Midscale brand growth: Choice or commoditization?

By Guest Contributor on 12/20/2017

Chattanooga, Tennessee-based Vision Hospitality Group faced a critical choice. Like other owner/developer/managers intent on growth, Vision Hospitality had amassed a substantial branded portfolio, especially strong in the midscale tier. Its existing holdings included multiple Marriott International brands (Courtyard and Fairfield among them) and Hilton brands (Hampton and Hilton Garden Inn among them) as well as LaQuinta, IHG and Choice Hotels International product.

But obtaining franchise rights was becoming an issue, given area of exclusivity provisions. Should it persist in finding opportunities for these established brands or take a new direction?

Marriott had launched its edgy, boutique-style Moxy brand in late 2014, and Hilton had followed suit with its value-oriented Tru by Hilton in early 2016. Meanwhile, RLH Corp. had rolled out Hotel RL in late 2014, Best Western Hotels & Resorts had launched Glo the following year,

AccorHotels was planning a U.S. debut for its Ibis Styles brand, which occurred in July near New York’s LaGuardia airport, IHG was readying a new entry in June that turned out to be Avid, and now Hard Rock International is ready to roll with Reverb.

All these, and other new entrants, staked out their pieces of the broad midscale market while areas of exclusivity was less of an issue. Brand companies were eager to build distribution, the industry was still at a positive place in the lodging cycle and ample financing was available.

AccorHotels has brought its Ibis Styles brand to the U.S. at La Guardia airport in New York.

Yet Vision Hospitality President and CEO Mitch Patel, and developers like him, well knew that opting for a new brand comes with its own challenges. The broad midscale was an already crowded segment, making brand differentiation — and the accompanying consumer confusion — even more of an issue.

“You want to know there is a need on the consumer side,” Patel explains. “People’s tastes and expectations continue to change, and you want to be sure the new brand differentiates itself from the competition in a meaningful way.”

As with any new brand, there’s also the possibility that the “new kid on the block” will end up drawing demand from established sister brands nearby. “Cannibalization is inevitably a concern,” Patel says. “Existing owners always want to protect their investment any time a new brand is introduced.”

Pluses, minuses

Choosing which new brand to develop also carries risks. Which are most likely to win share? Are the largest industry players likely to dominate, compared to the numerous small brands or unbranded independents that also populate the category? The major players, after all, have the advantage of broader name recognition, more sophisticated distribution channels, top-of-the-line technology and, last but hardly least, the power of their frequency programs.

The pluses outweighing the minuses, Patel — either on his own or with joint venture and other partners — opted to go the “new brand is better” route: Vision Hospitality’s Tru by Hilton Atlanta McDonough opened in July. Two additional Tru properties are underway, one in the

Atlanta submarket of Kennesaw, the other in Chattanooga, Tennessee. Patel and his team are also throwing their weight behind Moxy. Moxy Denver Cherry Creek was scheduled to open late this year.

Diversified New York-based real estate owner/developer Lightstone Group made a similar decision, focusing, however, solely on Moxy. “We saw the brand as really filling an unmet need in the marketplace,” says Lightstone President Mitchell Hochberg. “We liked the brand’s hip, stylish positioning that would have broad appeal, though particularly to young travelers, at an affordable price,” Hochberg says guest rooms are small, compared to legacy brands in the midscale category, but that allows him to devote resources to creating larger multi-purpose social spaces, which happen to be where their target guest prefers to spend time anyway, Hochberg believes.

Focusing on gateway cities with established demand, Lightstone Group has seven Moxy projects in

development, including in trendy neighborhoods like New York’s NoMad and Times Square, an adaptive reuse that opened in September, West Hollywood and downtown Los Angeles and South Beach in Miami. Total investment: a reported US$1 billion.

In designing Moxy from an efficiency standpoint, Marriott rethought the labor model, for example, resulting in cost savings to the owner. Gone is the front desk and front desk agents. In their place are crew members (formerly known as associates). “They’re trained to perform a variety of functions, including checking in guests, tending the bar and serving as concierge,” according to Marriott’s Toni Stoecki, global brand leader an vice president, Distinctive Select Brands.

Pipeline numbers back up interest in the overall midscale segment at this point in the cycle. According to Lodging Econometrics, as of September, the upper midscale category in the U.S. had the largest project count of all industry chain scales in the firm’s total construction pipeline (2,060 projects, accounting for 205,270 guest rooms).

Targeting by age

Like Moxy and, to a lesser extent, Tru by Hilton, other new brands specifically target the younger generation. Best Western’s Glo alludes to the “hip traveler,” while Red Lion’s Hotel RL promotes “the local music scene and bikes to borrow,” interests typically associated with millennials.

“Existing Best Western members have been asking for a brand with a boutique feel at an appropriate price point,” says Ron Pohl, Best Western chief operations officer and senior vice president. “Accordingly, one-third of the first 26 owner/developers to sign on to Glo are Best Western members with the remaining two-thirds drawn to the membership association because of Glo,” he notes.

Yet Pohl cautions that, targeted demographics notwithstanding, Glo should attract consumers of other age groups, as well. Cranston, Rhode Island-based TPG Hotels & Resorts, which is developing a Moxy in Washington, D.C., takes a similar position. “You don’t have to be a millennial to prefer more of a social scene and less of a cookie cutter experience,” says Evan Morick, the company’s senior vice president of East Coast development.

Global head for Tru by Hilton, Alexandra Jaritz, sees the focus on younger travelers, combined with affordability, as positives over the long term. “It exposes new consumers to both the brand and the company,” she says. “Then as they grow up and have more disposable income, they’re more likely to choose our higher price point brands.”

Affordability is also key to the thinking behind the launch of IHG’s Avid, which will be priced at a 10% to 15% discount to Holiday Inn Express, up to now IHG’s lowest-priced offering.

“The strategy is to attract travelers who value the basics,” says Heather Balsley, senior vice president, IHG Americas Brand and Marketing. “Avid guest rooms,” she adds, “have been right-sized to remove additional amenities guests don’t want to pay for.”

Here, too, the idea is to connect the consumer to a brand company early in the life cycle. “There was a place in the market for a branded entry-level midscale product, the first step in a life-long travel journey,” says Bill DeForrest, president and CEO of Deerfield, Illinois-based Spire Hospitality and former global chairman of the 4,500-member IHG Owners Association.

Power of a sub-brand

To help with differentiation and at the same time reinforce the “mothership” connection, many new entrants have adopted a sub-brand, Tru “by Hilton” the most obvious example. The identifier “Best Western” appears under the Glo logo, while Avid will be the first IHG brand to feature the master brand mark “an IHG Hotel.” For its part, Ibis Styles is a line extension of AccorHotels’ Ibis brand.

“With the brand itself an unknown quantity, the trusted sub-brand reassures consumers they’ll have a quality stay,” says consultant Tom Engel, principal, TR Engel Group, Newton, Massachusetts. It’s a tactic small brands or unbranded independents can’t take advantage of.

Moxy is an exception to the rule, the name standing by itself, which is ironic since Marriott has been a strong proponent of sub-branding in the past (see Courtyard “by Marriott,” Fairfield Inn “by Marriott”). Why? Given its focus on youth and “edgy” positioning, it made sense to “go it alone.” Says Hochberg: “Moxy is not your father’s Marriott.”

When it comes to their frequency programs, however, brand managers (as well as owners) want everyone to make the connection. “Marriott Rewards has roughly 100 million members. Many will be interested in experiencing Moxy,” Morick says.

Adds Jaritz: “Not only will existing Hilton Honors members be interested to Tru, but conversely, consumers, having stayed at a Tru, will be drawn to sign up for the program.” Again, the major players are likely to dominate, small competitors in the segment not being able to afford points programs of their own.

Whether the new brand debuts in the U.S. (like Tru, Glo or Hotel RL) or internationally (the first Moxy opened in Milan Malprensa Airport, while Ibis Styles is established in Europe and South America), the goal in most cases is to have a global presence. In October, in fact, Tru by Hilton took a first step, unveiling plans to expand into Canada with agreements signed in Edmonton and Ontario.

While unit growth in the midscale sector is always critical, opinions are changing as to how many units it actually takes to become a national, no less global, brand. Three hundred? One hundred? “In the age of social media and the Internet, if a brand is truly distinctive, has a presence in the right locations and is promoted

effectively, it can take far fewer,” says Sean Hennessey, clinical associate professor at the NYU Tisch Center for Hospitality & Tourism.

Of course, the naysayers

Yet despite the brand companies’ best efforts to stand out from the crowd, naysayers maintain they haven’t been successful enough. “There hasn’t been nearly enough brand clarity. Consumers are still confused where different brands stand, price point, but also what amenities they offer,” says consultant Daniel Lesser, president and CEO of LW Hospitality Advisors, New York City.

“The emergence of soft brands in the midscale space is another complication that creates confusion,” Engel adds. The growing number of dual-brand properties, one of which is typically midscale, is another complicating factor.

Yet the wave of brand launches shows no sign of abating. During Hilton’s third-quarter earnings conference call for security analysts in October, President and CEO Christopher Nassetta noted the company was working on three or four new brand concepts across all lodging segments, two or three of which were likely to launch in 2018.

“As long as demand growth in the segment remains strong and we’re at a point in the cycle where financing is available and developers want to build, new brands are likely to continue to gain traction,” Hennessey says.

Contributed by Bruce Serlen