Canadian Lodging Outlook

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HVS INTERNATIONAL

SMITH TRAVEL RESEARCH

Basic Concepts of Co-Branding, With Examples from the Hospitality Industry

Could co-branding improve YOUR bottomline?

By: Peggy Yip - HVS International - New York

Consumers in the 21st Century have become increasingly aware of the quality of the products and services they seek, and now search for added value in these items. Competition among companies to attract and retain consumers has become fierce. One of the techniques companies utilize to attract and retain consumers is product branding. Product branding refers to establishing a well-known name for a given product or service, whereby the particular product or service and its attributes are highly recognizable and easily recalled by consumers. The basic concept behind branding is to establish a standard on which consumers may rely to estimate value and to differentiate a company's product from competitive products. It is a powerful tool that influences repeat purchases. For the consumer, the ability to affiliate with a particular brand can often demonstrate a level of success, and can sometimes boost personal self-esteem. Thus, the ability to imprint the product's brand into the minds of consumers is the most effective and efficient way to increase the bottom line. To further enhance a company's revenues and increase market share, co-branding - the pairing of two or more recognized brands within one space - has become popular. The hospitality industry relies heavily on this phenomenon, whether it is alliances between different hospitality products, (Pizza Hut Express outlets in Holiday Inns) or between hospitality products and consumer goods (Bath and Body Works toiletries in Renaissance Hotels).

History of Co-Branding

The philosophy behind co-branding is to generate additional market share (and ultimately increase revenue streams) through customer awareness by forming alliances with one or more brands. Co-branding in the hospitality industry has existed in one form or another since the 1930s. But it was not until the 1980s, when Red Lobster opened two restaurants in Holiday Inn properties in Charlottesville, Virginia, and Texarkana, Arkansas, that this idea became popular. According to an article written by Juliette Boone about co-branding, at least five reasons exist for forming an alliance: to create financial benefits; to provide customers with greater value; to improve on a property's overall image; to strengthen an operation's competitive position; and to create operational advantages. It is believed that performance may be enhanced when one company compensates for another firm's weak points; by forming a partnership, both companies can benefit.

Co-Branding in the Hospitality Industry

Some examples of successful co-branding in the hospitality industry include Starbucks coffee being served on United Airlines flights and in various nationally branded hotels, as well as Denny's restaurants operating in some Holiday Inn properties. As mentioned above, co-branding can exist among different industries. According to an article in Hotel and Motel Management, Econo Lodge and Procter & Gamble's Mr. Clean is a successful example of the hospitality industry partnering with an unrelated industry. Because cleanliness ranks about as high as customer service when guests are considering a hotel, Choice Hotels International's Econo Lodge brand used Procter & Gamble's Mr. Clean products exclusively to clean its hotels. With special marketing efforts promoting this partnership, Econo Lodge reached out to consumers to let them know that the brand was serious about cleanliness.

Choosing the Right Partner

Selecting the ideal partner is a strategy in itself, whether the alliance is between companies whose sizes are similar or significantly different. The selection process requires several steps: identifying the positioning strategy; contacting intermediaries to assist in the formation of partnerships; define what is wanted; meeting with the principles involved; performing analyses to determine the feasibility of the partnership; getting the top executive's decision in moving forward with the alliance; and finally, negotiating the contract. Goals and objectives that each company brings to the alliance should enhance each other's ultimate partnership strategies.

Partnerships composed of large and small companies would appear to result in a power imbalance between the partners; however, the important element in the alliance is that the products complement each other. The exercise of power does not necessarily depend only on the size of the partners; it also depends on each product's existing market share and recognition. Communication is vital from the beginning; if communication fails, alliances can easily crumble, a situation that can affect the bottom line for both parties.

Advantages

From the perspective of both the hotelier and the partner, the ability to access a broader customer base and form new relationships with clients is one of the more important and beneficial advantages. The revenue generated by the partnership can outweigh the expense of forming the alliance; as a result, budgeted expenditures can be concentrated in other areas. In addition, co-branding enhances the credibility of the hotel's brand by borrowing credibility from other brands. From the consumer's perspective, no surprises will be evident in the branded products, i.e., a cup of Starbucks coffee will taste the same whether it is ordered in Seattle, Washington, or in Omaha, Nebraska. Furthermore, the idea of receiving "more value for their money" when staying at a certain property is a critical factor for guests when choosing a hotel product.

Challenges

Co-branding in the hospitality industry can also be difficult and complicated. The idea of introducing new variables that can complicate day-to-day operations is one of the major drawbacks. Hotel management teams have to be sure that partnering with a branded food and beverage outlet, for example, will not result in direct competition with the hotel's existing in-house food and beverage services; rather, the alliance should complement the hotel's established amenities. Other challenges include, but are not limited to: negotiating monetary commitment and initial investment fees between the two parties; the fear of losing brand reputation and recognition or of experiencing a decrease in quality levels during the term of the alliance; and the concern of partnering with the wrong brand. Many instances of unsuccessful partnerships have been the result of miscommunication between the partners.

Conclusion

With the increasing sophistication of today's consumer, the quality of services and products is expected to increase. Thus, it is vital that companies are consistently aware of their customers' needs and desires. The tactic of branding a company's product into a category that can distinguish itself from competitive products by quality control ensures the consumer a consistent product. In the hospitality industry, brands such as Marriott, Hilton, Four Seasons, Virgin Atlantic, and Radisson Seven Seas Cruises are constantly competing with new and innovative brands as well as enhancing their existing products and services in order to broaden their customer base. Another way to achieve this goal is by forming an alliance, or co-branding, which can create a sense of added value for the consumer, and eventually boost sales for both partners. Whether the brands are within the hospitality industry or not, choosing the right brand, in addition to good communication, is the key to an effective alliance. A successful co-branding venture ultimately benefits the partners as well as the customer.

CANADIAN LODGING OUTLOOK
HVS INTERNATIONAL - CANADA

July 2005	Number of Rooms	Occupancy Rate (%) 2005	Occupancy Rate (%) 2004	Average Room Rates ($) 2005	Average Room Rates ($) 2004	RevPAR ($) 2005	RevPAR ($) 2004	Room Supply % chg	Room Demand % chg
Nova Scotia Area	890	77.5%	76.6%	$100.90	$93.60	$78.20	$71.70	0.0%	1.2%
Halifax, NS	2,754	81.0%	86.1%	$129.19	$135.33	$104.64	$116.52	2.0%	-4.1%
Montreal Downtown	9,413	80.3%	79.7%	$163.41	$155.96	$131.22	$124.30	2.3%	3.1%
Montreal Area	4,396	76.7%	72.9%	$101.84	$102.40	$78.11	$74.65	0.6%	6.0%
Quebec City, QC	3,726	88.7%	82.1%	$160.31	$158.56	$142.19	$130.18	0.0%	8.0%
Quebec Area	4,022	69.1%	67.1%	$124.48	$121.71	$86.02	$81.67	0.1%	3.1%
Toronto Downtown	13,069	75.9%	76.3%	$164.86	$163.16	$125.13	$124.49	0.6%	0.0%
Toronto North/East	6,107	73.8%	69.2%	$115.54	$109.29	$85.27	$75.63	-10.3%	-4.4%
Toronto Airport/West	7,099	69.8%	66.4%	$103.45	$99.74	$72.21	$66.23	2.9%	8.2%
Ottawa, ON	7,283	66.2%	62.3%	$123.12	$120.26	$81.51	$74.92	0.0%	6.2%
Ontario East	3,828	74.8%	70.5%	$112.42	$106.10	$84.09	$74.80	0.5%	6.5%
Windsor/ Ontario SW	2,980	58.8%	62.2%	$100.11	$101.31	$58.86	$63.01	0.0%	-5.5%
London/ Kitchener	5,916	63.8%	63.7%	$100.72	$98.33	$64.26	$62.64	0.0%	0.3%
Ontario North/ Thunder Bay	1,784	75.3%	72.0%	$81.09	$81.85	$61.06	$58.93	1.0%	5.7%
Ontario NC/ Sudbury	4,003	72.6%	68.7%	$120.01	$124.88	$87.13	$85.79	0.3%	6.1%
Niagara Falls, ON	7,957	83.8%	82.3%	$174.67	$170.96	$146.37	$140.70	0.0%	1.8%
Ontario Central	2,497	69.4%	69.8%	$102.24	$98.06	$70.95	$68.45	1.0%	0.5%
Mississauga, ON	5,544	61.5%	61.5%	$102.29	$98.06	$62.91	$60.31	2.9%	2.9%
Winnipeg, MB	3,926	69.7%	65.9%	$88.50	$88.96	$61.68	$58.62	0.0%	5.8%
Regina/Saskatoon, SK	4,247	58.9%	54.8%	$88.27	$84.57	$51.99	$46.34	0.0%	7.3%
Calgary, AB	7,828	86.8%	83.0%	$140.77	$131.30	$122.19	$108.98	0.2%	4.7%
Edmonton, AB	6,464	78.0%	66.5%	$104.53	$100.18	$81.53	$66.62	1.3%	18.8%
Alberta North Area	2,747	78.1%	72.8%	$160.10	$171.26	$125.04	$124.68	1.9%	9.3%
Alberta South Area	5,644	78.6%	72.8%	$179.44	$178.60	$141.04	$130.02	1.6%	9.7%
Vancouver Downtown	7,820	84.5%	82.7%	$180.19	$186.82	$152.26	$154.50	0.0%	2.1%
Vancouver/ Burnaby Area	2,233	79.7%	77.3%	$120.27	$109.97	$95.86	$85.01	-5.4%	-2.5%
Richmond-Surrey/ East Area	5,347	78.6%	76.2%	$104.43	$100.23	$82.08	$76.38	1.6%	4.7%
British Columbia Area	5,933	67.1%	66.0%	$128.41	$121.44	$86.16	$80.15	0.0%	1.7%
Kamloops/ Kelowna Area	4,320	78.2%	77.8%	$119.20	$117.57	$93.21	$91.47	0.0%	0.5%
Vancouver Island	3,499	77.5%	73.8%	$161.02	$159.54	$124.79	$117.74	0.6%	5.6%
Provinces									
Alberta	22,683	81.2%	74.7%	$142.58	$140.32	$115.77	$104.82	1.3%	10.1%
British Columbia	28,448	77.8%	76.0%	$141.86	$140.17	$110.37	$106.53	-0.1%	2.3%
Manitoba/ Sasketchewan	4,865	69.6%	67.0%	$86.37	$86.76	$60.11	$58.13	1.5%	5.5%
New Brunswick	3,090	77.8%	76.0%	$113.77	$111.60	$88.51	$84.82	1.0%	3.5%
Newfoundland	1,749	81.5%	77.4%	$120.83	$116.00	$98.48	$89.78	2.5%	7.8%
Nova Scotia	3,644	80.1%	83.2%	$122.50	$123.37	$98.12	$102.64	0.8%	-2.9%
Northwest Territories	66	INS	INS	INS	INS	INS	INS	INS	INS
Ontario	67,105	71.5%	70.0%	$129.45	$126.75	$92.56	$88.73	0.0%	2.2%
Prince Edward Island	938	80.1%	80.7%	$125.54	$130.90	$100.56	$105.64	0.0%	-0.8%
Quebec	22,519	78.4%	75.2%	$143.23	$138.42	$112.29	$104.09	0.6%	4.8%
Saskatchewan	5,524	61.1%	56.4%	$84.05	$80.41	$51.35	$45.35	0.4%	8.9%
Yukon Territory	638	75.1%	67.1%	$102.61	$100.83	$77.06	$67.66	0.0%	12.1%
Canada	161,269	73.3%	70.2%	$115.31	$112.93	$84.52	$79.28	0.4%	4.8%

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DEFINITIONS

Occupancy:	Rooms sold divided by rooms available.
Room Revenue:	Total room revenue generated from the sale or rental of rooms.
Average Daily Rate (ADR):	Room revenue divided by rooms sold.
Room Revenue Per Available Room (RevPAR):	Room revenue divided by rooms available (occupancy times average room rate will closely approximate RevPAR).

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SMITH TRAVEL RESEARCH

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HOTEL ASSOCIATION OF CANADA INC.

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