

UNDERSTANDING HOTEL REAL ESTATE INVESTMENT

Part 3 – Soft Brands/Cooperative Marketing Organizations/Loyalty

Introduction

This is Part 3 of a four-part series intended to provide an overview about the hotel industry. This article will address the relatively recent proliferation of so-called "soft brands" and the earlier and well-established Cooperative Marketing Organizations and will touch upon brand families' and other loyalty programs.

Soft Brands

In recent years, a new term has come into our industry lexicon – the "soft brand," which is distinguished from the "hard brands," generally meaning brands whose design and development requirements are mostly standardized and, in some cases, as one descends the Chain Scale continuum, virtually proscribed. The "soft brands" can be individualized; today, it is not uncommon for a hotel to convert from a "hard brand" (say, a Marriott) to a Marriott "soft brand," such as The Luxury Collection or the Tribute Portfolio. "Soft brands" enable owners to get the benefit of the brand families' systems (sales, loyalty/rewards programs, member training programs, and reservations) while permitting the owner to keep a unique name and operating methodology and, in some cases, non-standardized rooms, other elements, layouts, and amenities. Most, but not all, of these "soft brand collections" are undertaken through franchise agreements, which are indistinguishable from a franchise agreement for a "hard brand." As with the "hard brand" franchise, in addition to the obligation to pay royalties, costs for brand services (*e.g.*, global sales, reservations, loyalty program participation, charged against all hotels in that particular "soft brand") are also assessed.

The "soft brands" have been attractive to independent, boutique-style hotels with a singular identity, which is both a blessing – it is unique and, broadly speaking, design-forward

– and a curse – it has a lesser Internet presence, moderate sales team depth, no loyalty program, lesser (or no) in-depth training programs, limited history or recognition beyond its location, if that. STR characterizes an "independent" hotel that is aligned with a "soft brand" under that soft brand's Chain Scale.

Cooperative Marketing Organizations

Brand families' "soft brand collections" have mushroomed to compete with the older and more established "cooperative marketing organizations."

Leading Hotels of the World (**LHW**) offers a membership program, having started in 1928. Its hotels tend to rest in the Upper Upscale and, occasionally, Luxury reaches of the Chain Scale continuum, and LHW offers referral services, sales assistance, and reservations. Preferred Hotels & Resorts refers to itself as a brand, but like LHW, it is more a collection of hotels and resorts worldwide that have come together since 1968 to utilize Preferred's marketing, reservations, and referral systems. Each hotel under the "Preferred" affiliation is independently owned and operated; in some instances, a Preferred hotel may also have a brand affiliation as well, but this is increasingly rare. Those hotels that become members of Preferred or LHW (or a myriad of others) fit into STR's "Independent" Chain Scale, unlike the brand families' soft brands.

The advantages to the Cooperative Marketing Organizations are like the advantages of a brand – referrals, sales and marketing, an umbrella quality assurance program, and, more recently, guest rewards programs. As the brand families' soft brands' reach began to encroach upon the Cooperative Marketing Organizations, these companies migrated toward the brand families in many ways.

Owners faced with choosing a brand family's "soft brand" and concomitant franchise program costs or taking the independent route might undertake a cost-benefit analysis (the Cooperative Marketing Organizations are typically less expensive) and align with a Cooperative Marketing Organization.

Loyalty Programs

Not surprisingly, Marriott, as the largest hotel group globally, has the largest loyalty program, called "Bonvoy," purportedly having more than 125 million members; Hilton Rewards reported in October 2019 that it passed the 100 million membership mark. Hyatt's "World of Hyatt" is considerably smaller, estimated around 30 million members. These loyalty programs are significant reasons why these companies (and other multi-brand families) offer so many brands, many barely distinct

from one another, and limited flexibility in restricting themselves from over-saturation of markets. Thus, multiple brands are available to the many members in most destinations; guest capture from loyalty and rewards points buildup means repeat guests. As the hotel participants are assessed for the costs of these programs, once the brand establishes and grows its program to a certain critical mass, the cost of maintenance of the program is borne by the hotels operating under those brands that both dispense and redeem rewards currency (usually denoted as "points").

Other iterations of loyalty programs, referred to as recognition programs, do not necessarily offer free room stays upon the accumulation of certain quantities of points; rather, the recognition program might provide an upgrade, a free mini-bar selection, free wifi, early check-in/late check-out or other less costly measures of serving a frequent guest.

Loyalty programs are not limited to the brand families. For example, Preferred, LHW and Small Luxury Hotels have created their own programs; there are even loyalty programs for groups of independent hotels (*e.g.*, STASH Rewards, serving travelers who seek out hotels that comprise an "obsessively-scrutinized selection.").



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