Hotel News Now

Opinions

The business case for brand proliferation

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Brands continue to add flags to their family of brands to attract customers and get an edge on the competition, but could all of these brands survive a downturn?

By Gary Isenberg

The hotel industry constantly morphs its offerings to cater to the ever-changing whims of the public, and nowhere is that phenomenon more evident than in the rash of new brand launches in recent years.

Researching the precise or official number of hotel brands is difficult to determine. Based on our research, we conservatively count nearly 100 new flags with at least eight properties have sprung since 2008, pushing the total number of brands to more than 700. The seven major family of brands including Marriott International, Hilton, InterContinental Hotels Group, Hyatt Hotels Corporation, Choice Hotels International and Wyndham Hotels & Resorts, account for almost 20% of the 700 brands.

What's fueling this proliferation of new brands that's slicing up the lodging marketplace into smaller demand segments? This burst of new franchise offerings can be partially traced to hoteliers aiming to attract the millennial generation—as well they should. At 73 million strong, this generation represents the largest demographic group in the U.S., and they're traveling for work and leisure. If hoteliers want them to check in at their hotels, they better meet this group's desires.

Design edge

Above all else, the millennial generation abhors the sameness of yesterday's hotel brands and demands a unique experience reflective of a specific marketplace. The term "lifestyle" has been used ad nauseam to describe what makes these newly minted brands distinct from their forefathers.

But what does lifestyle (or a similar overused buzzword—boutique) actually mean? It could be defined as anything from the subjective feeling a guest encounters during a stay to the floor plan of the property. Whichever definition is used, these new lifestyle concepts mark a complete break from the cookie-cutter hotels of the past.

To me, the distinguishing characteristics of these newly minted flags revolve around art-infused, sometimes quirky design elements. Even spinoffs of traditional brands like Holiday Inn Express's Formula Blue seek to update the chain's look and feel with distinctive color palettes and larger communal areas.

These new brands strive to get an edge on the competition with one-of-a-kind designs. The latest salvo in this battle may have been thrown by IHG when it applied for a patent for its WorkLife room layout for to-be-constructed Crowne Plaza Hotels & Resorts.

WorkLife rooms upend the typical straightforward hotel room blueprint. For king-sized bed accommodations, the bed is angled into the middle of the room from a headboard mounted into one corner. A television is placed within viewing distance on the wall opposite the bed as is a desk. In the corner next to the bed stands a curved sofa and coffee table. This layout allows the guest to eat and relax while catching some TV viewing, while the desk serves as an uncluttered workspace.

More interesting than the arrangement of the WorkLife room is the fact IHG decided to patent the concept. As new brands spring up and compete with each other, more hotel companies may follow IHG's lead and patent new room configurations so other brands won't copy the design. Not only will we have even more franchise banners flying, but very specific room models as well.

The business case for new brands

Outdoing the competition with edgy designs to attract today's demanding clientele isn't the only reason franchise companies have unveiled a succession of new brand names.

In the industry's long-running up cycle, demand has outpaced supply for the past decade. According to data from STR, parent company of Hotel News Now, available rooms grew no more than 2% each year between 2010 and 2018; at the same time, demand skyrocketed well above that percentage every year, including a 6.5% jump in 2010 as the industry emerged from a recession. Occupancy during that same period leapt from 57.6% to 66.3%. We can expect another positive year for the lodging industry in 2019, with demand outpacing supply 2.1% versus 1.9%.*

If the large franchise outfits hope to grab their slice of steadily accelerating demand they'll need to expand their family of brands. By now, the major brand companies are boxed out of most markets due to non-compete clauses for their well-established franchises. Yet, they continue to receive development deal inquires.

As long as the traveling public clamors for hotel rooms and it's feasible to build hotels, brands are going to continue to expand their franchise offerings. The only avenue for growth is to create new brands, or merge with other brand companies like Marriott did when it bought Starwood Hotels & Resorts Worldwide. To survive, franchise companies must find a way to soak up that swelling demand, especially in emerging markets where they have already planted a number of their flags along all the chain scale segments. Multiplying their family of brands also spreads their loyalty programs across a wider customer base—another tool they can use to compete with Airbnb.

Will all survive?

Will these new brands survive when the lodging industry hits an inevitable downturn? These newer brands have yet to be tested in an economic slump when every hotelier is fighting for every sliver of customer demand.

In the past, when demand has tanked, hoteliers have responded with fierce rate wars. How will the brand companies deal when all their franchise flags—new and old—battle for essentially the same customer? We don't know. All the interesting design touchpoints might not mean much when fewer consumers travel—and those that do only want the lowest price.

The winners will be those brands that evolve with customer preferences and technological advances. For now, it's fun to observe all the new concepts giving the industry a fresh look and appeal.

*Figures are as of August 2018; STR's latest forecast calls for both demand and supply to grow 1.9% for full-year 2019.

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