



SMITH TRAVEL RESEARCH

Branding: What's in a Name?

By Chase Melnychyn -HVS - Canada

You're staying where? What's a NYLO Hotel? These days, travellers are being given many more options for where to stay on that next business trip or holiday with the family. A staggering, 38 new hotel brands have been introduced into the market since early 2006. Of these new brands, 20 target the luxury segment, 12 the upscale segment, three the extended-stay segment, and three the mid-scale segment.¹ Currently, the top five hotel companies—Choice Hotels, Hilton Hotels, InterContinental Hotels Group, Marriott International, Wyndham Worldwide—represent 50 individual hotel brands.² With all this recent activity in the hotel market, the nature and benefits of branding need to be addressed.

The Role of a Brand

Branding is more than just the Super 8 logo you pass on a roadside sign everyday. Within the hotel industry, branding involves an experience created through customer contact, online booking systems and resources, guestroom products and amenities, hotel employees, and loyalty programs. A recognized brand provides comfort to travellers as well as investors.³

A hotel offers both a tangible product in its guestrooms and amenities and an intangible product in the service it provides. Branding creates customer trust in both the tangible and intangible aspects

of a hotel stay. A strong brand strategy helps customers and potential customers visualize the intangibles, which contributes to the creation of brand equity.⁴ From a lodging standpoint, brand equity is the "value that consumers and hotel property owners associate with a hotel brand, and the impacts of these associations on their behaviour."⁵ Research shows that strong brand equity can cause significant increases in profitability and that poor brand equity can have negative effects on future cash flows.⁵

The Power of Branding

The value that a brand can bring to a hotel largely depends on the customer's perception of the brand's quality. Does the customer know what to expect when staying at a Courtyard by Marriott as opposed to a Hilton Garden Inn? Both are focussed-service brands that often compete for the same customer, but what does each brand offer that is distinctive? One brand may provide a more traditional product, while another may be contemporary in its design and amenities offered. Competing hotels brands will also differentiate themselves through the reward programs, and experiences created for their guests.

From an investment standpoint, brands add value to a hotel property in and above the traditional contributors, such as net

operating income and revenue per available room. A brand can be one of the most important assets of a company. To be able to gain brand value, the first step is to make the customer aware of what your brand offers and demonstrate that this level of quality and commitment is uniform for all the properties that carry the brand. By achieving this, a sense of brand loyalty is created. Brand loyalty allows the management to charge higher prices without encountering as much resistance, as the customer will become less sensitive to price. The various reward programs offered by hotel brands reinforce repeat demand, creating less price-elastic customers. Loyalty may also contribute to a reduction in marketing costs once a strong demand base is created. Once brand loyalty has been achieved, the market share can increase and the brand can expand. With a successful growing brand, shareholder value increases.⁶

Franchising

Franchising is one of the most effective ways to increase brand recognition for a hotel. Historically, the percentage of hotels in Canada that are franchised has lagged far behind the United States, although this gap has been narrowing over the last few years. In the United States, over 70% of hotels are franchised. Of the hotels in Canada with room counts between 30 and 100 guestrooms, less than



April 2008	Number of Rooms	Occupancy Rate (%)		Average Room Rates (in \$CAD)		RevPAR (in \$CAD)		Room Supply % chg	Room Demand % chg
		2008	2007	2008	2007	2008	2007		
Nova Scotia Area	1,424	57.9%	53.9%	\$101.69	\$89.49	\$58.88	\$48.24	-0.4%	7.2%
Halifax, NS	3,509	66.1%	65.2%	\$123.33	\$117.00	\$81.52	\$76.28	4.3%	5.7%
Montreal Downtown	9,965	66.5%	62.2%	\$145.36	\$138.49	\$96.66	\$86.14	2.3%	9.5%
Montreal Area	5,874	58.9%	60.1%	\$106.51	\$105.35	\$62.73	\$63.32	4.5%	2.3%
Quebec City, QC	3,933	60.8%	53.6%	\$124.86	\$113.00	\$75.91	\$60.57	0.2%	13.7%
Quebec Area	5,797	48.0%	46.4%	\$115.03	\$111.30	\$55.21	\$51.64	0.0%	3.5%
Toronto Downtown	13,824	70.8%	64.7%	\$162.91	\$164.38	\$115.34	\$106.35	1.0%	10.4%
Toronto North/East	6,887	60.8%	60.3%	\$119.96	\$115.86	\$72.94	\$69.86	4.7%	5.6%
Toronto Airport/West	8,016	68.4%	66.4%	\$121.30	\$113.97	\$82.97	\$75.68	4.0%	7.1%
Ottawa, ON	6,541	70.5%	62.6%	\$139.56	\$134.03	\$98.39	\$83.90	0.0%	12.6%
Ontario East	4,145	51.1%	47.0%	\$99.21	\$95.71	\$50.70	\$44.98	0.8%	9.6%
Windsor/ Ontario SW	2,999	48.8%	49.1%	\$100.34	\$97.89	\$48.97	\$48.06	0.0%	-0.6%
London/ Kitchener	6,952	58.9%	55.3%	\$106.90	\$104.02	\$62.96	\$57.52	6.3%	13.3%
Ontario North/ Thunder Bay	2,171	67.2%	57.9%	\$93.08	\$88.88	\$62.55	\$51.46	0.7%	17.0%
Ontario NC/ Sudbury	4,487	54.2%	50.7%	\$96.98	\$92.86	\$52.56	\$47.08	1.4%	8.4%
Niagara Falls, ON	9,556	46.4%	48.4%	\$120.80	\$126.33	\$56.05	\$61.14	0.7%	-3.5%
Ontario Central	3,674	53.1%	47.7%	\$100.81	\$99.53	\$53.53	\$47.48	0.9%	12.4%
Mississauga, ON	5,633	64.3%	57.5%	\$113.63	\$109.95	\$73.06	\$63.22	-0.3%	11.5%
Winnipeg, MB	3,419	71.1%	65.4%	\$106.65	\$99.09	\$75.83	\$64.80	-0.9%	7.7%
Regina/Saskatoon, SK	4,573	75.2%	69.6%	\$111.47	\$100.18	\$83.83	\$69.73	2.2%	10.5%
Calgary, AB	8,428	75.2%	69.6%	\$154.42	\$135.96	\$116.12	\$94.63	0.9%	9.0%
Edmonton, AB	8,313	77.0%	75.5%	\$126.55	\$117.93	\$97.44	\$89.04	3.9%	6.0%
Alberta North Area	3,249	50.5%	57.0%	\$145.64	\$134.09	\$73.55	\$76.43	5.1%	-6.8%
Alberta South Area	10,260	55.7%	54.6%	\$120.42	\$115.34	\$67.07	\$62.98	4.1%	6.2%
Vancouver Downtown	8,390	76.1%	70.0%	\$152.73	\$143.42	\$116.23	\$100.39	2.3%	11.2%
Vancouver/ Burnaby Area	1,922	68.4%	67.7%	\$108.29	\$95.37	\$74.07	\$64.57	0.0%	1.0%
Richmond-Surrey/ East Area	6,134	65.6%	65.3%	\$109.92	\$100.95	\$72.11	\$65.92	2.8%	3.4%
British Columbia Area	5,591	54.0%	56.9%	\$143.09	\$152.98	\$77.27	\$87.05	0.6%	-4.5%
Kamloops/ Kelowna Area	4,747	53.8%	55.4%	\$98.95	\$92.93	\$53.24	\$51.48	0.7%	-2.1%
Vancouver Island	4,132	68.5%	70.6%	\$111.13	\$110.32	\$76.12	\$77.89	1.6%	-1.3%
Provinces									
Alberta	30,250	63.6%	62.7%	\$124.97	\$115.04	\$79.48	\$72.13	3.7%	5.3%
British Columbia	30,559	59.6%	60.5%	\$112.59	\$104.85	\$67.10	\$63.43	1.3%	-0.2%
Manitoba	4,342	64.3%	58.4%	\$89.05	\$83.73	\$57.26	\$48.90	-0.5%	9.7%
New Brunswick	3,787	43.8%	44.7%	\$98.15	\$91.11	\$42.99	\$40.73	4.5%	2.4%
Newfoundland	1,834	69.2%	64.6%	\$101.21	\$99.59	\$70.04	\$64.34	0.0%	7.2%
Nova Scotia	4,933	51.2%	46.9%	\$106.89	\$99.24	\$54.73	\$46.54	1.4%	10.8%
Northwest Territories	124	INS	INS	INS	INS	INS	INS	INS	INS
Ontario	74,885	58.5%	54.7%	\$115.17	\$111.65	\$67.37	\$61.07	1.7%	8.7%
Prince Edward Island	949	34.6%	38.9%	\$72.22	\$65.15	\$24.99	\$25.34	0.0%	-11.2%
Quebec	25,569	53.0%	52.3%	\$112.11	\$104.54	\$59.42	\$54.67	1.2%	2.5%
Saskatchewan	6,256	62.9%	60.8%	\$95.40	\$86.32	\$60.01	\$52.48	0.9%	4.4%
Yukon Territory	233	INS	INS	INS	INS	INS	INS	INS	IN
Canada	183,721	56.6%	54.8%	\$111.36	\$105.29	\$63.03	\$57.70	1.7%	5.1%

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Montreal Downtown	9,965	53.2%	54.4%	\$137.54	\$134.43	\$73.17	\$73.13	2.3%	0.1%
Montreal Area	5,874	55.4%	57.2%	\$105.62	\$105.02	\$58.51	\$60.07	3.4%	0.0%
Quebec City, QC	3,933	56.4%	51.8%	\$122.04	\$114.67	\$68.83	\$59.40	1.9%	10.9%
Quebec Area	5,797	52.0%	51.1%	\$131.32	\$125.32	\$68.29	\$64.04	0.0%	1.6%
Toronto Downtown	13,824	63.1%	62.3%	\$158.79	\$158.46	\$100.20	\$98.72	2.1%	3.4%
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Prince Edward Island	949	35.6%	37.2%	\$67.37	\$60.99	\$23.98	\$22.69	0.0%	-4.2%
Quebec	25,569	47.4%	48.2%	\$110.73	\$105.54	\$52.49	\$50.87	1.2%	-0.3%
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Yukon Territory	233	INS	INS	INS	INS	INS	INS	INS	IN
Canada	183,721	53.0%	52.3%	\$111.91	\$107.11	\$59.31	\$56.02	1.6%	2.9%

half (41%) are franchised.⁷ With hotels in 160 locations, Choice Hotels maintains the highest number of franchised hotels in Canada.⁵

The Bottom Line

With the ever-growing presence of brands in the Canadian lodging market, branded hotels carry many advantages over independent properties. Branded hotels generally obtain penetration rates that are higher than independent properties. A strong brand will allow a hotel to capture more than its fair share of the market, stealing business away from lesser-known properties. From a financial standpoint, "brand affiliation, name recognition, and a good 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."⁶ When obtaining financing, branded hotels often have an advantage over independent hotels, as they are able to obtain higher loan-to-value ratios and lower interest rates than un-flagged hotels.⁵ Franchise companies also provide assistance with operations, sales and marketing, human resources, and reservations. As much as 25 to 30 percent of the business for a branded hotel comes through reservations systems, marketing, and loyalty programs.⁸

Know Your Market

Although the benefits of branding are significant, it is not as simple as picking a brand and waiting for the payoff. Choosing the right brand for your market and target segment is vital. One brand cannot meet the needs and expectations of all demand segments, which differ in their demographic and psychographic characteristics.

In selecting a brand, the amenities and service levels need to be what the target market desires and expects. A brand guarantees a minimum standard, creating reassurance for the customer. Hotel guests do not want to pay for certain amenities or levels of service that are not important to

them. It is therefore important to know your customers and tailor your brand around their expectations.

In choosing a brand, one has to look at how the brand will be perceived to see how it will perform in the market. Research should be undertaken to see whether the rate premium generated by the brand will offset the management fees, capital expenditures, and potential franchise fees required.⁹

Brand Dilution?

Studies have shown that positive effects of branding on hotel values are most noticeable for hotels in the mid-market and upscale tiers, as opposed to the economy and luxury tiers. This is possibly because not only are the most active, innovative, and well-positioned brands found in these segments, but also the least active brands. Due to this, strategic brands in this segment are able to successfully distance and distinguish themselves. Less variation in brands is seen in the economy and luxury segments, as there are fewer areas to differentiate one product from another.⁶

With the surge of new hotel brands over the past few years, some have wondered if the market is becoming too diluted with brands. With a sudden influx of choices, brand recognition may become more difficult for hotel companies to achieve, as consumers will not fully understand each brand.¹⁰ From the standpoint of a hotel operator, this leads to brand cannibalization, which can arise when a large brand, such as Hilton, tries to increase its market share in an area by introducing a new hotel flag, such as a Hampton Inn. In this situation, the new brand may cannibalize the demand base of an existing operator, such as a Hilton Garden Inn, when it has 10 to 15 years remaining on its franchise agreement.⁵

Capitalizing on a Trend

Branding has played a major role in the rise of Internet travel booking in recent

years. If there is strong brand awareness, travellers will look for certain brands with which they are familiar, causing a reduction in perceived risk and search costs for the consumer. Internet users look for brands to help them distinguish what they want, as brands tell them what to expect in terms of quality and service.⁸

Conclusion

An estimated 140 different hotel brands are in operation worldwide, up from 80 in 1995 and 110 in 2000.¹⁰ Based on these figures, more and more hotel operators are realizing the benefits created through branding and the different options available to target select segments in the industry. Over the past few years, some of the newest brands to enter the lodging market include aloft, Cambria, Indigo, Hyatt Place, NYLO, and Viceroy. Brands will continue to target ever more specific niche markets in an effort to gain more market share.

Branding has proven to be beneficial to both the customer, hotel company, and the investor. As previously stated, branding can influence the perception of a hotel and reinforce consumer expectations in a certain hotel brand. From an investment standpoint, branding has proven to strengthen the bottom-line by developing customer loyalty and a strong reputation.

The success of branding can be achieved in all segments, as long as a strategic effort is made to not only know your market, but also choose the most conducive brand for it. ▲

FOOTNOTES:

- 1 Unknown (May 2008). *New Hotel Brands Target Next-Gen Business Travelers*. *HotelMarketing.com*. Retrieved May 2008 from http://www.hotelmarketing.com/index.php/article/new_hotel_brands_target_next_gen_business_travelers/
- 2 Barry Silverstein (March 2007). *Branding With No Reservations*. *Brandchannel.com*. Retrieved May 2008 from http://www.brandchannel.com/features_effect.asp?pf_id=359.
- 3 Anna Town (2002). *The Power of Hotel Branding*. *European Hotel Managers Association*.
- 4 R. Kayaman and H. Arasli (2007). *Customer based brand equity: evidence from the hotel industry*. *Managing Service Quality*, 17(1), 92. Retrieved May 2008 from ABI/INFORM Global database. (Document ID: 1204214481).
- 5 *Ibid.*
- 6 J.W. O'Neill and Q. Xiao (2006). *The Role of Brand Affiliation in Hotel Market Value*. *Cornell Hotel and Restaurant Administration Quarterly*, 47(3), 210-223. Retrieved May 2008 from ABI/INFORM Global database. (Document ID: 1092382751).
- 7 Kelly Gray (September 2007). *A Look at the Franchise Situation*. *Western Hotelier*, 31(4), 21-22.
- 8 Edward Levitt and Frances Macklin (April 2008). *How to Choose the Right Flag for Your Hotel*. *Canadian Lodging News*, April Issue.
- 9 Unknown (February 2007). *Hotel Branding*. *CatererSearch.com*. Retrieved May 2008 from <http://www.caterersearch.com/Articles/2007/02/09/311398/hotel-branding.html>.
- 10 *International Society of Hospitality Consultants* (November 2006). *Top Ten Issues in the Hospitality Industry for 2007*. *Hotel Online.com*. Retrieved May 2008 from http://www.hotel-online.com/News/PR2006_4th/Nov06_ISHC.html.

DEFINITIONS

Occupancy:	Rooms sold divided by rooms available.
Room Revenue:	Total room revenue generated from the sale or rental of rooms.
Average Daily Rate (ADR):	Room revenue divided by rooms sold.
Room Revenue Per Available Room (RevPAR):	Room revenue divided by rooms available (occupancy times average room rate will closely approximate RevPAR).

*If you have any questions regarding this publication please send a message to bmacdonald@hvs.com
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