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### Fresh Thinking about the Box

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## Fresh Thinking about the Box

### Abstract

Brands have become the central organizing principle for most hospitality organizations, guiding every decision and every action. They make up a large part of the market value of many successful companies. While making money remains the end, managing brands successfully has become means number one. Many hotels and restaurants globally are affiliated with multi-unit brands, and hospitality branding is a global phenomenon for at least three reasons: the customer's desire for a predictable product and service experience, economies of scale in advertising and distribution, and market power in negotiation with suppliers, high-value buyers, and developers.

### Keywords

Cornell, hotels, loyalty programs, branding, traveler reviews

### Disciplines

Hospitality Administration and Management

### Comments

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# *The Center for Hospitality Research*

Hospitality Leadership Through Learning

## Cornell Hospitality Brand Management Roundtable:

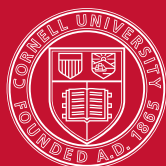


## Fresh Thinking about the Box

## Cornell Hospitality Roundtable Proceedings

Vol. 3, No. 6, June 2011

by Chekitan S. Dev, Ph.D., and Glenn Withiam



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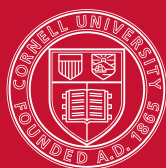
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# Cornell Hospitality Brand Management Roundtable: Fresh Thinking about the Box

by Chekitan S. Dev and Glenn Withiam

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## ABOUT THE AUTHORS



**Chekitan S. Dev** is associate professor of strategic marketing and brand management at the School of Hotel Administration. Recognized as a leading authority on strategic marketing and brand management, his award-winning research has been published in several peer reviewed journals, including the *Journal of Marketing* and *Harvard Business Review*. He has won all major hospitality research awards including the 2002 John Wiley & Sons award for lifetime contribution to hospitality and tourism research. A former corporate executive with Oberoi Hotels & Resorts, he has served corporate, government, education, advisory and private equity clients in over 35 countries on five continents as consultant, seminar leader and expert witness. These include Accor, Breedon Capital Partners, Chandris Greece, Crystal Cruise Lines, Disney, Expedia, ExpoGourmand Chile, eHow Technologies China, Four Seasons Mumbai, French Culinary Institute, Grupo Posadas Mexico, Hilton, Holiday Inn, Horwath Austria, HOTUSA Spain, Hyatt, IHRAI Philippines, InterContinental, Jampro Jamaica, Jumeirah Dubai, Kerzner Mauritius, Leela India, Mandarin Singapore, Marriott, Mövenpick Switzerland, One&Only UK, Orbitz, Peninsula, PlanHotels Italy, Priceline, Rosewood, Sarovar India, Starwood, Taj India, Travelocity, Westin, YUM Malaysia, and Zatisi Czech Republic. Professor Dev was selected as one of the “Top 25 Most Extraordinary Minds in Sales and Marketing” for 2009 by Hospitality Sales and Marketing Association International (HSMAI).

**Glenn Withiam** is director of publications for the Cornell University Center for Hospitality Research. The authors extend their appreciation to Professor Rohit Verma, executive director of the Center for Hospitality Research, Jennifer Macera, CHR associate director, and Melissa Carlisle, manager of events and *Cornell Quarterly* coordinator, for organizing this roundtable, and to Hilton Worldwide for sponsoring this event. We also acknowledge the participants for their candid, spirited and thoughtful discussions.



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## EXECUTIVE SUMMARY

The goals of the first Cornell Hospitality Management Roundtable, organized by the Center for Hospitality Research (CHR) and sponsored by Hilton Worldwide, were to significantly, permanently, and positively affect the management of hospitality brands. To that end, the roundtable featured twelve “provocateurs” who made eight presentations designed to stimulate discussion on key brand management issues, and an additional two dozen brand leaders, consultants, and professors to participate in the day long session. With a focus on hospitality brands, the provocateurs examined the elements of a global brand, analyzed the pillars of brand growth, and explained the value of amenities to brand identity. A particularly interesting idea involved the question of which brands add the most value to a hotel reflagging, taking into account the fact that without a brand the deal probably would not be done at all. The challenges of reorganizing a company to support brand extensions were depicted in the case of the Taj Group of brands, along with the issues involved in when and how to use co-branding in the lodging industry. Design as a key element of branding was explored, with examples of how careful design touches can set a brand apart from its competitors. The roundtable also included a critical element that is not always part of the brand development discussion but needs to be, legal issues. The outcome was series of spirited discussions on cutting edge hospitality brand management challenges and opportunities.

Cornell Hospitality Brand Management Roundtable:

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**B**rands have become the central organizing principle for most hospitality organizations, guiding every decision and every action. They make up a large part of the market value of many successful companies. While making money remains the end, managing brands successfully has become means number one. Many hotels and restaurants globally are affiliated with multi-unit brands, and hospitality branding is a global phenomenon for at least three reasons: the customer's desire for a predictable product and service experience, economies of scale in advertising and distribution, and market power in negotiation with suppliers, high-value buyers, and developers.



Hotel and restaurant brands are highly fragmented, however. For example, in contrast with other product categories, the market share accounted for by the top three brands in each hospitality segment is small. As a result, both industries are highly competitive and business leaders increasingly turn to brand management in an attempt to achieve superior performance.

Almost all the major hospitality brands have, or are currently engaged in, restructuring their business strategies and organizations around brands. Many have appointed brand managers at the vice president level and above.

CEOs are expected to know enough to lead the efforts of their brand teams, as exemplified by the comment of one CEO not long ago. A news release announcing the departure of the CEO of the world's largest hotel company a few years ago contained the following: "The Board of InterContinental Hotels Group PLC announces that by mutual agreement Richard North will be stepping down as Chief Executive and as a Director..." In outlining the reason for his departure, North had the following to say: "It is now only a matter of time before the company becomes one predominantly about brands. ... I would have loved to continue to manage InterContinental Hotels Group PLC as it evolves to become the world's leading hospitality brand owner. But I recognize that someone else whose whole business background has been developing and managing brands may be better placed to ensure the company achieves this vision and creates maximum value for shareholders." In another nod to the importance of brand management as a critical skill for those leading major hospitality firms, Starwood and IHG's current CEOs are both former consumer products brand managers. In short, the hospitality industry offers a complex, fragmented, global, competitive context for developing novel, practical, and profitable approaches to brand management.

### The Brand Roundtable

The Cornell Hospitality Brand Management Roundtable was designed as a one-day, interactive, high-level discussion for select group of thirty brand executives, consultants, and professors on a variety of key brand management topics. The roundtable featured several provocative presentations by thought leaders from the hospitality industry, brand consulting firms, and the academy, including "hot off the press" research studies by leading scholars collaborating with industry partners. Each 50-minute session was kicked off with a 20-minute presentation by thought leaders or "provocateurs" on each subject, leaving a full 30 minutes for discussion. In the following sections, we summarize the key insights from each of the eight sessions.

### Building Successful Global Brands

Setting a brand apart is critical in the lodging industry, where consumers can be confused by brands that appear to

When consumers become deeply knowledgeable about a brand, they can even become brand evangelists. The key remains energized differentiation of the brand.  
—Ed Lebar, founder, and Seth Traum, director of brand strategy, of BrandAsset® Consulting

be similar. Opening session provocateurs, Ed Lebar, founder, and Seth Traum, director of brand strategy, of BrandAsset® Consulting, explained how to transform customer data into brand strategy, especially given the "sea of sameness" that afflicts many brands. Lebar and Traum discussed the four pillars of brand development from the BrandAsset Valuator model of brand equity. They are *energized differentiation*, *relevance*, *esteem*, and *knowledge*. These are seen as a progression of *brand strength* and *brand stature*. A brand begins by building energized differentiation and eventually builds relevance as it enters consumer's consideration sets. Eventually, the brand gains esteem from its patrons, some of whom become truly loyal to the brand. When consumers become deeply knowledgeable about a brand, they can even become brand evangelists. The key remains energized differentiation, because the greater a brand's differentiation, the stronger its financial metrics. In the lodging category, energized differentiation is highly correlated to revenue per available room (RevPAR) and average daily room rate (ADR). Additionally, relevance is related to occupancy rate.

Brands typically experience a life cycle that extends beyond the differentiation and growth phase and can lead to commoditization when a brand's differentiating proposi-

tion is lost. Lebar and Traum used brand equity measures of brand strength and brand stature to construct a matrix capturing the brand's lifecycle position in relation to other brands. On the matrix, called a PowerGrid, a brand can be in the *undeveloped* quadrant, the *niche* quadrant, the *leadership* quadrant, or the *commoditized* quadrant. So, a brand with both high strength and high stature is a distinctive leadership brand that enjoys the commitment of customers. On the other hand, many brands that have developed high brand stature but lack brand strength are commodity brands. This is not necessarily a bad position if your business model involves relatively low costs and high volume. By contrast, a luxury brand needs high brand strength to maintain its niche positioning, not to mention pricing. The key here is to align the brand's strategy with its position. As an example, W Hotels has developed into a niche brand that puts it in a strong position, although it is not a high volume brand. Most lodging brands are not in the leadership quadrant with high brand strength and brand stature, even when evaluated by frequent travelers.

The overall trend for a brand lifecycle is to settle toward the commodity quadrant, and when this occurs, typically through losses in energized differentiation, it can be difficult to change consumers' mindset. However, a brand can escape this fate by focusing on building brand strength, Traum explained. Part of this process may involve new product development, but attention to branding and marketing also is essential. Examples of brands in the quick service restaurant category that have reversed their commodity status and moved toward leadership include McDonald's, KFC, and Subway. KFC, for instance, struggled with consistency of Harland Sanders's original recipe, Lebar recalled. The chain had tremendous difficulty in getting people to prepare the chicken properly. However, although it was difficult to move the brand to consistency, that was the key to recovery. Within its category, Holiday Inn has worked to move toward a leadership direction by adding new properties and removing old ones. An effort like this has been slowed for many brands by the recession, since reduced revenues mean that upgrades are delayed. Perhaps the classic brand rehabilitation story is that of Apple Computer, which was left for dead in the 1980s, until it resurrected itself with new products and marketing, and moved away from its status as merely a computer maker. Nintendo also reinvigorated itself with brand extensions. These are now "go-to" example brands, but even ten years ago each could have died.

For the hospitality industry, the matter is complicated by the fact that various traveler segments seek different lodging brand characteristics and thus they evaluate the same brand in different ways. Frequent travelers, for instance, have their own perceptions of hospitality brands that are more defined than those of leisure travelers. For

frequent travelers, such attributes as prestige, distinctiveness, and upper class are key differentiators. For a global brand, consistency is critical, said Lebar. The brand must stand for the same message in every market. A brand that is incredibly strong will nevertheless have trouble sustaining growth if it is thought of differently in each country. Consistent global branding also creates efficiencies so that brand managers do not have to determine what the brand's position is in each country. It is essential to build trust into the brand message. A brand is essentially a promise of a set of benefits. Thus, if the brand doesn't have trust and integrity, it will not survive. A final point about a global brand is that it needs to develop a community of like-minded people. This combination of efficiency, trust, and community allows a brand to return superior financial performance. Such brands as BMW, Coca Cola, Disney, Levi Strauss, and Volkswagen are consistent and high performing global brands.

### What It Takes to Build a Great Brand

Some hotel companies manage numerous flags, but few companies have more brands to manage than Procter and Gamble. In a massive benchmarking effort, P&G conducted a study of the world's best brands to determine what it takes to build a premier growth brand, so that the company could reinvigorate its many consumer brands. P&G leader James Stengel reasoned that by analyzing the science behind top brands, his firm could rethink the way it builds its already well-known and successful brands. Assisting P&G with this study was Benoit Garbe, vice president of Millward Brown Optimor, who explained the core elements of the study. Garbe pointed out that when you see a great brand, you know it, as is the case with excellent architecture.

**P&G's study.** To start the study, the Millward Brown team asked these questions: What are the brands that have built the most financial value over the past decade?, and What can we learn from them? They then compiled a list of consumer facing brands that had seen the greatest consistent growth over time. They defined this growth both in absolute and relative terms, in comparison to their category. This methodology was linked to brand equity and financial performance, based on the idea that brand value is driven by financial performance multiplied by equity contribution and brand potential.

Garbe said the team developed a list of the top 25 growth brands, which together created \$400 billion (thousand million) in shareholder value, and grew by more than 50 percent compared to their competitive set. The list leans toward goods rather than services. Some of these brands are long established (e.g., Heineken), but others are quite recent (e.g., method, Red Bull). The list includes both value brands (such as Zara, eBay, and Esprit) and luxury or premium brands (notably, Louis Vuitton and Moët and Chandon).

Garbe pointed out that many strong brands are not on the list simply because their growth rate was not as strong as those in the top 25.

Millward Brown then selected eight diverse brands to determine what lessons might be found in their success. In other words, what propelled their growth? The researchers expected to find a wide variety of models, but it turned out that these top brands had numerous practices in common. Four elements of brand building emerged: having an ideal, focusing on fundamentals to remain true to the brand's heritage, recognizing the importance of leadership (in the form of a brand champion), and seeking engagement. P&G chose the following brands to benchmark: Apple Computer, HSBC, Louis Vuitton, method, Moët and Chandon, Red Bull, Samsung, and Toyota.

**Ideal.** All the best brands are built on an ideal, which drives all activities and decisions. This ideal taps into human values and involves serving a purpose larger than the brand. So, for example, Apple's ideal was to think differently about self expression; Moët and Chandon was "be fabulous"; Red Bull, gives you wings; Toyota, improve your quality of life; HSBC, entertain different points of view; and method promoted a happy, healthy home. Design must express the brand ideal, create buzz, and build the brand's iconic status.

**Fundamentals.** The best brands are proud of their heritage, Garbe said. This is not always a simple matter, but a foundation of heritage gives a brand credibility and authenticity while providing guidance in brand management. So, for example, Moët and Chandon has six values (namely, pedigree, splendor, luxury, pleasure, surprise, glamour), which drive all brand-management activities. For Red Bull, the heritage is a mystique and the spirit of underdog: extreme, unexpected, and anti-conformist.

**Leadership.** Each brand had what Garbe termed a brand artist, who is a visionary leader who carries the values of the brand and makes sure all decisions are brand focused. This person guards the brand. Marketing teams do not build a brand, Garbe explained; instead, top minds do. A successful brand organization empowers brand artists and leaders, because star brands can only stem from an artistic and creative mind that sets the vision and creates surprise and delight.

**Engagement.** Each successful brand is single-minded regarding the brand organization and culture. That is, there is one voice and one organization that extends from the brand. These brands depict a strong belief and strong point of view of the world. Most critically, they invite consumers into their world to share their values. As Garbe put it, it's not what people buy but what they buy into. He added that excellence in experience is common across all top brands. That is, they always deliver on their performance promises. The best brand managers know what matters and keep their mes-

Top growth brands demonstrated four key elements of brand building: having an ideal, focusing on fundamentals to remain true to the brand's heritage, recognizing the importance of leadership (in the form of a brand champion), and seeking engagement.—*Benoit Garbe, vice president, Millward Brown Optimor*

sage simple and straightforward. Suppliers become insiders, and employees are the brand. Samsung reinvigorated itself from being simply an electronics maker to a trendy purveyor of design and creative capabilities. As a result, it has won 26 international design excellence awards. Along the same lines, Apple Computer's message is to focus on what matters and be disruptive. For method, the approach is to treat design as its medium to offer style and substance for the home. In keeping with its brand strategy, LVMH (Louis Vuitton's parent brand) by-passes back-of-house efficiency to run each of its brands as a separately.

Companies can engage consumers by creating exciting encounters. In addition to talking with one voice, the brand can act big (even if it isn't) by co-creating with consumers through dialogue and building buzz. Continual innovation is part of this engagement, but in the context of innovation one way to be "big" is to create collections. This interesting concept borrowed from fashion world suggests a periodic innovation announcement that includes a cluster of products, designs, or services. When Apple announces its new iPad or iPhone (or cloud computing), it features a collection of colors and optional equipment, for instance. Toyota unveils new models and new trim lines for each model year, demonstrating its new ideas for its vehicles.

In sum, Garbe said that the goal of the top brands is to serve bigger ideas and tap into human values, embrace the

A systematic study of amenities that guests actually want and use found that hotel guests tend to over-choose features and focus on different dimensions before they use the product than after using it.  
—Rebecca Hamilton, professor, University of Maryland, Matt Valenti, director of global market research, Starwood, and Jennifer Sabet, manager, global market research, Starwood

brand heritage to set future activities, deliver experience excellence, live through design, apply the brand principles in all cases, maintain a single-minded organization and culture, and pay attention to price and value. As a result of the study, Procter and Gamble reorganized to create a brand culture. Using Pampers as an example, the brand's purpose was emphasized. It's not just diapers, but it's happy healthy babies, and innovation stems from that principle. Instead of being just another P&G office, this is now the Pampers division—the single-minded organization that manages that brand.

Roundtable participants noted that no service organization was included in the study, and Garbe explained that many food-service brands were contenders but did not show the necessary growth. Starbucks, for example, was a growth brand that lost its way. He felt that they had walked away from their brand proposition of creating a human connection, walked away from their heritage, and stopped training people in those brand elements, and instead tried to be a quick-service chain. Other service brands, notably many lodging chains, are hard pressed to maintain the consistency required to be a top brand—possibly because of the many

stakeholders involved in a lodging deal. However, lodging chains can make statements with design, and all hospitality firms have a golden opportunity to develop relationships with their guests. So, the potential for brand excellence remains in place. It was proposed that great service brands can build from the inside out, even though it's hard to optimize around multiple operating models that include franchises, management contracts, and other operating structures. As Michael Leven, of the Sands, summarized this discussion: “You have to be enormously true to your brand.”

### Branding by Amenity

The lodging industry's well-known trend of “amenity creep” is often attributed to brands' efforts to differentiate themselves from competitors. Most industry operators would agree, however, that despite considerable expense, adding amenities has not always created the hoped-for differentiation. Seeking to unravel the amenities equation, Starwood collaborated with professors at Cornell (Chekitan Dev) and University of Maryland (Rebecca Hamilton and Roland Rust) to conduct a systematic study of amenities that guests actually want and use. In particular, the study sought a way to calculate return on the amenities investment, dubbed ROA (return on amenities). Matt Valenti, director of global market research, and Jennifer Sabet, manager, global market research, of Starwood joined Professor Hamilton for the presentation.

Professor Hamilton explained that research in other areas suggests that hotel guests may be poor predictors of which amenities they will actually use. While purchasing (and before using) products, consumers tend to over-choose features and focus on different dimensions than they do after using the product. Before using products, consumers tend to focus more on the desirability of products (why they want the products); however, after using products, consumers tend to focus more on the usability (how they used the product). In this study, amenities covered a wide range of services and features, including valet parking, kiosk check-in, guest-room television and desk chair, a hair dryer, and a safe. The research team was interested in whether hotel guests would experience a similar “flip-flop” in their amenity preferences before and after their hotel stay. In a word, the answer is yes.

As expected, the survey found that predicted amenity use was generally higher than actual amenity use. Valenti pointed to another key area of the study, which is how using amenities contributes to guests' evaluations of their experiences. The study found that guests who used more amenities were significantly more satisfied with their stay.

Because of its robust sample methodology across brands, markets, and guest segments, the study was able to investigate the role of charging for amenities. The results found that add-on charges affect both amenity use and ame-



nity satisfaction. Usage charges increased the gap between predicted and actual use of amenities; however, different market segments reacted differently to usage charges.

Calculation of return on amenities must take into account (a) that the guest's decision to stay is based, in part, on predicted amenity use, and (b) actual amenity use. Guests who use more amenities are more satisfied with their stay and more likely to return to the brand. However, systematic mispredictions of amenity use are also important for managers to understand, Hamilton concluded, because decisions to stay at a property may be based more on what guests think they will use rather than what they actually use.

### The Value of a Brand

In search of ways to unlock the value of their lodging asset, hotel owners have changed the name of some 12,000 hotels in the past three decades, according to STR. Thus, the reflagging curve has gone exponential. The question is, what financial outcomes result from reflagging a property? A joint proprietary study by Cornell, University of Chicago, and PKF Hospitality Research (PKF-HR) calculated the value of specific brands and rebranding generally for 203 hotels for which five years of operating data were available. The hotels, which had an average size of 104 rooms, were converted in one of three ways: brand to brand, independent to brand, or brand to independent. The study captured profit and loss data for two years prior to the rebranding, the rebranding year, and two years following. The hotels were matched to a control group of hotels that did not rebrand but are located in the same metropolitan area, and were examined during the same period as the rebranded hotels. Although balance sheet information was not available, the two groups were compared for increases in occupancy rate, ADR, RevPAR, rooms revenue, total revenues, marketing expenses, gross operating profit (GOP), and net operating income (NOI).

Researchers Mark Woodworth, president of PKF-HR, and Cornell's Chekitan Dev explained that if we hold all other things constant, we look for the change as a result of the brand switch, by comparing the test group to the control group. Overall, after rebranding, the test group saw increases in ADR, RevPAR, and revenues, but also a substantial increase in marketing expense. These differences were significant. Taking just the brand to brand conversions, RevPAR increased 12 percent. However, compared to the control group, the increase is more of an occupancy story, resulting in only a 5-percent RevPAR lift that can be attributed to the brand changeover.

Hotels that discontinued their brand and went independent saw drops in occupancy, but they still recorded an 11-percent increase in RevPAR. Compared to their control group, however, although the newly independent properties had increased ADR, there was no other identifiable benefit

Although different brands bring various levels of value to a hotel deal, most lenders prefer having a brand over independent operation.—Mark Woodworth, president, PKF-HR, and Chekitan Dev, associate professor, Cornell University

beyond a drop in marketing expenses. Conversely, these now independent hotels experienced, on average, a 35-percent decline in NOI after allowing for the performance of the control group.

The formerly independent properties that added a flag enjoyed increases in occupancy, ADR, and (thus) RevPAR, but they also experienced considerable increases in marketing expenses. These greater marketing costs serve to offset the identified revenue gains thus resulting slight declines in net operating income.

These data allowed Woodworth and Dev to break out the effects of specific brands when a hotel reflagged. Some brands added more value than they extract from a property, but others absorbed value. Thus, due to drops in occupancy,

“Shelf space” is an essential consideration—that is, having the brand appear, under Hilton’s retail guidelines, in as many relevant locations as possible as many times as possible.—*Paul Brown, president, brands and commercial services, Hilton Worldwide*

certain brands are significantly negative in RevPAR. Most brands increased ADR, but not all increased occupancy, and the change in total revenue was not always favorable. With those data (assuming the necessary authorization is secured from the provider of these proprietary data), it would be possible to create an index in which brands are ranked according to value creation. Such an index would be useful for asset owners considering a new flag and for the parties involved in asset management.

Although it’s possible to create such an index, the fact is that having a brand is typically critical to securing financing for a project, Woodworth cautioned. In a recent meeting with fifty lenders, he found that all of them preferred a flag, while only a select few would lend money for an independent property. Thus, even if the brand technically extracts more value than it contributes, the fact is that there would be no deal without the brand, and so the brand clearly brings value to the owner.

Michael Leven, of The Sands, could see another use for such an index, which is to provide the data needed to show brand managers what they need to do to improve their brand to create more value. Other issues are to check the difference between upmarket and downmarket reflagging and to see whether there are differences between institutional owners and owner-operators.

Noting the critical matter of brand expenses, Ted Teng, of Leading Hotels of the World, recalled the reflagging policy when he was with Wyndham. He pointed out that the chain always rebranded its owned hotels to Wyndham when possible even if there was a rate or occupancy hit, because that allowed the chain to capture marketing and brand expenses, instead of paying them to another flag.

### Branding in the Internet Age

Paul Brown, president, brands and commercial services, Hilton Worldwide, shared Hilton’s approach to engaging consumers in its brands through online channels. The new model is completely topsy turvy, he said, since the original idea of web search involved a top-down approach, where people came to a site and gradually navigated down to the inventory. Now it’s sideways navigation at best, and the average traveler can visit as many as 22 websites before booking. As a result of this realization, Hilton changed its focus on channel management to evaluate the activities of the online teams, with a goal of influencing the decision process and maximizing retail presence, rather than just “did I get the booking.”

Taking a leaf from product marketers, Brown said that “shelf space” is an essential consideration—that is, having the brand appear, under Hilton’s retail guidelines, in as many relevant locations as possible as many times as possible. Thus, in addition to building great brands that deliver relevant product and experience and that send a proper message, one must make sure that product distribution is appropriate through all relevant channels.

This involves maintaining a relationship with all channels that matter to your business. Brown gave the example of Coca Cola, which has maintained a strong relationship with many distributors to get added shelf space and to lock up distribution channels. This allowed Coke to get immediate distribution for its new products through its existing channels.

So, a brand can demonstrate its value to owners in part by showing its shelf space on the GDS, any web based business-to-consumer (B2C) channel, or in sales relationships. Contrary to common belief, the greatest effect of online travel agents has not been to directly increase commoditization, but to increase transparency. Consequently, if a brand or hotel is in fact an undifferentiated commodity or perceived as one of low quality or service, this becomes readily apparent to consumers as they search on the web. For this reason, it is essential to have a great, differentiated product and also to make sure all communication is aligned with that product.

Brown noted that there’s “lots of noise” regarding OTAs in the lodging industry, but the OTAs are in the middle of this discussion mostly because of the transparency they



provide. He agrees that the economics appear troubling, but argues that they not as bad as they seem. Indeed, he sees the cost of the OTA as being not totally out of line with the net contribution it provides, particularly given the associated billboard effect and in many cases the ability to tap into incremental segments. That said, OTA costs are expected to continue to be reduced over time as alternative distribution channels emerge and direct online channels become even more effective.

As Brown explained it, Hilton's policy is to "sell the way our customers want to buy at the optimal economics for Hilton and our hotels." This strategy includes maintaining visibility and making it easy to navigate across all core retail and search channels. It's essential to establish consistent product pricing across all channels, and to provide the customer with compelling reasons to use direct channels as much as possible. In analyzing the different channels, it's essential to take a holistic view to determine each channel's economics, role and relative value, both as an influencer and as a booking engine. For this reason, one must manage channel-pertinent data in the most granular form to gain an apples-to-apples assessment.

Making direct channels better than any others that the customer might use increases yield, as does encouraging guests to participate in the loyalty program. Customers who are members of Hilton HHonors are two to three times more likely to book through direct channels, so that is worth a lot. Brown added that it is dangerous to look at average economics. Instead, you have to look at the margin to see how the dollars change. Just as an example, pay-per-click advertising seems like a reasonable way to bring in business, but as the clicks increase, they become considerably more expensive, and the marginal increase from paid search drops considerably very quickly.

Here's an example of how to create a holistic view of a channel, in this case OTAs. The pros for OTAs include: the value of being on the shelf, including the billboard effect; they reach a distinctive customer base; they offer relatively compelling yield if well managed; their contract rules can set terms and price stability; and the channel returns relatively high ROI on promotions and marketing. The cons are that OTAs are relatively expensive and bid up cost of search terms. They generally offer lower reported ADRs and relatively inflexible inventory controls, and most critically from a brand management point of view, the brand does not have direct connection with consumer in booking.

### Brand Architecture

One issue raised by Benoit Garbe's Procter and Gamble study was how to create the organization behind the brand. In recent years, the Taj organization addressed that issue as it redeveloped its organization to manage a portfolio of brands.

Taj created a brand structure that made sense both externally, in terms of customers' perceptions, and internally, in terms of organization.—*Lulu Raghavan, country director, Landor Associates, and Ajoy Misra, senior vice president for sales and marketing, Taj Hotels, Resorts, and Palaces*

In a joint presentation, Lulu Raghavan, country director, Landor Associates, and Ajoy Misra, senior vice president for sales and marketing, Taj Hotels, Resorts, and Palaces, explained Taj's portfolio approach to managing what had become a group of disparate properties straddling different segments of the market. Synonymous with luxury hospitality since 1903, the Taj had grown rapidly since 1971 by reaching out to new markets and customer groups. Opportunistic growth stretched the brand, however. As a result, the firm wanted create a brand structure that made sense both externally, in terms of customers' perceptions, and internally, in terms of organization.

Given that Taj operated brands in disparate market segments, one of its chief considerations was to determine how many brands it needed to cover the different market opportunities and the relationship between the master brand (Taj) and the other brands it might need to have. The reconfiguration strategy came at the inflection point of 2003, when the company reorganized from a mono brand to multiple brands, thus relieving the stretch on the core brand. Taj sat at the intersection of three vectors: (1) brand architecture, international expansion, and customer experience; (2) new expansion internationally and a new review of the customer experience; and (3) the realization that the chain had grown opportunistically. The Taj group brought order to the

## The industry's continuing consolidation in the last two decades increased the number of disputes regarding territory issues.— *Jim Renard, a partner with the law firm of Bickel Brewer*

portfolio, by repositioning Taj as true luxury brand and by focusing on domestic dominance in India with the creation of two new brands—Vivanta by Taj and The Gateway Hotel, which is not expressly a Taj brand in name, but which is connected to it. It then set its budget brand, Ginger, in a more distant orbit both organizationally and in terms of market perception. This framework was dictated by the realities of the possible dilution of the main brand by association with midmarket and economy brands.

For Taj, the key success factors were as follows:

- Differentiation in categories and position in competitive brandscape,
- Senior management alignment—managers soon realized that the company structure would change,
- Employee engagement, training, and motivation,
- Partner acceptance—this took a long time and the journey continues,
- Optimal deployment of resources,
- Consumer insight and customer mapping for psychographics,
- Brand blueprint for both service and product, and
- Communication—in all this was critical.

Once the analysis was complete and the strategy set, the only challenge was in actually starting. Making changes in the banner year of 2003 didn't initially seem to make sense, but the logic was compelling. Launching the Gateway brand was a white-knuckle moment, since so many hotels needed to be reflagged. Finally, it was essential to maintain open transfer for employees from one brand to another, all under the Tata umbrella. With those barriers surmounted, the confidence in this new architecture continues to grow. Today the Taj's portfolio encompasses 105 hotels in 11 countries on 5 continents.

### The Brand as a Bundle of Rights

Longtime hospitality litigator Jim Renard, a partner with the law firm of Bickel & Brewer, brought the roundtable up to speed on issues relating to brands and law. Renard sees the concept of a brand as consisting in large part of a bundle of intellectual property rights: comprising service marks, copyrighted materials, and trade secrets. For companies that own all their hotels, legal challenges are minimal, in terms of acquiring marks and copyrights and keeping trade secrets.

Challenges arise, however, in connection with third-party management agreements and franchise contracts, pursuant to which brand owners (i.e., chains) convey to others the right to use or to affiliate hotels with their brands. Of the many provisions in management contracts, a major breeding ground for brand-related disputes has been territorial protection clauses—by which hotel owners are effectively given enforceable rights against the brand owners themselves. Further contributing to those controversies is the fundamental legal principle that the operator is an agent of the hotel owner and owes the owner fiduciary duties, even if the contract disavows that relationship.

The industry's continuing consolidation in the last two decades increased the number of disputes regarding territory issues. In some instances, mergers and acquisitions led to unintended encroachments for many hotel companies. In addition, the proliferation of "co-brands" and "endorsed" brands (that is, new hotel brands that are affiliated with or are endorsed by existing, well-known brands) has given rise to numerous claims of breaches of restrictive covenants and territorial exclusivity clauses. Renard explained that many of these disputes arose because of contract language that was not drafted with sufficient care (or sufficient foresight), as well as by the failure on the part of some management companies and franchisors to monitor and coordinate their development activities with the limitations and restrictions imposed upon them by existing contracts with third-party owners. In sum, Renard urged all brand purveyors to be aware of the provisions of their contracts and to ensure compliance with their obligations as they build the value of their brands.

## Branding by Design

Several of the branding discussions acknowledged that design is a critical aspect of any brand's positioning. Howard Wolff, senior vice president at WATG, illustrated how branding by design is part art and part science. The science comes from understanding the elements of good design. As Wolff explained them, they are functionality, quality, and impact. More specifically, excellent design means that a property is designed for its purpose, is built to last, and lifts people's spirits.

Taking those principles as a basis, Wolff referenced a tool called DQI (Design Quality Indicator) to quantify how design adds value to a project. Hyatt tested it on 30 of their owned hotels—administering the 99-variable questionnaire to 2,000 guests and employees—and was able to correlate the DQI scores with guest and employee satisfaction as well as with the hotels' RevPAR index. WATG also has examined the effect of design on a property's top and bottom line, by comparing 27 hotels that the firm designed in four geographic areas against competitive sets in the same markets managed by the same operators over the course of 20 years. The WATG hotels outperformed the control group in occupancy, ADR and RevPAR.

Wolff said that design adds value in the following ways:

- Asset value: higher valuation as well as lower operating and maintenance costs;
- Quality of environment: improved productivity and better guest experience; and
- Brand identity: recognition, visibility and media exposure.

Wolff cautioned that your brand is defined by your customers, not by you. Good design emphasizes and reflects the brand's promises. As an example, Morgans customers point to the design of their hotels as being "unexpected, dynamic, and fun."

While it's easy to think of guest satisfaction on a single continuum, Wolff sees two separate linear scales of customer satisfaction. In the first one, if you fix what's wrong, you can turn a dissatisfied customer into a satisfied guest. The second level starts with a satisfied customer and moves to a guest who loves the property. Design, as Wolff illustrated with examples, can help to move guests to the "love it" category.

If you'd like to know what design issues your property faces, ask your employees. Guests come and go, but employees have to deal with a property's design weaknesses day after day, and, more to the point, employees' concerns mirror many of the guests' issues. Based on research conducted by Wolff, the top complaints cited by employees about a hotel's design are also noted by guests: insufficient lighting, inadequate work spaces, poor temperature control, slow elevators,

If you'd like to know what design issues your property faces, ask your employees. Their concerns mirror those of guests.— *Howard Wolff, senior vice president at WATG*

confusing navigation (poor sign design), and maintenance issues. Wolff points out that you can't have a great hotel if your employees don't like the place. There is also a bottom-line benefit to having happy employees that can be measured in terms of productivity, morale, turnover ... and guest satisfaction.

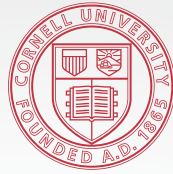
In conclusion, Wolff relayed the findings of another study that involves where to get the most bang for your buck in a renovation. The answer, surprisingly, was the lobby over the guestrooms, based on doing a "before" and "after" analysis of eight hotels renovated by Hyatt. Beyond that finding, renovating both the guestrooms and lobby together had an even greater impact on guest satisfaction and ROI. At resort properties, investing in landscaping and enhancing the arrival experience can also generate handsome returns.

## Conclusion

The goal of the first CHR Brand Management Roundtable was to provoke change and push the status quo. The range of topics covered in the one-day session can be viewed in the word cloud on the next page, created by subjecting the transcript of the day's proceedings to WordCloud analysis (using free software at wordle.net). The importance of each topic is defined by the size of the word in the cloud.







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