Brand recognition can help hotels survive economic downturns

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This isa collage of hotel brand name signs. Credit: Heather Annette Miller, Penn State

Brand named hotels fare better than independently operated properties in economic downturns, according to a team of international researchers.

A study of the performance of hotels during both economic recessions and expansions indicates that brand named hotels are more profitable than independent hotels under all economic conditions, but the difference is particularly significant during recessions, said John O'Neill, associate professor of hospitality management, Penn State.

"There has been a lot of debate in the hotel industry about the advantages of brand affiliation and independent hotels," said O'Neill. "What we set out to do was study how these hotels performed in a range of economic conditions."

O'Neill and Mats Carlback, doctoral student, University of Gothenburg, Sweden, studied data from Smith Travel Research, an independent lodging research company that examined the financial performance of 51,991 hotels in the United States from 2001 to 2008. A total of 29,418, or 56.6 percent, were brand named hotels -- members of chains of three or more hotels operated under a single brand name, such as Marriott and Sheraton.

The researchers examined four core revenue and profit indicators -- a hotel's average occupancy percentage, the average price paid for a room, revenue per available room and net operating income -- that measure the financial performance of both independent and branded hotels. To see how these hotels performed in recessionary and expansionary periods, the researchers then compared these numbers with economic indicators provided by the U.S. Bureau of Labor Statistics and the U.S. Bureau of Economic Analysis.

While there was no significant difference in the net operating income of the branded and independent hotels during economic expansions, branded hotels registered significantly higher net operating income than independent hotels during the recessionary years of 2002 and 2008, the researchers report in the online issue of the *International Journal of Hospitality Management*.

O'Neill said that the costs and fees associated with belonging to a hotel chain, such as royalties and franchise fees, tend to negatively affect the net operating income. However, the intangible benefits of a brand appear to compensate for these costs through increased occupancy, especially during recessions.

"What we found is that the lion's share of a branded hotel's intangible asset value is in the brand itself," O'Neill said.

During the recession of 2002, the occupancy rate of branded and independent hotels was 58.2 percent and 52.4 percent, respectively. In 2008, another recessionary period, branded hotels posted a 59.1 percent occupancy rate, while independent hotels posted a 56.2 percent occupancy rate.

Also, the average net operating income of branded hotels in 2002 was $2.07 million, while the average net operating income of independent hotels was $1.3 million. In 2008, branded hotels brought in an average net operating income of $2.53 million, and independent hotels had average net operating income of $2.49 million.

The one area where independent hotels outperform branded hotels is in the revenue per available room category. O'Neill said that one reason independent hotels can charge higher prices for their rooms is the perceived uniqueness and exclusivity of independent hotels among clientele.

"In other words, people would pay more to stay in an independent hotel, so those hotels can charge a higher room rate," O'Neill said.

The researchers suggested several explanations for the improved performance of brand named hotels during declining economic periods. In addition to large marketing campaigns, the global distribution systems of hotel chains offer centralized reservation systems, guest loyalty programs and access through online travel agencies, such as Expedia.com and Travelocity.com.

Brands also offer potential guests dependable service and experience, according to O'Neill.

"There's an emotional share with branded hotels," said O'Neill. "In bad economic times, people return to the security of brands."

O'Neill said the study could help hoteliers decide whether the benefits of belonging to a franchise outweigh the costs of the intangible assets of a brand.

Provided by Pennsylvania State University

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