

case study

A Case for Change, Market Segmentation and Brand Management

By Michael Nalley and Amy Gregory

Introduction

This case study addresses some of the problems that hotel service providers face in managing the perception and identity of their brand products in accordance with the changing guest segments and preferences. Consumers see an average of 5,000 to 7,000 advertisements and sell messages daily (Simpson, 2017). The goal is to provide the guest a clear and discernable description of the product that they are considering purchasing, to enable them to determine if that product is in alignment with their needs, wants and desires. If it is congruent or a match, then the guest is more likely to have a good product experience, which will result in higher guest satisfaction and increased hotel/brand revenue (Sorrells, 2018).

Hotels in order to stay relevant and to meet the demands of the changing guest not only need to change the design of their physical plant, including furniture, fixtures and equipment (FF&E) but also their marketing practices including descriptors. A recent change in the hotel market for type and style of hotels includes the boutique and lifestyle brands (Jones, 2013). However creative, the titles do not provide an indication of what the guest should expect when choosing this type of hotel. Further descriptors are needed to enable the guest to discern the qualities of the hotel and how it will meet their lodging preferences. Boutique meaning small, stylish with high levels of service and lifestyle described as innovative with an increased personal experience. The goal of descriptors is to remove the guess work and confusion of the guest. Thus, enhancing the accuracy of the lodging selection based on the guest preferences.

This element of brand management is being incorporated into hotel brands marketing strategies, segmenting the brands in alignment with guest preferences and segments (O'Neill & Mattila, 2010). Thus, providing more clarity and perceptibility of the hotel's characteristics, services and amenities for the guest prior to their purchase decision. Brand distinction from product market segments enables the guest to form a relationship with the brand based on desired congruent characteristics, experiences and ongoing usage (O'Neill & Mattila, 2010). Frequently guest choose their hotel based on the purpose of their travel, leisure or business (Lane & Jacobson, 1995).

Having a multi-tiered portfolio of hotels dispersed geographically that are available for the guest selection based on their specific needs will increase their patronage and brand performance (Kang & Lee, 2013; Wang & Chung, 2014). Research by Koh (2019) found a 74% correlation between brand diversification and segment diversification. While Lu & Beamish (2004) in their study found that the financial benefits of brand diversification include revenue stability, risk spreading, economy of scale and market power increases. Tsai, et al (2015) in their branding study found that rebranding resulted in a 6.31% increase in occupancy rates, 60% of this effect can be attributed to brand identities pre & post of the change. Recent examples of the brand segmentation include Marriott Hotels, who has 30 brands spanning 130 countries with more than 6900 properties (Marriott, 2019) and Hilton Hotels with 17 brands, in 114 countries with more than 5900 properties (Hilton, 2019).

Methodology

The method and strategy that correspond with this case study focus on the hotel brand portfolio strategy (HBPS). Portfolio theory was originally proposed by Nobel Prize winner Harry Markowitz as an economic means to maximize financial investments by minimizing risks among invested projects (Duggan, 2018). Wang and Chung (2014) in their research adapted this original theory to the hotel brand portfolio strategy (HBPS) and included four dimensions within the strategy 1) brand portfolio scope, 2) intra-portfolio competition, 3) brand portfolio location and 4) brand portfolio element. HBPS enables hotel companies to achieve performance goals by leveraging market risks among brands, create synergy, clarify unique roles and potentially increase cost efficiency (Aaker, 2004). Aaker also provided three questions for consideration of a new brand offering, 1) will the existing brands enhance the new offerings, 2) will the new offering enhance an existing brand, and 3) is there a compelling reason to generate a new brand? (Aaker, 2004). As the Emerald Isle brand considers creating a portfolio of three brands, these questions in conjunction with the factors outlined in the case study will assist the brand leaders in the ongoing evolution and management of their brand.

Background

Patrick Ryan is the President and CEO of Emerald Isle Hotels (EI) has seen sustained growth in the Emerald Isle brand from a quality and revenue standpoint through 2010. However, Emerald Isle in 2011 is now

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starting to lose its market share, credibility and preference in the mid-scale hotel market as more hotel brands enter the market. Patrick's challenge is to determine how to manage the brand in the future based on the changing mid-market landscape and to develop systemic change solutions to enhance the brands competitiveness, revenue and guest loyalty.

The Emerald Isle brand encompasses a diverse group of hotels, each hotel operating somewhere within the broad midscale sector in the 2-3 AAA Diamond range of the hospitality marketplace. Some Emerald Isle hotels offer a product experience comparable to brands in the Midscale market (Days Inn & Travelodge). Other Emerald Isle hotels may offer a product experience in the Upper Midscale market comparable Hampton Inn or Holiday Inn Express. Still other Emerald Isle hotels have physical attributes in the Upscale market like Marriott Courtyard or Hilton Garden Inn.

This diversity within the brand should be a source of strength for Emerald Isle hotels, a positive attribute that makes Emerald Isle unique. No other brand is positioned to offer a midscale traveler a varied price point or experience that they are looking for in each stay. That combined with the size of Emerald Isle's brand (5000 hotels in over 115 countries), and the fact that Emerald Isle has the widest distribution in the marketplace, gives Emerald Isle an opportunity for brand attraction among guests that is unparalleled in the midscale market.

Yet despite those advantages, Emerald Isle is losing guests, and the brand is shrinking. It goes without saying that each Emerald Isle hotel must deliver on the basic brand promise of service, quality and value. In this regard, Emerald Isle will continue to enhance its quality assurance and guest care programs. However, all too often, guest expectations are not being met, and consumers are increasingly hesitant to book an Emerald Isle hotel because they don't know what to expect in terms of comfort and amenities. When Emerald Isle hotels do not meet guest expectations, they make guests more hesitant to stay with them.

Emerald Isle Hotels is losing good hotels. EI hotels in the upper mid-scale can't achieve the same RevPAR as their competitors in their market, so some of them choose to leave the brand. Emerald Isle hotels in the lower midscale feel pinched by the cost of meeting the brands design standards, costs they can't recover in their markets so some of them choose to leave the brand. Losing good hotels diminishes the brand. EI has seen 50-60 hotels self-terminate every year for the past several years.

Research:

Emerald Isle Hotels engaged two prominent consulting groups to research the issues and determine possible solutions. The first consulting group confirmed, in 2010, that guest consideration for EI was a concern for the brand, and that the consumer impression of the brand was slipping from a middle midscale to a lower midscale brand. They noted that Emerald Isle hotels in the upper midscale already suffered a RevPAR discount to their com-

petitors, and that, on EI's current path, this problem was likely to increase and impact all hotels. Perhaps most concerning, the consultants found that the more EI hotels a guest stayed at, the less likely that guest was to remain loyal to the Emerald Isle brand.

The second consulting group reconfirmed, in 2011, that EI was losing guests. With all the diversity of the hotels operating under a single brand, they noted that it is difficult to set guest expectations for each hotel; and, as a result, hotels can't consistently meet or exceed guest expectations. With the growing number of hotel choices available, disappointed guests were likely to avoid Emerald Isle in the future. This erosion of confidence in the brand would adversely impact both brand consideration and future RevPAR potential for every Emerald Isle hotel.

The consulting group also confirmed that the brand was losing good hotels. When good hotels in the upper midscale choose to leave the brand, or when new hotels in the upper midscale decline to become an Emerald Isle, the brand loses the "halo" effect (i.e., overall brand image and consideration) that these hotels bring to all hotels in the brand. This also drives down RevPAR potential for every hotel.

When good hotels in the lower midscale choose to leave the brand, EI loses some of the strength of its distribution. The promise of having one of the largest hotel chains in a variety of locations is unnecessarily diminished, and that in turn holds back RevPAR potential for every hotel. Additionally, the overall loss of hotels from Emerald Isle threatens the funding EI has as a brand, for marketing, advertising, and providing essential services to hotel owners.

In short, both consultants confirmed that, while EI's diverse distribution should be a source of strength in the marketplace, because they do not sufficiently describe their various hotels, the result is consumer confusion and avoidance of the brand. Both consultants recommended that Emerald Isle consider descriptors as a way of better setting guest expectations about each hotel stay. Thus, aligning with the research of (O'Neill & Mattila, 2010), providing more clarity and perceptibility of the hotel's characteristics, services and amenities for the guest prior to their purchase decision.

Additional Research:

In January of 2012, Emerald Isle's commissioned a consumer research company to investigate how midscale hotel users viewed Emerald Isle, and to further understand how descriptors could help to better set guest expectations about each Emerald Isle stay and to drive higher brand consideration. The company held focus group sessions with almost 150 business and leisure midscale travelers. These travelers included both Emerald Isle and competitor guests. Emerald Isle guests in the focus groups included all levels of Emerald Isle Rewards

members- including their best guests.

The consumer research company also interviewed about 100 of Emerald Isle's Worldwide Sales clients. These companies included Emerald Isle clients and partners (i.e., tour operators, travel agencies, and corporate travel managers). The consumer research company conducted a quantitative survey of 2,500 midscale travelers, including consumers from the United States and Canada, as well as a sampling of inbound travelers from Europe and Asia. The survey included both Emerald Isle and competitor guests, and both leisure and business travelers.

The results confirm the problem EI needs to solve:

- The top two concerns these travelers have about Emerald Isle relate to inconsistent product experience (not cleanliness, upkeep or guest service)
 - 82% of travelers who had concerns about Emerald Isle reported that the design features of Emerald Isle hotels didn't meet their expectations;
 - 55% of travelers who had concerns about Emerald Isle reported that they found the brand provided an 'inconsistent product experience';
- 39% of travelers report that Emerald Isles is typically not one of their first considerations when selecting a hotel.

In the consumer research, an idea of a 3-Descriptor Strategy to travelers, was proposed in order to determine how that approach would improve brand consideration. The Descriptor Strategy is a marketing communications strategy aimed at leveraging the strength of the diversity of Emerald Isle's portfolio. Travelers want choices for their various occasions of travel. With the many locations, price points and variety of hotels, Emerald Isle has a unique advantage in the midscale market.

- Every trip and guest stay are different, and that guests choose different kinds of hotels for each trip. In theory, Emerald Isle's position, which spans the entire midscale segment, is stronger than its competitors. But we also know that EI doesn't do a good job helping guests know what to expect from each Emerald Isle hotel.
- The Descriptor Strategy will better describe EI hotels and empower their guests to make informed decisions in choosing their hotels.

Consumer research confirmed that descriptors can effectively address this problem. After learning about descriptors,

- 85% of travelers agreed descriptors would help set their expectations;
- 92% of travelers said they were likely to consider Emerald Isle when choosing a hotel brand, versus only 59% before;
- 86% of travelers said they would expect to pay a higher rate for an Emerald Isle in the middle midscale than for one in the lower midscale;
- 83% of travelers said they would expect to pay a higher rate for an Emerald Isle in the upper midscale than for one in the

middle midscale; and

- Most travelers said they would expect to pay \$11-\$50 more for a middle midscale hotel, and another \$11-\$50 more for an upper midscale hotel.

The consumer research firm also tested actual descriptor names through their research. The names that tested best, both individually and in combination, were "Emerald Isle Preferred" for the Upper Midscale and 'Emerald Isle Premier for the Upper scale. Fully 91% of travelers said they would expect to pay more at each level, and a majority indicated they would pay \$11-\$50 more. These results from the quantitative survey were confirmed by guest focus groups, and interviews with many of EI's best clients.

Chain Scales Market Breakdown: (STR Chain Scales)

- **Upscale** = Courtyard by Marriott, Double Tree by Hilton, Crown Plaza by IHG, Hilton Garden Inn & Suites, Hyatt Place, & Radisson.
- **Upper-midscale** = Comfort Inn & Suites, Drury Inn & Suites, Hampton Inn & Suites, Holiday Inn & Wyndham Garden Hotel.
- **Mid-midscale** = Baymont Inn & Suites, Candlewood Suites Hawthorn Inn & Suites, La Quinta Inn & Suites, Red Lion Inn & Suites & Wingate by Wyndham.
- **Economy** = Americas Best Inn, Days Inn, Econo Lodge, Howard Johnson, Motel 6, Red Roof Inn, Super 8 & Travelodge

Discussion

Emerald Isle is facing serious challenges. Guests are confused about the brand because of the unexplained diversity, and more and more guests see Emerald Isle as a lower midscale brand, despite Emerald Isle's strong presence in all three segments of the midscale. EI is losing guest consideration for and confidence in the brand. Because of that loss of consumer confidence, they are losing good hotels in the upper midscale, because they can't command the ADR they deserve. And, they are losing good hotels in the lower midscale, because they cannot keep up with the "one-size-fits-all" design standards set at the middle midscale. What's more, EI is losing good hotels in the middle or upper midscale. The loss of these hotels negatively impacts the halo effect (more guests for Emerald Isle, more guests for each Member).

These threats and opportunities cannot be ignored. Emerald Isle's mission is to drive superior revenue to its member hotels. Consumer research has validated that by adding a marketing label (e.g., "Premier" or "Preferred"), they will explain the diverse selection of hotels to the midscale hotel users, instill confidence in Emerald Isle, and garner more revenue for their Members. This also corresponds to the research by (Kang & Lee, 2013; Wang & Chung, 2014) regarding guest preference for a multi-tiered portfolio of hotels and selection based on their specific needs which increases their patronage and brand performance. EI's guests and clients have agreed that the use of hotel descriptors will alleviate confusion, drive higher brand consideration,

Table 1

Recommended Descriptors

Descriptors	Physical Attributes Comparable to:	
“Emerald Isle”	AAA/CAA 2 Diamond	Lower Midscale & Midscale Hotels
“Emerald Isle Preferred”	AAA/CAA 3 Diamond	Upper Midscale Hotels
“Emerald Isle Premier”	AAA/CAA 4 Diamond in Physical Attributes w/o Services	Upscale Hotels

and increase RevPAR for our Members. It will also enable their Members to invest in their hotels in ways that would matter most to guests and allow them to better compete for business. It will also provide a home for every good, well-run Emerald Isle hotel.

Questions:

1. What are the primary concerns for the Emerald Isle brand?
2. Will the existing brands enhance the new offerings?
 - a. What are the key factors for consideration?
3. What is the goal of implementing brand descriptors?
 - a. Will the new offering enhance an existing brand?
4. How would these descriptors affect the brands reputation and guest loyalty?
 - a. Is there a compelling reason to generate a new brand?
5. What concerns would the individual hotel owners have of the program?
6. What is the program cost and the cost to each hotel?
7. What other hotel or hospitality brands have utilized a same or similar marketing strategy?
8. Should Emerald Isle implement this program, if not what are some other options?

Resources

Emerald Isle Business Model:

Emerald Isle hotels is a franchise organization, however one of the reasons for its tremendous success is their unique business model. Unlike other franchise companies, their contractual agreement includes a membership relationship and their property owners own a portion of the brand. They are all focused on driving value to the brand and ensuring the long-term success from an ownership perspective. Another part of the formula to their success is their spirit of caring which is part of their organizational culture. One of Emerald Isle’s saying is “Treat your guests like family”. Emerald Isle’s vision is to have their company have the ultimate guest satisfaction. Once guests are serviced by this company, most of the time that experience forms into a long-term relationship. With this, they are inspiring their staff to create emotional connections with their guests.

Unlike other franchises, the hotels can keep their independent identity. Though they must use the Emerald Isle signage and identify themselves

as an Emerald Isle hotel, the hotels are allowed the option of using their own independent name as part of their identity (for example, Emerald Isle Gateway Hotel, or the Emerald Isle Tuscan Inn. In the U.S., the properties can either be traditional roadside motels, motor inns, or full-service hotels. More than 90 percent of Emerald Isle hotels in Europe have three or four-star ratings. Emerald Isle provides reservation, sales & marketing, training, quality assurance, branded website and brand identity services for all its worldwide hotels. It has multilingual reservation centers in Dallas, TX., Manila, Philippines and Madrid, Spain.

Program Costs:

The costs of implementing a Descriptor Strategy are largely technology costs. Emerald Isle estimates that the cost of upgrading key reservation system technology, emeraldisle.com , GDS connections, Direct Connects , etc. - is approximately \$3 million. Most of this cost is a capital investment and would be amortized and depreciated over a period of 4 years, therefore minimizing the impact on operating budgets.

The cost to develop design guidelines, and to test descriptor names, was about \$750,000 and has already been incurred. Hotels will be required to pay for Emerald Isle brand design reviews and appeals. Payments will be calculated to cover average associated costs and expenses (currently estimated to be \$3,500). Hotels with the “Emerald Isle Preferred” or “Emerald Isle Premier” descriptors will also incur the cost of replacing signage and branded collateral material for their hotel (average cost \$20,000). Additional mandatory descriptor training will be provided per hotel at a cost of \$150.00 per employee for in class and online courses. Average cost per hotel is \$3,000.

Marketing Plan for Descriptors:

To launch descriptors, a holistic marketing plan will be developed addressing all the communication channels and touch points with our guests. To develop broad awareness of descriptors, EI will utilize online and TV advertising and social media. Through the EI website and other distribution channels, EI will provide detailed information at the time of booking. By utilizing other channels, including their own reservation agents, worldwide sales team and public relations, they can communicate the differentiation of the descriptors and the benefits of their diversity. Hotels will be equipped with marketing collateral and templates to ensure that they are also ready to market descriptors.

Table 2

Descriptor Differences by Hotel Type

Emerald Isle	Emerald Isle Preferred	Emerald Isle Premier
Typically, AAA 2- or 3-diamond rated hotels	AAA 3-diamond rated hotels or equivalent	All EI Premier Hotels are rated AAA three diamond or higher
Clean, comfortable surroundings	Updated furnishings and guestroom amenities	Stylish décor and personalized guest services by property (i.e. concierge, turn down service, name recognition, pre-arrival room preferences, credit card pre-authorization, personalized key packet & check-in)
Great value for leisure and business travelers	Upgraded bath amenities package	Furnishings, amenities and facilities are of the highest quality found in upscale hotels
Each Emerald Isle hotel is unique based on location	On-site laundry and/or same-day dry cleaning services available	On-site dining offering breakfast & dinner at a minimum (some also serve lunch & room service)
Free high-speed Internet	Select sundry items available	Premium linens & terry
Breakfast available at all hotels, including grab and go bags	Fitness room available in many locations	In room 60-inch flat screen HD TV
Free local calls less than 30 minutes per call	Airport shuttle available in many locations	Triple sheeted beds, additional power plug ins and USB ports
Free long-distance access	In room 50-inch flat screen HD TV	Deluxe bath amenities
Copy & fax services provided	Meeting room and catering services available in many locations	In-room safe
A free-of-charge, publicly accessible computer with Internet access available	In room refrigerator and microwave	Premium clock radio with MP3 connection
In room 40-inch flat screen TV	Triple sheeted beds, additional power plug ins and USB ports	Oversized fitness room with upgraded equipment
Laundry washer/dryer available for guest use	Larger desk for additional work space.	Sundry shop
Order in food delivery through Grub Hub	In-room safe	All the services and amenities (such as breakfast, free HSIA, free local calls) offered at Emerald Isle hotels
Free parking	All the services and amenities (such as breakfast, free HSIA, free local calls) offered at Emerald Isle hotels	
Local shuttle service		
Early check-in & late check-out available by request		

The Benefits of Descriptors:

The Descriptor Strategy should provide several benefits to guests, the Emerald Isle brand, and each Emerald Isle hotel.

All Emerald Isle hotels will benefit by improved guest satisfaction with the brand:

- 82% of travelers said that descriptors would help to better set their expectations Increased guest satisfaction and the ability to better set guest expectations will increase consumer and client consideration for the entire brand
- 75% of travelers said they would be likely to stay at an Emerald Isle in the future if we adopted descriptors
- 94% of travelers said they would be likely to consider Emerald Isle in the future if we added descriptors, as opposed to only

57% who said that without descriptors. Increased consideration for the brand will drive higher

RevPAR for all Members:

- 90% of travelers said they would expect to pay more to stay at an Emerald Isle Premier hotel.
- 86% of travelers said they would expect to pay more to stay at an Emerald Isle Plus hotel.
- 56% of all travelers said they had stayed in a lower midscale hotel in the past year.
- Among both leisure and business guests, approximately 1 in 4 said they included lower midscale hotels in their consideration set for overnight stays - the same number who said they considered upper midscale hotels.

Improved brand consideration and RevPAR potential will have a multiplier effect:

- Emerald Isle will be able to recruit high-quality hotels into the brand.
- Those hotels will further enhance the brand image, creating a 'halo effect' for all hotels.
- The value of hotel owners' assets -their hotels- will be enhanced and the owners have more control.
- Members chose whether to adopt a descriptor at all.
- Members chose at what level they want to compete.
- Members are held to the design guidelines that make sense for their hotel and market.

It is important to note that benefits like these have quantifiable measures.

- EI can track improvements in RevPAR through the Smith Travel RevPAR index, and by comparing reservation system RevPAR against industry RevPAR performance.
- EI can track the number of hotels being included in RFPs for leisure and corporate managed business.
- EI can track the halo effect, by measuring how often a guest books a core "Emerald Isle" hotel, after first searching for an "Emerald Isle Preferred" or "Emerald Isle Premier" hotel.
- EI can track improvements in guest satisfaction through their Guest Satisfaction Survey and through Guest Care complaint ratios.
- EI can track improvements in Member satisfaction through their Member Survey process.