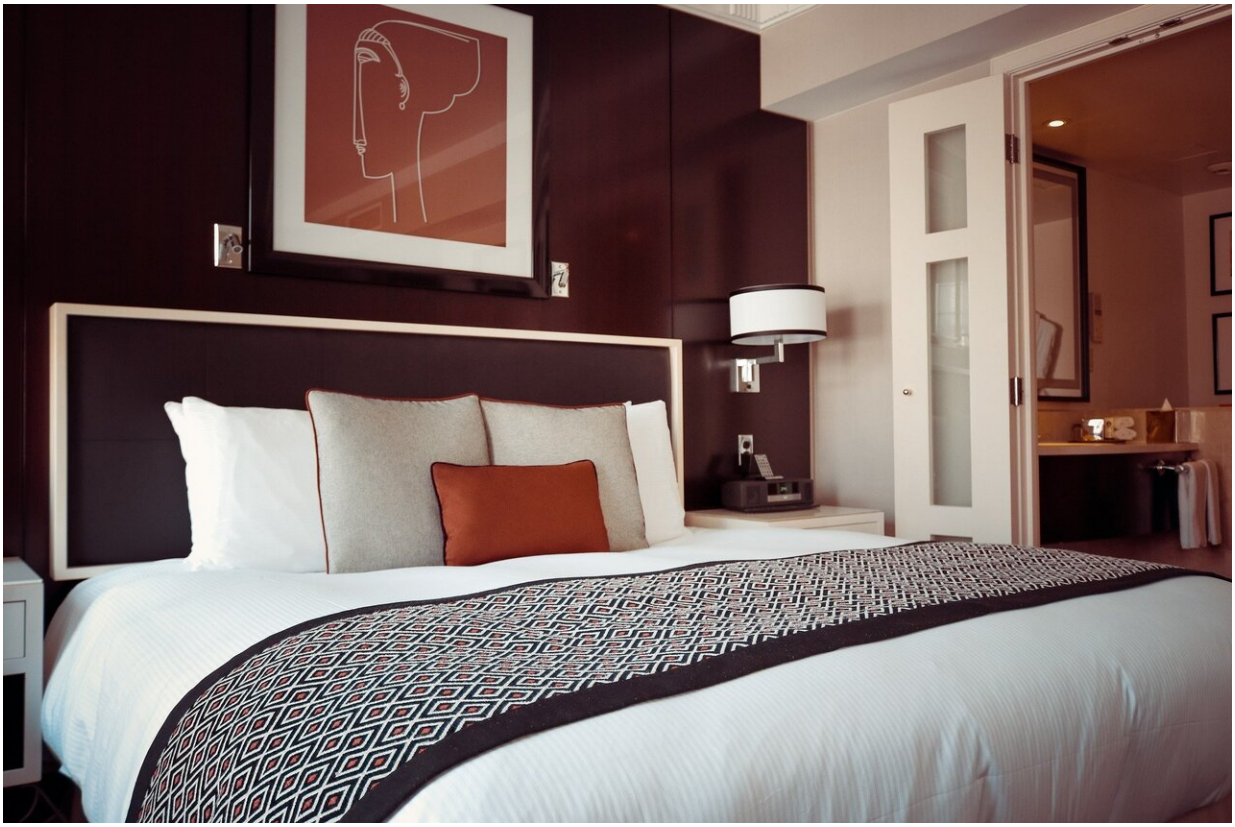
Can encroachment benefit hotel franchisees?

June 15 2021, by Matt Weingarden



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Researchers from University of Texas at Dallas and Emory University published a new paper in the *Journal of Marketing* that examines the issue of encroachment in the hotel industry.

The study, forthcoming in the *Journal of Marketing*, is titled "Can

Encroachment Benefit Hotel Franchisees?" and is authored by TI Tongil Kim and Sandy Jap.

For decades, the issue of encroachment, or adding an outlet in proximity to existing outlets, has been contentious. A new outlet increases competition for customers, causing concerns for franchisors and franchisees that the existing outlet's sales will be cannibalized. Franchising is a key means for growth and market expansion for many companies. These organizations account for as much as $890 billion or 50% of all retail sales across 75 industries in the US (approximately 3% of the US gross domestic product). Therefore, encroachment is a big issue.

A new study in the *Journal of Marketing* suggests that cannibalization does not always have to be the case. Using five years of hotel sales data, an experiment, and a series of simulations, the research team finds that adding a new outlet in markets with few same brand outlets can modestly benefit existing locations. Specifically, the researchers find that revenues can increase an average of 1.7% (a 2.3% improvement in profits) - in other words, a sunny side to an issue that has historically dissolved in conflict.

Importantly, this positive impact does not happen when the new outlet is a different franchise brand. In other words, brands matter. Kim adds that "We also find that younger brands, cross-brands (e.g., Hyatt Place and Hyatt House), and brand bookings through online travel agencies also benefit from having more versus fewer locations." Customers appreciate and value additional outlets of a brand (up to a point) as well as when the brands are new or when they share a moniker with other franchise locations of the same brand. Customers also value multiple same brand options when booking through websites like Expedia or Kayak.

This means that when looking to expand, franchisors should prioritize

markets with few same brand outlets, newer brands in their portfolio, cross brands, and online travel agency sales channels. These potentially represent win-win options in the conflict over encroachment.

Most of the work around network expansion has focused on the legalities of this process, codes of conduct, expectations, and compliance and monitoring practices. This research suggests that there may be alternate ways of tackling this thorny problem.

More information: TI Tongil Kim et al, EXPRESS: Can Encroachment Benefit Hotel Franchisees?, *Journal of Marketing* (2021). DOI: 10.1177/00222429211008136

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