

HOW MANY HOTEL BRANDS DO WE STILL NEED?

Although I deal professionally with hotel consultancy, it is not easy to keep an overview of the existing and new hotel brands in this world. How will the importance of these brands change in the future? The following explains some critical considerations...

Changes in the business model

Business with hotel brands is very different nowadays to what it was 20 years ago. For example, in 1992 the successful hotel brand Marriott separated its property ownership from its business operations (into Hotel operations and Franchising). At the time, Marriott possessed 136 Hotels, operated 415 hotels and awarded franchises to 195 hotels. At the end of 2014, Marriott still had 9 hotels, managed 1144 hotels (including 42 with lease contracts) and had awarded franchises to 2882 properties. The same development can be witnessed in all major hotel brands. Here is a brief overview of the mayor hotel companies:

	IHG		Marriott		Starwood		Accor	
	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms
Property Ownership	9	3,190	9	2,082	36	13,500	409	
Managed	779	197,701	1,144	291,259	584	193,973	1,227	
Franchised	4,133	521,684	2,882	388,679	1,837	397,659	2,081	
Total	4,921	722,575	4,035	686,020	2,457	605,132	3,717	480,000

Number of Brands	12	18	10	17
Number of Brands in Europe	5	7	9	9
Most successful Brand in Europe	Holiday Inn	Courtyard	Sheraton	Ibis

Source: company websites as of 31/12/2014

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The major international hotel brands have adapted their business models more and more toward franchise. An analysis of the business lines of the major hotel groups shows the following developments:

- **Properties:** In recent years, the brands have sold their hotels (often to affiliated investment companies). This part of the business has nothing to do with the brands anymore, is considered as a specialized real estate business.
- **Operation:** Running a hotel means to take responsibility and risks and can be done either with a management contract (at the risk and with the money of the property owner) or a rental agreement (where risk and opportunities are more on the side of the operator). The major hotel brands are increasingly handing over this business to smaller, often unknown operator companies, which are taking over the business operations using a brand manual, and depending on the brand, are abiding by company rules and regulations. Although in recent years the hotel brands have themselves predominantly operated the 4 and 5 star hotels, in recent months they are increasingly handing over the business operation. A current example is JW Marriott

Bodrum, which is run by a third party Management Company. The hotel brands are no longer hoteliers, they are branding and sales specialists. The brands could not handle their growth targets with the operational tasks and prefer to focus on less risky businesses instead - perhaps a mistake!

- **Franchise:** The goal of each brand is to complete as many franchise agreements as possible. Various services that must be paid by the franchisee are included in the agreement. Of course, the brand owner must meet the requirements of the franchisor. The brands, however, only have a certain control function behind the hotel project and take virtually no risks.

Sense and nonsense of hotel brands

The word 'brand' comes from branding, which literally means to "burn up the "symbol" on livestock. The French word "marque" means sign or mark. Nowadays, to 'brand' is used symbolically to represent an ownership claim. The term 'brand' also comes from the idea of marking something; one signs their products, in order to underline its qualitative benefits. A brand should therefore mean recognition. Do hotel brands still do this today? Say you want to stay at the Hyatt. Do you want to spend your night at the Hyatt Regency, Park Hyatt, Grand Hyatt, Hyatt House, Hyatt Place or at the new Hyatt Centric? What, you don't know what's the difference? Well, it's not surprising – I do not think anyone does!

Currently, barely a month passes without a new lifestyle brand coming onto the market. In 1998, Starwood created the W product that used the term Lifestyle for the first time. This brand statement linked design, fashion, music and entertainment. The company wanted to strike a balance between style and substance. Maybe it was just a redefinition of the term design hotels? And what does lifestyle really mean? Perhaps the term is so good to use, because everyone understands what they personally want. But do they then really get what they had expected from the brand? The major hotel brands see in these new lifestyle products the opportunity to grow further. Their existing brands are already present in many cities, so they must introduce new products to the market. Radisson comes up with Radisson Red, Starwood develops Aloft, Marriott starts Moxy and Hilton establishes Canopy – everything is a brand promise for the future. Each brand will have 100 hotels under contract in the next 5-10 years. I doubt if these promises can be met and I am very careful with recommending lifestyle brands! For me, every franchise contract with brand is linked with a certain performance expectations, which is related to a payable price.

At the same time, new, individual brands enter the market and attract attention. In Europe the success of Motel One is remarkable. Using the blue sofa as a trademark, a differentiated business model (purchase of the properties), and services that are provided independently from star categorization, brings a driving force to the hotel world. However, concepts like 25hours, Kamea Grand will still want to grow and will operate the hotel themselves. These hotels will again have a direct impact on personal selection and the perceived hospitality, which is otherwise increasingly in the hands of an impersonal hotel management company. Trends also set up counter-trends!

New trends in the world of hotel brands

I am witnessing currently the following trends that will have an impact on the future development of the hotel brands:

- The major hotel brands must grow further, already because they are stock listed companies. Accordingly, new brands will be created, companies acquired and the guest will be less and less aware which brand promise corresponds to a certain brand. Besides the fact that there are too many brands, these are losing their clear profile and cannot represent any Unique Selling Points (USP's) anymore. There are no distinguishing features anymore – sometimes even within the different brands in the same hotel company.

- Previously brands were associated with star categories. The hotel companies tried to be represented by a brand in each category. The star categorization clearly loses its importance as the new brands are defining the standards anew and the Internet provides us with new orientation filters. The customer feedback (TripAdvisor etc.) is mixing the market in a new way. Today, travelers usually look first at the reviews of other travelers or even better at the reviews of relatives and Facebook friends. Price / performance and recommendations are the more important decision making factors rather than the hotel brand features or the star category.
- The established customer loyalty programs of the brands again lose their importance. I personally could not manage properly all my customer retention numbers and I am set up to always look if I could score points. If I wanted to use the points, there are still reservations and the possibility of an additional benefit is relatively low. Price and "Location" play more of an overriding role.
- The past success of hotel brands is indisputable and was mainly based on know-how in technology and the distribution network. With a hotel brand you had a technology and access to potential customers of the customer loyalty programs that a single hotel could never afford on its own. However, one had to also pay for those expectations, and not just a little. The technology is making rapid changes / renewals and new market entrants mix up the cards anew. The online sales agents (OTA) provide every single hotel with new products and opportunities to exist regardless of the brands. Of course, this is not for free, but also the brands cannot get around the OTA's.
- The technological trend continues to further the separation of technology and brand / brand services. For example, Choice Hotels has been offering the technology and lets the hotel name – the own brand – exist with a lot more individual freedom. The hotel will be supported with technology and sales. This separation of services will go even further - the most recent example is Accor - which will open its platform in the future for hotels out of the Accor group. The former Accor portal thus becomes an OTA for other hotels. What will follow will be a swift "move" or a wrong decision concerning the "dilution" of the brand - the sale of a service to others - a service which previously only belonged to Accor Hotels.
- The real UPS's of the brands are getting smaller in any case and accordingly I expect a slowdown in growth. One really has to look at the performances of the brands and their price in detail. There are huge opportunities for new brands! Hopefully this development will also be seen by the investors and financing institutions. So far, it has been a prerequisite or at least much easier to secure financing for a property with a brand contract (a well-known brand). What is certain to occur after the signing with a brand, is restriction of freedom and payment of "fees". Check carefully before you make a binding agreement!

What role do these trends play for your hotel project? How should you now decide whether you want to choose a brand or remain independent? Who should be the future hotel operator? The criteria for selecting a hotel brand or a management company will be part of my contribution in the August newsletter.

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The realization of your hotel project will be professionally supported by Kohl & Partner. Together with your ideas and targets we are your partner in the process of successful implementation of your project. Economic appraisals, site recommendations / assessments, operator and investor search, management, rental and lease agreements and assistance in project financing are among our core products.

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Short company profile “Kohl & Partner”

Kohl & Partner is an **independent and internationally operating** consulting company, specialized in the field of hotel and tourism development.

Kohl & Partner is the **leading tourism consulting company in the Alpine Region**, one of the most developed tourism regions in the world. Furthermore Kohl & Partner has implemented projects in more than 20 countries, has a broad network of local partners and contacts and is therefore one of the biggest companies with this specialization in Europe. Clients of Kohl & Partner range from famous tourism destinations, leading companies, public authorities to well-known investors. Our tourism know-how, combined with **more than 30 years of experience** in the field of tourism development gives us the ability to act as a reliable partner for the development of international tourism projects.

Kohl & Partner means „quality in tourism“. The company is being developed and managed according to the EFQM-Modell for Business Excellence and won the “Austrian Quality Award” (a competition of the Austrian Ministry of Economics) for SMEs in Austria. Furthermore Kohl & Partner is an affiliate member of the UN World Tourism Organization and works in accordance with international consulting standards.

Beside the German speaking markets we put a special focus on Central, Eastern and Southeastern Europe. Currently we have **offices and local contacts in eleven countries** (Albania, Austria, Bulgaria, Germany, Hungary, Italy, Macedonia, Romania, Russia, Switzerland and Turkey). In total more than 40 professionals are employed at Kohl & Partner.

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HOTELS & RESORTS



TOURISM INFRASTRUCTURE



TOURISM DESTINATIONS

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