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WHY BRAND HAS NEVER BEEN SO IMPORTANT FOR LARGE HOTELIERS

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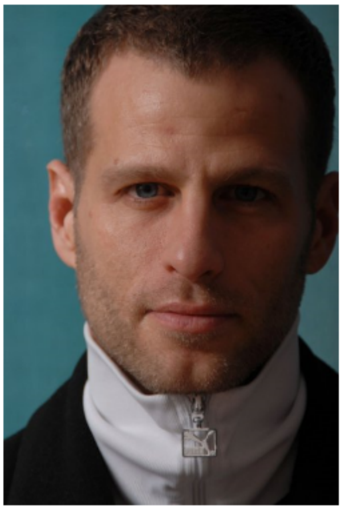

Online travel agencies and apartment sharing models are having a marked impact on the traditional hotel chains. At the high end of the market there is consolidation whilst at the other end increased fragmentation with ever-growing numbers of boutique accommodation coming on the market driven by consumer demand for design-led, lifestyle-based spaces. The conventional homogenisation offered by large chains has become a negative. Guests want experiential travel something that will look cool on social media, a phenomenon we've coined 'Instagram-chic'. Whilst M&A activity seems to be the antithesis of this it means that the big players are able to use scale to mitigate against economic shocks, improve their bargaining power with online comparison sites and protect their margins by actively pushing their own booking channels via their loyalty programmes. So in today's market the big chains need to both grow but be small at the same time.

We are therefore seeing large chains break up their existing portfolios into a raft of smaller brands or expand them by acquiring niche offerings that appeal to specific audiences. IHG's acquisition of Kimpton is a case in point. Kimpton's extremely loyal following, the likes of which would never stay in a Holiday Inn, means that Intercontinental has successfully grown its customer base without cannibalising its market share.

This trend towards multiple brands means that portfolios are becoming increasingly complex and significantly more expensive to manage. Standardisation is much cheaper than individualisation. Moreover, underlying the guest experience, a hotel's brand promise can have a strong impact on business results meaning getting the branding wrong can be very costly indeed. For hotels brand is more than just a name and a logo. It's a promise of an experience. A considered portfolio strategy therefore must now underpin the whole organisation. The better defined the brand and portfolio strategy the easier it is to manage the brand assets. Furthermore, a strong brand architecture is proven to build brand equity, which drives shareholder value.

From a structural perspective, the 'House of Brands' architecture which focuses on the branding of multiple sub-brands while the primary brand gets little or no attention is the most accommodating for large hotel chains as acquired brands can be slotted into position in the portfolio alongside the brands already there. However, separate brand management is needed for each business within the portfolio making economies of scale all but impossible. Whilst the 'Branded House' model, where the company is the brand and all products and services within that company are subsets of the primary brand, enables consolidation of resources across the portfolio. In reality most brand architectures fall somewhere between the two meaning that when it comes to M&A there are tough decisions to make.

With further M&A activity predicted and the impact of Instagram-chic branding decisions are going to be key to hoteliers. What is clear is that the defined architecture must steer the organisation right from the outset or risk the very real threat of diminished brand equity, customer dissatisfaction and decreased shareholder value.