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Lines blur between independents, brands

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The evolution of soft brands and traditional independent hotel companies has led to a blurring of lines between what owners should expect from each of the models, according to panelists at the ISHC annual conference.

Highlights

- "Brand is in the eye of the beholder, or in the case of the owner, the ego of the owner," said Robert Van Ness of Preferred Hotel Group.
- Hotel brands go to great lengths to define their customer base; soft brands go a little broader; and independents seek an even wider base.
- Management contracts for independent hotels have taken a turn to almost replicate those of brands.

By Jeff Higley Editorial Director

PANAMA CITY—Owners have more options than ever when it comes to operating their properties due to a continuous change in the landscape that separates branded hotels from independent. But, according to several panelists speaking at the 2013 International Society of Hospitality Consultants annual conference on Saturday, that landscape is more unsettled than ever.

The emergence of soft brands—which is a play by major brands to allow hotel owners to keep the indigenous name of their assets while placing them on major reservation-distribution networks—has caused some murkiness when trying to define an independent hotel. So has the maturation of some hotel companies that traditionally have been viewed as independent, such as Kimpton Hotels, which have morphed into brands because

of their footprints and distribution networks, said speakers on the "Is your ship required to fly a flag? Branding vs. independent" panel.

"I'm not sure what a brand is versus independent at this point in time," said Bruce Baltin, senior VP for PKF Consulting.

"Brand is in the eye of the beholder, or in the case of the owner, the ego of the owner," said Robert Van Ness, executive VP of the Americas for Preferred Hotel Group.

The speakers said the biggest difference between branded and independent hotels often boils down to the type of customer they seek.

"The hard-branded hotels try to have a very defined customer base," Baltin said. "They work hard at it. The softer brands work hard at appealing to a wider base, and the independent appeals to an even wider base, demographically and psychologically."

Van Ness said travelers looking for something different and unique are drawn to independent hotels.

"We've evolved as a traveling public; we like this idea of surprise," Van Ness said.

Determining the best fit

Baltin said one of the first questions owners must ask when deciding to brand a property is whether the asset fits a brand box well. Some hotels are simply not built to handle the demands of a brand.

Meghan Cocci, partner at SNR Denton, went a step further and said owners must ask whether they are suited to own an independent hotel.

"Some owners don't want anything to do with being independents, while other owners want to be independent because they don't fit into the brand box," she said. "They have to have the right owner mentality."

Management contracts in general are becoming more flexible and shorter to accommodate owners' wishes, Cocci said. However, the contracts for some independent management companies are becoming more like the contracts of brands.

"As we've had independents morph into a brand, they're taking a big brand approach in their legal documents, so it's not as easy as it used to be," Cocci said.

"We see a lot of those," Baltin said. "From an owner's perspective, that goes right into the trash can right away."

"The biggest thing to keep in mind when you're looking at an independent or smaller brand is look at what are the services you are really getting," Cocci said. "Do they have an operating system behind them? Are they going to have the (human resources) systems and benefits in place?"

Baltin said owners have a fair amount of leverage when it comes to making the brand-or-independent decision because there's not a lot of growth in supply.

"A management contract with a brand is tougher because it really is a combination of management and franchising agreements," Baltin said.

He said financing for independent hotels is now being provided by some lenders, but the debt is going to well-capitalized, proven developers and owners who have a good existing capital source.

"Part of our challenge is finding a management company that knows how to manage an unbranded hotel," Baltin said.

Baltin said part of the attraction of quasi brands, such as Autograph by Marriott International and Ascend by Choice Hotels International, is the flexibility in length of contracts.

"We're hearing some of that," Van Ness said. "But the contracts still look like the brands' contracts."

Different strategies

Baltin questioned the popular notion that brands deliver more reservations and higher rates than independent properties could otherwise procure.

He said there clearly is a cap on rates a brand can deliver, depending on the segment it is in.

"Independents and soft brands have a much wider range of rate available (than branded hotels)," Baltin said.

"When you go branded there's this idea of predictability and that predictability is in price, too," Van Ness agreed.

When it comes to distribution, online travel agencies should be part of a strategy, but not the entire strategy for independents and branded hotels alike.

"It's a lazy man's way to fill your hotel," Van Ness said.

Baltin said hotels tapping into the Generation X and millennial markets are making good decisions, but they need to take a long-term approach to those consumer bases.

"How (hotels will) evolve as that group matures ... we're still watching that," Baltin said.

Van Ness said the luxury experience at hotels will be redefined as consumers who achieve wealth at a young age are beginning to call the shots in terms of what products, services and amenities a hotel should have—and at what price point those items should be delivered.

Loyalty programs will continue to be important, and independents must have a way to counter the depth of the brands' programs, panelists said. However, Baltin said hotel loyalty programs are finding increased competition from credit-card, airline and other loyalty programs.

Van Ness said Preferred Hotel Group recently launched a points-based loyalty program because of guest demand.

"They're an important part of the future," he said.