Hotel Brand Strategy

by JOHN W. O’NEILL and ANNA S. MATTILA

Few dispute the value that a brand brings to a hotel property, but questions remain regarding exactly how the brand creates guest loyalty and how it creates value. Over the past twenty-five years, a brand flag has become an essential element of arranging a hotel development deal. Because of this, researchers have examined how brands influence top- and bottom-line revenues and overall asset value. Moreover, the effect of the brand on customer satisfaction seems to be affected by the brand’s franchising strategy.

Keywords: brand management; customer satisfaction; hotel asset value; franchising

In the past twenty-five years, the hotel industry has firmly embraced and accepted the value of branding as an essential component of its marketing strategy (Dev et al. 2009), especially given extensive hotel brand segmentation. Beginning with Quality International (now Choice Hotels International) in 1981, most lodging companies have developed multiple brands to serve multiple market segments (Jiang, Dev, and Rao 2002). Beside Choice, companies that offer numerous product tiers include Starwood, Marriott, Hilton, and Accor. This strategy seems to be an accepted aspect of hotel operation.

This segmentation strategy is based on the idea that a brand name is part of the process of giving tangibility to what is essentially intangible, providing a “shorthand” method of establishing a particular property’s quality by giving the customer important information about its product and service, sight unseen (Brucks, Zeithaml, and Naylor 2000). In this regard, the brand’s value is based on potential guests’ awareness of the brand, their perception of its quality, and overall customer satisfaction (O’Neill and Mattila 2004).

The remarkable growth of hotel branding rests on the concept that brands provide added value to both guests and hotel companies, in large part because they foster brand loyalty (O’Neill and Xiao 2006). From a corporate strategy viewpoint, well-managed hotel brands tend to gain increasing market share (O’Neill and Mattila 2004), even though different parent companies take diverse approaches to managing their individual brand identity. Marriott International, for instance, is careful to include its corporate name on most of its brands. One exception to this approach is Ritz-Carlton, which was a well-established brand before being acquired by Marriott. Other firms, such as Starwood and Choice Hotels International, employ a house-of-brands strategy. The individual brand names for each hotel concept stand on their own, typically without including the parent company name (O’Neill and Mattila 2006). Hilton and Wyndham have used both approaches, depending on the nature of their various hotel brands.

Similarly, various chains take different approaches to logos and identifying information for their various product brands. Choice Hotels International,
for example, uses similar and consistent sign designs for its Comfort Inn, Comfort Suites, Quality Inn, Sleep Inn, and Clarion brands. This family approach to design simultaneously distinguishes the brands from each other, identifies them as all being part of a unified organization, and differentiates them from their competition. As a brand represents the company itself, its presentation generally should be consistent. Though there are cases where companies have changed their positioning or strategies, their corporate colors, and even their logos, few have abandoned an established brand name for a new one (Vaid 2003). Indeed, long-established brand names continue in operation after being reinvented and reinvigorated, including Holiday Inn, Ramada Inn, and Howard Johnson.

By establishing a set of promises to consumers, a brand creates a differentiated identity in hotels where functional characteristics of the products are not substantially differentiated. Consequently, brand personality may be a salient reason for selecting one brand over another (Siguaw, Mattila, and Austin 1999). A vivid brand personality, such as W and Palomar, is likely to make the brand more concrete in the minds of the consumers and, hence, reduce the degree of intangibility associated with a hotel brand.

Given the idea that it creates a personality for an intangible entity, a brand relates to consumer emotions (Kim and Kim 2004). Gobé (2001) has posited that the biggest misconception in branding strategies is that people focus on branding in the context of market share, when a brand really involves the mind and emotion “share.” This does not negate the superficial aspects of branding that we have already touched on, including ubiquity, visibility, and function, but the brand’s major significance is to establish in a consumer’s mind an emotional connection. This emotional connection to a brand arises in part from the promise that we mentioned above. Hotel guests rely on brand names to reduce the risks associated with staying at an otherwise unknown property (O’Neill and Xiao 2006). Beyond that, brands are supposed to be intense and vibrant, to connect on multiple levels of the senses, and to be a reminder of a pleasant experience. Brands consistently interact with consumers and should not disappoint them, since that constitutes a broken promise. Thus, a brand is something for consumers to feel good about (Vaid 2003), and successful brand organizations promote themselves as such. For example, Marriott International has recently promoted its winning the 2009 “Tourism for Tomorrow Award for Sustainability” in the Global Tourism Business category by the World Travel and Tourism Council (see www.marriott.com).

In sum, a hotel brand represents a relationship with guests. This relationship is built as consumers get to know a brand (even if they initially choose their accommodation at random), use its facilities, evaluate their experience, and begin the relationship; and it becomes cemented as guests continue using its services. Ultimately, the brand represents the consumer’s experience with its organization. The intense competitive landscape has forced hotel brands to focus on providing memorable experiences to their guests rather than simply selling services (Gilmore and Pine 2002). Thus, even though Hilton operates both the Waldorf-Astoria and the New York Hilton, and both are first-class hotels, staying at one should be a different experience from staying at the other.

What We Know about the Value of Hotel Brands

A hotel’s brand drives the operating ratios that are correlated with a hotel property’s market value. Some brands consistently have stronger net operating incomes
(NOIs) than do others (O’Neill and Mattila 2006), while other brands report consistently stronger average daily rates (ADRs) than others do. In an earlier study, we found that ADR (an indicator of a hotel’s “top line”) is a better predictor of a hotel’s market value than is its NOI (an indicator of a hotel’s “bottom line”), but hoteliers would nevertheless wish to drive both (O’Neill and Mattila 2006). In fact, a study published in this journal has shown that for certain product tiers, hotel brand affects hotel market value above and beyond the important effects of NOI, ADR, occupancy rate, and number of guest rooms (O’Neill and Xiao 2006). That same study found that this positive brand effect occurs only in the middle chain scale categories (upper upscale, upscale, and midscale), but not in the top (luxury) and bottom (economy) categories.

We further examined how brand affiliation affects hotel revenue. The branding literature has demonstrated that consumers use brand name as an important quality cue. Our study indicated that consumers are typically willing to pay a price premium for brands they view as being high in quality (O’Neill and Mattila 2006). A concurrent study found that brand affiliation, name recognition, and reputation for high-quality service together can contribute as much as 20 to 25 percent of the going-concern value of a successfully operating hotel (O’Neill and Xiao 2006). In addition, a well-managed brand can discourage competition (Dev, Morgan, and Shoemaker 1995).

What We Know about How Brands Create Value

Let us look more closely at the source of customer-based brand equity. One study suggested that the following four components underlie this equity: brand awareness, brand loyalty, perceived quality, and brand image (Kim and Kim 2004). Prasad and Dev (2000) developed a numerical brand equity index that captures brand awareness and consumer perceptions of brand performance. Beyond the advantage of awareness and image, brand equity results from benefits of marketing efficiency and enhanced performance associated with that brand and long-term brand effect based on customer loyalty (Prasad and Dev 2002). Brand equity also allows a chain to expand the brand in a variety of markets (Mahajan, Rao, and Srivastava 1994). For example, in the hotel industry, the level of brand equity may be related to the brand’s ability to geographically expand, to expand via franchising, and to develop subbrands. These issues are particularly salient for global lodging organizations such as Marriott or Accor.

Well-established brands are intangible assets that serve as a source of strategic advantage and create financial value due to their ability to generate cash flows via relatively higher margins (O’Neill and Mattila 2006). In general, major contributors of generating cash flows are customer loyalty, brand extension including licensing opportunities, and enhanced marketing efficiency (Rao, Agarwal, and Dahlhoff 2004).

Hotel brands first create value for guests by helping to assure them of a uniform level of quality (O’Neill and Xiao 2006). As customers’ loyalty grows, the brand owner can capitalize on the brand’s value through price premiums, decreased price elasticity, increased market share, and more rapid brand expansion. Finally, companies with successful brands benefit in the financial marketplace by improving shareholders’ value (O’Neill and Xiao 2006). Although it is important for hotel owners to be able to recognize the effects of a brand on a hotel’s market value, other benefits associated with a brand, such as guest satisfaction and loyalty, should be considered.
to fully assess the brand’s total value (O’Neill and Xiao 2006).

What We Know about the Relationship between Guest Satisfaction and Hotel Brands

With the increasing focus on customers over the past twenty-five years, guest satisfaction has served as a measure of operational success for branding strategies (O’Neill and Mattila 2004). The strategic management of satisfaction is of utmost importance in today’s crowded marketplace, where customers are overwhelmed with lodging choices (O’Neill and Mattila 2004). For example, in 2008, Kim identified at least twenty-five different brands in the extended-stay segment alone (Kim 2008). Such a competitive environment requires attention to guest satisfaction. Research over the past two decades has shown that guest satisfaction leads to repeat purchases (Oh 1999), favorable word-of-mouth behavior (Gunderson, Heide, and Olsson 1996), and loyalty (Dubé and Renaghan 2000).

Among the factors that drive hotel guests’ satisfaction are guest room cleanliness, hotel maintenance, employee friendliness, and knowledgeable employees (Oh 1999; Mattila and O’Neill 2003), as well as the hotel’s physical environment (Mattila 1999; Mattila and O’Neill 2003). Our research also has shown that hotel brands with higher levels of guest satisfaction achieve not only higher ADRs but significantly greater percentage increases in their ADRs over time as well (O’Neill and Mattila 2004).

What We Know about Hotel Brand Extension

Since the first blush of product tiers in the 1980s, the hotel industry has embraced the concept of marketing new products and services as extensions of the original brand name (Lane and Jacobson 1995). In 2006, the Cornell Hotel and Restaurant Administration Quarterly reported some 285 lodging brands worldwide (O’Neill and Xiao 2006). Long-established brands such as Hilton, Hyatt, InterContinental, Marriott, and Wyndham have all grown through brand extensions over the past twenty-five years. The brand-extension strategy works for the hotel industry in part because guests choose different types of hotels depending on their purpose of travel, and a brand extension with a familiar name allows consumers who depend on trusted brands to economize on time and search costs (Lane and Jacobson 1995). This approach is successful when consumers immediately conceive similar attributes and benefits for the extended concept based on the established brand name. According to Keller (1993), favorable, strong, and unique brand associations are stored in memory when the consumer possesses familiarity with a brand.

Consideration sets are a set of alternatives that the consumer evaluates in making a decision (Peter and Olson 2005). Consumers choose products and services that are familiar to them more often than they try those with which they are unfamiliar. Therefore, the extensions of familiar brand names, such as Hilton developing the Hilton Garden Inn brand, should find themselves in potential guests’ consideration sets; and those extended brands are highly likely to be chosen by consumers using peripheral cues, particularly when consumers are without specific product knowledge in the purchase situation, because the family name on an unfamiliar property serves as a heuristic to guide product choice (Lane and Jacobson 1995).

Having said that, one study identified the disadvantages of a multibrand strategy. Brand extensions often add complexities to the corporate structure, positioning of the brand might be challenging due to cannibalization issues, and it might be difficult to maintain brand-specific service quality.
standards (Jing, de Ruyter, and Wetzels 2002). That study suggested that the ideal number of brand extensions is three, because that number provides the consumer with a sufficient menu of choices, still under the trusted brand name, without the threat of brand dilution (Jing, de Ruyter, and Wetzels 2002).

The financial advantage of brand extension is that it provides firms not only with higher revenues but with savings in marketing expenditures (Lane and Jacobson 1995). In addition, more highly familiar brands tend to generate greater future revenues because of opportunities in expanding markets (Lane and Jacobson 1995). However, due to the previously discussed negatives of brand extension, when a firm is to launch a new product or service connected to its original brand, the strategic decisions are critical regarding the types of branding strategies it adopts (Rao, Agarwal, and Dahlhoff 2004).

What We Know about the Relationship between Hotel Branding and Franchising

Franchising presents a set of special considerations for brand management. When the owner of the brand is not the property operator, issues may arise, both in terms of consumer perceptions and a franchisee’s willingness to sign or stay with a particular hotel brand (Prasad and Dev 2000). Since hotel franchisees are quick to change their brand loyalty, it may be more important than ever for hotel brand executives to maintain consistent brand quality (O’Neill and Mattila 2004). To that end, most lodging firms, when entering new markets, prefer to control high-risk activities such as branding decisions while they might be willing to leave other, lower-risk marketing decisions (e.g., pricing) to local partners (Dev, Brown, and Zhou 2007).

As markets change and properties age, owners must consider the possibility of repositioning their properties. Sometimes the decision is forced on them when a facility can no longer meet brand requirements. In either case, rebranding can be a positive event. A study in the *Cornell Hospitality Quarterly* found that although hotel rebranding generally has a negative effect on short-term financial performance of the hotel, the long-term financial effect is positive. Scale changes from a lower to a higher scale tend to have a significant positive effect on ADR, as would be expected. However, hotel rebranding without rescaling to a different level seems to have no significant effect on hotel financial performance (Hanson et al. 2009). While such factors as location and facilities have a greater effect on individual hotel financial performance than brand name or franchise affiliation, it is clear that the brand must be appropriate for the property.

In general, lenders are more comfortable underwriting a branded hotel than one that is independent. Since franchise affiliation is incorporated in lenders’ tight underwriting formulas, obtaining financing for an independent hotel is generally more difficult than for a branded one (O’Neill and Xiao 2006). Owners need to examine a franchise firm’s brand portfolio to ensure that the chain’s branding strategies are appropriate to the owner’s property (O’Neill and Mattila 2006). In short, different hotel brands deliver different levels of profitability. Given their prior brand relationships, owners generally do not hesitate to seek brands that are in conformance to their financial goals (O’Neill and Mattila 2006).

Part of the owners’ franchising decision involves choosing a brand name that will maximize the value of their asset by correctly positioning the property. For hotel companies’ brand-management teams, consequently, effectively assessing brands’ effects on hotel market values can strengthen
the overall value of the brands and possibly improve the brands’ franchise sales (O’Neill and Xiao 2006). Such rational analysis can signal weaknesses and assist with the development of reimagining, retrenchment, or remedial brand strategies, when necessary. Furthermore, such analysis can assist corporate brand managers in evaluating whether their intended brand strategies are being achieved (O’Neill and Xiao 2006).

One issue that arises with franchising is the potentially adverse effect on the brand perception in a property that is operated by a third-party manager (O’Neill and Mattila 2004). The percentage of franchised units within a hotel brand has been shown to be negatively correlated with both guest satisfaction and occupancy percentage (O’Neill and Mattila 2004). This matter could become more salient as hotel brand executives continue to focus their growth strategies to a greater extent on brand management and franchising rather than actual property management.

The issue of guest satisfaction could become an increasingly important factor in determining the ultimate revenue success of hotel brands (O’Neill and Mattila 2004). We were involved in a study that investigated satisfaction, ADR, and occupancy between 2000 and 2003 for a total of twenty-six hotel brands (O’Neill, Mattila, and Xiao 2006). Our findings present a cautionary tale for those relying on guest satisfaction as a driver of ADR. This study found that twenty-three out of twenty-six brands studied achieved guest satisfaction improvements, while at the same time many of them were experiencing ADR and occupancy decreases. We can only conclude that this study captured the effects of the sharp recession of that time. Eighteen brands suffered from ADR decreases during the recessionary study period.

Although reducing ADR was partly a competitive response, such reductions may serve different strategic goals for brands in different market environments. We participated in a study of hotels’ rate positioning after September 11, 2001, in which we concluded that some hotel operators and brand managers voluntarily chose to reduce their ADRs to maintain or enhance the level of guest satisfaction. This study indicated that lower prices might increase customers’ value perceptions, thus having a positive effect on satisfaction. For example, Marriott reduced its rates by 14 percent in the study period and saw guest satisfaction rise 2.5 percent, while Wyndham’s ADR dropped 13.7 percent and its customer satisfaction rate increased 4.0 percent (O’Neill, Mattila, and Xiao 2006).

Several specific cases further clarify the possible effect of franchising on guest satisfaction. The study examined the case of La Quinta Inn & Suites, which was virtually a franchise-free brand in 2000. By 2003, however, 25.8 percent of its hotels were franchised. While there is no direct indication of causality, the growth in franchise expansion correlated with a decrease of 2.6 percent in guest satisfaction at La Quinta during the study period. By contrast, Westin increased its percentage of franchised properties by 9.6 percent during this study but saw a 6.4 percent increase in guest satisfaction. Westin also recorded minimal decreases in ADR (−0.5 percent change) and occupancy rate (−4.4 percent change). Its widely touted “Heavenly Bed” program, which it implemented during the course of the study period, may have contributed to its enhanced guest satisfaction and probably acted as a buffer to downward ADR and occupancy pressure (O’Neill, Mattila, and Xiao 2006). With a different take on a franchising strategy, Hampton Inn & Suites was essentially a purely franchised brand in that study, with 99.3 percent of its properties being franchised in 2003. During the course of that investigation, Hampton increased its room
inventory by 16.1 percent, but the brand experienced concurrent improvements in occupancy (3.7 percent), ADR (6.6 percent), and guest satisfaction (2.5 percent). Clearly, Hampton Inn understands how to execute a franchising strategy as it relates to branding, service, and quality strategies.

Suggestions for Future Research

While we have learned much about hotel branding over the past twenty-five years, interesting research questions remain. For example, with the growth of boutique hotels over the past several years, a fascinating research question would be, How small can a brand be in terms of the number of hotel units and still be a brand? W and Palomar, for instance, have few properties, but those are in key locations, suggesting that certain types of brands can be successful with relatively few well-chosen hotels. The same principle might apply to an upscale extended-stay brand such as Starwood’s Element, because such a brand by design is intended to thrive by giving its guests a sense of exclusivity. Knowing the variables that drive successful smaller brands would be valuable to researchers and practitioners alike.

Although hotel brands have become ubiquitous in the United States over the past twenty-five years, they are much less widespread in other parts of the world. Future research could investigate the factors that might encourage brand growth in countries in Asia and the Middle East. Moreover, existing research regarding hotel branding is heavily focused on U.S. brands. It would be interesting to examine branding issues from more cross-cultural perspectives by incorporating potential country-of-origin effects into the research agenda.

Related to the issue of studying hotel brands are the issues of subbranding and cobranding, which have evolved over the past decade. Examples include subbrands developed by hotel companies themselves, as in the case of Starwood’s Heavenly Bed, as well as brands developed by others that hoteliers have taken as cobrands, such as Starbucks. As we study hotel branding in the future, we should consider the role and effects of subbrands and cobrands when evaluating such factors as consumer loyalty and brand equity.

Until recently, we have seen only limited research relating to guest loyalty programs, even though they are essentially universal. While research in the Cornell Hospitality Quarterly has suggested that loyalty programs appear to increase hotel unit revenues and profit, we do not really know whether they help to create brand loyalty. Now that virtually every major Western hotel chain has a loyalty program, one could argue that such programs have ceased to be significant competitive advantages for hotel brands. It would be worthwhile, therefore, to test this proposition and to determine the extent to which brand loyalty would remain in the absence of such programs. In other words, what truly bonds the customer to a brand? For example, is the emotional connection the key to creating brand loyalty in today’s crowded marketplace?

Returning to the matter of rebranding and rescaling, given the study that found that hotel brand changes generally result in short-term negative financial results but long-term gains, it would be helpful for hotel owners to know about the corresponding capital requirements related to such positive financial effects (i.e., property improvement plan). This information would help owners to proactively estimate the level of return on investment (ROI) based on different types and locations of hotel brand changes.

Conclusions

Finally, although the value of hotel brands is widely accepted, one frequently sees the complaint that brands are often
being mismanaged. Simon and Sullivan (1993) argued, for instance, that too much emphasis is being placed on short-term performance rather than the long-term value of brand equity. Future research should strive to measure and analyze not only short-term but also long-term brand equity.

References


John W. O’Neill, Ph.D., is an associate professor at the School of Hospitality Management at The Pennsylvania State University (jwo3@psu.edu), where Anna S. Mattila, Ph.D., is Marriott Professor of Lodging Management and professor-in-charge of the graduate program (asm6@psu.edu).