proposed to strengthen its development, focusing on leveraging brand advantages and optimizing customer experiences. Additionally, it is important to consider market research, consumer insights, and operational management factors to ensure the success and sustainability of the franchise business. The following suggestions include development strategies for IHG as well as their potential applicability to other brands or industries.

Firstly, IHG could leverage on its brand advantages. IHG is renowned for its strong and reputable brand image. The company should emphasize its excellent commitment to hospitality, personalized service, and innovative customer experiences. Secondly, through enhancing customer experiences, IHG should prioritize improving the overall customer experience at all touchpoints, from booking to check-out. Thirdly, explore new market opportunities, this includes evaluating the feasibility of expanding into new regions or targeting specific niche markets. For example, IHG can explore opportunities in emerging economies where there is a growing demand for luxury travel. Additionally, consider expanding into new industries such as vacation rentals or serviced apartments, leveraging the brand's reputation and expertise in the hotel industry.

Then, IHG could address weaknesses and mitigate threats, IHG should address weaknesses and effectively respond to potential threats, such as by implementing measures to mitigate high franchise fees or offering support to franchisees during economic downturns. Last but not least, by implementing these strategic recommendations, IHG can strengthen its position in the market, drive growth, and maintain a competitive advantage. Mitigating weaknesses, International Health Organization (IHO) should address weaknesses and effectively respond to potential threats. This may

involve investing in employee training and development programs to enhance service quality and address any operational inefficiencies. Additionally, IHO should forecast and actively respond to market trends, competitor strategies, and evolving customer preferences. By continuously monitoring the competitive landscape and adapting to changing market dynamics, IHO can mitigate potential threats and maintain a competitive advantage. On the contrary, brand hotels in China should adopt diversified ways of brand expansion. Intercontinental Hotels Group is not limited to its existing brand awareness, but is constantly expanding its original single brand into diversified brands through innovation, acquisitions, mergers, and other means [9].

At the same time, senior economist in human resource management is the core of corporate strategy. The essence of today's market competition is talent competition. It is essential for enterprises to do a good job in internal talent management [10]. Applicability to Other Brands and Industries, the brand strategies are not only applicable to the InterContinental Hotels Group (IHG) but also to other brands and industries. Leveraging brand strengths, enhancing customer experiences, and exploring new market opportunities are effective strategies, although specific tactics may vary based on the industry and target audience, the underlying principles remain valid. Government can facilitate an environment conducive to investment, streamline regulations, provide incentives, and strengthen infrastructure development. IHG should actively collaborate with government agencies and industry associations to advocate for policies that promote a favorable business environment. Furthermore, IHG can work closely with local governments to foster tourism development and collaborate on sustainable development initiatives.

Based on the SWOT analysis, franchisees can formulate corresponding development strategies such as leveraging the InterContinental Hotels brand strengths, optimizing customer experiences, exploring new market opportunities, and addressing challenges posed by weaknesses and threats. Additionally, factors such as market research, consumer insights, and operational management need to be considered to ensure the success and sustainable development of franchise operations.

4. Conclusion

This article analyzed the application of the franchise model in the Chinese hotel industry using InterContinental Hotels Group as an example. By using the SWOT analysis, paper conducted in-depth research on the franchise strategies of IHG. The rapid development of franchising in the Chinese hotel market demonstrates the need for domestic real estate groups to adjust their strategies, select suitable franchise brands, and integrate their characteristics with local natural landscapes and cultural features, showcasing unique Chinese understanding of hotel operations. The success of IHG provides insights for the revitalization of the Chinese hotel industry, demonstrating the importance and potential of the franchise model. In the SWOT analysis, the paper delved into IHG's strengths, weaknesses, opportunities, and threats. also recognized that IHG's brand advantages, global influence, and professional management are key factors for its success. However, challenges such as intense market competition, emerging market pressures, and sustainability concerns also need to be addressed by IHG. To further develop, IHG needs to focus on enhancing customer experiences, exploring new market opportunities, and finding effective strategies to address competition and market pressure.

There are some recommendations about IHG, Firstly, IHG should continue leveraging its brand strengths and enhance brand image and market promotion. Secondly, optimizing customer experiences by investing in technology and digital solutions, providing personalized services, and improving customer satisfaction. Additionally, IHG should actively explore new market opportunities by expanding into emerging economies and other sectors. Lastly, IHG needs to address its weaknesses and potential threats by optimizing internal management and operations to respond to challenges posed by competition and market changes. There are also some imitations about this paper. Firstly, this study only analyzed InterContinental Hotels as a case, therefore, the applicability of its

conclusions and recommendations to other hotel brands and industries needs further research. Secondly, this paper focused on analyzing and recommending development strategies for the franchise model but did not delve deeper into the government's role in the development of franchising.

Future research can explore how the government can provide support and create favorable regulatory environments to promote franchising development and discuss collaboration models between the government and businesses. Future studies could also focus on operational management and sustainable development issues under the franchise model. Effectively managing and monitoring the performance of franchise partners while ensuring brand consistency and quality control. Additionally, environmental sustainability and social responsibility are important areas for future research. Franchise businesses need to address sustainability and social impact issues to ensure long-term success and sustainability.

Authors Contribution

All the authors contributed equally and their names were listed in alphabetical order.

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