UNDERSTANDING HOTEL REAL ESTATE INVESTMENT

Part 2 – Branding

Introduction

This is Part 2 of a four-part series intended to provide an overview about the hotel industry. (Part 1 can be found HERE.) This article will address, broadly, a component of branding and brand families.

As companies with a global reach in the hotel industry (Marriott, Accor, Hilton, *etc.*) expand, their brands' reach has become increasingly important. Each company provides its brand to hotels through established means. This is a preliminary exploration into those means.

Branding

Hotel branding encompasses several hospitality concepts. Hotel brands have become brand families. Marriott, the biggest brand family, boasts 29 distinctive brands; several other major hotel brand families have between 15 and 20 brands. In addition, there are hotels entirely independent from any brand family that might align with a marketing and reservations cooperative; for example, Preferred Hotels & Resorts (which also has a "Residences" component) and Leading Hotels of the World fall into this broad description, along with several others. These are discussed in greater detail in Part 3.

Hotels utilize hotel brands under agreements that are characterized generally as "brand managed" agreements and "brand franchise agreements." The Cooperative Marketing Organizations might use an "Affiliation Agreement" or something similarly titled. The entities that own the brands exert control over the use of their intellectual property, create brand design and development standards and operations standards, and contractually mandate development and operations in conformance with those standards.

Brand & Third-Party Management

A "brand managed" hotel utilizes both the management services and the branding from the company whose brand is used. Though early in the history of brand proliferation in the hotel industry, most branded hotels were, indeed, managed by the brand, the evolution and the expansion of the industry have significantly modified this dynamic. Today, the brand families typically franchise their brands except for Luxury brands within the brand families. They desire to, and do, maintain operational control over the branding and presentation of their most expensive, most exclusive hotels. Somewhat counter-intuitively, a brand management agreement may call for lower fees paid to the brand than the combined fees payable in brand franchise/third-party management arrangements.

Many owners prefer to obtain a franchise (or license) relationship with the brand families and utilize management companies of their choice (subject to approval by the brand family). Reasons range from the hotel owner's ownership of a management company to a perceived (and usually real) expectation of more ownership control over its management company in a setting where the manager is the third-party to the relationship, along with the owner and the brand. Shorter terms, more flexible fee schedules, a greater degree of owner involvement, and significant flexibility in the sale of the asset are all reasons for owners' preferences. To serve these owners, there are now many significant "third-party management companies" that operate with as many assets under management as some of the smaller brand families have hotels. These third-party managers can operate the hotels, undertake significant global group and transient sales and marketing activities, hire, train, and create career paths for employees just as the brand families do. Most of the larger third-party management companies have been approved for management of hotels along the full Chain Scale continuum by the major brand families; this provides other advantages to third-party management: the assimilation and recognition of best practices across all the brand families for the benefit of their owners of various branded hotels they operate, and the fundamental ability to benchmark performance of brand families' global sales teams, loyalty programs, reservations systems, IT and technology, and training programs.

Franchise

As indicated above, the most common method of choosing and operating under a hotel brand for one's hotel is through a Franchise Agreement. The benefit to the brands is simple: this is the "asset-light" program writ large. A brand can make as much, if not more, money by merely licensing its brands to capable owners and third-party operators as it does from brand management. Under a franchise scenario, all thorny issues of employees, benefits, discrimination, harassment, operational challenges, and capital needs (which are paramount) are delegated to the owner and operator, the former of which provides indemnities for all these potential missteps to the franchisor. The operator agrees to operate according to the standards under the Franchise Agreement, and the relationship between the experienced operators and the brands, which enable the operator's approval, permits the brand a comfort level regarding the quality of operations that its Quality Assurance teams oversee. Additionally, the franchise agreements are barely negotiable, making them faster to process and providing a more efficient growth trajectory.

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