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# Branding Hotels

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## **Abstract**

[Excerpt] The hotel business has become a business of brands. Price Waterhouse Coopers estimates that there are over 300 hotel brands today with no one brand dominating the market. Every major brand management issue (brand extensions, global brand expansion, re-branding, un-branding, co-branding, brand portfolio development, brand acquisitions, new brand development, etc.) is being explored. An understanding of the competitive context and intra-and inter-brand dynamics will help owners, operators, asset managers, suppliers and litigators, as well as new entrants into the business make better and more informed brand management decisions.

## **Keywords**

social identity resourcing, positive organizational scholarship, social networks, inclusion, diversity, corporate culture

## **Disciplines**

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## **Comments**

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## **BRANDING HOTELS** ([/REVIEW/BRANDING-HOTELS](#))

By Chekitan Dev

The hotel business has become a business of brands. Price Waterhouse Coopers estimates that there are over 300 hotel brands today with no one brand dominating the market. Every major brand management issue (brand extensions, global brand expansion, re-branding, un-branding, co-branding, brand portfolio development, brand acquisitions, new brand development, etc.) is being explored. An understanding of the competitive context and intra-and inter-brand dynamics will help owners, operators, asset managers, suppliers and litigators, as well as new entrants into the business make better and more informed brand management decisions.

### The Hotel Industry Brandscape

In a Harvard Business School case study titled “Hilton Honors—Loyalty Wars,” the hotel industry was described as follows:

Chain brands were a major factor in the global hotel market of 13.6 million rooms. The chain supplied reservation services, field sales operations, loyalty program administration and the management of properties, under well-recognized names like Hilton and Marriott. While the brands stood for quality, there was less standardization of operations in hotel chains than in many other services.

The reason was that behind a consumer’s experience of a hotel brand lie many methods of control. A branded hotel might be owned and managed by the chain, but might be owned by a third party and managed by the franchisee. Occasionally, chains managed each other’s brands, because one chain could be another’s franchisee. Starwood, for example, ran hotels under Hilton brand as Hilton franchisee. Information about competitors’ operating procedures therefore circulated quite freely in the industry.

The hotel industry is characterized by two principal types of hotels: the independent and multi-unit branded hotel. Independent hotel owners represent about 30 of an estimated 45,000 hotels or almost five million rooms. The balance of 70% is accounted for by over 300 brands. In the U.S., brands had grown to account for over 2/3 of all hotels from about 50% in the early 80s.

This “branding” of the hotel industry is a global phenomenon for a number of reasons, the principal ones being: the customer’s desire for a predictable product and service experience, economies of scale in advertising and distribution, and market power in negotiation with high-volume buyers and suppliers. The hotels that are being branded are four main types: new construction, non-hotel buildings being converted to hotels, independent hotels converting to a brand, and branded hotels switching brands.

A number of major brands have been bought and sold, sometimes more than once, since their inception. Individual hotels might switch brands several times over their lifetimes.

The ownership, management and marketing structure of brands in the hotel industry can be quite complex. There are several different entities that were brand owners or operators. First, there are owners and operators of hotel brands like Four Seasons who sometimes owned a part of their hotel but mostly managed them. Second, are owners, operators, and franchisers of hotel brands such as Marriott, Starwood, Hilton and InterContinental that owned, managed, and franchised hotels. Third, there are pure franchisers like Choice Hotels (owners of the Comfort Inn, Quality Inn, Rodeway Inn, and Clarion brands) whose hotels were mostly owned by other entities. Fourth, there was Wyndham—a diversified travel and hotel company that owned hotel brands (Howard Johnson, Days Inn, Ramada Inn, Travelodge, etc.). Finally, there are insurance companies, financial institutions and Real Estate Investment Trusts that directly financed hotel investments, hired management companies to manage the hotels for a fee, and bought franchises to brand their hotels. A hotel could be owned by one entity (e.g., Illinois Teacher’s Pension Fund), managed by a second entity (an asset manager), operated by a third entity (Interstate Hotels and Resorts), franchised by a fourth entity (Marriott), and distributed through a fifth entity (Expedia.com).

Brand owners or franchisers often depend on small investors to build hotels to expand distribution and fly their “flags.” New franchisees always have a choice before investing, as they look at alternative chain brands from the standpoint of their brand reputation, the effectiveness of their reservation system, their fee structure, and their profitability. The typical fee structure

requires franchisees to pay a percentage of their revenue irrespective of how much of it was generated by the franchiser. Also, quality audits, changes, and updates mandated by the brand owner are required for continuing brand affiliation.

## Hotel Brand Differentiation

The most common method of differentiation in the hotel industry, apart from adopting a distinctive logo, is offering distinct amenities and services to match the price-point. For example, a Motel 6 will have a highway location with a clean room and bath, whereas a Ritz Carlton will have a bellman and concierge with an ambiance of luxury that a guest would expect when paying high prices. While consumers were typically segmented by their trip purpose (business, leisure,) and group size (individual, group), price-point is a common way of brand segmentation.

Brands typically adopt distinct foci to differentiate themselves in the marketplace. Embassy Suites offers a distinctive central atrium, two rooms, free-breakfast, and a 100% satisfaction guarantee. These are innovations helped the brand win the J. D. Power award repeatedly. For those staying in hotels beyond the customary 1-3 days, the extended-stay brand segment has emerged and expanded.

The leading brands in the segment, for example, are Residence Inn, Homewood Suites, Studio 6, and Extended Stay America. Boutique hotels are differentiated on the basis of style and design. While initial hotels in this category were mostly independents, sometimes with a common corporate parent (e.g., Ian Schrager Hotel, Kimpton Hotels, and Joie de Vivre Hospitality), a new type of branded boutique hotel had begun to proliferate in the 1990's (e.g., W Hotels). These purpose-built hotels were challenging the traditional brands that typically served multiple market segments.

## Hotel Companies Adopt A Brand Management Focus

Almost all the major hotel brands are engaged in restructuring their business strategies and organizations around brands. Many have appointed Brand Managers at the Vice President level. Examples to illustrate this shift, from an operations and asset management focus to a brand management focus, are provided below.

Wyndham (formerly known as Cendant), the company that franchises Howard Johnson, Ramada, Days Inn, and other economy hotel brands, removed half-a-dozen of its brand Presidents and brought in a senior executive from Kraft Foods to head its Hotel Division—Steven Rudnitsky, a veteran of Kraft Foods, Nabisco, PepsiCo and Johnson & Johnson. It was expected that he would apply the brand management techniques that he had successfully used in the packaged and consumer goods industries.

At about the same time, a press release from InterContinental Hotels (IHG, formerly Six Continents) announced a focus on “creating brand differentiation.” The company planned to concentrate on the following:

- **Creating original brand structures**
- **Defining each brand's consumers and competitive set**
- **Bringing each brand's positioning to life.**

IHG urged their hotels to “**direct their sales efforts on the core customers unique to each brand.**” Holiday Inn Express had identified its core travelers as males working in governmental sectors or local corporations. Holiday Inn had developed more loyalty from families, sports groups, and business travelers. Crowne Plaza's guests were primarily small- and medium-sized groups and were approximately 40% female. Inter-Continental focused on more upscale business travelers and large groups. Staybridge Suites was geared specifically to extended-stay visitors, such as consultants and travelers attending training sessions.

Concurrently, Sheraton was focusing on narrowing its brand “variance” by tightening its brand standards. “A brand is nothing if it is not consistent in its product and service,” said Barry S. Sternlicht, former Chairman and CEO of Starwood Hotels and Resorts. He added that, “...we are serious in our effort to narrow Sheraton's brand of quality domestically to drive customer loyalty and enhance system growth worldwide.”

In summary, the hotel industry has become a complex, fragmented, global, competitive brand business. There is an urgent need to fill “gaps” in our knowledge of brand management to help the industry improve brand performance. In subsequent issues of the Cayuga Hospitality Review, we plan to present brand management research findings that shed light on successful and unsuccessful operations.