

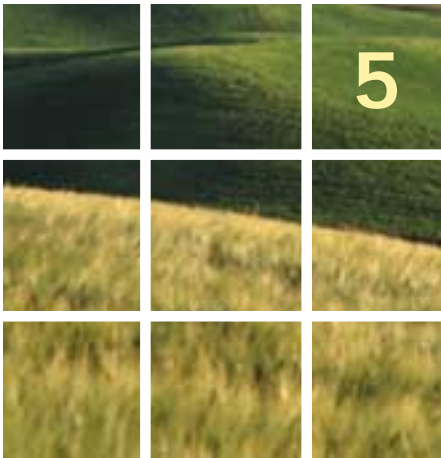


It was not so long ago that you could virtually count the leading brands in the hotel industry on one hand. Hilton, Sheraton and Inter-Continental — among the industry's standard bearers for years — spring immediately to mind. In the wake of the huge expansion of the last decade, however, an abundance of brands gained at least a tenuous foothold

States, for example, approximately 70 percent of hotel properties are "chain-affiliated," and it's assumed that the customer increasingly prefers accommodations that fly a flag — a kind of "good housekeeping" sign of approval. Despite the flagging of property, however, consumer research suggests that a steady minority of travelers remain

## Brand Marketing in the Hospitality Industry Art or science?

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in the marketplace as the segmentation fostered by our industry's leaders generated a proliferation of newcomers. Many of these brands have struggled to build a sense of identity, and their futures remain in limbo.

To the owners and lenders who provide capital to the hospitality industry worldwide, the issue of brand identity has taken on a new and important meaning. Decisions concerning the approach to brand marketing frequently define the difference between an organization's success or failure, and these questions are getting more rigorous attention than ever before. And if investors and lenders are sometimes confused about what's at stake, consider the confused consumer, buffeted by the mixed brand signals he frequently gets from the industry. It is thus legitimate to ask whether brand marketing in the hospitality sector involves more art than science.

Conventional wisdom suggests that the hotel industry is consolidating with an increasing portion of the world's hotels affiliated with chains, as opposed to remaining independent. In the United

evidently quite satisfied with non-branded products — approximately 28 percent of leisure travelers and 22 percent of business travelers.

### Branding — A mixed record of success

During the 1980s, the hotel industry saw an explosion of new brands, most particularly in the ultra-competitive U.S. marketplace, but also in several countries in Europe, including the United Kingdom and France. Stymied either by the real estate crash of the early 1990s or simply a casualty of poor strategic brand visioning, many of these brands never achieved the required critical mass to flourish. As a consequence, a multitude of *names* continue to struggle for the customer's attention, some of which cannot compete as national or even regional brands. Furthermore, in a globalizing marketplace, national brand presence itself may not be sufficient for success in the future.

Market segmentation has served as one of the most powerful drivers in the creation of more and more branded



products — a trend that became a popular marketing concept in the 1980s and remains so today. Seen as a vehicle for growth by a number of hotel companies that tapped a virtually limitless supply of capital in those years, the new products sliced and diced the hotel market in a continuing quest for increased market share. Large hotel chains assumed the strategic stance that they could create new markets by establishing niche products in a variety of segments.

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With the benefit of hindsight, however, it seems that clear that these strategies were shortsighted, at least in some cases. It is fair to say that while overall demand was growing during those years, the reality was that many newly created brands were stealing market share — sometimes from the chain’s own customers.

Some hotel chains that started out in a mid-market segment have tried to move up-market by creating new brand concepts to do so. Holiday’s Crowne Plaza and Ramada’s Renaissance represent examples. At the same time, upscale chains created more moderate brands to broaden their coverage of the market. Experience with both strategies has by now suggested that moving up-market is more difficult than going down-market.

As hotel companies fine-tune their identities, reposition their products and promote growth through aggressive franchising programs, owners and operators are frequently quite indecisive about how to apply a brand strategy to the marketing of their property. The result

— a great deal of flag changing at individual properties as repositioning strategies following change of ownership or renovation encourage the switching from one flag to another. Hotels also switch from independent status to a flag and back again with great alacrity. In the United States such movements account for as many as 300-400 instances of re-flagging of each type annually. No wonder the customer becomes confused!

This volatility has tended to erode brand loyalty — perhaps one of the most pressing challenges for the industry today.

#### Customers drive shareholder wealth

Marketing executives have historically marshaled their efforts in determining how to best create and then sustain brand loyalty. The larger question of critical importance today, however, is the relationship of brand value to the accretion of shareholder wealth. In reality, capital markets value branded companies with loyal customers more highly than property companies that have little identity or customer following. And in a chaotic world with fragile customer loyalties and fast shifting market preferences, those companies focusing on brand development — driving it with dedicated customer support — will probably be the winners in the future. This involves a fundamental shift in perspective. The customer becomes the primary asset, not the fixed asset known as a hotel. The hotel “box” becomes part

of the distribution system — a system that delivers branded products and services to the customer. In the globalized markets of the future, the *customer will be king*. Thus the brand becomes a focus for the company and a rallying call in the marketplace.

Branded products and services, then, will become an even more important part of the marketing landscape in the future. Those companies that control well-recognized brands will be well-rewarded by higher than average returns and capital market support that values such customer focus. This raises the question of how the industry’s leading companies will proceed in their efforts to promote brands globally. Some companies that own multiple brands have attempted to market all of their brands in an integrated message whereas others have focused on each brand separately. There are clearly advantages to both strategies — the “glow effect” of one strong brand supporting its weaker sisters in the case of the former and the focused segmentation approach allowing brands of differing quality to be positioned separately in the case of the latter.

Brands, to be effective, must be promoted through the mass media. But advertising in the media has become a very expensive proposition as the “noise level” increases and the channels of distribution continue to expand along with the revolution in communications. As a result we can expect to see less money being spent on advertising in the future and more on direct and highly focused marketing to identified customers. This of course will need to be driven by sophisticated customer tracking systems that tie into the way in which reservations are made and customers arrive and depart from the hotels that they stay in.

But brand loyalty can be extremely difficult to achieve and thus for some, it is a loyalty that must be bought. Nothing is more symptomatic of this proposition than the frequent traveler program — a



marketing concept introduced into the hotel industry following its incarnation in the airline business. In both industries, it is by now viewed by many as an expensive luxury that cannot be afforded. In spite of this, we continue to see vast sums of money being spent in support of such programs.

### Technology — Change agent and ally

In the hospitality industry, as in all arenas of commerce, technology represents one of the strongest forces for change, while having had a significant impact on brand marketing. Hotel reservation systems have been shifting from voice to electronic Global Distribution Systems and are now on the verge of consumer access via the Internet. The increasing role played by the Internet should slowly affect booking patterns in the future as inexpensive consumer access to hotel product becomes available. This, of course, has potential implications for the benefits associated with the branding of hospitality products. On the plus side, global communications that bring branded products and services closer to the customer should encourage wider recognition. On the negative side, if hotel products can be accessed visually and directly by distant consumers, the presumed uniformity of standards under today's brand identities will be more closely scrutinized as customers' buy decisions are being made. At that point, brands will then have to deliver what they promote — something that is not always the case in the today's market. And as for the definition of a "marketplace" in tomorrow's electronic world — it will clearly have become the "marketspace."

As this evolution continues, technology can serve as an important ally for hotel organizations building brand identity. Business managers in business generally spend a great deal of time monitoring awareness and advertising effectiveness. In the hospitality sector, it is probably fair

to say that a relatively poor job is being done in this regard. Technology provides an essential tool for hotel organizations to keep a hand on the pulse of customer wants and needs. Systems must be designed that allow hotel brand managers to track closely their customers and potential customers — monitoring behavioral patterns and responses to the products and services that are being delivered. Much too little of this is being done in the hospitality industry. We

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generally do a good job on an *ex post* basis of knowing where we have been. Occupancy and average room rate statistics and historical financial results are produced in volume and in detail, but truly understanding who are the customers, what they think and do, when they do it and why are much more illusive. These are the challenges for brand managers today, and they will become that much more important to success in the future.

### Franchising strengths

Franchising as a business seems to have achieved more respectability in the hotel industry than ever before as some franchised brands command noticeable leads in terms of awareness, product strength and value. While franchising historically has been associated with budget and mid-market brands, it is now being used with increased frequency to expand more upscale brands. Previous concerns relating to the difficulty of controlling wayward hotel owners and operators who are not maintaining the higher standards expected in the upscale

end of the business have been mitigated by improvements in the organization of franchise support systems and the increasing volume of excellent independent management companies.

While franchising expands the presence of brand marketing in the international hospitality industry, the pure hotel management business is under increasing pressure as fees decline in the face of the competition for contracts. It appears that industry increasingly views manage-

ment more as a commodity than a unique set of skills that must be sought with great care. This trend is being driven by the fact that the industry's management skills have advanced dramatically during the last decade. As chains expanded with their sophisticated operating systems, they spawned countless smaller independent management enterprises. These were launched by expatriates of these larger organizations and brought sophistication and well-proven techniques to a variety of hotel owners who saw value in associating with smaller management firms. In allying with such independent management companies, the marketing challenge has generally been "solved" by associating with a brand through a franchise relationship.

When there were fewer brands in the business than there are today, the pricing of franchised products and services was generally quite uniform even though what the franchisers delivered was not. Today, however, we see a more tailored approach to pricing, with much wider variation in pricing models driven more by the relative strength of the individual



systems. This is a positive trend since it will produce a closer matching of results with customer (owners' and operators') expectations.

### Brand strategies & marketing

Hotel owners and independent managers play an important role in deciding on the brand strategy to be pursued by individual properties. We often see managers of hotel properties change their brand affiliation in the search for a more productive reservation system. To some, the production of a branded reservation system and the impact on average room rate are the acid tests of what works and what doesn't. Other attributes of a brand are perhaps just as relevant — consistency, sales office support, the matching of the brand's positioning with the property's optimum segment mix, image, future development plans on a system-wide basis and the impact of additional brand development in the local marketplace are some of the other factors to be considered. Understanding the total dynamic at work in selecting the optimum brand is a complex task that thus requires careful analysis.

A marketing plan, like any business plan must address three components — strategy, organization and capital. Strategy outlines the vision for the future; organization addresses the people requirements, the skills and the processes; and finally capital deals with how financial resources can be deployed and what return they can expect. In brand marketing, these areas are especially relevant in view of the large amounts of

capital that tend to be deployed in the constant search for the customer and in the efforts to develop and retain customer loyalty. As hotel owners and operators consider the competitive dynamics of tomorrow's marketplace, they will need to plan fully if their brand strategies are to deliver on the promise of customer access and loyalty.

Product consistency, as a result, remains one of the most critical issues in the hotel industry. For new brands that were launched in the 1980's and have reached critical mass, there appears to be little difficulty in establishing product consistency, especially when most of the product is new construction and involves smaller more simply engineered properties. Other brands that rely on converting older facilities have frequently had difficulty, typically when they are under pressure to build up a chain quickly to reach critical mass. Balancing the demands for growth in a global brand-oriented marketplace with the desire for product integrity and consistency will always be a tough challenge. The outlook for those companies still struggling with product inconsistency remains somewhat cloudy. A salvation for such companies in the past has been a strong development environment in which there is plenty of new construction. Since another development cycle is unlikely to be financed in the near future, inconsistent brand portfolios will become the repository for those properties that cannot afford to pay for higher-valued brands that in turn demand adherence to a core mission — satisfying and exceeding customer

expectations concerning the product they buy.

Given these complex factors, we again pose the question — Is brand marketing in the hospitality industry more an art than a science? There is little question that brand marketing has been lacking in "science" historically. With little understanding of the customer — the who, the how, the what and the where — many brands were established purely as growth vehicles for companies that relied on other people's capital to expand. As capital becomes more discerning in the future and as the customer becomes the primary focus of attention, this will inevitably change. Technology's impact will also force and support the move towards making brand marketing the science that it must become to support the successful hotel organizations of the next century.



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