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A DUAL TO THE DEATH OR A DUAL IN THE CROWN?

CURRENT TRENDS IN HOTEL BRANDING

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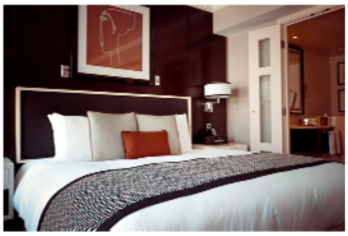

Introduction

While not long ago putting two hotel brands into one building seemed like a complete novelty, the dual-brand concept (also called multi-brand, combo hotel or two-in-one-hotel) continues to establish itself, becoming increasingly commonplace in today's hotel industry. This article explores the topic by establishing a definition and explanation of the possible combinations, briefly explaining the beginnings of the concept, highlighting the challenges and benefits associated with the dual-brand model and, lastly, providing an outlook of how this concept could be developed further. Input to this piece was provided by both secondary research and interviews with representatives of several international hotel brands.

What is a Dual-brand Hotel?

Owing to the vast diversity in hotel branding concepts, defining the dual-brand strategy can be challenging and varied, depending on the person asked. A definition of a multi-brand strategy could be as follows.

> *Marketing of two or more similar and competing products by the same firm, under different and unrelated brands. While these brands eat into each others' sales, multi-brand strategy does have some advantages as a means of (1) obtaining greater shelf space and leaving little for competitors' products, (2) saturating a market by filling all price and quality gaps, (3) catering to brand-switchers, users who like to experiment with different brands, and (4) keeping the firm's managers on their toes by generating internal competition.*

When it comes to hotels, more often than not dual-brand properties contain separate entrances, front desks and elevators for each brand, providing a stand-alone appearance to the guests, but share back-of-the-house operations, guest amenities such as meeting space, restaurants or pools, and sometimes even staff. Usually, dual-brand hotels are built at the same time in order to facilitate the design and construction. While many of the large hotel companies might have different properties in proximity of each other, they do not as such constitute dual-brand properties and are not the type this article refers to.[1]

Prerequisites and Combinations

The purpose of a dual-brand hotel is fundamentally the diversification of risk for a large site or room inventory. Hence, dual-brand properties should consist of brands that have a limited degree of overlap of their customer base. This diversified demand base can be the result of different price points (budget versus midscale traveller), segmentation characteristics (group versus transient travellers) or length of stay (short versus extended stay), for example. Nevertheless, the price gap and the product offering of the two brands should not be too far apart or represent the two extremes of the brand spectrum for them to co-exist successfully. Combining a budget property with a luxury hotel would provide no common ground for a joint development, to the detriment of both the luxury and the budget brands, owing to the diametrically opposed expectations at both ends, be it in terms of services or facilities. That said, the most crucial requirement for a successful dual-brand hotel is that the location of the hotel and its market can sustain a layered market mix and that a clear customer desire at different price points exists. The most common combinations for dual-brand hotels together with their differentiation factors are as follows.

[1] An exception to this rule is AccorHotels, which still considers many of their hotels that are not physically connected as dual-brand given the synergies they can achieve.

Differentiator	Length of Stay	Conference vs Transient	Price Point	Group vs Transient
Brand A	Focused Service	Full Service	Focused Service	Full Service
Brand B	Extended Stay	Focused Service	Limited Service	Luxury

The last combination (Group vs Transient) is not yet established in Europe but can be found in the USA.

Besides the correct combination of the brand types, it is imperative that the two hotel brands already have an established identity in the market. If not, guests could perceive the property to be just a large hotel, which would counteract the whole purpose of a dual-brand hotel: risk diversification.

The Evolution of the Dual-brand Hotel Strategy – Who was there first?

AccorHotels can certainly be called the pioneer of this concept as some 30 years ago they were the first international hotel company with a dual-brand hotel in Europe. The ibis/Novotel combination in La Défense Paris (286 and 280 rooms, respectively) is thought to have been among the first dual-brand hotels, opened in 1984 and still in operation today. However, AccorHotels defines a dual-brand concept in a slightly more general way, also including properties within proximity of each other as somewhat dual-brand. As such, they currently operate approximately five per cent of their hotel portfolio as dual- or even triple-branded properties, and plan to continue to exploit this model when the opportunity is right. In 2003, AccorHotels was also the first to opened a dual-brand property in Latin America, in Salvador Brazil, consisting of a Mercure/ibis combination.[2]

Other international hotel brands started implementing the concept first across the atlantic; the following table provides an overview of the first-movers in the USA for the dual-brand concept.

Parent	Hotel A	Rooms	Hotel B	Rooms	Total Rooms	City	State	Country	Year Open
Marriott	JW Marriott	998	Ritz-Carlton	584	1,582	Orlando	Florida	USA	2003
Marriott	Courtyard	270	Residence Inn	179	449	Austin	Texas	USA	2006
Marriott	Courtyard	161	Residence Inn	169	330	Montreal	Canada	Canada	2006
Marriott	Courtyard	120	Residence Inn	78	198	Aberdeen	Maryland	USA	2007
Hilton	Hilton Garden Inn	183	Homewood	165	348	Baltimore	Maryland	USA	2007
Hilton	Hilton Garden Inn	151	Homewood	131	282	Arundel Mills	Maryland	USA	2008
Marriott	SpringHill	253	Residence Inn	270	523	Chicago	Illinois	USA	2008
Marriott	SpringHill	198	Fairfield	135	333	Louisville	Kentucky	USA	2008
Marriott	Courtyard	150	Fairfield	110	260	Chandler	Arizona	USA	2009
Hilton	Hampton	149	Homewood	90	239	Silver Spring	Maryland	USA	2009
Hilton	Hilton Garden Inn	122	Homewood	98	220	Jacksonville	Florida	USA	2009
Hilton	Hilton	1,000	Waldorf-Astoria	500	1,500	Orlando	Florida	USA	2009

Source: Kallenberger Jones & Co, 2015

Marriott appears to be the first to introduce the dual-brand concept in the USA with the opening of the JW Marriott (998 rooms) and the Ritz-Carlton (584 rooms) in Orlando, Florida in 2003. Marriott

[2] HVS South America was involved with the nascence of this concept. For further reading consult 'The Dual Brand Hotel Concept' by Guilherme Cesari, 2004

remained the only company to do so for a number of years in the USA until Hilton introduced its Homewood/Hilton Garden Inn property in Baltimore in 2007.

In Europe, Marriott followed AccorHotels' lead with the opening of the Courtyard/Residence Inn property in Munich in 2011. We present below a table with the current dual-brand hotels by some of the larger hotel companies in Europe.

Parent	Hotel A	Rooms	Hotel B	Rooms	City	Country	Year Opened
Hilton	Hilton Garden Inn	334	Hilton	249	Frankfurt Airport	Germany	2011
Marriott	Courtyard	227	Residence Inn	125	Munich	Germany	2011
Hilton	Hampton by Hilton	107	Hilton	187	Bursa	Turkey	2012
IHG	Indigo	153	Holiday Inn	242	Berlin Alexanderplatz	Germany	2012
IHG	Holiday Inn	188	Staybridge Suites	162	London Stratford	UK	2012
Starwood *	Sheraton	171	Aloft	133	Bursa	Turkey	2013
IHG	Holiday Inn	120	Holiday Inn Express	323	Amsterdam Arena	The Netherlands	2014
Rezidor	Radisson Blu	142	Park Inn	206	Oslo	Norway	2014
Hilton	DoubleTree	232	Hampton by Hilton	161	Cracow	Poland	2015
Hilton	Hilton	172	Hampton by Hilton	120	Bournemouth	UK	2015
IHG	Crowne Plaza	165	Holiday Inn Express	193	Aberdeen	UK	2015

* Starwood's definition of a dual-brand

Source: HVS Research

Rather than dual-brand hotels, Starwood always considers its projects as two stand-alone hotels located next to each other, each with its own brand, its own facilities and back-of-the-house. Starwood is also to a certain extent less flexible when it comes to brand pairings as it does not have brands that operate in the lower tier segment, which are often part of a dual-brand hotel.

While the dual-brand strategy is actively pursued by some international brands in Europe (AccorHotels) others see it as an opportunity when the circumstances are right (Hilton, IHG, Marriott) and some would rather stay away from it (Starwood). There seems to be little difference whether a dual-brand is operated under a Franchise or Management Agreement, so long as both hotels are either fully franchised or fully managed.

"In markets with a clear business case - usually in cities, transport hubs, and conference centres – there is growing demand for distinct yet complementary international brands to exist within the same development." – Patrick Fitzgibbon, SVP Development EMEA, Hilton Worldwide

We list below a number of planned dual-brand projects in Europe as per public sources.

Parent	Hotel A	Rooms	Hotel B	Rooms	City	Country	Year Opening
Hilton	Hilton	235	Hampton by Hilton	211	St Petersburg	Russia	2016
Hilton	Hampton by Hilton	226	Hilton Garden Inn	127	Munich	Germany	2017
IHG	Holiday Inn	443	Staybridge Suites	190	London Bath Road	UK	2018
IHG	Holiday Inn	118	Holiday Inn Express	189	Munich	Germany	2018
IHG	Crowne Plaza	200	Staybridge Suites	116	Manchester	UK	2016
IHG	Crowne Plaza	300	Holiday Inn Express	450	Heathrow T4	UK	2018
Starwood*	Aloft	251	Element	77	London	UK	2017
Marriott	Moxy	120	Residence Inn	60	Amsterdam	The Netherlands	2018
Marriott	Moxy	98	Residence Inn	99	Hamburg	Germany	2018

*Starwood's definition of a dual-brand

Source: HVS Research

Cycas Hospitality, a third-party hotel operator, is actively pursuing the dual-brand strategy. In 2012, it opened the Holiday Inn/Staybridge Suites in Stratford and will soon add the Crowne Plaza/Staybridge Suites Manchester as well as the Moxy/Residence Inn Amsterdam to its portfolio.

The Benefits and Challenges

Financial and operational benefits marked the start of the dual-brand strategy. We outline below a summary of advantages and challenges that this concept offers to owners, operators and guests.

The Operator Perspective

Benefits

Marketing: Having two brands on the same site provides the parent company with a substantial marketing advantage. Guests staying in one hotel might not have been aware of the other brand before their arrival and thus the dual-brand concept can enhance brand awareness and potentially foster brand loyalty, in addition to the advantages of an at least partially combined marketing budget.

Diversification: Owing to different concepts or price points, the hotel has a more diversified target audience and can capture a broader share of the market demand. This can be especially interesting at times when a particular demand segment might be more challenged than another.

Flexibility: Flexibility exists when it comes to overbooking; if one hotel is full then guests can easily be reallocated a room in the other hotel, making it convenient for the guest and avoiding losses for the hotel, provided this is carefully managed.

Operating efficiencies: With shared services, back-of-the-house areas and centralised staff under one general manager, the hotel can achieve operating efficiencies such as reduced employment costs and savings for maintenance and equipment servicing. However, according to Mandelbaum and McDade (2015)[3], who analysed GOP margins for seven dual-brand hotels in the USA in 2013, it appears that operating efficiencies exist but do not come automatically and still depend on the management's ability to optimise operational results. Also, certain facilities become more cost effective to operate; parking facilities, fitness centres, restaurants or ballrooms might become feasible once used by two hotels, whereas before, fixed costs might have been too high to make them financially sound if only for the use of one hotel.

Market presence: A chain can enter the market with two brands at the same time, thus enlarging its market share due to the different target customers. To put it another way, a dual-brand hotel avoids competition (to some extent) by incorporating competition itself.

Challenges

Brand confusion: Dual-brand hotels can generally be run on a 'linked' or a 'blended' basis[4]. While 'linked' really means two hotels next to each other with some back-of-the-house shared spaces, the 'blended' model suggests one common entrance for both hotels, thus diluting the brand standards to a certain extent. The 'linked' model is more common and the 'blended' is only possible for select-service, or non-lifestyle brands. All this might lead to confusion for guests, and operators need to ensure that their dual-brand hotels have the same brand integrity as their single-brand properties.

Staffing: If employees are shared among the brands (which is often the case), staffing can become more challenging, since the personnel will need to learn about two different service promises. Some advocates claim that staff members cannot deliver the service which is expected by brand standards, as they have to compromise between two brands, hence leading to staff confusion and ultimately diluting brand identification.

Shared services: If one hotel offers more facilities than the other, but remains accessible to all hotel guests, the challenge will be to properly book each paid service onto the correct hotel room account. This ultimately leads to the question whether the hotels will have a shared or separate property management system (PMS).

Performance Test: While many dual-brand hotels are operated on separate franchise or management contracts, some do operate under a single management agreement where financial results of the properties would be combined. Problems arise if there were to be a performance test; the hotels could effectively count as one entity where the over-performing hotel could potentially hide the performance of the under-performing hotel.

[3] 'Dual-Branded Hotels: Do Operating Efficiencies Exist?' by Robert Mandelbaum and Gary McDade

[4] 'What's Behind the Dual-Brand Hotel Trend?' Robert Carr, 2016

The Owner/Investor Perspective

Benefits

Construction: Owing to the shared public and back-of-the-house areas, a dual-brand project is likely to occupy less space than two single-brand hotels. We understand that construction cost savings can be achieved there, thus also bringing down the construction cost per room.

Better use of Land: In certain markets in Europe, the availability of land or sites is very limited and construction costs are expensive; a dual-brand hotel could help generate better revenues per square metre than if the site were to be used for a single-branded hotel, and therefore help to maximize the value of the land.

Diversification: The mitigated risk through a diversified product might be attractive to an institutional lender or investor.

Financial advantage: If the hotel achieves operational efficiencies and thus cost savings, this will ultimately trickle down to the investor on both an income (unless the hotel is on a fixed lease) and value appreciation basis.

Challenges

Exit: Given the relative youth of this concept, an analysis of exit strategies remains limited. However, this point should be considered at the very start of the project and an investor therefore needs to have a clear idea of his objectives of the investment; if the hotels are set up to have shared back-of-the-house facilities, it is likely to become more difficult to sell them as two entities. The most pressing question could be if significant physical changes (at considerable additional costs) had to be made to the property in the event of converting into a single hotel, or two independent properties, for example. Transactional evidence is scarce at this point in time (most recently the Holiday Inn / Holiday Inn Express at the Amsterdam Arena Towers traded) and a comparison between single-brand and dual-brand hotels might be of limited relevance as they would not present the exact same locational characteristics.

Financial reporting: Depending on the operating model and the contract type (mutual or separate), the financial reporting could be more complex than for a normal hotel, especially if the hotel is a 'blended' type where services are used by all guests, no matter what hotel they stay at.

The Guest Perspective

Benefits

Choice: The concept almost only has benefits for the guest. Firstly, the same location offers two different products, providing the guest with a choice. Secondly, if they choose the limited service hotel, they can still conveniently benefit from the facilities that the full service hotel offers as it will be within the same building. That said, we understand from our interviews with representatives of brands that it is not uncommon for guests to be completely unaware of a second hotel in the same building.

Challenges

Confusion: One of the few challenges for guests is a certain degree of confusion which could arise, having two different hotels in the same location but offering different facilities at different rates.

What is next?

The dual-brand concept keeps evolving and there are already new forms of it under development, some of which we outline in the following paragraphs. Most of them will again be introduced in the USA first and potentially then move to Europe.

The Triple-branded Project

AccorHotels already operates a few hotels under a triple-brand strategy, mostly combining a midscale brand (Novotel, Mercure), an economy brand (ibis, ibis Styles) and a budget brand (ibis budget, Formule 1). Owing to AccorHotels' experience with the multi-brand concept, this seems to work rather well for the brand. However, we understand that when three hotels are combined, considerable space could be wasted on public areas which would effectively contradict the objective of a dual-brand hotel of combining spaces. Also, more generally, we understand that a triple-branded project can add to the complexity of operations and so the pros and cons need to be carefully evaluated to make sure this is indeed the best alternative for a given project.

Mix of Parent Companies

There are currently two projects in the active pipeline in the USA, comprising two or three brands of different parent companies; the Hilton/Hyatt in Washington D.C. Wharf, expected to open in 2017, will comprise a 175-room Canopy by Hilton (lifestyle) and a 238-room Hyatt Place (extended stay). The Chicago River North project will contain a Hyatt, Starwood and Marriott brand (Aloft, Fairfield Inn & Suites, Hyatt Place). Feedback we received from operators varies; however, many agree that Europe has few markets which could support such a scale of supply. Some pointed out that such hotel complexes could no longer be described as multiple-branded as they would likely just be located next to each other and, if at all, only benefit from synergies in the marketing of the complex as a 'hotel destination', but lose the synergies related to brand culture. Scepticism towards such concepts in Europe prevails, arguably also due to the limited number of success stories to date.

New combinations and brands

Conventional schemes have centred on the full service, select service, limited service and extended stay segments. New forms, however, could also consider luxury, lifestyle or soft brands as part of a hotel pairing, yet not without challenges. AccorHotels has successfully paired Sofitel with its luxury serviced apartment brand Sebel in China and others might follow suit; Mama Shelter, AccorHotels' new midscale lifestyle brand, could be another candidate for a combo hotel.

Conclusion

The dual-brand hotel concept is here to stay and is likely to grow further as investors become more acquainted with it. It does offer many benefits, but challenges are not absent and this strategy requires careful planning during the entire lifetime of a hotel. The largest trade-off comes with the shared back-of-the-house space; while it allows a reduction in development and operating costs, it also ties the hotels together in such a way that they might need to permanently trade or exit as one entity. During our research it became apparent that while a dual-brand property might be achieving slightly higher average rates than comparable single-brand alternatives, the savings are predominantly found in the increased margins, where reduced operating costs might make all the difference. Lastly, hotel companies with more brands in the mid- and full-service segments are arguably better placed to operate such a concept, as opposed to companies with a concentration of brands in the upscale segment.

About HVS

HVS, the world's leading consulting and services organization focused on the hotel, mixed-use, shared ownership, gaming and leisure industries, celebrated its 35th anniversary in 2015. Established in 1980, the company performs 4,500+ assignments each year for hotel and real estate owners, operators, and developers worldwide. HVS principals are regarded as the leading experts in their respective regions of the globe. Through a network of more than 35 offices and more than 350 professionals, HVS provides an unparalleled range of complementary services for the hospitality industry. **HVS.com**

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