HOTEL BRANDS

THE DEVIL IS IN THE DELIVERY

By Jason Guggenheim, Joel Janda, and Stephen Kremser

Two big trends in the lodging industry are colliding. Whether hotel companies get caught in the pileup or steer clear of the wreckage will have a big impact on their profitability.

One trend is the industry's increasing use of franchising as a means of achieving more "asset light" business models. For the past decade or longer, hotel companies have been divesting physical properties and becoming pure brand owners and orchestrators because this model receives higher share-price multiples from public equity markets. One key consequence is that hotel companies increasingly must rely on individual franchisees to deliver the customer service experience that they have spent millions of dollars developing and educating consumers to expect—and that substantially defines their brands.

The other trend, which The Boston Consulting Group has written about before, is the rise of information transparency and perpetual connectivity in the digital, and increasingly mobile, age.[1] Online opinions affect more and more consumers' travel decisions. Our research shows that the two most trusted channels are personal recommendations (not surprisingly, 90 percent of people rely on these) and the opinions of other consumers they find online (70 percent trust those). Our research also indicates that the average consumer spends 42 hours online—the equivalent of a full workweek—dreaming about, researching, planning, and making reservations for a four-day leisure trip, and then sharing the experience. Dreaming and researching take up 75 percent of the 42 hours—ample time to be influenced by what others have to say. This time is having an increasing impact on how people book and where they choose to stay, and this impact is showing up in hotel companies' average daily rates (ADRs).

Recent research by BCG involving more than a dozen hotel brands in several categories shows a strong correlation between companies' ratings on travel sites and their ADRs. Perhaps even more significant, we found a strong correlation between the *consistency* of those ratings and hotels' ADRs. Companies that deliver higher customer satisfaction have the opportunity to charge more; conversely, consumers recognize those brands with inconsistent delivery—from both their own experiences and those of others—and discount the amount they are willing to pay. Within a network of multiple property owners, the worst offenders can drag down the best performers and undercut brand ADRs across the board. In today's digitally driven world, generating higher ADRs means delivering on the brand promise—and delivering consistently. (See Exhibit 1.)

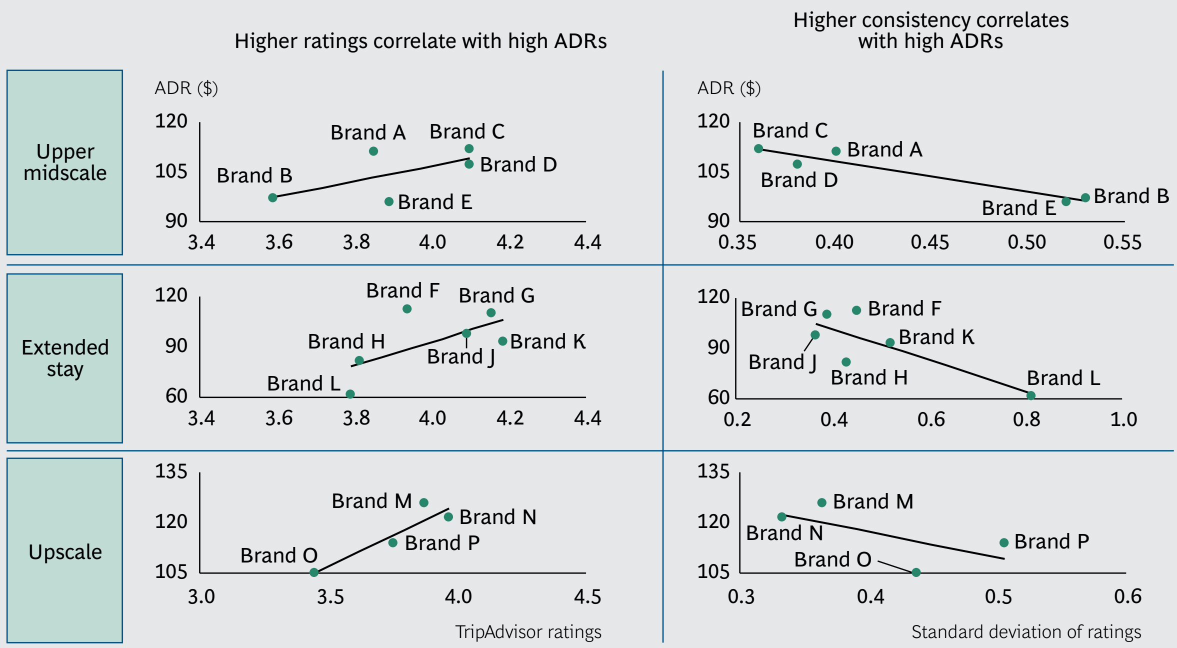
Many, if not most, hotel companies have come to grips with this operating disconnect: they understand that they are giving up direct control of brand delivery at precisely the time when consistency of that delivery has never been more important. They have taken steps to develop new strategies, systems, and processes for ensuring that their franchise partners deliver the brand experience that customers expect. (See Exhibit 2.) Those that successfully master the clear articulation of their brands and consistently execute the brand promise are rewarded—with higher revenues, a bigger pool of potential owner-franchisees, and a product that achieves a premium in the marketplace. Those that do not increasingly pay the price.

Standards and Sticks

With hotel networks today often spanning multiple brands, hundreds of owners, and thousands of properties, ensuring consistency of execution is a complex task. Companies undertaking brand renovation efforts face an even more daunting challenge as they must rely on owner-operators to deliver a new, different, enhanced experience, and to do so within the tight economic constraints of a highly competitive industry. Inconsistent execution can kill a brand renewal before it has a chance to prove itself.

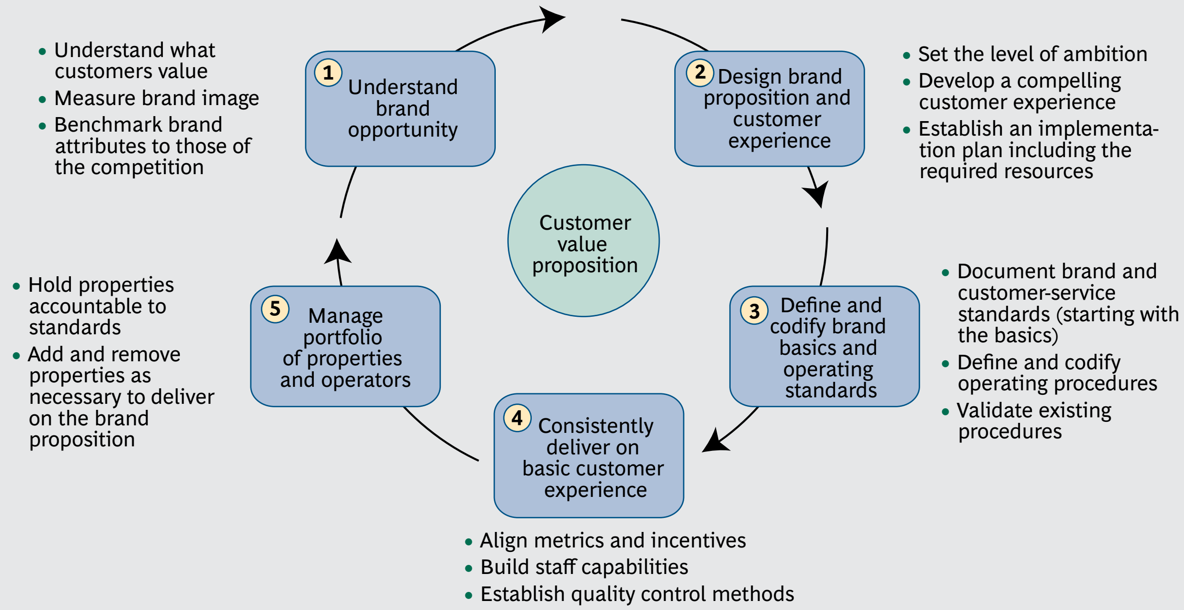
The default approach on brand delivery for many hotel companies has been to develop a system of "brand standards" that they require franchisees and other operators to follow. These typically involve lengthy, highly detailed brand-standards manuals, providing instruction for every-

EXHIBIT 1 | Quality and Consistency of Delivery Correlate with Higher Average Daily Rates (ADRs)



Sources: TripAdvisor; BCG analysis.

EXHIBIT 2 | Delivery of "Brand Basics" Is Critical to the Customer Value Proposition



Source: BCG analysis.

thing from the number and content of information cards displayed in each guest room to rules for employee computer access. We regularly see manuals that run hundreds of pages and refer users to other manuals in the company's collection for more detailed instruction on particular issues. Most make no attempt to prioritize or differentiate among standards or the impact they have on customer satisfaction. Very often, standards that directly affect what customers see and feel—cleanliness, for example—are given the same weight as specifications for things that are completely invisible to them.

This type of approach often ends up in companies resorting to sticks over carrots, punishing transgressions rather than offering incentives for good behavior. It adds stress to the relationship between franchiser and franchisee, and it can lead to corners being cut and inconsistent experiences for the customer from one property to the next. It also encourages owner-operators to put their efforts into avoiding transgressions rather than seeking to deliver the customer experience that the brand has promised. Most important, it does little to encourage better service, especially the kind of individualized service that customers tend to remember and post online about.

It Pays to Take a Better Approach

Our experience, and that of many hotel companies, show that taking a more comprehensive approach to working with franchise partners on brand delivery can achieve a better result for travelers—and higher ADRs as a result. There are seven levers to pull; companies looking for the best execution will combine all of them.

Optimize the owner base. Each hotel company or brand has its own mix of property owners composed of large institutional franchisees with hundreds of properties or small, often family-run, operators—or a mix of both. Each requires a different style of engagement, and companies should think through how their mix of franchisees affects their brand delivery. They may want to favor one type of owner over the other, and gear the other components of brand delivery accordingly.

Define the franchisee relationship. Contracts define the relationship between franchiser and franchisee, of course, including the obligations of each party with respect to brand delivery—often in extensive detail. Companies need to approach these negotiations looking through a brand delivery lens. Smart negotiators seek to place an appropriate level of burden on the property owner to comply with brand-related requirements while leaving the company room to act as the ultimate brand steward when it needs to. Contracts today typically define undesired behavior on the part of the franchisee but much more rarely include incentives for providing better service or meeting customer satisfaction metrics. These agreements should be reviewed from the perspective of how they shape the customer experience as well as the business relationship between the franchiser and the franchisee.

Encourage owner engagement. Brand delivery is a tango: it takes two parties to do it effectively. Problems occur when companies do not appreciate the economic (or operational) impact of what they are asking their owners to do. Smart companies find the right balance between consultation and evaluation in their relationships with operators. For example, they can establish or update quality control processes that are based on customer expectations (see below) and establish clear rewards (and penalties) for operator performance. They can also build a business case that reinforces the value proposition for owners of meeting system-wide service and customer-expectation metrics. The interests of hotel companies and property owners may conflict at times, but both can find common ground over actions that lead to more satisfied guests who are willing to pay higher rates.

Build and motivate the team. Delivering on the brand promise is a function of countless day-to-day behaviors and habits within operators' organizations. The very best strategy can fail if it is not appropriately distilled into necessary actions and capabilities. Few endeavors can have a bigger impact than working with owner-operators to help them recruit and train staff capable of delivering on the brand promise and building a team-focused organization. Many brand teams take an evaluative, rather than consultative, approach. They perform audits of compliance with the established standards, rather than helping the operator's team provide a better product and service by, for example, defining the measures of success and putting in place processes, such as training and incentive programs, to help achieve them. By instituting a more consultative approach, hotel companies can help their franchisees do the following:

- Select employees on the basis of fit with the customer service culture.
- Structure training programs to support excellent performance.
- Encourage staff to put themselves in the customer's shoes.
- Pay according to performance.
- Provide nonmonetary incentives when pay is not directly linked to behavior.
- Communicate effectively, providing employees with the information they need to do their jobs better.
- Give employees autonomy and the authority to solve problems within certain standards.
- Enforce standards and metrics (see below).
- Monitor feedback to drive continuous improvement.

Update quality control processes. Ensuring consistency across multiple properties with many owners requires updating existing processes and establishing new ones to replicate best practices and maintain focus on the critical factors that affect the customer experience. Most operators do lots of things well. The key for others is to identify best-in-class performers, analyze what makes their approach successful, and leverage this expertise by documenting processes to provide step-by-step guidelines for others. We have worked with multiple hotel chains to create a "process blueprint" that provides detailed information on best-in-class practices by department, standardizes opportunities across properties to provide similar customer experiences, reduces gaps and loopholes, serves as training material, and creates a framework for continuous improvement.

Prioritize standards. Standards do have an important place, of course. The focus should be on applying and enforcing standards when they have an impact on service and customer experience rather than developing an exhaustive, all-encompassing system that is doomed by its own weight and complexity. Again, incentives and rewards, as well as an appropriate means of correcting transgressions, are essential. Priorities are important. Research shows, for example, that customers care more about the quality of the bedding than the size of the TV. The goal should be a simple set of standards that are easy to comply with. They should give franchisees the ability to improve the experience but prevent them from cutting corners or taking shortcuts that could harm the brand.

Enforce the standards and metrics. Finally, hotel companies need to hold owner-managers accountable to documented standards and metrics that reflect the brand promise and customer experience. They need to establish a clear set of evaluation criteria to assess performance and understand where changes are needed, as well as a well-understood—and enforced—set of rewards and consequences for performance. Time limits should be set for implementing improvements or corrections. Carrots almost always work better than sticks, but both are necessary in most franchiser-franchisee relationships.

The global lodging industry is expected to approach $500 billion in revenues by 2015. Competition in established markets is intensifying, and customer expectations are rising as companies seek to gain share and increase RevPAR (revenue per available room) through more amenities and better service. The devil, however, is in the delivery. Those companies that can work most effectively with their owner-manager partners to provide a high-quality—and consistent—brand experience will win the battle for more customers and higher rates.

Note

1. See "Digital's Impact on Lodging and Leisure Brands," BCG article, May 2012.

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