Are Mega Hotel Brands Good for Hotel Owners?

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Background

The mid-November merger of Marriott International and Starwood Hotels & Resorts Worldwide shook the hotel industry and affected up to 80 million loyalty members around the world. The combination of the two companies directly impacts more than 5,500 hotels spread over 100 countries, spanning 30 brands. Yes, that is 30 brands, one million-plus rooms, and 80 million loyalty members.

The merger announcement – along with AccorHotels' recent purchase of the Fairmont, Raffles, and Swissotel brands – resonated across the hospitality landscape due to its sheer magnitude. By comparison, among the largest of consumer packaged goods companies (CPG), Unilever is said to own more than 400 brands – including international adaptations – but focuses on just 14 brands while its rival, P&G, announced it will shed all but 70 to 80 of its products.

The Marriott-Starwood transaction, which created the world's largest hotel company, has generated a great deal of discussion among loyalty members, booking intermediaries, hotel owners, operators, and financiers. Within this discussion are some critical questions:

- *Are mega-mergers good for hotel owners, consumers, and the industry as a whole?*
- *Will consolidation lead to more homogeneity, increased commoditization, and eventual devaluation of the asset value?*
- *How does this impact the host-guest relationship at the core of the hospitality industry, and thus pricing?*

The Beginning of Mega-Merger Mania?

We've seen it happen to the airline industry: one merger begets another, leading to another, and so on. Eventually, what was a healthy competitive landscape was transformed into a barren field of just a few prominent players, leaving consumers with fewer choices and pushing the industry as a whole into a less-positive light.

"I'm quite sure we've not seen the end of consolidation on the supply side," Phocuswright vice president of research Douglas Quinby told *The New York Times*. "I think you're going to see other hotel chains look at consolidation as a way to compete with the combined Marriott-Starwood behemoth."

In a Cornell Hospitality Quarterly-published study, "Commoditization in the U.S. Lodging Industry: Industry and Customer Perspectives," Srikanth Beldona of the University of Delaware describes the processes of commoditization and deterioration, as applied to the hospitality industry – processes that directly apply to 2015's mega mergers. In the deterioration trap, "Both prices and benefits in a product category diminish due to the dominance of a low-cost leader" (Beldona et al, 2014).

Product homogeneity – akin to what could happen with Marriott International's huge collection of brands – and price sensitivity, a driving force in consumer decisions, could work in tandem to diminish the differentiation between brands. This could ultimately erode the value of these brands and the market as a whole.

To what degree that happens to the hospitality industry remains to be seen. But the mega mergers beget some major questions: Does a company really need to be bigger to be better? At what point do the costs of doing business at a huge scale outweigh the benefits? And how will consolidated companies adapt and adjust quickly to an industry that evolves at a faster rate every single day? Does this homogenized product align with the mindset of the millennial traveler?

Commoditization of the Hotel Product in the Eyes of the Travel Consumer

As a result of the proposed acquisition, Marriott International will control a total of 30-plus hotel brands. After the merger, travel consumers – especially unmanaged business and leisure travelers – may face even greater difficulty in differentiating the value proposition of one Marriott or Starwood brand versus another.

It is only logical that consumers will increasingly depend on rates to tell the difference between brands, giving them little reason to hesitate when switching between brands and little cause to display loyalty to a particular brand. These are the main signs of hotel product commoditization (Riemann, Schilke, & Thomas, 2010). This harmful product homogeneity happens when customers perceive only small differences between major brand alternatives in a product category. This phenomenon applies to hotels when there is little to no difference in the services offered by companies within the same competitive set or market (Bowie and Buttle, 2004).

Increased hotel product commoditization and homogeneity, along with consumer price sensitivity, could compel the mega brands to "sell on rate" as opposed to "sell on value," forcing these conglomerates to compete against the OTAs based solely on rate. This may leave these mega brands in a "race to the lowest rate" against OTAs, devoid of the opportunity to communicate the true value of their hotel product to potential guests.

Additionally, the trend toward large-scale mergers could lead to further erosion in the formerly intimate and familiar relationships between brands and their most loyal guests. The focus of these mega brands may no longer be on building great customer relationships and fostering loyalty. This shift in focus will only accelerate product commoditization.

Do Franchise Owners Win?

Marriott and Starwood franchisees are currently in limbo, waiting to see how each individual brand is assessed, positioned and handled by Marriott International. Which brands, hotels, franchisees and employees will be deemed redundant – during the process of "leveraging operating efficiencies," as described in a Marriott International press release – as a result of the deal?

Once these details are sorted out and Marriott International settles into its new status as the world's largest hotel operator, how will the company handle the day-to-day demands of its 5,500-plus hotels? How are group business leads qualified and divided up among brands and hotels? How are group business leads qualified and divided up among brands and hotels directly across the street from each other? How do the company's quality control practices change with the addition of Starwood's properties and personnel? How will individual hotels and franchisees be affected by shifts in the company's marketing focus and funds? How does this market saturation impact the value of individual hotel assets? Look at Expedia's acquisition of Orbitz. Just months later, 40% of Orbitz employees were deemed redundant while Expedia sent Orbitz merchants notices that their new 'arrangements' were now based on Expedia's terms and its higher fee structure.

Bigger brands could mean bigger distances between franchise owners and the brands' corporate offices. Even now, pre-merger, the major brands have been deemed to have little bandwidth to deal with property-specific revenue opportunities and occupancy needs. This could leave them unable to target, on a property-by-property level, key customer segments such as leisure, weekend, small meetings and events, and SMERF business. On the other hand, franchisees of the major brands face fierce competition from savvy independent properties and properties from other major brands that aren't forced in to commoditized pricing.

In the online space, consolidation makes it even more difficult for individual branded properties to differentiate themselves from their internal competitors on the brand website, search engine results pages, and online media placements. For example, a Marriott-branded property in New York City competes with 125 other Marriott-branded properties, while a Starwood-related property competes with 37 other Starwood-related properties. In Chicago, there are 80 Marriott-related properties and 20 Starwood-related properties.

Smaller, more agile brands have the flexibility and dynamic structure to remain intimately involved with each property's seasonal and occupancy needs, reacting much more quickly to changing conditions in local and regional markets.

Do Consumers Win?

As is often the case when faced with a large-scale corporate consolidation, consumers have expressed concern about the merger. Consolidation often brings limited options, less diversity in the marketplace, and fewer differentiators to use when choosing a destination. It also brings a sense of homogenization, less personality and fewer "redundancies."

One way in which Marriott International's takeover of Starwood impacts consumers is the merging of the companies' rewards programs. Members of the Starwood Preferred Guest programs and owner support programs SPG (Starwood Preferred Guest) and StarwoodONE could be at risk of being moved into the Marriott programs, which are larger and more onerous programs. SPG members wouldn't necessarily lose any points in the changeover, but their points could be worth less in the Marriott program, which requires more points per room. Owners may have less of a voice among other hoteliers and requests may become less personalized. According to *The New York Times*, independent meeting planners and SPG members are openly voicing concerns about the effects of reduced competition and devalued rewards points. Gary Leff, author of the View From the Wing blog, told *CNBC.com* that customers are justified in worrying about what will become of their benefits, mentioning that smaller programs like SPG tend to treat their members better than larger programs like Marriott's.

What impact could the merger have on perceptions of Marriott and its newly subsumed brands? Today's travelers aren't focused on getting the same experience with every stay: homogeneity is out, authenticity is in. The supposed benefits of a merger between two of the world's largest hotel companies don't resonate with millennial travelers who are more interested in enjoying unique, carefully curated hospitality experiences than they are racking up loyalty points and rewards. It will be fascinating to watch the dynamics of the many involved brands playing out: will Starwood's younger, lifestyle brands fall into to the sameness that plagues some of Marriott's brands? If so, discerning travelers could be left with even fewer options when seeking unique hotel experiences. Today's travelers select hotels that reflect their beliefs and values in addition to location and competitive price. Travelers aren't bowled over by aspirational design, they're won over by design that mirrors their desires.

Do the Mega Brands Win?

On paper, merger participants appear to reap the biggest benefits. Additional properties, more rooms, and extra financial resources could allow the newly formed behemoth several courses of action. These mega brands could take an ambitious run at the OTAs in an attempt to place the power back in the hands of hotel companies. They could also take a relatively cautious approach, content to use their combined finances to stand as the industry's most powerful conglomerate.

The Marriott-Starwood deal does come with questions for Marriott. Although the addition of Starwood's assets grants the company scale previously unmatched in the hospitality industry, the additional weight of the $12.2 billion deal only makes the company less nimble and less capable of adapting to changes in the quickly evolving hospitality ecosystem.

As the Internet has propelled new players like OTAs and AirBNB into the fray, it has placed a premium on hotel companies' ability to make quick decisions and adjust their strategies seamlessly. Smaller, more agile hospitality companies can launch brand-wide marketing campaigns and online initiatives with relative ease, updating and improving their online presence with little to no bureaucratic red tape.

Is Bigger Better?

Where hospitality companies are concerned, bigger is not necessarily better. The larger the company, the less agility the organization has to adapt and adjust on the fly.

RLHC (Red Lion Hotels Corporation) is nimble, efficient, and positioned to grow organically in today's hospitality landscape, which rewards companies that remain adaptable and open to quick deployment of new initiatives via the digital channel. RLHC – from its accessible executive team to the award-winning RevPak Guest Management System – focuses on the unique wants and needs of its franchisees, with the understanding that every hotel is unique, and that in order for the company to succeed, each franchise must succeed. With a carefully curated collection of firmly defined brands under one umbrella, RLHC does not struggle with the "brand creep" that plagues larger hospitality companies with stakes in dozens of often-indistinguishable brands.

As noted by Beldona, hotel brands are uniquely positioned to build strong guest loyalty and retain customers through carefully considered one-on-one interactions and guest-forward practices:

"A key premise of relationship marketing is that customer retention is relatively more important than customer acquisition (Winer 2001). The hospitality industry is well positioned to build customer relationships and enhance retention, because true hospitality involves host-guest interactions where the service is deeply personal." (Beldona et al, 2014)

Mega brands aren't taking this into consideration as they race toward conglomeration. But RLHC remains perfectly positioned to add value, authenticity, and transparency to the host-guest relationship, proving that bigger isn't necessarily better.

About RLHC

RLHC (Red Lion Hotels Corporation) is a hospitality company primarily engaged in the franchising, management and ownership of upscale, midscale and economy hotels under the Hotel RL, Red Lion Hotel, Red Lion Inn & Suites, GuestHouse International and Settle Inn brands. Established in 1959, the company has 130 hotels system wide and also owns and operates an entertainment and event ticket distribution business. For more information, please visit the company's website at www.redlion.com.

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