

To Be or Not to Be . . . – Brand Affiliation in the Hotel Industry

Mats Carlbäck ¹

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¹ School of Hospitality, Culinary Arts & Meal Science, Örebro University, Sweden. Address: Box 1, SE 712 02 Grythyttan, Sweden. Phone: 46708 42 72 96. E-mail: mats.carlbäck@oru.se

Supervisors: Professor Tommy D. Andersson
Professor Christian Ax

Institution awarding the Ph. D. Degree: School of Business, Economics & Law, Gothenburg University, Sweden

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Goal and objectives of the dissertation

Goal

The aim of this research project is to increase our understanding of the costs and benefits connected with operating a hotel independently or as part of a hotel chain, using both quantitative and qualitative methods. Such an understanding could be used to spur further research but should also be directly applicable by the practitioners. This research project stems from a genuine practical problem in the hospitality world that is illustrated by the overall research question: "What are the advantages and disadvantages of being affiliated in the hotel industry?"

Objectives

The main objective of this research project is to identify the costs and benefits of joining an affiliation company and identify which aspects connected with affiliating would affect

independent hotel owner's decision-making process concerning affiliation. To reach this objective the research project has been broken down into four sub-objectives, each addressed in a separate article:

1. To analyse whether affiliation affects performance in the hotel industry.
2. To identify and analyse the awareness of and practice with the concept of BVAA (Brand Value Attributable to Affiliation) among various categories of stakeholders in the Swedish hotel industry and identify possibilities for research and improvement of business practice.
3. To identify and evaluate what parts of a brand would attract independent hotels to affiliate in a consortium context, i.e. what factors of a possible affiliation company would attract independent business owners to give up their independence.

4. To measure BVAA created by the brand in a consortium context.

Methodology

The research focuses on several critical aspects of affiliating, which called for the use of multiple research methods in the dissertation's papers. While the main part of the research project was carried out in Sweden on 12 hotels, five affiliation organisations and five financing or valuation institutions, not all data needed were available there. For this reason, data from the US were also used. By collecting data from 51,000 hotels, where about 50 % were affiliated and 50 % independent, statistical analyses were possible. A large set of data covering a period of 10 years provided a view of hotels' progress over the same period. The availability of operating income statistics, which is rather unusual, added value to the results produced and the methodology chosen.

Once the performance of an entire industry was analysed, more business-specific data were needed. Based on the outcomes of the first elements of the research project, presented below, a further challenge arose for the last element. A constructive approach was needed for the study, as a problem was identified from the results above, with both practical and theoretical implications. The constructive approach has previously been used in cases where the focus has been on finding or constructing an applicable solution to a problem (Kasanen et al., 1993). The aim with the final part of the study was to create a solution to the very same problem. The methodology used was in line with a constructive approach, where a problem is identified, and a solution is developed, tried and tested and finally evaluated based on real cases.

Results

This study shows that affiliated hotels in the US perform better at various stages of the economic cycle and further that profits for affiliated hotels in the US fluctuate less widely than profits for independent hotels under various economic conditions. The study also

indicated a value connected with affiliating and that brand value is not static, but will vary in line with stages of the economic cycle. Contrary to earlier studies the results from the study show that independent hotels operate less efficiently insofar as they fail to bring the advantage of not having to pay fees and royalties to the bottom line.

The goal was also to identify factors that attract independent hotels to affiliations as well as factors that discourage independent hotels from affiliating with consortia. Even if independence proved to be the single most important, several other factors that non-affiliated hotels seek from an affiliation setup, loyalty cards being the most important, followed by the development of technical solutions, sales and marketing and social media strategies, proved to be crucial. The results clearly indicated that consortia, i.e. marketing organisations or referral chains, were the preferred options for growth-aspiring hotel-owners. Agency-related aspects, such as control rights, affected the entrepreneurs' desire to affiliate, even though respondents thought their own way of running their businesses were the most efficient. Further, the results identified a lack of models, tools and theoretical foundations on which hotel owners can base strategic decisions concerning affiliating as it became evident that branding and affiliating are vital strategic decisions to consider. Consequently, the final part of the project called for a more constructive approach as the results showed that the concepts of BVAA, brand value and brand equity are rarely used in the Swedish hotel industry by all stakeholders. The results from the final part show, consistent with the studies on other industries, that definition, identification and measurement of brand value are virtually non-existent in the Swedish hotel industry and the study presents how to calculate BVAA in a consortium context. Based on empirical data from operating hotels the results were illustrated with the use of actual numbers from two participating hotels.

Theoretical conclusions

The problem of evaluating the costs and benefits associated with a consortium was

identified via a review of existing knowledge and theories to develop both knowledge, methodology and theoretical framework. A new theoretical framework was developed based upon existing methods, the latest theories and current needs identified in the study.

The thesis elaborated a theoretical model from which it is possible to build regarding the identification of brand equity and brand value in an affiliation concept which could be developed further and used in various innovative ways. Further, this study shows that a better understanding, clearer definitions and a more accurate way of calculating BVAA could enhance the industry's potential to develop as the results explain BVAA in a consortium context and analyses the elements of which it consists. The illustration of and comparison with previous methods visualises the theoretical connections and the contribution, i.e. a comparison with already existing methods. The possible applications of the resulting method are presented - a method that could be used by academics and practitioners alike.

Practical application of the dissertation

The findings derived in this study in connection with brand equity in an affiliation organisation that are relevant to both members and potential members to better link the brand equity created and projected to the resulting BVAA. Based on the theoretical idea of co-creation and the inclusion of entire marketing and distribution chains and the ideas presented by the respondents in this study, this approach could be developed through a model that is applicable from both a theoretical and a practical perspective. Brand management activities could then be increased on two levels, one directed towards hotel customers (B2C) and one towards affiliation members (B2B). This could also, with more knowledge and a tested model, be used to develop fee structures for members. Brand equity when properly calculated could justify paying the associated fees, and, to the same extent, a better contribution by members to overall brand equity (from a customer perspective) could lead to lower

fees insofar as a contributing member builds brand value. The relationship between brand value and equity could benefit from a deeper understanding and better knowledge. It is evident that the two affect each other, but how? How could this knowledge be used to take better business decisions?

These factors could serve as building blocks for a model on the basis of which one could evaluate membership from a brand equity perspective in combination with the measurement of BVAA.

By taking the brand equity concept and adding the brand value concept a foundation for a new construct is developed. This could be used as a model for describing and visualising the various aspects of a brand, from a practical perspective - to encourage stakeholders in the hotel industry to accept the value associated with brand.

Finally, another contribution of this project is a method for extracting and measuring BVAA in a consortium context. The attempt here is illustrated with calculations for two affiliated hotels, providing a better picture of the process and presenting examples of the results that could be produced. A further empirical study on several properties would enable more generalizable conclusions to be made. By including a sample drawn from multiple affiliations it would also be possible to add knowledge about various contexts and the effect of such contexts on BVAA calculations. This would also produce an important part of the above suggested model for measuring the connection between brand equity and brand value. If investments in, or indeed enhancements of, brand equity are made, how would that affect BVAA? Without a way of measuring such value, any conclusions would be hard to make with confidence.

Content of the dissertation

Abstract of Chapter 1

O'Neill, J. W. & Carlbäck, M. (2011). *Do Brands Matter? A Comparison of Branded and Independent Hotels' Performance during*

a Full Economic Cycle. *International Journal of Hospitality Management*, 30 (3), 515–521. Longitudinal data from more than 51,000 hotels in the United States marked were analysed for a full 10-year economic cycle in order to compare the performance of affiliated hotels with independent operations under various economic conditions. The results indicate that affiliated properties experience significantly higher occupancy rates during all phases of the economic cycle. Meanwhile, independent hotels experience significantly higher average daily rates (ADR) and room revenues per available room (RevPAR) during the 10-year economic cycle. Affiliated hotels are faced with various payments attributable to their brands, such as royalty payments and other membership-related fees. But those fees do not have any significant effect on net operating income (NOI) compared with independent hotels. This suggest that independent hotels are unable to bring their ADR and RevPAR premiums to the bottom line despite not having to pay affiliation expenses. Instead, the results indicate significantly higher NOI for branded hotels during economic recessions which leads to the conclusion that intangible asset value of hotel brands is not a static construct, rather something which could vary over time.

Abstract of Chapter 2

Carlback, M. (2018). *Brand Value Attributable to Affiliations in the Swedish Hospitality Industry*, unpublished manuscript.

This study of 12 hotels, five affiliation organisations and five financing or valuation companies in Sweden showed that the concepts of BVAA and brand equity are neither used nor measured in the Swedish hotel industry, even though the associated intangible value could make up a considerable percentage of a business's overall value. The hotel owners involved in affiliation discussions would in most cases welcome an initiative to make it easier to include BVAA in their planning, strategic development and decision-making as it presently was difficult to evaluate the costs and benefits of joining affiliation organisations and to compare alternatives. While the hotel owners desired tools they

could use to understand the offerings, representatives of the affiliation organisations were seeking tools with which to explain the value of their offerings to potential members. Again, it was a question of being able to demonstrate the extent to which an affiliation or brand could add value to the new member and also show the difference between brands — explaining not only brand equity but also brand value. Even if the banks, consultants and investors surveyed did find the topic interesting or valuable, they expressed concern over the feasibility of measuring or evaluating such a concept. At present, BVAA as a concept is largely ignored. The results also indicated a lack of clear definitions as to what intangible assets are and how a brand could be moved from an off-balance-sheet asset (not accounted for) to a substantial part of the balance sheet, i.e. a company's value.

Abstract of Chapter 3

Carlback, M. (2012). Strategic Entrepreneurship in the Hotel Industry—the Role of Chain Affiliation. *Scandinavian Journal of Hospitality and Tourism*, 12 (4), 349-372.

This article aims to identify and analyse the most important factors that could make independent hotels give up their independence to affiliate, i.e. join a chain. Even if independence was proved to be important for the hotel owners, there are several factors that non-affiliated hotels seek, with loyalty cards being the most important. This was followed by the development of technical solutions, sales and marketing and social media factor hard to solve independently. The results also indicated that consortia by far was the preferred option for growth and development oriented independent hotel owners. The results from the research used and added to the knowledge of agency theory, strategic entrepreneurship and the resource-based view of the firm in a hotel context. On a more practical note, the results make it possible for independent hoteliers to assess their current situation and decide what options could be valuable. At the same time, the affiliation organisations would be able to better align their offerings to attract new hotels, if they

knew what independent hotel owners need to join.

Abstract of Chapter 4

Carlbäck, M. (2019) *Brand Value Attributable to Affiliation (BVAA)—an Analysis in a Consortium Context*, submitted.

The aim with this article is to identify and measure the extent to which the financial value in the hotel industry is affected by the BVAA. Accurately calculating the value of a hotel is important for a number of parties, including hotel owners, operators, brokers, management companies, and financiers. While researchers (O'Neill, 2004; O'Neill & Belfrage, 2005) have suggested methods for appraising intangible assets within hotels and creating new frameworks for hotel valuation, it has yet to be seen if these methods work in a consortium context. The question is primarily whether affiliation adds any financial advantages, but also the extent to which an intangible asset value is created and how this could be used in taxation, financing and other strategic decisions. Intangibles are per definition difficult both to define and to calculate and the aim with this article is to facilitate such calculations in a consortium context, as this is the least researched affiliation format today while at the same time also the preferred option for independent hotel owners seeking strategic advantages for the future. This study produces indicative valuations that should be usable in both evaluating the benefits and costs associated with brand affiliation and as a method for separating intangibles (in this case the BVAA) from enterprise value.

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