The Brand Bubble - Navigating an overloaded market

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Over the last few decades, the hotel industry has undergone a remarkable transformation, marked by an explosion of new brands and an invisible shift in strategic focus from ownership to operating, branding, and franchising. This trend emerged as a strategic response to the high costs and risks associated with creating new brands from scratch.

Developing a new hotel brand requires significant financial investment, extensive market research, and years of operational effort to build recognition and loyalty. These high upfront costs and uncertain returns made organic brand creation an unsustainable business model for many hotel chains. Instead, by acquiring established or emerging brands with proven potential, hotel chains could quickly expand their portfolios and market presence. The primary motive for this strategy was to achieve faster, more secure, and efficient expansion in a highly competitive market, where the costs and risks of starting new brands from scratch were deemed too high.

This growth has allowed hotel chains to continue their strategy at a fast pace, without allocating excessive amounts on estate acquisitions and refurbishments. The franchisees handle all costs and risks associated with the development and day-to-day management of the properties. This way, established brands can tap into the expertise of local franchisees who are convinced of the brand's leverage, while hotel chains can rapidly expand with focused attention to brand creation, effective marketing, and loyal customer bases. This strategy does not merely generate steady income from franchise fees, but also benefits from shared resources and popular loyalty programs. Thus, with more profit and less risk, more chains have started to buy established names, with the intention of selling their franchise contracts.

For instance, the Accor group, known for its popular brands such as Sofitel, Swissôtel, and Mövenpick, contains approximately 2,470 franchises, categorizing almost half of its portfolio as M&F (Management & Franchise) models. In 2016, Accor acquired the German hotel brand, 25 Hours, intending to leverage its global distribution network and loyalty program to further enhance the brand's reach and growth potential. Similar to many others, this acquisition allowed Accor to expand its footprint in the accelerating lifestyle segment and enhance its portfolio with new potential for brand expansion to further solidify its position among the leading hotel chains.

Consequently, other firms have adopted this strategy, contributing to the massive overload of brands in the hotel market. The repercussions of this trend have led to a marketplace where differentiation is increasingly difficult, as consumers often struggle to navigate the vast array of similar hotel offerings.

Major chains such as Accor exemplify this shift, having expanded from managing 16 brands in 2014, to 54 brands today, of which more than half were acquired. While, from a chain perspective, this proliferation successfully aims to capture diverse market segments, it also raises concerns about the market and its perception of customers.

In the olden days, hospitality markets were relatively over-seeable and straightforward, with around three hundred hotel brands categorized into five primary price points. Within the past decade, however, the general increase in brand creation and acquisition was substantial, with estimates indicating a current total of over 1,000 different hotel brands worldwide. With many such brands appearing homogeneous in their value propositions, consumers have frankly been bombarded with an overwhelming number of choices, hinting at confusion and difficulty in distinguishing between alike offerings.

To give an example: Accor's Ibis brand has diversified into multiple sub-brands to capture more market segments, namely Ibis Styles and Ibis Budget. While such schemes claim to cater to diverging needs, it underscores the dilemma of an overcrowded market, as brand identities seem to get more and more blurry. Essentially, creating an ever-growing “sea of sameness”, as consumers find it increasingly difficult to make informed decisions.

This significant increase in hotel names among the same brand-umbrella is not solely for the purpose of market segmentation but signifies a wider incentive for hotel chains. By increasing the number of brands in a portfolio, hotel groups have more room to expand with franchising opportunities. For some firms, this has become a primary business model, by simply selling their rights to individual investors. This approach enables chains to widen their presence across diverse markets while mitigating the direct risks linked to property ownership and operation. By leveraging these franchise agreements, chains accrue significant financial benefits through franchise fees and royalties associated with each new hotel opening. Essentially, the more brands a chain creates the more franchise agreements it can sign.

Hilton Hotels, for instance, is pursuing such extensive franchise approach, leveraging its multi-brand strategy against the investments of franchisees, who in turn benefit from the strong Hilton name and its broad support network. With brands such as Spark by Hilton, Hilton Garden Inn, Hilton Grand Vacations, and Hampton by Hilton, one may question if these brands were created with minimal distinction to merely increase market reach and maximize franchise opportunities. Approximately 81% of all Hilton hotels are currently operating under a franchise agreement, which translates to circa 5,700 of Hilton’s more than 7,000 properties worldwide.

Thus, the shift from brand creation to acquiring and franchising existing brands has fundamentally reshaped the hotel industry. However, this proliferation of brands has led to market saturation, making it increasingly difficult for consumers to distinguish between similar offerings. As hotel chains continue to multiply their brand portfolios to maximize franchising opportunities, the industry faces the challenge of maintaining clear and distinct brand identities.

Ultimately, the critical question remains, in a market overflowing with options, can hotel brands ensure meaningful differentiation and sustained consumer loyalty, and if yes, how?

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