CHAPTER 9

Recent findings regarding hotel brand and strategy

John O'Neill[1] and Anna Mattila[2]

[1]Associate Professor, School of Hospitality Management, The Pennsylvania State University, University Park, PA

[2]Professor of Services Marketing, The Pennsylvania State University, School of Hospitality Management, University Park, PA

Introduction: overview of the chapter

As hotel management and development organizations formulate strategies and programmes regarding existing and future hotel facilities, services, and positioning, a question that naturally arises is, what factors actually drive hotel's profitability? (O'Neill and Mattila, 2006). One such factor is branding.

To maximize brand equity, most hotel mega-companies have developed multiple brands to serve multiple markets (Jiang *et al.*, 2002; O'Neill and Mattila, 2004). The value of a brand is based on the awareness of the brand, its quality perception, and overall customer satisfaction (Aaker, 1996; O'Neill and Mattila, 2004). Lodging operators have turned their attention to guest satisfaction and branding because brand name operates as a "shorthand" for quality by giving the guest important information about the product/service, sight unseen (Brucks *et al.*, 2000; Jacoby *et al.*, 1977; O'Neill and Mattila, 2004).

A recent annual brand report in *Hotels* magazine listed 285 lodging brands worldwide (Hotels, July 2005; O'Neill and Xiao, 2006). Some companies, such as Marriott International, include the corporate name in most of their brands, while others, such as Wyndham, employ a house-of-brands strategy, i.e., individual brand names for each segment (O'Neill and Mattila, 2006).

Branding is particularly critical in service industries such as the hotel business (Onkvisit and Shaw, 1989). The recognized goal of hotel branding is to provide added value to both guests and hotel companies by building brand loyalty (Cai and Hobson, 2004; O'Neill and Xiao, 2006). The notion that a hotel's brand contributes significantly to the property's market value is supported by an analysis of over 1000 hotel sales transactions over the past 15 years (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).

What is a brand?

The American Marketing Association defines brand as a "name, term, sign, symbol, or design, or combination of them intended to identify the goods and services of one seller or group of sellers and to differentiate them from those of competition" (http://www.ama.org). As brand represents the company itself, it should always be very consistent in the market. Though there are cases when companies change their positioning or strategies, corporate colours, and even their logos and typeface, very few companies ever change their brand names (Vaid, 2003).

Brand is a logo and trademark and identifies the goods or services of one specific seller, but more importantly, a brand is the source of a promise to consumers. A brand promises a product's services and an organization's distinctive identity that differentiates it from the identity of its competitors. Those identities indicate the source(s) of that promise to consumers. Its differentiated identity should provide benefits in any form to the consumer and it is an organization's goal to enhance and maximize those benefits to deliver the promise.

Brand relates to consumer emotions. Gobé (2001) explains that the biggest misconception in branding strategies is people tend to believe branding is about market share, but it is really about mind and emotion share. Of course, superficial aspects of branding are ubiquity, visibility, and function, but the major significance is to remain in the mind as something that is emotionally relatable. There are several reasons why people become emotionally connected to a brand. Brands are supposed to be intense and vibrant, and to connect on multiple levels of the senses. Brands are unique and should be admirable because a brand is a promise to consumers. It consistently interacts with them and should not disappoint the consumer by any reasons that break the promise. A brand is something for consumers to feel good about (Vaid, 2003).

In sum, a hotel brand is a relationship with people. Getting to know a brand, whether it is by consumer intention or not, using, evaluating, and continuing to use a product and/or service, are all parts of the process of building a relationship between a brand and a consumer. Developing this relationship is the real purpose of brand and branding. The promise to the consumer and the products and services should be unique to the identity of the brand and should be strong in peoples' minds. Ultimately, the brand represents the consumer's experience with its organization.

Brand power

How to measure value of a hotel brand

A number of factors have been shown to be correlated with a hotel property's market value. Net operating income (NOI), average daily rate (ADR), occupancy rate, and number of guest rooms have proven to be significant predictors of a hotel's value (O'Neill and Lloyd-Jones, 2001). Some brands consistently have stronger bottom lines, i.e., NOIs, than do others (O'Neill and Mattila, 2006), although ADR (an indicator of a hotel's "top line") is a better predictor of a hotels' market value than its NOI (an indicator of a hotel's "bottom line") (O'Neill and Mattila, 2006), and some brands have consistently stronger ADRs than others. More recent research has shown that hotel brand effects hotel market value, and it does so above and beyond the effect of NOI, ADR, occupancy rate, and number of guest rooms (O'Neill and Xiao, 2006).

Brand affiliation is an important factor affecting hotel revenue. The branding literature has demonstrated that consumers use brand name as an important quality cue. Moreover, consumers are typically willing to pay a price premium for brands they view as high in quality (O'Neill and Mattila, 2006). Brand affiliation, name recognition, and reputation for high-quality service together can contribute as much as 20–25% of the going concern value of a successfully operating hotel (Kinnard *et al.*, 2001; O'Neill and Xiao, 2006).

Brand as a value creator

In general, brand power represented as a name, logo, or symbol in the market might be expressed as brand equity (Mahajan *et al.*, 1994). Brand equity results from benefits of marketing efficiency and enhanced performance associated with that brand and long-term brand effect based on customer loyalty. Brand equity results in the potential to expand the brand in a variety of markets (Mahajan *et al.*, 1994).

Brand equity is created when firms deliver quality products, and strong brand associations are created when firms conduct appropriate communications and advertising strategies (Aaker, 1991; Rao *et al.*, 2004). Brand equity, as well as brand, can represent the relationship between the firm and its customers, and the positive relationship may enhance cash flows and reduce risk of the firm as a whole, and it may have a positive effect on value of the firm (Rao *et al.*, 2004). When correctly and objectively measured, brand equity can be the proper metric for estimating the long-term impact of marketing decisions (Rao *et al.*, 2004).

The level of brand equity is positively related to a hotel company's financial performance, e.g., revenue per available room (Kim *et al.*, 2003; O'Neill and Xiao, 2006). Realizing that a brand's strength ultimately drives stock price and shareholder value, the lodging industry has been recognized as a "brand-equity business" (Morgan Stanley Report, 1997; O'Neill and Xiao, 2006).

Well-established brands create financial value due to their ability to generate cash flows via relatively higher margins (Aaker and Jacobson, 1994; O'Neill and Mattila, 2006).

In general, major contributors of generating cash flows are high margins, customer loyalty, brand extension including licensing opportunities, and enhanced marketing efficiency (Rao *et al.*, 2004).

Hotel executives recognize brand quality as an important company asset and as a potential source of strategic advantage (Damonte *et al.*, 1997; O'Neill and Mattila, 2004). Brand is generally categorized as an intangible asset. Intangible assets are earned cash flows of a firm in excess of the return on tangible assets. In other words, intangible assets boost the earning power of the firm's tangible assets. Patents, trademarks, R&D, and franchises are examples of intangible assets as well as brand equity (Simon and Sullivan, 1993).

Not only is it generally recognized that brands create value for both consumers and companies (Aaker, 1991; O'Neill and Xiao, 2006), but consumers use brands as cues to infer certain product attributes, such as quality (O'Neill and Mattila, 2004; O'Neill and Xiao, 2006). The value of a brand chiefly resides in the minds of customers and is based primarily on customers' brand awareness, their perceptions of its quality, and their brand loyalty (Aaker, 1991; O'Neill and Xiao, 2006).

Hotel guests rely on brand names to reduce the risks associated with staying at an otherwise unknown property (Bharadwaj *et al.*, 1993; O'Neill and Xiao, 2006). In that regard, strong brands enable hotel chains to be part of and to differentiate themselves in the minds of customers (Prasad and Dev, 2000; O'Neill and Xiao, 2006).

Brands first create value for customers by helping to assure them of a uniform level of quality (Keller and Lehmann, 2003; O'Neill and Xiao, 2006). After customers become loyal to a brand, 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 (Ambler *et al.*, 2002; O'Neill and Xiao, 2006).

Although it is important for hotel owners to be able to recognize the effects of a brand on hotel 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).

Brand and satisfaction

Due to increased attention to a customer focus, brand managers use satisfaction as a measure of operational success of their overall branding strategies (Shocker *et al.*, 1994; 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). Satisfaction is believed to lead to repeat purchases (Oh, 1999; Mattila and O'Neill, 2003), favourable word-of-mouth behaviour (Gundersen *et al.*, 1996; Mattila and O'Neill, 2003), and loyalty (Dube and Renaghan, 2000).

Satisfaction in the lodging industry is composed of several factors, including 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). Brands with higher levels of guest satisfaction achieve not only higher ADRs, but these brands achieve significantly greater percentage increases in their ADRs over time (O'Neill and Mattila, 2004).

Brand extension

In many industries, including the hospitality business, marketing new products and services as extensions of the original brand name has been a popular strategy for many reasons (Lane and Jacobson, 1995). Hilton, Hyatt, InterContinental, Marriott, Starwood, and Wyndham have all grown through brand extensions. Major reasons why consumers depend on trusted brands are to economize on time and search costs (Lane and Jacobson, 1995). Consumers immediately conceive brands' extensions' attributes and benefits through established brand names. The favourable, strong, and unique brand associations are stored in memory when the consumer possesses familiarity with a brand (Lane and Jacobson, 1995).

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 those with which they are unfamiliar. Therefore, the extensions of familiar brand names are in consideration sets, and are highly likely to be chosen by consumers using peripheral cues (Lane and Jacobson, 1995). This situation happens more in cases when consumers are without specific product knowledge in the purchase situation, and serves as a heuristic to guide product choice (Lane and Jacobson, 1995).

The advantages of brand extension provide firms with not only higher revenues, but with savings in marketing expenditures, as well (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).

Despite the advantages of brand extensions, there are negative points to be noted, as well. First, a brand which possesses a rather unfavourable image may negatively affect consumer choice. If a brand is familiar but not preferred by consumers, it could suffer in its brand extensions relative to brands that are more preferred (Lane and Jacobson, 1995). Second, although a firm has maintained a positive image, dilution or confusion about the brand image can happen via inconsistent brand extensions (Lane and Jacobson, 1995). Third, dilution of the core image of the original brand can be possible when the brand image loses consumer conception of exclusivity or status appeal (Lane and Jacobson, 1995) and can lead to reduction of demand for the original product or service (Lane and Jacobson, 1995). Fourth, brand extensions have a greater risk of cannibalizing the firm's other products than actual new brands (Lane and Jacobson, 1995). In this regard, brand extensions can create but also destroy a firm's stock market equity by increasing or decreasing future economic earnings (Lane and Jacobson, 1995). Therefore, 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 *et al.*, 2004).

Branding and franchising

Protecting reputation for guest satisfaction at a brand level has become a key issue, both in terms of consumer perceptions and franchisee willingness to sign and/or stay with a particular hotel brand (Prasad and Dev, 2000; O'Neill and Mattila, 2004). Since today's 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).

Since chain 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). Potential franchisees need to examine the parent firm's brand portfolio because hotel companies differ in their choice of branding strategies (O'Neill and Mattila, 2006).

Different hotel brands deliver different levels of profitability. Hotel owners have figured out this situation based on their prior brand relationships and they have become less hesitant to seek brands that are in closer conformance to their financial goals (O'Neill and Mattila, 2006).

For hotel owners, whose goal is to maximize the market value of their asset, recognizing the role of brand name in hotel market value is beneficial for positioning and flagging decisions. For hotel companies' brand-management teams, effectively assessing brands' effects on hotel market values can strengthen the overall value of the brands and possibly improve the brands' franchise sales. Such rational analysis can signal weaknesses and assist with the development of re-imaging, 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).

Growth via franchising might have an adverse effect on quality (Michael, 2000; 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).

As hotel brand executives continue to focus their growth strategies to a greater extent on franchising and brand management 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). One study investigated a total of 26 hotel brands between 2000 and 2003 (O'Neill *et al.*, 2006). It is interesting to note that 23 out of 26 brands studied achieved guest satisfaction improvements while at the same time many of them were experiencing ADR and occupancy decreases. In fact, 18 brands suffered from ADR decreases during the recessionary study period. Apparently, ADR may serve different strategic goals for brands in different market environments. After September 11, 2001, it is more likely that some hotel operators and brand managers voluntarily chose to reduce their ADRs to maintain or enhance the level of guest satisfaction. It is possible that lower prices might increase customers' value perceptions, thus having a positive effect on satisfaction. For example, Marriott and Wyndham were among the brands that experienced most dramatic drops in ADR (−14.0 and −13.7%, respectively); on the other hand, they also significantly improved their guest satisfaction during the same period of time (2.5 and 4.0%, respectively) (O'Neill *et al.*, 2006).

Among the brands studied by O'Neill *et al.* (2006), several specific cases further clarify the possible effect of franchising on guest satisfaction. For instance, La Quinta Inn & Suites was virtually a franchise-free brand in 2000, but by 2003, 25.8% of its hotels were franchised. Unfortunately, such a growth strategy correlated with a decrease in guest satisfaction at La Quinta (−2.6%) during the course of the study period. As another example, Hampton Inn & Suites increased its room inventory by 16.1% during the study period, with 99.3% of its properties being franchised in 2003. Despite this rapid growth, Hampton Inn & Suites experienced improvements in occupancy (3.7%), ADR (6.6%), and guest satisfaction (2.5%) during the same period. Such overall success suggests a healthy balance among Hampton Inn's branding, franchising, and service and quality strategies. Westin increased its percentage of franchised properties (9.6% increase) with minimal decreases in ADR (−0.5% change) and occupancy rate (−4.4% change). Its widely touted "Heavenly Bed" programme, which it implemented during the course of the study period, may have contributed to enhanced guest satisfaction (up by 6.4% between 2000 and 2003), which in turn probably acted as a buffer to downward ADR and occupancy pressure (O'Neill *et al.*, 2006).

Concluding remarks

In spite of the agreed upon enormous value of hotel brands, there is a widespread sentiment that brands are often being mismanaged (Aaker, 1991; Simon and Sullivan, 1993). Some have argued that too much emphasis is being placed on short-term performance rather than the long-term value of brand equity (Simon and Sullivan, 1993). The recent research presented here could be of assistance to corporate brand management teams seeking guidance regarding the long-term strategic direction of the brands they guide.

References

Aaker, D. (1991). *Managing Brand Equity: Capitalizing on the Value of a Brand Name*. New York: Free Press.

Aaker, D. (1996). *Building Strong Brands*. New York: Free Press.

Aaker, D., and Jacobson, R. (1994). The financial information content of perceived quality. *Journal of Marketing*, *58*, 191–201.

Ambler, T., Bhattacharya, C. B., Edell, J., Keller, K. L., Lemon, K. N., and Mittal, V. (2002). Relating brand and customer perspectives on marketing management. *Journal of Service Research*, *5*(1), 13–25.

Bharadwaj, S. G., Varadarajan, R. P., and Fahy, J. (1993). Sustainable competitive advantage in service industries: A conceptual model and research propositions. *Journal of Marketing*, *57*, 83–99.
Brucks, M., Zeithaml, V., and Naylor, G. (2000). Price and brand name as indicators of quality dimensions for consumer durables. *Journal of the Academy of Marketing Science*, *28*(3), 359–374.
Cai, L. A., and Hobson, J. S. P. (2004). Making hotel brands work in a competitive environment. *Journal of Vacation Marketing*, *10*(3), 197–208.
Damonte, T., Rompf, P., Bahl, R., and Domke, D. (1997). Brand affiliation and property size effects on measures of performance in lodging properties. *Journal of Hospitality Research*, *20*(3), 1–16.
Dube, L., and Renaghan, L. (2000). Creating visible customer value: How customers view best-practice champions. *The Cornell Hotel and Restaurant Administration Quarterly*, *41*(1), 62–72.
Gobé, M. (2001). *Emotional Branding: The New Paradigm for Connecting Brands to People*. New York: Allworth Press.
Gundersen, M., Heide, M., and Olsson, U. (1996). Hotel guest satisfaction among business travelers. *Cornell Hotel and Restaurant Administration Quarterly*, *37*(2), 72–81.
Hotels. (July 2005). The largest hotel brands. p. 50.
Jacoby, J., Szybillo, G., and Busato-Schach, J. (1977). Information acquisition behavior in brand choice situations. *Journal of Consumer Research*, *3*, 209–215.
Jiang, W., Dev, C., and Rao, V. (2002). Brand extension and customer loyalty: Evidence from the lodging industry. *The Cornell Hotel and Restaurant Administration Quarterly*, *43*(4), 5–16.
Keller, K. L., and Lehmann, D. R. (2003). How do brands create value? *Marketing Management*, *12*(3), 26–40.
Kim, H. B., Kim, W. G., and An, J. A. (2003). The effect of consumer-based brand equity on firms' financial performance. *Journal of Consumer Marketing*, *20*(4), 335–351.
Kinnard, W. N., Worzala, E. M., and Swango, D. L. (2001). Intangible assets in an operating first-class downtown hotel. *Appraisal Journal*, *69*(1), 68–83.
Lane, V., and Jacobson, R. (1995). Stock market reactions to brand extension announcements. *Journal of Marketing*, *59*, 63–77.
Mahajan, V. V., Rao, V. R., and Srivastava, R. (1994). An approach to assess the importance of brand equity in acquisition decisions. *Journal of Product Innovation Management*, *11*, 221–235.
Mattila, A. S. (1999). Consumers' value judgments. *Cornell Hotel and Restaurant Administration Quarterly*, *40*(1), 40–46.
Mattila, A. S., and O'Neill, J. W. (2003). Relationships between hotel room pricing, occupancy, and guest satisfaction: A longitudinal case of a midscale hotel in the United States. *Journal of Hospitality and Tourism Research*, *27*(3), 328–341.

Michael, S. (2000). The effect of organizational form on quality: The case of franchising. *Journal of Economic Behavior and Organization*, *43*(3), 295–318.

Morgan Stanley Report. (May 5, 1997). "Globalization: The next phase in lodging", as cited in Jiang, W., Chekitan, D. S., and Rao, V. R. (2002). Brand extension and customer loyalty: Evidence from the lodging industry. *Cornell Hotel and Restaurant Administration Quarterly*, *43*(5), 5.

Oh, H. (1999). Service quality, customer satisfaction, and customer value: A holistic perspective. *International Journal of Hospitality Management*, *18*, 67–82.

O'Neill, J. W., and Lloyd-Jones, A. R. (2001). Hotel values in the aftermath of September 11, 2001. *Cornell Hotel and Restaurant Administration Quarterly*, *42*(6), 10–21.

O'Neill, J. W., and Mattila, A. S. (2004). Hotel branding strategy: Its relationship to guest satisfaction and room revenue. *Journal of Hospitality and Tourism Research*, *28*(2), 156–165.

O'Neill, J. W., and Mattila, A. S. (2006). Strategic hotel development and positioning: The effect of revenue drivers on profitability. *Cornell Hotel and Restaurant Administration Quarterly*, *47*(2), 146–154.

O'Neill, J. W., Mattila, A. S., and Xiao, Q. (2006). Hotel guest satisfaction and brand performance: The effect of franchising strategy. *Journal of Quality Assurance in Hospitality and Tourism*, *7*(3), 25–39.

O'Neill, J. W., and Xiao, Q. (2006). The role of brand affiliation in hotel market value. *Cornell Hotel and Restaurant Administration Quarterly*, *47*(3), 210–223.

Onkvisit, S., and Shaw, J. J. (1989). Service marketing: Image, branding, and competition. *Business Horizons*, *32*, 13–18.

Peter, J. P., and Olson, J. C. (2005). *Consumer Behavior and Marketing Strategy*. New York: Mcgraw-Hill/Irwin.

Prasad, K., and Dev, C. (2000). Measuring hotel brand equity: A customer-centric framework for assessing performance. *Cornell Hotel and Restaurant Administration Quarterly*, *41*(3), 22–31.

Rao, V. R., Agrawal, M., and Dahlhoff, D. (2004). How is manifested branding strategy related to the intangible value of a corporation? *Journal of Marketing*, *68*, 126–141.

Shocker, S., Srivastava, R., and Ruekert, R. (1994). Challenges and opportunities facing brand management: An introduction to the special issue. *Journal of Marketing Research*, *31*, 149–158.

Simon, C., and Sullivan, M. (1993). The measurement and determinants of brand equity: A financial approach. *Marketing Science*, *12*, 28–52.

Vaid, H. (2003). *Branding: Brand Strategy, Design, and Implementation of Corporate and Product Identity*. New York: Watson-Guptill.