

MarketLine Case Study

Hotel Brand Differentiation

How major companies are using an
array of brands to appeal to all

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OVERVIEW

Catalyst

In this modern age, individuals are travelling more than ever. As such, competition has become intense between the various hotel chains fighting for the leading share of the market. In recent years, various companies have sought to gain a larger percentage of the market by diversifying their portfolio of hotel chains, to reach every price-point in the market. Additionally, the adapting taste of millennials is causing the chains to change their branding strategy.

Summary

Most major hotel companies are now looking to diversify their portfolio by providing a wide range of brands, available at different price-points. Companies can differentiate their brands by age, budget and type of traveler. Through offering different brands, these companies can ensure they appeal to everyone. The younger generation is increasingly interested in 'experiences' within travelling. As such, they are looking for a fun and social atmosphere within their hotel choices.

Major hotels are continually looking for new ways to differentiate their brand. Accor owns a wide range of hotels, from Ibis which has 588 hotels globally, to the exclusive Raffles hotel chain which costs thousands of dollars each night to stay in. Marriott is typically known as an up-market brand. However, they have recently opened up a chain called 'Moxy', which is aimed at the millennials with an emphasis on a sociable atmosphere.

Customer surveys have shown that the affordability of accommodation remains the most important priority for travelers, with 59% of consumers declaring it as a deciding factor. In terms of travelling to places which are famous for food or drinks, the younger population is far more attentive to those locations than the elderly, whom prefer places they have visited before. Social media is an extremely popular platform to decide where to go on holiday, particularly for those aged 34 and under.

Companies whom follow the trend of diversifying their portfolio of hotel chains risk spreading themselves too thin. Whilst it seems like a sensible decision to try and attract customers at every price-point of the market, there is a fear that companies will confuse their customer base and dilute their reputation. If a hotel chain wants to be successful at moving into different markets, they must avoid price wars, ensuring the customer is provided with adequate service and clear branding are all deemed essential.

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HOTEL BRANDS ARE BEING FORCED TO DIFFERENTIATE AS RIVALRY INTENSIFIES

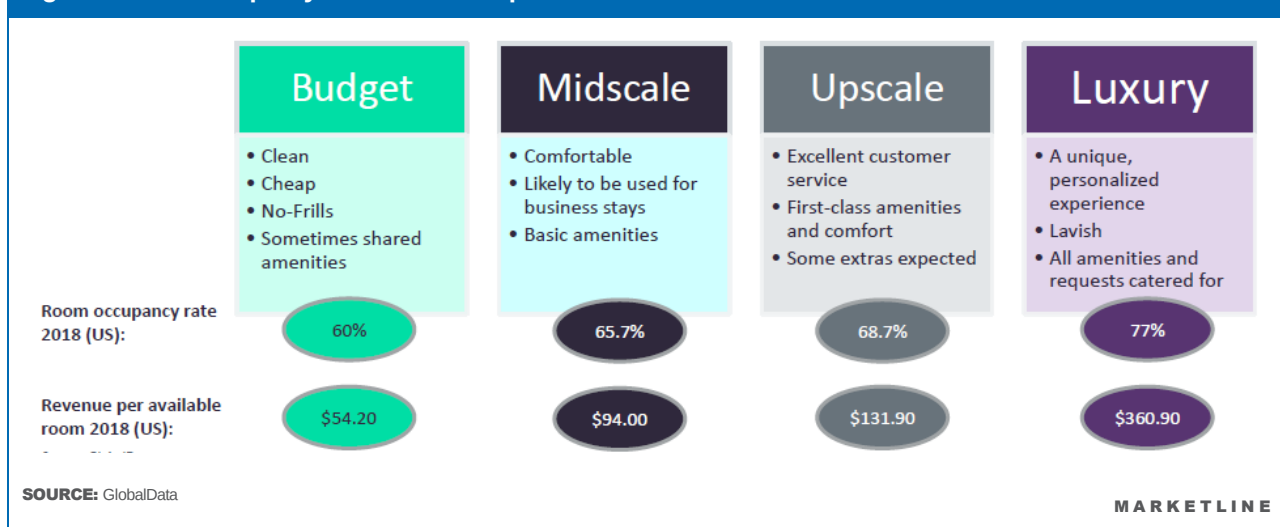
In this modern age, individuals are travelling more than ever. As such, competition has become intense between the various hotel chains fighting for the leading share of the market. In recent years, various companies have sought to gain a larger percentage of the market by diversifying their portfolio of hotel chains, to reach every price-point in the market. Additionally, the adapting taste of millennials is causing the chains to change their branding strategy.

Many hotel chains offer brands in multiple categories

Hotels need to offer more than just the basics to be considered higher-end. The four major categories are budget, midscale, upscale, and luxury but these can be further segmented in a bid to give the illusion of even further differentiation between hotels and their offerings. Once a hotel can offer more than a bed and a clean room to stay in, they are building upon the budget offering and can therefore charge guests more money. According to GlobalData, the total revenue per available room in 2018 for luxury hotels in the United States was \$360.90 whereas for budget, it was \$54.20. This demonstrates the appeal of the luxury category. Room occupancy rates also increased the more high-end the hotel; budget and midscale hotel brands therefore have to work harder to fill their overabundance of rooms. A budget hotel only needs to provide the bare minimum but as a hotel moves up the scale, customers expect more and will become increasingly irritated if they do not receive the expected service.

Some companies may stay clear of the budget category in order to maintain their reputation. Marriott and Hyatt are two examples of chains that do not offer budget brands and instead concentrate on the upscale and luxury categories. Accor Hotels and Radisson, however, offer budget brands alongside their more up-market offerings and seem to be succeeding regardless. Brand differentiation is difficult to master but some hotel chains essentially see more customers as more revenue, regardless of the categories their brands fall into.

Figure 1: Room occupancy rate and revenue per available room



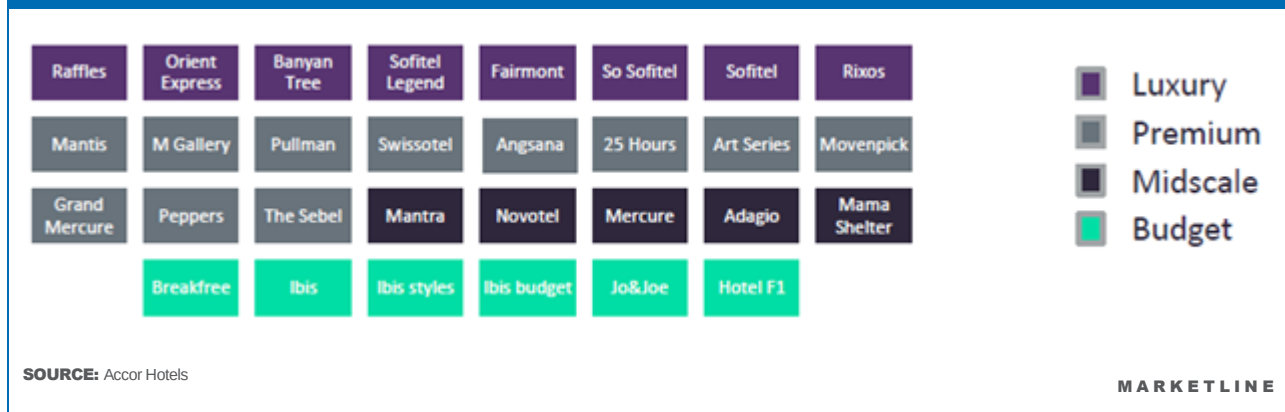
Hotel chains are differentiate their brands in multiple ways

Before the global hotel industry became as saturated as it is now, there was a more distinct line between luxury hotels and budget hotels. Large companies are spreading risk by offering brands that appeal to a range of different consumers. As such, they are able to diversify their portfolio to help mitigate the possibility of as certain chain failing. Moreover, it helps cover each area of the market and subsequently consolidate, making entering the market extremely difficult.

Hotel chains market their brands separately to maximize their market

Accor owns a range of hotels ranging from the ibis budget, with 588 hotels globally, where rooms can cost less than \$50 a night, to Raffles hotels, of which there are only 11 in the world, and which cost thousands of dollars a night to stay in.

Figure 2: Range of hotels



Intercontinental Hotels Group operates through 13 different brands including Holiday Inn, a midscale brand, Candlewood Suites, which offers long term stays, and its namesake Intercontinental, a luxury brand. It works through managing, owning, leasing, and franchising, which demonstrates how diverse the company is and how proactive the management needs to be to succeed in everything it is involved in.

Marriott is known to be an upscale brand in itself but the company also owns an array of other brands including Sheraton, Ritz-Carlton, and Autograph Hotels. Marriott has also recently launched Moxy, a millennial-targeted hotel, with an emphasis on fun and socializing. It remains classed as an upper-midscale hotel. However, meaning Marriott is not present in the budget segment as it looks to retain its reputation as an upscale hotel brand.

Huazhu Hotels Group operates in the budget and midscale categories and is committed to low prices. The company has been in a strategic alliance with Accor Hotels since 2014 as the latter bids to expand in China, Mongolia, and Taiwan.

Hotels diversify their brands because different consumers prioritize different factors

Whilst price sensitivity remains a key area amongst all age groups to consider, there are strong differentiations within other factors. Those ages 55 and over prefer to stay at places they have lived before, rather than try new experiences. However, they are far less attracted to visiting famous destinations, particularly when compared against the younger generations, whom value the popular destinations for drinks and food.

The majority of consumers are price sensitive but other aspects differ between generations

Affordability remains the top priority for those looking to book a holiday. According to the latest GlobalData consumer survey, 59% of consumers use affordability as a deciding factor on where to go on holiday. This percentage is highest in the 18-24 age category, which is one of the most important groups for hotel companies to target. Those in the 16-17 age category may be slightly less price sensitive because they are more likely to rely on parents and caregivers to pay some or all of their holiday costs.

Figure 3: Globally: Which factors help you decide where to go on holiday?

Globally: Which factors help you decide where to go on holiday?								
	Total	Age 16-17	Age 18-24	Age 25-34	Age 35-44	Age 45-54	Age 55-64	Age 65+
Affordability	59%	57%	61%	60%	60%	60%	58%	50%
Accessibility	48%	52%	53%	52%	48%	45%	45%	42%
Recommended by friends/family	44%	46%	47%	47%	45%	44%	41%	35%
Previous Visits	32%	30%	25%	24%	29%	35%	43%	47%
Famous/popular destination for food/drinks	28%	31%	35%	33%	30%	25%	21%	15%
Social Media	22%	34%	33%	30%	23%	17%	12%	7%

SOURCE: GlobalData's G3-2018 consumer survey

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The affluence of these generations differs by country. In many western countries, millennials are on average expected to

earn less than their parents did and are widely reported to be in a more solemn economic situation than the older generations. However, in developing countries, urban development means that many of the younger generation are earning a comparative large amount of money and are therefore more likely to be less price sensitive than the older generations. Hotel brands must factor these differences in with their hotel chain branding.

Social media is another aspect more modern brands can exploit. Over 30% of those aged 34 or under use social media to help with deciding where to go on holiday and once on holiday, they are likely to be sharing pictures, videos, and reviews. This means that it is very important that hotel companies use social media to their advantage or risk missing out to other, more connected companies. For example, Marriott's Moxy hotels make use of the hashtag #atthemoxy to enhance its social media presence by encouraging guests to post their experiences at the hotel.

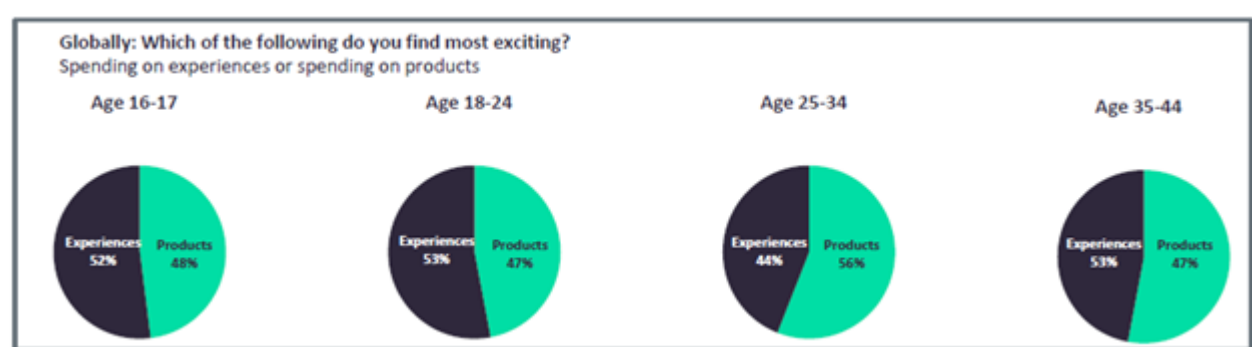
HOTELS HAVE TO WORK HARD TO HOLD THE ATTENTION OF YOUNGER TRAVELERS

As the millennials are increasingly gaining more disposable income, they are becoming a key aspect of the market for hotels to attract. However, the new generation of travelers have considerably different values and motivations for going on holiday. In essence, hotels are required to adapt to their changing needs and provide a service that matches the current trends.

Changing attitudes mean that hotels have to stay ahead of consumer trends

Younger generations prefer to spend on experiences. As the younger generations become the next big customer base for hotels to attract, hotels must offer brands that are appealing and focused on their needs. Young consumers are likely to be budget travelers, especially if they are travelling for a long time. People born between 1981 and 2000 already account for 24% of the EU and 27% of the US adult population and by 2020, they will make up half the global working population so it is important that hotel companies use foresight to determine what the hotel industry is expected to offer within the next few decades.

Figure 4: Spending on experiences vs spending on products



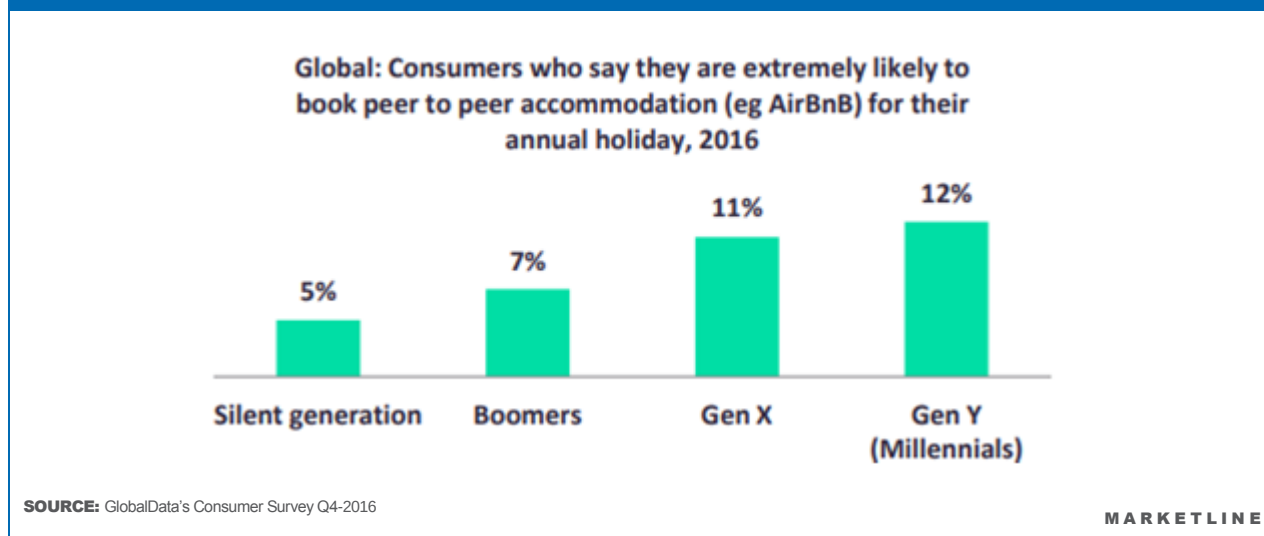
SOURCE: GlobalData's Q3-2018 consumer survey

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Peer-to-peer accommodation has been another disruption companies have had to contend with. Since Airbnb was born in 2008, it has caused major disruption to the hotels industry as profits are instead split between the owners of the property and the operators of the app. There are currently over five million Airbnb listings worldwide, covering more than 191 countries and 81,000 cities. Airbnb takes 3% commission from every booking from hosts, and between 6% and 12% from guests. Younger consumers are particularly drawn in by cheap prices and locations that often allow them to engage more with the local people and culture – something they may feel cannot be achieved by a traditional hotel.

Figure 5: Global: Consumers who say they are extremely likely to book peer to peer accommodation for their annual holiday (2016)



Millennials are requiring new forms of choice which hotel brands need to adapt towards

Illusion of choice is important in this sector. Different clientele are looking for different things from a stay at a hotel so it is important that there is a choice on offer. Younger consumers are attracted by different things than older consumers so it pays for hotels to offer different brands. However, ultimately there is unlikely to be a large difference between similar priced hotels so companies have to ensure they are staying competitive.

Hotel chains are modernizing brands with a focus on experiential travel and socializing

Some hotels are verging towards a hostel-like atmosphere. Hotel brands catered to millennials are focusing on sociability, advanced technology, and alcohol – something that hostels all around the world have been doing for decades. This blurring of the line between hostels and hotels has to be managed carefully by parent companies to ensure customers do not simply opt for a hostel instead. For example, Accor's Jo&Joe brand offers shared sleeping areas with private lockers, reading lights and USB ports, alongside yurts, hammocks and caravans for an 'out of the ordinary' experience.

Marriott launched Moxy in 2015 to attract a specific type of traveler. The brand is aimed at younger consumers who are looking to socialize with other guests. Each hotel has a bar and social area, with board games. Moxy's selling point also includes electronic plugs near beds and ultra-fast Wi-Fi so that tech-hungry guests will be able to stay connected. All Moxy hotels feature a wall dubbed 'The Guestbook' where guests can upload images to a digital screen.

Tours and activities help attract further profit and marketing opportunities. Young tourists, especially solo travelers, are attracted to pre-planned tours and activities. Airbnb has been expanding 'Airbnb Trips' in recent years, which also offers tours and experiences so this is another area that traditional hotels have to keep up with. Marriott's equity investment in PlacePass, a search platform for over 100,000 experiences in 800 destinations, shows that the company is invested in offering more than just a hotel room to its customers. In fact, customers can use their Marriott loyalty points on PlacePass activities in locations without having to be staying in the company's hotel.

LUXURY HOTELS HAVE TO CONTINUE TO PROVIDE EXCEPTIONAL SERVICE TO SURVIVE, UTILIZING NEW FORMS OF TECHNOLOGY

Luxury hotels attract individuals with an enormous amount of wealth, which in return allows for large profit margins. However, luxury hotels by nature must provide a service that goes above-and-beyond the level of service expected in traditional forms of accommodation. As a result, the latest technology should be used to provide a seamless experience.

Luxury hotels attract the most valuable customers so must offer the best service

Hotel companies that own brands in the luxury category have to offer extraordinary accommodation and customer service but have the potential to secure huge profit margins. In Elite Traveler's list of the 100 most expensive suites in the world 2018, the number one spot was taken by a 12 bedroom suite that takes over the entire eighth floor at the Hotel President Wilson in Geneva, which is owned by Marriott. The suite costs \$80,000 a night and features a billiard table, a grand piano, a private elevator, and 24 hour access to a chef and butler. This shows that high-net-worth consumers are willing to pay enormous amounts for luxurious accommodation.

Luxury travelers also likely to expect hotels to go above-and-beyond. Extras such as spas, beauty treatments, and high quality restaurants are usually expected from luxury hotels. Luxury travelers will likely want to relax in serene surroundings and expect excellent customer service from all staff. A seamless experience is hugely important from the booking process through to check-out.

Implementing the latest technology can improve guest experiences. To stay ahead in the luxury travel segment, hotels have to ensure their IT systems are working seamlessly to avoid any mishaps. Some hotels are also looking at additional ways to incorporate technology. Hilton, for example, collaborated with IBM to introduce the first robot concierge 'Connie', which can personalize guest experiences and answer queries. The company has also developed the 'connected room' concept where users can control things such as the temperature, the TV and lighting of their room through the Hilton Honors app.

LVMH is expanding its luxury offerings with acquisition of Belmond. Luxury brand LVMH already owns a variety of brands including Christian Dior, DFS, Starboard Cruise Services, and Dom Perignon but a recent acquisition of Belmond has pushed it further into the hospitality and travel sectors. The rising trend of spending on experiences in areas such as high-end food and wine, luxury hotels, and travel is likely to continue to be a growth opportunity. According to GlobalData, the global revenue of luxury hotels - for both business and leisure - is expected to increase 36% between 2018 and 2022, from \$165.3bn to \$224.9bn. The acquisition will result in an expansion of the company's own hotel portfolio, which comprises the Cheval Blanc hotels, the Saint-Barthélemy, and Bvlgari Hotel and Resorts. The Belmond deal will boost the company's existing collection by 36 properties, including the Hotel Cipriani in Venice, the location of George Clooney and Amal Alamuddin's star-studded wedding, the Le Manoir aux Quat'Saisons in Oxfordshire, and the Copacabana Palace in Rio de Janeiro.

Hotel brands must avoid spreading themselves too thin, losing their identity

Companies are risking their own identity by spreading themselves too thin. While it may seem a good idea to diversify the company and attract as many potential customers as possible, there is a risk that hotel companies will confuse their customers and dilute the reputation of the parent company. Investors in the hotel chains are driving demand for expansion at a very fast pace and hotel chains run the risk of losing themselves in so many brands.

Owning and operating multiple brands across multiple categories may not always be the best strategy

The Four Seasons is an example of a brand that is succeeding without brand diversification, by staying with its own eponymous brand. It currently owns 115 hotels across all continents and has 50 projects in the pipeline at various degrees of completion. Its CEO has stated that its focus on the luxury space will continue and it seems as though there are no plans to diversify into other brands or categories.

Companies must avoid engaging in internal price wars. As consumers may not be aware that different brands are actually owned by the same company, they will likely still be making decisions based on price. With an array of similar hotels on the midscale and upscale segments in particular, hotels chains may have to lower prices over multiple brands to contend with similar offerings and this will therefore lead to a drop in revenue.

Hotel chains need to ensure they are not being condescending to certain consumer groups. Millennials, for example, cover a large age range and marketing cannot focus on all of these at once. In a similar sense, some millennials will be travelling on a budget whilst others could just as likely be luxury travelers so certain brands will not appeal to all. Some millennials are likely to find some of the marketing slightly too much because good experiences are made over the whole holiday, rather than being thrust upon guests by the hotel.

Clear branding is essential to attract the right guests to the right hotels. Conversely, companies do need to ensure that the branding for each hotel brand is clear to customers before booking. A family group expecting peace and quiet is unlikely to enjoy a hotel with an all-night bar and an emphasis on partying while a solo traveler looking to meet others may not find what they need in a high-end compartmentalized hotel.

CONCLUSIONS

Constantly evolving consumer behavior has forced companies to spread themselves thin across the hotel market. Particularly due to the consolidation between the major competitors, hotel chains are looking to gain a share in every price-point of the market in order to remain competitive.

Hotel chains are spreading the risk of a competitive market by offering brands at every price point of the market. Accor own hotels from Ibis, with 588 budget hotels globally, to Raffles, which is a luxury brand with a mere 11 in the world. Marriott is another luxury brand which has diversified its brand, opting for a chain which offers a fun and vibrant atmosphere for the millennials. Accordingly, the saturated market is being consolidated by the large chains that are fighting to gain a bigger share.

Consumers remain price sensitive, perceiving that as the most important factor when travelling. For the younger generations, Affordability, social media and famous destinations for drinks remain the most important aspects of booking a holiday, whilst the older generation focuses upon places that they have visited previously.

Hotels increasingly have to adapt their operating methods to hold the attention of the younger generation. Millennials are valuing experiences over products, looking for a hotel brand that focuses upon their needs. Peer-to-peer accommodation is growing substantially, particularly within the millennial consumer base. Cheap prices and locations which allow for individuals to engage in the local culture are the main reasons for its growth.

In the luxury segment of the market, extraordinary accommodation and customer service are absolutely imperative to its continued success. Luxury travelers expect hotels to go above-and-beyond, including spas, beauty treatments and high quality restaurants. Implementing the latest technology is perceived as an important form of differentiation, which allows hotels in this market to stand out.

However, attempting to operate multiple brands across multiple price-points is a difficult strategy to successfully attempt. Companies risk losing the identity they have been developing for years, under the basis of spreading themselves too thin. In order to achieve success, companies must avoid engaging in internal price wars, focus upon providing a consistent level of customer support and finally, make sure the branding is clear to attract the right guests to their appropriate hotel. Four Seasons is a useful example of this notion, making it clear that their focus is upon being the 'best' hotel chain for the luxury segment, as opposed to simply the biggest.

APPENDIX

Sources

Primary sources

GlobalData's Consumer Survey Q3-2018

GlobalData's Consumer Survey Q4-2016

Secondary Sources

Accor Hotels Annual Report 2017

Airbnb Press Room <https://press.airbnb.com/en-uk/fast-facts/>

Marriott Annual Report 2017 <https://marriott.gcs-web.com/static-files/b82978a6-9d28-4e38-9855-fc4ae2cebe11>

Four Seasons Looks Ahead to 2017 and Beyond <https://www.prnewswire.com/news-releases/four-seasons-looks-ahead-to-2017-and-beyond-300395312.html> (2017)

Further Reading

MarketLine – Theme Report 2018 - The Future of Travel and Tourism: Technology is driving significant change and growth is on the horizon

MarketLine – Value Chain Analysis 2019 - Global Hotels & Motels Industry: Value Chain Analysis

Ask the analyst

We hope that the data and analysis in this brief will help you make informed and imaginative business decisions. If you have any questions or further requirements, MarketLine's research team may be able to help you. The MarketLine Research team can be contacted at ReachUs@MarketLine.com.

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