Branding Experts on Guest Reactions to Marriott-Starwood Acquisition

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What will happen to Starwood's Sheraton brand with the Marriott acquisition? Pictured here is the Sheraton Grand Sukhumvit, one of 10 recently re-designated Sheraton Grand Hotels. Sheraton Grand Sukhumvit

The Marriott-Starwood deal is much more than putting on a fresh coat of paint and moving on with business as usual. The integration process will likely take years, and franchisees can thank booking sites for their large role in that difficulty.

— Dan Peltier

Travel professionals, among the rest of the public, learned Monday that Marriott International will acquire Starwood Hotels and Resorts, and began drawing conclusions about what this means for their corner of the industry.

A Cornell University study released earlier this year, which examined case studies of 200 hotel rebranding efforts, offers this analysis for consumer behavior when a rebranding takes place:

"We observe 29% the hotels rebrand within the same brand umbrella. We find that the effect of rebranding is the highest if the hotel goes downscale and is lower if the hotel stays in the same scale or moves upscale. Once the brand effects are controlled for, the estimates become insignificant if the hotel stays in the same scale, is significantly positive if the hotel switches to a lower scale and is negative if the hotel switches to a higher scale brand."

Of the many gaping questions still unanswered, one of the bigger queries is largely out of Marriott and Starwood executives' hands: When will the average Marriott or Starwood guest hear the big news, and how will they respond?

"As the hotel property's amenities, staff, and management may carry over from the origin brand to the lower (higher) scale destination brand, customers may find that the experience with the property exceeds (does not meet) the average quality of the affiliated brand after rebranding. Switching to an upscale chain may run the risk of not meeting customers' expectations formed based on that brand."

Skift recently talked to two hospitality branding experts, Erich Joachimsthaler, CEO and founder of Vivaldi Partners Group, a global brand strategy consulting firm, and Ron Swidler, principal at The Gettys Group, a hospitality design company, to hear their thoughts on how guests have reacted in similar situations and about the rebranding process for merged or acquired hotels. Vivaldi has worked with major brands including Marriott, Disney, and Airbnb and The Gettys Group works with many Marriott and Starwood properties as well as properties part of other large chains.

Although Marriott CEO Arne Sorenson said there are no plans to divest any of the Starwood brands, folding or completely rebranding Starwood's Tribute or Sheraton brands, for instance, remains a looming possibility.

Following are their thoughts:

Skift: What are your initial reactions to the Marriott-Starwood deal?

Joachimsthaler: Both companies have managed large brand portfolios for a long time. While this is a massive consolidation, I think this is doable. Marriott is a hotel company and Starwood has been more a real estate and financial player and investor player, so I think [Starwood founder Barry Sternlicht] has done a lot more than be a good investor.

But by its DNA, it's clear that this is great for Marriott and for Starwood. Still, I do wonder to what extent this is just moving two spreadsheets together. This doesn't seem like we'll have post-integration challenges that you would see in an acquisition of a similar size. You're combining two galaxies in some ways, rather than two planets.

There are of course many benefits for combining both Marriott and Starwood's loyalty programs together because this will be the world's largest hotel loyalty program. Marriott can leverage the rewards cards as another mechanism to increase direct bookings, so it's a net positive.

Skift: What does the track record look like for how guests respond to hotel rebranding efforts?

Joachimsthaler: On average, a rebranding helps increase revenue per available room by 4.43% and occupancy typically increases about 6.31% (according to the Cornell study), so the effect can be very positive from a consumer perspective and a rebranding effort does benefit the joining of a portfolio.

It used to be that when you went grocery shopping you could also visit a travel agency in the same shopping plaza to talk to a travel agent about planning your trip. That's not the reality anymore, and you can't imagine how much power booking sites hold over hotels. This is why consumers aren't always initially aware of a hotel merger or acquisition–they're booking through a booking site and not being told that one hotel group is actually now part of another hotel group.

Skift: Will the guest have more power in this scenario, or do the online travel agencies still hold all the cards?

Joachimsthaler: The problem is that the number of direct bookings for hotels are relatively small, most bookings go through Booking.com or TripAdvisor, for example. The increase in revenue per available room and occupancy rates comes from the power of the channel. Every hotelier I've spoken with says they wish they didn't have to rely on [online travel agencies], but that's the business. The value capture has shifted to booking engines, so [mergers and acquisitions] are largely a power play because of the power shifts in the value chain.

The effect from all of this is channeled through [online travel agencies]. It's not the consumer who makes the choice, the consumer is presented with options on a booking site. It's essentially a digital Darwinism in the hospitality industry.

The hotel group has very little power anymore in order to fill the rooms and to get the economics to where they need to be to improve their revenue, etc. So another motivation for an acquisition is to increase those direct bookings, which are a lot better with super luxury brands than others.

I recently talked to a group of hoteliers a couple of weeks ago and we discussed what is the [value of a merger or acquisition], if at all, if people don't recognize that two hotels are part of the same hotel group? And their answer, again, was that it's all about the bookings.

Skift: How aware are guests of a rebranding? If they walked into the lobby of a hotel a few months after it's merged or been bought by another brand as a result of a merger or acquisition, would they notice any significant changes?

Joachimsthaler: There's a huge variation within the Sheraton brand at a global level and that's a real problem, for example. In a merger, some hotel properties will rebrand locally because they confuse consumers because they're part of the same hotel group but you lose the distinction between a Sheraton and a Westin and so forth.

The competition really is at the local level and so to try to align a global brand so that everybody has the same experience, there needs to be trade-off with how does this property compare to the other two properties of the same brand in Las Vegas?

Swidler: I don't believe that there is an average, non-road warrior consumer that understands which hotel parent brand owns which hotel sub-brands. The brand confusion is further stirred with the addition of new brands in the market, and also when searches through [online travel agencies] often bring up independents before branded hotels due to effective SEO. That said, I believe that the road warriors do care, but primarily to loyalty points protection/concern.

When we look at examples such as Hilton's acquisition of Promus, which led to them owning both the Embassy Suites and DoubleTree brands, there was initial brand blur between the brand offerings (remember that there were Hilton Suites and DoubleTree Suites hotels back then).

What was created was an opportunity for Hilton to create some 'swim lanes' for each of their brands, in which they could create and define unique brand attributes that resonated with the market. In that light, the acquisition of a new brand forced a rethink of the existing brand offerings and made both the acquired and existing brands stronger.

Skift: How long will it take for any brand changes to be fully implemented?

Joachimsthaler: I work with Hard Rock Hotels and Resorts, and the people in Florida who run the whole brand could not rebrand their big hotel in Las Vegas, for example, because even though the local management in that Las Vegas hotel would like to make the rebranding, that hotel is actually private equity owned, and private equity owners have a particular motivation for short-term and long-term gains on a particular investment.

So in-order to make even one conversion to align with a global [merger or acquisition or rebranding], it could be years for a hotel to fully comply. This takes place only gradually because of all the stakeholders if this is a rebranding and also because of local competition. It's at least a two-plus year process and is an extremely difficult undertaking.

McDonalds is a great example of this outside of travel–consider that it has 30,000 owners out there who don't want to change as quickly has they should change to update and modernize their restaurants.