

# Is IHG the next hotel chain to be taken over? Are we seeing a domino effect?

Source : Joseph Fischer ~ Exclusive for 4Hoteliers.com

**Exclusive Views: One of yesterday's economic headlines of the Sunday Telegraph was 'Chinese eye InterContinental after Starwood falls to Marriott';**



So, you probably ask yourselves, is this for real? IHG's CEO Richard Solomons has recently publicly denied any talks on a future sale or a merger but I am saying to you my friends: 'There is no smoke without fire'. Let me share with you my reasons:

For the past 36 months it has been widely rumored and reported that IHG is on the block.

The way IHG chose to deal with such rumors was to vigorously follow the "Asset Light strategy" selling some of its trophy hotels like the 503 room Inter-continental Hong Kong that was sold earlier this summer for US \$ 938 Million. Back in 2014, IHG sold the Le Grand Hotel Intercontinental Paris for \$US 442 million and in 2013 IHG sold its London flagship hotel – Intercontinental London for the amount of Of UK pounds 400 million.

In 2014 IHG returned more than \$1bn to shareholders, including a \$763m special dividend in May 2014 after an informal takeover approach and the sale of two hotels. Paying this dividend to the shareholders is clearly part of a short-term, short sighted strategy trying to fend-off a take-over or merger talks. Once you have no more assets to sell, you are bound to grow and grow fast.

Actually, I think that some of these reports contributed to the decision of Starwood's board to look for a strategic change and eventually brought the Marriott-Starwood deal to happen.

IHG which runs more than 4.900 hotels and around 730,000 rooms in 100 countries was for many years the largest global hotel chain.

Now, with **Marriott take-over of Starwood**, IHG is being pushed back, not only in terms of its physical size but most importantly in terms of distribution channels and verity and originality of its brands.

Marriott & Starwood have together over 80 million members in their loyalty clubs. The joint company will have 31 different brands under one umbrella. Some of these brands are specially designed towards the 'new kids' on the block – what we generally name as “The Millennials”. Brands such as: AC Hotels, MOXY, W, Autograph Collection, Design Hotels, Element, Aloft, Edition and the newest edition to Starwood – the Tribute Collection.

IHG on the other hand has much less to offer: Indigo, HUALUXE, Even. Not much to offer against growing competition within the lodging industry but also from 'outsiders' the likes of AIRBNB which is clearly making a huge change in the lodging industry.

What I am simply saying is that at its current state IHG is not very attractive to its customers. IHG has very solid and well established brands such as Holiday Inn, Inter-Continental and Crowne Plaza but that is also part of the problem. Those brands are outdated, 'old fashioned'. These brands were developed for different generations – “Baby Boomers” and earlier generations.

Please don't understand me wrong! the current management of IHG is “running a very tight ship” operationally, but there is no real clear strategy in terms of new **brand development** and refreshing the current existing brands.

Global hotel chains are there to grow and not to return funds to their shareholders by distributing dividends from selling assets. The current management can be described as 'caretakers' but for sure not strategists or visionaries.

IHG boasts a large organic development pipeline but following the Marriott & Starwood merger it is just not enough.

As we all know, a large part of the global travel in the 21st. century is already originating from Asia, to be more specific from China and India.

I therefore think it would be a logical move for Chinese hotel groups to buy into a well-recognized global hotel operator that has a cluster of brands. Clearly it isn't only for the brands but also for the global distribution and the Loyalty members club. IHG Rewards Club is reported to have more than 90 million members (Data from the IHG web site Oct.20th. 2015) and.

I think that for a Chinese company it would be much easier to buy into a PLC in the UK and not a treaded company in Wall Street. It makes perfect sense and a much easier match.

The current value of IHG is about UK Pounds 5.8 billion. Less than what Marriott is reported to be paying for Starwood which is US \$ 12.2 Billion.

The list of potential buyers is not limited to the Chinese only, it could be other less expected 'players' such as Accor, Radisson, Hyatt or a surprise buyer – Private equity fund. A Sovereign Wealth Fund of Abu Dhabi, Dubai or Qatar that are already buying trophy hotels all over the world.

My conclusion is that we are actually going to see a **global lodging** “Domino Effect” and one of the first dominos to fall will be IHG.



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