

# CHALLENGES AND OPPORTUNITIES FACING BRAND MANAGEMENT IN THE LODGING INDUSTRY

Codruţa Adina BĂLTESCU<sup>1</sup>

**Abstract:** Brands are at the heart of marketing and business strategy. If a company's offer is perceived to be the same as those of the competitors, then consumers will be indifferent and will choose the cheapest or most accessible. The purpose of marketing is to create a preference for the company's brand. If customers perceive one brand as superior, they will prefer it and pay more for it. Successful brands create wealth by attracting and retaining customers. When a company creates this type of customer preference and loyalty, it can build a strong market share, maintain good price levels and generate strong cash flows. The notion that a hotel's brand contributes significantly to the property's market value is supported by an analysis of nearly eleven hundred hotel transactions over the past fifteen years.

**Key words:** brand, guest satisfaction, hotel valuation, brand management, strategy.

## 1. Introduction

Today's lodging guests are seeking consistency and quality at the right price. Consequently, 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. Accordingly, hotel executives recognize brand quality as an important company asset and as a potential source of strategic advantage. The value of a brand is based on the awareness of the brand, its quality perception, and overall customer satisfaction. Satisfied customers tend to buy more, be less price conscious, and to generate positive word-of-mouth, thus contributing to bottom-line profit [1]. Due to increased attention to a customer focus,

brand managers use satisfaction as a measure of operational success of their overall branding strategies.

## 2. Brands' Added Values

Added values – the subjective beliefs of customers - are at the heart of building successful brands. That such beliefs exist has been demonstrated on countless occasions. In test where customers are presented with competitive products in an unbranded form, there is often no clear preference. But if a top brand name such as Coca-Cola is attached, a dramatic switch in preferences invariably occurs. Not only will people prefer the strong brand name, but they will actually be willing to pay a higher price for it [2].

Nor the emotional impact of the brand limited to consumer goods. A classic study

---

<sup>1</sup> Dept. of Marketing, Turism, Services and International Transactions, *Transilvania* University of Braşov.

by Professor T. Levitt at the Harvard Business School clearly demonstrated that the brand image has a significant effect on industrial buying decisions. He found that the more powerful the brand name, the greater the chance of the industrial buyer giving the company a hearing for a new product, and the greater the likelihood of its early adoption.

Consumers often base their hotel-stay decisions on their perception of a specific hotel's brand name. The United States now has over 200 hotel brands competing for business, more than in any other product category. Many of these brands are extensions of existing brand names.

*Brand extension* is the practice of introducing a new brand (differentiated by market segment) using a well-established brand name as leverage. One of the earliest examples of brand extension in the hospitality industry occurred in 1981, when Quality Hotels (now Choice Hotels) diversified its line into product tiers, including Comfort Inns and Quality Royale (now Clarion) [3]. The subsequent burst of brand extensions included Holiday Inn's introduction of Holiday Inn Express and Holiday Inn SunSpree Resorts in 1991, the upscale Holiday Inn Crowne Plaza in 1983, followed by Holiday Inn Select in 1994, and Staybridge Suites by Holiday Inn in 1998. The above examples are just some of the many hotel companies that have tried to capitalize on their brands' goodwill through brand extension. Most major hotel companies have at least one brand extension, implying that hotel chains consider the strategy to be successful.

A brand-extension strategy allows firms to penetrate a variety of market segments with differentiated products that carry a single, well-established brand name. Hotel firms see several advantages to brand extensions, including quicker acceptance of new products by consumers, economies of scale in marketing support expenditures, lower

risk associated with introduction of new products, and retention of guests. There are disadvantages in using brand extensions as well, however, including managerial complexities (e.g., establishing corporate structure to support multiple brands and determining the criteria for monitoring the performance of multiple operational units), marketing issues (e.g., positioning the brand and achieving clarity in the associated marketing message and avoiding cannibalization of one brand by another), and challenges in customer-relationship management (e.g., establishing and maintaining brand-specific customer-service quality standards) [4].

### **3. The Role of Brand Affiliation in Hotel Market Value**

A hotel property's brand identification is clearly a large factor in its market value, but measuring the brand's contribution to a property's market value has so far been as much "art" as "science." A number of financial indicators are used to determine a property's value. Net operating income (NOI), average daily rate (ADR), occupancy rate, and even number of rooms have proven to be significant predictors of a hotel's market value [5].

Not only is it generally recognized that brands create value for both consumers and companies, but consumers use brands as cues to infer certain product attributes, such as quality. Because loyal customers are generally less price-sensitive, more willing to purchase more, and generate positive word of mouth, corporate management has realized that brand names are among the most important assets of a company [6]. A study conducted by O'Neill, J. W., and Xiao, Q., examined the brand effect on hotel market value from an investor-owner perspective. The fundamental question was: What is the role of brands in determining hotels' market values? In particular, are there value

premiums for hotel properties affiliated with certain brands over those affiliated with other brands? Based on a data set consisting of more than one thousand actual hotel-sale transactions, the study explored whether a particular hotel brand contributes more or less to the value of hotels flying that flag, while controlling for the most recognized value predictors, namely, NOI, ADR, occupancy rate, and number of guest rooms. By revealing brands' effects on hotel values, the authors expected to assist current and potential hotel owners, investors, lenders, and other analysts, as well as corporate brand management, with their assessment of the power of brands in terms of hotel market values.

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. 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.

The recognized goal of hotel branding is to provide added value to both guests and hotel companies by building brand loyalty. It was reported that 85 percent of business travelers and 76 percent of leisure travelers preferred branded hotels over independent properties. One reason for this finding is that hotel guests rely on brand names to reduce the risks associated with staying at an otherwise unknown property [7]. In that regard, strong brands enable hotel chains to be part of and to differentiate themselves in the mind-set of customers.

The study stated the fact that brands collectively have a significant effect on hotel values. More specifically, hotel

brands affect market values of four hotel types, namely, midscale without F&B, midscale with F&B, upscale, and upper upscale. At the same time, individual brands had greater or lesser effects on hotel valuations.

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. Specifically, owners of midscale and upscale hotels should be cognizant of the value their chosen hotel brands bring to their properties. 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 reimagining, retrenchment, or remedial brand strategies, when necessary [8].

#### **4. The Relationship between Guest Satisfaction, Room Revenue and Hotel Branding Strategy**

From a corporate strategy viewpoint, well-managed brands tend to gain increasing market share. Yet, previous research linking service quality with market share in the hospitality industry shows mixed results. There are two divergent views on the effect of brand growth on customers' quality perceptions. First, the market signaling theory suggests that consumers interpret a high market share as a signal of high quality, thus resulting in increased future demand. Consequently, it is not surprising that market share leaders, including those in the lodging industry, tend to use their share as a focal point in their advertising messages (e.g., Best Western's advertising campaign touting that they are the largest hotel chain in the world).

The second stream of thought on brand management proposes that there is a negative relationship between market share and perceived quality. Some large-scale satisfaction studies show that satisfaction decreases with an increase in market share. As a hospitality industry example, McDonald's executives have acknowledged that the company's growth has come at a high cost in terms of quality[9].

In this study, guest satisfaction had a positive influence on both occupancy rate and ADR (average daily rate). The results further indicated that brands with higher guest satisfaction levels seem to achieve not only greater revenues per guest room but also achieve higher growth rates in room revenues than brands with lower satisfaction. This finding was consistent with branding literature, which suggests that customers are willing to pay a premium price for their preferred brand. Protecting reputation for satisfaction at a brand level has become a key issue both in terms of customer perceptions and franchisee willingness to sign and/or stay with a particular hotel brand. Because today's hotel franchisees are as quick to change their brand loyalty, it may be more important than ever for hotel brand executives to maintain consistent brand quality (i.e., guest satisfaction). Brand size was positively linked to occupancy percentage, thus suggesting that lodging customers might use brand size as a quality cue. Thus, brands with many hotels and/or large hotels were considered as relatively larger brands. Regardless of the merits of the signaling theory, hotel company executives need to be prudent when choosing their growth strategies.

Growth via franchising might have an adverse effect on quality. In the study, the percentage of franchised units within the brand was negatively correlated with both guest satisfaction and occupancy. 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. One of the reasons that brands with a greater percentage of franchised properties might be achieving lower levels of guest satisfaction, and ultimately lower occupancy levels, is that as hotels age, they tend to suffer from functional obsolescence as their designs experience a decrease in utility over time.

When an older hotel suffers from functional obsolescence, capital investments will no longer result in an acceptable return to the owner. Hotel owners in such a position are financially demotivated from employing capital to improve the physical plant, regardless of brand standards. Franchisors must make strategic decisions regarding addressing the balancing of the guest need for service versus the brand need for franchise fee revenues.

As this study indicates, this balancing act is a crucial one for hotel franchisors. Although the generation of franchise fees is a vital short-term goal for any franchisor, guest service has a long-term effect on the overall health of hotel brands, at least in terms of future brand-occupancy levels. Consequently, the aggressiveness with which brand management disciplines and/or eliminates franchisees who are providing relatively poor guest service may have serious implications regarding not only the future reputation, but also the actual future performance of the entire brand.

Furthermore, the research found that brands with higher levels of guest satisfaction achieve not only higher average daily rates, but that these brands achieve significantly greater percentage

increases in their average daily rates over time, as well. Although hotel guest satisfaction certainly comes with economic costs to operators, the important message to hotel brand managers is that there exists empirical evidence that guest satisfaction offers clear economic rewards, as well[10].

### **5. The Hotel's Market Positioning and Competitive Market Efficiency**

A hotel's business strategy can take two basic forms - a market emphasis or a cost emphasis. Of course, hotels can pursue a hybrid strategy that blends the strengths of both a market emphasis and a cost emphasis. A critical issue facing hotels following a market emphasis is to differentiate themselves from their competitors. Thus, finding a unique competitive position for the hotel is a key pursuit of market-focused hotels. A critical issue facing hotels that emphasize costs is to find ways to improve their productivity. In other words, these hotels attempt to increase their economic efficiency by lowering their costs while maintaining or increasing their sales revenues.

Economic-efficiency research emphasizes improving the ratio of outputs to inputs, whereas market positioning research focuses on customer perceptions of the hotel's market offering relative to the competition. A fruitful direction for hotel research is to integrate positioning with efficiency. It is interesting to study the efficiency with which different hotel brands are able to generate customer satisfaction and perceptions of value.

Market positioning refers to the location of a brand relative to its competitors in the customer's mind. A hotel's positioning, for example, can be based on specific features or attributes (e.g., full food and beverage service vs. complementary continental breakfast only), particular benefits (e.g., quiet comfort vs. airport convenience), the specific usage category (e.g., overnight vs.

extended stay), or the particular user category (e.g., pleasure vs. business travelers), a hotel's market position is based on customer perceptions.

Competitive market efficiency refers to how well a firm (a hotel, in our case), relative to its competitors, uses its available resources to produce outcomes desired by its customers. Firms that are able to generate greater customer outcomes with fewer resources than their competitors are more likely to dominate their markets. This is what is meant by competitive market efficiency.

Clearly, competitive market efficiency is one way in which firms can position themselves in their customers' minds. Firms can attempt to provide more outcomes to their customers using fewer resources.

Two key customer outcomes, inextricably linked to each other, are customer value and customer satisfaction.

Customer Value. Value to the consumer is the benefit perceived by the consumer.

Customer Satisfaction. Another outcome that a hotel firm can generate is customer satisfaction and consists of the general feelings that a consumer has developed about a product or service after its purchase. Consumers are more likely to use attributes in making postpurchase evaluations than they are in making overall product evaluations. Thus, an attribute-level analysis is more diagnostic in determining the antecedents of consumer satisfaction and/or dissatisfaction.

Competitive Market Efficiency. The competitive market efficiency can be defined as efficient if it provides the highest value per dollar spent for that set of characteristics, or, equivalently, if it is the cheapest brand that can be produced and sold for that set of characteristics. Any brand that fails to satisfy this criterion may be regarded as inefficient.

Inefficient brands can exist for several reasons. One key reason is a lack of information - a lack of information about what brands are available and what the relevant attributes are. Another key reason for inefficient brands is that efficient brands may not exist. This occurs where consumers cannot purchase mixtures of brands but rather must buy discrete brands that are near to, but not at, the consumers' optimal choice.

Studies in this field did show how DEA (Data Envelopment Analysis) could be used to assess a hotel brand's competitive market efficiency [11]. A hotel brand's market efficiency as the brand's level of outputs (measured in terms of customer satisfaction and customer value) relative to its inputs (i.e., the hotel's attributes including price). The hotel brand's competitive market efficiency benchmarks its market efficiency against those of its competitors. The results of these studies show that both of the luxury hotels, upscale hotel brands, intermediate hotels, and parsimonious hotels are DEA market efficient. In other words, no other hotels generate greater outputs for the inputs used by those DEA market-efficient hotels. The dual solution to the primal DEA formulation provided insights as to how less efficient hotels can improve their competitive positions in terms of customer satisfaction and value. Hotel firms can improve their competitive market positioning by offering their guests more and charging them less.

The DEA findings show that, compared with their competitors, some firms use their hotel attributes more efficiently to generate customer satisfaction and perceptions of value. These are the DEA-efficient hotels. Managers of hotel brands that are less efficient can improve their competitive market efficiency by mimicking their more efficient competitors. Generally, this means hiring

and training better quality front desk staffs, placing a greater emphasis on general maintenance and cleanliness, and eliminating problems before they become complaints. It also means lowering prices to more competitive levels. These are short-term adjustments that a hotel brand can make to become more DEA market efficient.

Longer term improvements involve adjusting the numbers of hotels and sizes of the hotels in the chain. Some firms are advised to expand the number of properties in the chain, whereas others are advised to shrink the size of the chain. Some hotel brands can become DEA market efficient by operating bigger hotels (i.e., more rooms per hotel), whereas others are advised to limit their hotels' scale. Unless these relatively high-priced and market inefficient brands improve their competitive positioning, they are likely to experience declining sales growth and reduced shares of the market. Thus, it is important for hotel managers to track their competitive market efficiency to ensure that they are offering the requisite services and amenities at the appropriate price so as to generate competitive levels of customer satisfaction and perceptions of value.

## **6. Brands and Romanian Hotels**

In 2007 the total amount of Romanian hotels gathered 1075 units, out of which 10 units (0,9%) hotels of 5 stars, 8,2% hotels classified at 4 stars, 31,6% units of 3 stars, 41,5% of 2 stars, 16% hotels classified at 1 star, and the rest of 1,8% units are not classified [12]. One of the ways to improve hotel's standards, and therefore, to attract more foreign tourists, is the affiliation to the international hotel chains, which, among other very important assets, promote notorious brands. Some of the Romanian hotel managers have such a

vision. But the percentage of the Romanian hotels members of hotel chains is rather critical. These days, only 1% of the Romanian hotels are members of such important hospitality organizations, while the European average is 25%, and in the USA, the percentage of membership grows to 75% [13]. Of course, we can appreciate that Romania isn't a target market for these international hotel chains, but, as far as we consider, the biggest problem is that the Romanian managers are not interested in affiliation. Did they know something about big hotel brands and the positive results related to them? Are they willing to offer hospitality services at comparable standards with the hotels which promote notorious brands? Well, some of them value their independence more than anything else. But, in these critical moments, especially for hotels' activities, would it be enough?

## References

1. Anderson, E., Mittal, V.: *Strengthening the satisfaction-profit chain*, Journal of Service Research, 3, 2000, pp. 107-120.
2. Bharadwaj, S. G., Varadarajan, R. P., Fahy, J.: "Sustainable Competitive Advantage in Service Industries: A Conceptual Model and Research Propositions," Journal of Marketing 57 (October 1993), pp. 83-99.
3. Brown, J. R., Ragsdale, C. T.: *The Competitive Market Efficiency of Hotel Brands: An Application of Data Envelopment Analysis*, Journal of Hospitality & Tourism Research, 2002, 26, pp. 332-360.
4. Doyle, P., Stern, P.: *Marketing Management and Strategy*, fourth ed., Pearson Education Limited, Harlow Essex, 2006, pp. 166-167.
5. Livingston, J. S.: *A Burst of Tiers: The Scorecard*, Cornell Hotel and Restaurant Administration Quarterly, Vol. 26, No. 3, 1985, pp. 36-38
6. O'Neill, J. W., Matilla, A. S.: "Hotel branding Strategy: Its Relationship to Guest Satisfaction and Room Revenue", Journal of Hospitality & Tourism Research, 2004; 58, pp. 156-165.
7. O'Neill, J. W., Xiao, Q.: *The Role of Brand Affiliation in Hotel Market Value*, Cornell Hotel and Restaurant Administration Quarterly 2006; 47; pp. 210-221.
8. Weizhong, J., Chekitan, D., Vithala, R. R.: *Brand Extension and Customer Loyalty: Evidence from the Lodging Industry*, Cornell Hotel and Restaurant Administration Quarterly, Vol. 43; No. 5, 2002, pp. 5-16.
9. <http://insse.ro> Accessed: 01-04-2009
10. \*\*\*Revista Capital, 26.03.2009, p. 18.

## Notes

1. Doyle, P., Stern, P.: *Marketing Management and Strategy*, fourth ed., Pearson Education Limited, Harlow Essex, 2006, pp. 166-167.
2. Livingston, J. S.: *A Burst of Tiers: The Scorecard*, Cornell Hotel and Restaurant Administration Quarterly, Vol. 26, No. 3, 1985, pp.36-38
3. Weizhong, J., Chekitan S. D., Vithala, R. R.: *Brand Extension and Customer Loyalty: Evidence from the Lodging Industry*, Cornell Hotel and Restaurant Administration Quarterly, Vol. 43; No. 5, 2002, pp. 5-16
4. O'Neill, J. W., Xiao, Q.: *The Role of Brand Affiliation in Hotel Market Value*, Cornell Hotel and Restaurant Administration Quarterly 2006; 47, p. 210.

5. Anderson, E., Mittal, V.: *cited work*, pp. 107-120
6. Bharadwaj, S. G., Varadarajan, R. P., Fahy, J.: “*Sustainable Competitive Advantage in Service Industries: A Conceptual Model and Research Propositions*,” *Journal of Marketing* 57 (October 1993), pp. 83-99.
7. O’Neill, J. W., Xiao, Q.: *cited work*, pp. 210-221
8. O’Neill, J. W., Matilla, A. S.: “*Hotel branding Strategy: Its Relationship to Guest Satisfaction and Room Revenue*”, *Journal of Hospitality & Tourism Research*, 2004;58, pp. 156-165
9. *ibidem*
10. Brown, J. R., Ragsdale, C. T.: *The Competitive Market Efficiency of Hotel Brands: An Application of Data Envelopment Analysis*, *Journal of Hospitality & Tourism Research*, 2002, 26, pp. 332-360
11. <http://insse.ro>
12. *Revista Capital*, 26.03.2009, p.18