Dual-Branded Hotels: Resource-based entry strategies in agglomerated markets

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Abstract

Despite the growing importance of dual-branded hotels, research on this trend is lacking. This study investigates the effect of resource-based entry strategies for dual-branded hotels vis-à-vis incumbent market competition on performance. Using a hierarchical linear model, we found that best performance is achieved by dual-branded hotels that pursue a diversification strategy by entering the market with one brand above and one brand below the mode class of the market. Dual-branded hotels can thus achieve competitive advantage by exploiting superior financial resources and tourism destinations are able to gain monetary advantage from resources employed by dual-branded hotels. This study extends current research on dual-branded hotels by investigating entry strategies and contributes to the resource-based view literature by investigating dual-brands' resource exploitation and resource spillovers in agglomerated markets.

Keywords

Dual brand hotels, resource-based view, agglomeration, market entry, random effect model, competitive advantage

1.0 Introduction

60

61 In pursuing competitive advantage, firms can rely on the possession of superior resources

62 conditionally these resources be valuable, rare, imperfectly imitable, and organized (Barney,

63 1991; Barney, 1995). In the tourism industry, resources possessed by firms are difficultly rare or

64 inimitable, leading firms to an unclear path toward achieving competitive advantage. In the hotel

65 industry, one possible solution resides in developing dual-branded hotels. Dual-branded hotels

66 do not guarantee rare or inimitable resources; however, they guarantee an advantage in the

67 process of resource appropriation, which may ensure firms a competitive advantage (Peteraf,

68 1993).

69 Dual-branded hotels are a growing trend in the hospitality industry (Dev & Steiner, 2020). A

70 dual-branded hotel is a lodging property that carries two brand names whereby the two brands

71 can be housed in the same building, such as the Element and AC by Marriott dual-brand in

72 Miami, FL, or the Hyatt House and Hyatt Place in Indianapolis, IN. In most cases, the property is

73 owned by the same owner, and the same management company manages the two brands. Such a

74 combination benefits hotel firms through economies of scale and from sharing hotels' resources

75 (e.g., parking lots, meeting and convention facilities, and marketing) (Kim & Tang, 2021). This

76 sharing ensures property owners lower construction costs (Hess, 2018) and hotel managers lower

77 operating costs (M. Kim, Tang, & Roehl, 2017; Y. R. Kim, Williams, Park, & Chen, 2021).

78 Dual-branded hotels target multiple markets simultaneously (Dev & Steiner, 2020). The choice

79 of the two brands housed within the same hotel property is a choice of resource allocation,

80 financial resources specifically (Barney,1995). This decision made by dual-branded hotels is

81 based on the number of resources employed by market competitors (Yu & Cannella Jr, 2013). It

82 is the most important decision for a hotel, given that it directly impacts performance in the long

83   run and is difficult to change afterward (Marco-Lajara et al., 2016). The very limited research on

84   this phenomenon thus far makes it unclear which market entry strategy concerning resource

85   selection vis-à-vis incumbent hotels is beneficial for dual-branded hotels. Moreover, it remains

86   unclear whether the presence of dual-branded hotels can positively affect other accommodation

87   establishments in the destination.

88   We fill this research gap by evaluating resource-based entry decisions based on incumbent

89   competition and propose to answer the following research question: *How does hotel brand*

90   *selection at entry affect the performance of dual-branded hotels compared to incumbents in a*

91   *particular market?*

92   This study uses a multilevel model on an unbalanced panel data set of 170 dual-branded hotels

93   (340 total brands) opened as of December 2021 to evaluate the effect of entry strategies on dual-

94   branded hotels' ability to achieve a competitive advantage.

95

2.0 Literature Review

2.1 Resource-Based View

Firstly theorized by Penrose (1959) and further developed in the 1990s, the resource-based view argues that the source of firms' ability to achieve competitive advantage resides in possessing valuable, rare, non-imitable or substitutable, and organized resources (Barney, 1991; Barney, 1995; Peteraf, 1993). Resources are critical for the success of a firm. They can be of four types: Physical Resources (machinery, facilities, and buildings used by the firm), Financial Resources (debt, equity, dividends, etc.), Human Resources (which include all attributes of individuals associated with the firm), and, finally, Organizational Resources (which comprise history, knowledge, trust, and organizational culture residing in the firm) (Barney, 1995). Financial resources are regarded as the most critical resource types because they can guarantee the appropriation of all other resources (Fisher et al., 2016). This is especially true in the hospitality industry, where most of the resources (such as the location of a hotel, the brand, and services) are directly correlated to the employment of financial resources at the moment of market entry (Yang et al., 2014).

The resource-based view has been extensively used in the hospitality and tourism literature. While studying Spanish hotel firms, González-Rodríguez et al. (2018) found that internal resources, such as firms' assets, have a more significant influence on performance than external sources, such as industry forces. On a similar note, Camisón and Forés (2015) found that firms' internal capabilities are more important than environmental effects toward competitive advantage. The relevancy of the resource-based view for hospitality firms has also been used to understand better market entry strategies of hotel firms entering new international markets

120   (Kruesi et al., 2017), marketing strategies (Line & Runyan, 2014), pricing policy (Van Der Rest,

121   Roper, & Wang, 2018), environmental strategies (Leonidou, Leonidou, Fotiadis, & Zeriti, 2013),

122   diversity practices (Manoharan, Madera, & Singal, 2021), and outsourcing (Espino-Rodríguez &

123   Padrón-Robaina, 2005).

124   In the tourism industry, resources possessed by firms may be regarded as valuable and organized,

125   given the extensive presence of branded hotels (Heung et al., 2008). However, the low barriers to

126   imitation (Huang, 2013) and the minor role of patents in the service industry (Succurro & Boffa,

127   2018) raise a question about the presence of rare and inimitable resources. Hence, a resource that

128   can guarantee a competitive advantage (e.g., the presence of meeting spaces inside the hotel) can

129   be imitated by competitors. In this situation, hotel firms should gain an edge in the process of

130   resource appropriation (i.e., when resources are acquired) rather than focusing on when resources

131   are exploited (Peteraf, 1993). Specifically, hotels should gain an advantage by acquiring the

132   resource before competitors or by acquiring the resource more efficiently than competitors.

133   Benefits deriving from strategic resources, however, are not exclusively enjoyed by the owners

134   of these resources as they can also create partial benefits for other market players in a process

135   called "positive agglomeration spillover" (Canina et al., 2005).

136   2.2 Resource-based agglomeration benefits
137   By agglomerating, firms can partially benefit from resources that competitors deploy. For

138   example, a hotel with a convention center can create additional demand for the destination by

139   hosting various conventions. This increased demand for hotel rooms will not only be captured by

140   that hotel, but nearby structures will also partly attract it. This partial gaining from competitors

141   may happen because the focal hotel is fully booked or because some guests seek a different

142   experience (e.g., a cheaper or more luxurious experience than the focal hotel's). Hence, part of

143   the benefits of possessing the strategic resource convention center is "spilled over" to

144   competitors. Specifically, benefits enjoyed by neighboring competitors are called positive

145   agglomeration spillovers (Canina et al., 2005; Chung & Kalnins, 2001). Such spillovers deliver

146   fewer benefits than owning the resource outright. Still, the potential to tap into these benefits at

147   less cost, for example, by locating a hotel nearby a convention hotel vs. building a convention

148   center hotel, thus influences market entry decisions (Kalnins & Chung, 2004).

149   The investigation of agglomerated markets has long been studied in tourism and management

150   literature. Hotels gain advantages by agglomerating beyond the need to stay close to touristic

151   attractions (Marco-Lajara et al., 2017). Agglomeration can drastically reduce customer search

152   costs and create a shared pool of demand for hotels in the market (McCann & Folta, 2008),

153   leading more tourists to visit the destination than in less agglomerated markets. Moreover,

154   several hotels located in one area are more likely to attract a large event (Freedman & Kosová,

155   2012) and favor cooperative and coopetitive behaviors such as information sharing or joint

156   organization of events that could benefit all firms involved (Lee & Jang, 2015). This, in turn,

157   would benefit all accommodation businesses in a destination and other businesses in the

158   community. Agglomeration advantages are not only connected to increasing demand and

159   subsequent profits, but they can also result in lower costs for hotels (Fang, Li, & Li, 2019;

160   Marco-Lajara et al., 2017), increased efficiency (Kim & Tang, 2021), and a shared pool of

161   knowledge for firms in the cluster (Woo & Mun, 2020).

162   Agglomeration benefits are, however, not equally distributed among market players. Chung and

163   Kalnins (2001) found that independent hotels disproportionately benefited from agglomeration

164   effects compared to chain hotels. This was because chain hotels commit a certain number of

165   resources that ultimately increase agglomeration benefits for the cluster as a whole. Independent

166   hotels benefit from the spillover of these resources without matching these contributions.

167   In a similar vein, Canina et al. (2005) found that positive agglomeration effects were higher for

168   agglomerated hotels pursuing a low-cost strategy (lower class hotels) that employs fewer

169   resources compared to hotels in the same cluster pursuing a differentiation strategy (higher class

170   hotels) that requires more resources. Moreover, the lower the hotel class compared to the

171   cluster's mode, the higher the possibility of benefiting from agglomeration spillovers (Canina et

172   al., 2005). The spillovers benefiting lower-class hotels are generated by other hotels'

173   differentiation strategies that require more resources and increase the cluster's attractiveness.

174   This is a problem for hotels pursuing a differentiation or different higher-class strategy as lower-

175   class hotels often do not create spillovers (Canina et al., 2005). Indeed, the higher the percentage

176   of low-class hotels around a high-class hotel, the more the latter suffered from negative resource

177   spillovers (Canina et al., 2005).

178   Agglomeration, however, does not only entail the spillover of resources. Agglomerated markets

179   usually decrease the price level, especially for hotels that are similar in class (Balaguer &

180   Pernías, 2013). This results from aggressive competition from undifferentiated hotels (Mazzeo,

181   2002; McCann & Vroom, 2010). Hence, agglomeration benefits are generally enjoyed by hotels

182   in the destination that are lower in class compared to the market mode. In contrast, hotels that are

183   higher in class than the market mode tend to have resource benefits ripped off.

184   To close the theoretical gap in the Resource-Based View applied to the hospitality context,

185   maximize the advantage on the resource appropriation process, and contrast the spillover of

186   agglomeration benefits to competitors, dual-branded hotels (lodging properties that carry two

187   brand names in the same building) could represent a viable solution for hotel owners.

2.3 Dual-Branded hotels

188

189 Despite not being a new concept, dual-branded hotels have recently gained popularity among

190 hotel developers and major franchising companies (Whyte, 2021). The increased popularity of

191 dual-branded hotels is attributable to their ability to simultaneously cater to two different markets

192 within the destination, allowing owners to meet the demands of different types of customers. For

193 example, the Tru and Homewood suites by Hilton in Albany, NY, can simultaneously cater to

194 the midscale and upscale markets. Moreover, building a dual-branded hotel entails the possibility

195 of gaining operating efficiencies from the common usage of shared resources (such as

196 convention center, parking lot, or back office). The ability to achieve operating efficiencies

197 allows dual-branded hotels to access resources at a lower cost (Hess, 2018), giving them an

198 advantage in resource appropriation (Peteraf, 1993), which may lead to an overcome limitation

199 of rare and inimitable resources in the hospitality industry. The advantage in terms of resource

200 appropriation can be especially useful in a post-pandemic world where hotels have been forced

201 to cut costs (Whyte, 2021).

202 Tourism and hospitality literature on dual-branded hotels is very limited and primarily focuses

203 on two main research areas: consumers' behavior and operational performance compared to

204 stand-alone hotels. Kim et al. (2017) found that disclosing the dual-brand status did not affect

205 booking intentions and willingness to pay; however, customers perceived the later disclosure of

206 the dual-brand status as unfair. Another important criterion for customers is the status and the fit

207 of the two brands involved. Indeed, Lin (2013) asserts that a well-recognized brand or a

208 perceived good-fit between the two brands are critical determinants in customers' purchase

209 intentions of dual-branded hotels.

210 Research has found mixed effects on market performance and operational synergies in dual-

211 branded hotels compared to stand-alone competitors. On the one hand, Dev and Steiner (2020)

212 found higher Revenue Per Available Room (RevPAR) for dual-branded hotels compared to

213 stand-alone competitors but achieved low operational efficiencies. On the other hand, Kim and

214 Tang (2021) found that dual-branded hotels underperformed when compared to stand-alone

215 competitors but achieved internal operational efficiencies by leveraging the sharing of

216 fundamental resources such as F&B and marketing.

217 Dual-branded hotels must juggle catering to two markets (that should be as different as possible

218 to attract the most significant number of customers) and achieve internal operational efficiencies.

219 The mix of resources employed by dual-branded hotels is a strategic decision on how to use

220 initial financial resources. Opting for one possible strategy over the other may severely affect

221 firms' performance.

222 ## 2.3 Resource-based positioning for Dual-branded hotels

223 Compared to single hotels, dual-branded hotels have several strategies regarding how to employ

224 financial resources, ultimately determining the class of each brand in the composition. These

225 strategies generically fall into two broad categories: same-class strategies, in which both hotels

226 are of the same class, or different-class strategies, where the two hotels are not of the same class

227 ($D\sigma_i$). Dual-branded hotels that adopt a same-class strategy, such as the Courtyard and Residence

228 Inn (both Upscale class) situated in St. Louis, MO, will have an advantage in operating

229 efficiencies (Kim & Tang, 2021). Still, they will cater to similar markets in terms of price given

230 the same brand class. Dual-branded hotels that, on the contrary, adopt a different-class strategy,

231 such as the Element (upscale class) and Tribute Portfolio (upper upscale class) located in Fort

232 Lauderdale, FL, will have more difficulty in achieving substantial operating efficiencies (Kim &

233   Tang, 2021) while more efficiently cater to two different markets. These different strategies were

234   previously investigated by (Kim & Tang, 2021), finding no significant differences in

235   marketplace performance.

236   However, the strategic decision of resource employment does not happen in a vacuum but is

237   related to the number of resources employed by competitors in the market (Yu & Cannella Jr,

238   2013). Indeed, deciding what resource-based strategy to adopt is created *vis-a-vis* the existing

239   competitive cluster. Consequently, each of the two main strategies will have a series of sub-

240   strategies based on how they position themselves in comparison to the mode (i.e., most

241   represented) brand in the market (Table 1).

242

243   Table 1 – Dual-branded Strategies

Entry strategy for a dual-brand property	Entry Strategy Number	Entry Strategy Notation	Examples for a market where the mode (i.e., most represented) brand level is upper midscale.
Same-class strategies			
Both classes are above market mode	S1	$S\tau_i > \mu$	Both brands are upscale.
Both classes at market mode	S2	$S\tau_i = \mu$	Both brands are upper midscale.
Both classes are below market mode	S3	$S\tau_i < \mu$	Both brands are economy.
Different-class strategies			
Higher class above and lower class below market mode	D1	$H\tau_i > \mu \,\&\, L\tau_i < \mu$	The higher brand is upscale, and the lower brand is economy.
Higher class above and lower class at market mode	D2	$H\tau_i > \mu \,\&\, L\tau_i = \mu$	The higher brand is upscale, and the lower is upper midscale.
Higher class at and lower class below market mode	D3	$H\tau_i = \mu \,\&\, L\tau_i < \mu$	The higher brand is upper midscale, and the lower brand is economy.
Higher class and lower class above market mode	D4	$H\tau_i \,\&\, L\tau_i > \mu$	The higher brand is upscale, and the lower brand is midscale
Higher class and lower class below market mode	D5	$H\tau_i \,\&\, L\tau_i < \mu$	The higher brand is midscale, and the lower brand is economy

244   Note: $S\tau_i$= both classes in dual-branded hotel i, $H\tau_i$= higher class in a dual-branded hotel, $L\tau_i$= lower class in a
245   dual-branded hotel, μ = class mode of market competitors

246

247   Among same-class entry strategies, it is advisable to have both hotels above the market mode

248   (strategy S1) as the new dual-branded hotel would gain from possessing superior resources

249   compared to most of their competitors (González-Rodríguez et al., 2018). Moreover, such

250   differentiation may result in less aggressive competition (Mazzeo, 2002) and more stable prices

251   (Balaguer & Pernías, 2013). The downside of this strategy is that it can create agglomeration

252   spillovers benefiting lower-class competitors (Canina et al., 2005; Chung & Kalnins, 2001).

253 However, we believe that dual-branded hotels will mitigate the negative spillovers of resources

254 over neighboring competitors by catering to two different markets simultaneously.

255 The second same-class strategy (strategy S2) is the least favorable in this category. The

256 homogeneous sets of resources among actors make it challenging to create a competitive

257 advantage (González-Rodríguez et al., 2018; Peteraf, 1993). Moreover, this entry strategy would

258 have the additional disadvantage of excessive competition resulting in a general decrease in

259 prices (Balaguer & Pernías, 2013; Mazzeo, 2002).

260 Finally, same-class strategy S3, that is, both hotel classes are below market mode, would leave

261 the dual-branded hotel with fewer resources than most competitors. On the other hand, the dual-

262 branded hotel could take advantage of spillovers created by competitors of a higher class (Canina

263 et al., 2005; Kalnins & Chung, 2004). Moreover, the dual-branded hotel would differ from most

264 of the market and thus enjoys less aggressive competition (Mazzeo, 2002). Hence, our

265 hypothesis is constructed as follows:

266 *H1a: Dual-branded hotels entering the market with both classes above market mode (strategy*

267 *S1) will outperform dual-branded hotels entering with both classes below market mode (strategy*

268 *S3).*

269 *H1b: Dual-branded hotels entering the market with both classes below market mode (strategy*

270 *S3) will outperform dual-branded hotels entering with both brands at market mode (strategy S2).*

271 Hence: Strategy S1 is preferred to strategy S3, which, in turn, is preferred to strategy S2 or S1 $\succ$

272 S3 $\succ$ S2.

273 Among different-class strategies, D1, that is, the higher class is above, and the lower class is

274 below market mode, would be the most advisable for a concerted strategic entry action of two

275 brands regarding resource benefits. This is because the dual-branded hotel will gain from

276 possessing superior resources (González-Rodríguez et al., 2018) while simultaneously acquiring

277 benefits spilled over by competitors (Kalnins & Chung, 2004). Moreover, both classes will be

278 different from the majority of the market, thus, leading them to face less fierce competition

279 (Mazzeo, 2002).

280 Dual-branded hotels with higher and lower brand above market mode (strategy D4) is the

281 second-best option among different-class strategies. Positioning both classes higher than the

282 majority of competitors ensures rents stemming from superior resources (Peteraf, 1993) and

283 lower competition (McCann & Vroom, 2010). Moreover, the lower brand will gain from

284 resource spillover generated by the higher brand (Woo & Mun, 2020). These spillovers are lower

285 than those caused by the market mode, but they can still constitute a significant advantage.

286 A different-class strategy where the higher brand is above and the lower brand at market mode

287 (strategy D2) guarantees some positive externalities. The dual-branded hotel can create

288 agglomeration spillovers with the higher class and channel most of these toward the lower-class

289 hotel, thus taking advantage of the ties between the two hotels (Kalnins & Chung, 2004; Woo &

290 Mun, 2020). This would benefit the lower brand even if it struggles with the fierce competition

291 since it will be at the market mode (McCann & Vroom, 2010).

292 In entry strategy D5, the higher and lower brands are below market mode, preventing the dual-

293 branded hotel from creating rents from its lower-level resources (González-Rodríguez et al.,

294 2018; Peteraf, 1993). On the other hand, both classes enjoy positive spillovers (Kalnins &

295 Chung, 2004).

296   Finally, with the higher class at and the lower class below market mode (strategy D3), the higher

297   class hotel suffers from increased competition as it is at the market mode (Mazzeo, 2002) and

298   from possessing resources similar to those of its competitors (Peteraf, 1993). On the other hand,

299   the lower brand enjoys positive spillovers given its lower-than-market mode position (Kalnins &

300   Chung, 2004). However, this market entry strategy is the least advisable among different-class

301   entry strategies.

302   Hence:

303   *H2a: Dual-branded hotels entering the market with the higher class above and the lower class*

304   *below market mode (strategy D1) will outperform dual-branded hotels with both classes above*

305   *market mode (strategy D4).*

306   *H2b: Dual-branded hotels entering the higher class and the lower class above market mode*

307   *(strategy D4) will outperform hotels entering the higher class above and the lower class at*

308   *market mode (strategy D2).*

309   *H2c: Dual-branded hotels entering the market with the higher class above and the lower class at*

310   *market mode (strategy D2) will outperform dual-branded hotels with both classes below market*

311   *mode (strategy D5).*

312   *H2d: Dual-branded hotels entering the market with the higher class and the lower class below*

313   *market mode (strategy D5) will outperform dual-branded hotels entering with the higher brand*

314   *at the market mode and the lower brand below market mode (strategy D3).*

315   Hence: Strategy D1 is preferred to strategy D4, which is better than strategy D2, which will

316   outperform strategy D5, while strategy D3 will be the lowest performer. Or: D1 ≻ D4 ≻ D2 ≻

317   D5 ≻ D3.

318   Finally, across all eight strategies, we argue that different-class strategy D1, the higher class is

319   above and the lower class is below market mode, will be the most effective strategy. This is

320   because strategy S1, the best among same-class strategies, will only be able to gain from superior

321   resources and lower competition. At the same time, strategy D1 can also gain from positive

322   agglomeration spillovers. On the other hand, entry strategy number 2 ($S\tau_i = \mu$) will likely be

323   the least effective because these dual-branded hotels will have similar resources compared to

324   competitors, will not be able to gain from agglomeration spillovers, and will need to compete

325   more fiercely than dual brands selecting a different entry strategy (J. Barney, 1991; Kalnins &

326   Chung, 2004; Mazzeo, 2002).

327   Hence:

328   *H3a: Dual-branded hotels entering the market with the higher class above and the lower class*

329   *below market mode (strategy D1) will outperform other market entry strategies*

330   *H3b: Dual-branded hotels entering the market with both classes at market mode (strategy S2)*

331   *will underperform other market entry strategies.*

332   # 3.0 Methodology
333   We applied a hierarchical linear model to address our research question and evaluate the

334   hypotheses. Doing so allows us to rank strategies based on the effect that each of them has on

335   dual-branded hotel performance over time, assessing the impact of the submarket in which each

336   hotel resides.

337   ## 3.1 Data
338   Our sample consists of an unbalanced panel data of 23,934 monthly observations for 170

339   unidentified dual-branded hotels (340 brands total) open in the United States between January

340   2010 and December 2021. STR provided the sample with anonymized hotel data for each brand,

341   including monthly performance, submarket type (e.g., urban, suburban), hotel size in categories

342   per brand, and the class of each brand. The dual-branded hotel data is provided for each month

343   the hotel is open, starting with month 1, allowing a comparison from the opening month of each

344   hotel in our sample.

345   STR also provided anonymized data about sub-markets where dual-branded hotels operate, the

346   aggregated performance of all hotels in the market, and the number of hotels in each market

347   divided by class. Following Kim and Tang's (2021) study of dual-branded hotels, we

348   operationalize hotel class with STR scales of hotel quality. Class is thus ranked using a six-level

349   scale from Luxury to Economy hotels.

350   Since STR only provides performance data if at least four hotels are in the competitive set, some

351   of the performance data were not provided. We eliminated these observations from the sample,

352   which shrunk to 18,975. Moreover, months one to six of dual-branded hotel data were eliminated

353   from the sample to avoid inefficiencies and expected lower-than-normal revenue that hotels

354   experienced at the beginning. Finally, we excluded dual-branded hotels consisting of at least one

355   independent hotel. This decision was made because of the difficulty in comparing independent

356   with branded hotels based on class. Data cleansing reduced the sample to 14,181 monthly

357   observations and 144 dual-branded hotels (288 brands).

358   RevPAR was used to compare hotel performance. Since RevPAR represents an efficiency

359   measurement that combines Average Daily Rate and Occupancy, these two latest performance

360   measures were not evaluated to avoid endogeneity concerns. For example, we cannot draw

361   conclusions based on Occupancy performance if we do not consider the price at which rooms

362   have been sold, or we cannot draw conclusions based on ADR if we do not know how many

363   rooms have been sold. Since we concentrate on performance, we believe RevPAR is the best

364   measure to consider.

365   Specifically, we used class-level RevPAR performance, thus comparing each class to the average

366   RevPAR of same-class hotels in its submarket. Contrary to previous studies on dual-branded

367   hotels' performance (Dev & Steiner, 2020; Kim & Tang, 2021), we compare performance to

368   each sub-market rather than to each dual-branded hotel's competitive set, and we do not restrict

369   the comparison to stand-alone competitors. Hence, the comparison is between each brand in a

370   dual-brand composition and the average performance of other brands in the sub-market of the

371   same class, although other dual-branded hotels are in the same sub-market. This decision has

372   been taken because the study intends to evaluate resource-based market-entry strategies of dual-

373   branded hotels rather than compare them to stand-alone competitors, as was the aim of previous

374   studies (Dev & Steiner, 2020; Kim & Tang, 2021). Moreover, we conducted a series of informal

375   consultations with hotel executives stating that the decision on hotel class is based on submarket,

376   and as indicated by Schwartz and Webb (2021), competitive sets are often selectively biased by

377   managers. This type of comparison thus allows us to be more precise in modeling entering

378   decisions. It will enable us to compare performances to a higher number of competitors (the

379   average of submarket competitors is 12) compared to previous research on dual-branded hotels.

380   3.2 Variables

381   Our main dependent variable is *PerformanceDifference*, the monthly difference in RevPAR

382   between one class of the dual-branded hotel and the mode RevPAR of equal class competitors in

383   the submarket. For example, suppose a dual-branded hotel is composed by one upscale hotel and

384   an upper-upscale hotel. In that case, Performance Difference will capture the difference in

385   RevPAR between the upscale hotel and the average RevPAR of all other upscale hotels in the

386   same submarket. The same thing will happen for the upper-upscale hotel comprising the dual-

387   branded hotel. Hence, this variable measures and compares hotels based on their performance

388   *vis-à-vis* their main market competitors. We decided to adopt this explanatory variable for two

389   reasons: First, since we are comparing strategies for hotels that enter the market using different

390   classes, a simple RevPAR analysis would not have been helpful since higher-class hotels will

391   always have higher RevPAR compared to lower-class hotels, despite of the adequateness of their

392   strategic decision. Second, firms achieve a competitive advantage over direct competitors (Yu &

393   Cannella Jr, 2013). Hence, the variable *PerformanceDifference* allows us to investigate whether

394   firms can achieve competitive advantage or not truly.

395   Our main independent variable is *EntryStrategy*, an eight-level categorical variable matching the

396   three same-class and five different-class strategies listed in Table 1. These strategies are based on

397   how each dual-branded hotel positioned itself compared to the mode class of the market (most

398   represented class in the market). To ascertain the effect of market entry strategies on

399   performances, we proposed a series of control variables: *Location* is a 6-level categorical

400   variable representing the submarkets in our sample. *Size* allows us to control for different hotel

401   sizes in terms of rooms. *Operation* is a dummy variable that assumes the value of 1 if the dual-

402   branded hotel is directly owned or managed by the parent company. It assumes the value of zero

403   if the dual-branded hotel is franchised. *SameClassProperties, HigherClassProperties, and*

404   *LowerClassProperties* are count variables that indicate the number of same, higher-, and lower-

405   class hotels in the submarket every month of observation. Finally, we created a series of fixed

406   effects covering every observation month. We did so to control for unobserved monthly factors

407   (e.g., seasonality) and annual factors (e.g., COVID) that affect performance.

408 ## 3.3 Model Specification

409 The model applied in this study is a hierarchical linear model (HLM). We use this model to

410 correctly account for the clustering of observations between different groups which may cause

411 the assumption of independence not to be met (Yang,2018). In this specific study, observations

412 are grouped into different submarkets, which could sensibly impact performance. Hence, the

413 general HLM model is specified as follows:

414 $$Y_{ijt} = \beta_0 + X_{ijt}\beta + v_j + \varepsilon_{ijt}$$

415 Where Y_{ijt} is the dependent variable for the hotel i nested in unit j at time t, β_0 is a constant,

416 while $X_{ijt}\beta$ is the set of explanatory variables. Finally, v_j represents the random effect that is

417 used to capture the unobserved characteristics of unit j and ε_{ijt} represents the error term.

418   Table 2 – Sample Characteristics (per observation)

Variables		Total monthly observation N= 14,181	Same-class strategy $(S\sigma_i)$	Different-class strategy $(D\sigma_i)$
Sub-Strategies				
	Strategy S1	17.23%	26.32%	-
	Strategy S2	26.4%	40.33%	-
	Strategy S3	21.82%	33.34%	-
	Strategy D1	0.36%	-	1.06%
	Strategy D2	12.60%	-	36.50%
	Strategy D3	11.68%	-	33.83%
	Strategy D4	3.89%	-	11.26%
	Strategy D5	5.98%	-	17.33%
Location				
	Urban	25.18%	24.51%	26.43%
	Suburban	45.34%	44.99%	45.99%
	Airport	7.39%	5.10%	11.71%
	Interstate	7.40%	7.93%	6.39%
	Resort	1.70%	1.04%	2.96%
	Small Town	12.97%	16.39%	6.49%
Size (rooms)				
	<75	32.09%	38.72%	19.53%
	75-149	50.66%	46.10%	59.30%
	150-299	15.69%	14.11%	18.68%
	300-500	1.53%	1.04%	2.47%
	>500	0.01%	0.01%	-
Class				
	Luxury	0.86%	0.01%	2.47%
	UpperUpscale	1.56%	-	4.53%
	Upscale	37.79%	40.49%	32.66%
	UpperMidscale	18.53%	6.7%	40.91%
	Midscale	13.80%	13.48%	14.39%
	Economy	27.45%	38.28%	5.02%
Operation				
	Owned/Managed	2.35%	3.59%	-
	Franchised	97.65%	96.41%	100%
SameScaleProp		15.25	16.08	13.82
		(9.72)	(10.29)	(8.48)
HigherScaleProp		20.19	22.01	17.06
		(19.09)	(20.40)	(16.12)
LowerScaleProp		19.53	19.02	20.40
		(15.00)	(15.03)	(14.91)

419

3.4 Robustness Checks

After running our model and dropping the variable *location* due to multicollinearity (Alin, 2010),

we reached preliminary results (Appendix 1). After that, we performed a series of robustness

checks to assess our inferences' quality. First, given the small representation in the sample for

strategies D1 and D4, we ran a Cook's D test to investigate the possibility of significant data

points (Appendix 2), and we re-ran the model twice, firstly excluding strategy D1 and

subsequently excluding strategy D5 (Appendix 3). Cook's distance did not detect any influential

point beyond the stated value limit of 1 (Cook,1977), while the exclusion of strategies D1 and

D5 did not affect the order of the remaining strategies. Hence, we can conclude that the model is

not affected by influential data points. Second, we detected heteroskedasticity and serial

correlation problems in our model, which led us to correct it using HAC estimation for standard

errors (Newey & West, 1986). Hence, we firstly ran an OLS model controlling for Submarkets

by adding a categorical variable. Appendix 4 shows the outcome similarities between the

Multilevel and the OLS model with strategies re-scaled to use strategy D5 (the lowest performer)

as a base, allowing us to use the HAC estimators on the linear model.

4.0 Results

Table 3 results concerning strategies. It is shown that within same-class entry strategies, strategy

number S1, which is both classes above market mode, appears to be the best, followed by

strategy S3 (both classes below market mode). Strategy S2 (both classes at market mode), on the

other hand, appears to be the worst among this category in affecting performance vis-à-vis

competitors. Hence, hypotheses 1a and 1b are supported.

As for different-class strategies, results show that strategy D1 (higher class above and lower

class below market mode) outperforms all other strategies. Second-best is strategy D4 (higher

443   class and lower class above market mode), followed by strategy D3 (higher class at and lower

444   class below market mode). The worst performer among different-class strategies is dual-branded

445   hotels with the higher and lower class below market mode. Finally, strategy D2 (higher class

446   above and lower class at market mode) results are non-significant. Hence, hypothesis 2a is

447   supported, while hypotheses 2b, 2c, and 2d are rejected.

448   Finally, when combining all market entry strategies, results show that different-class strategy D1

449   is the best-performing strategy while same-class strategy D5 performs the worst. These results

450   support our hypothesis 3a while do not support hypothesis 3b.

451   Furthermore, we find that best performing dual-branded hotels have less than 75 rooms per brand

452   (thus max 150 rooms per dual-branded hotel). Finally, results show that an increasing number of

453   hotels of a higher scale in the same submarket harms the performance of focal dual-branded

454   hotels.

455

456   Table 3 – HAC estimators for Sub-strategies identification

	Estimates	Std.Error
(Intercept)	-13.057	26.357
Strategies		
Strategy S1	72.388***	12.106
Strategy S2	17.505*	10.375
Strategy S3	48.924***	9.117
Strategy D1	112.850***	14.825
Strategy D2	14.346	11.450
Strategy D3	27.195**	10.015
Strategy D4	58.905***	11.338
Size		
75-149 Rooms	1.036	1.598
150-299 Rooms	-9.114***	2.312
300-500 Rooms	-32.473**	10.132
>500 Rooms	-57.443**	21.397
Operation		
Managed	-2.156	5.005
Scale		
UpperUpscale	-14.919	20.115
Upscale	-2.452	20.975
UpperMidscale	0.211	21.708
Midscale	14.354	23.014
Economy	16.581	25.875
SameScaleProp	0.141	0.207
HigherScaleProp	-0.422**	0.219
LowerScaleProp	-0.233	0.269

. = p-value <0.1 *= p-value <0.05 **= p-value <0.01
***= p-value <0.001

Note: Results of Single Months and Submarkets have been excluded due to word count limit. They are available upon request.

457

458

459   Table 4 – Hypothesis Testing Results

Hypothesis		Notation	Result
H1a	*Dual-branded hotels entering the market with both classes above market mode will outperform dual-branded hotels entering with both classes below market mode.*	$S1 \succ S3$	Supported
H1b	*Dual-branded hotels entering the market with both classes below market mode will outperform dual-branded hotels with both brands at market mode.*	$S3 \succ S2$	Supported
H2a	*Dual-branded hotels entering the market with the higher class above and the lower class below market mode will outperform dual-branded hotels entering with both classes above market mode.*	$D1 \succ D4$	Supported
H2b	*Dual-branded hotels entering with the higher class and the lower class above market mode will outperform hotels entering with the higher class above and the lower class at market mode.*	$D4 \succ D2$	Rejected
H2c	*Dual-branded hotels entering the market with the higher class above and the lower class at market mode will outperform dual-branded hotels with both classes below market mode.*	$D2 \succ D5$	Rejected
H2d	*Dual-branded hotels entering the market with the higher class and the lower class below market mode will outperform dual-branded hotels entering with the higher and lower brands below market mode.*	$D5 \succ D3$	Rejected
H3a	*Dual-branded hotels entering the market with the higher class above and the lower class below market mode will outperform other market entry strategies*	$D1 \succ \forall - D1$	Supported
H3b	*Dual-branded hotels entering the market with both classes at market mode will underperform other market entry strategies.*	$\forall - S2 \succ S2$	Rejected

Note: "$\succ$" = preferred than, "$\forall - D1$" = all strategies except D1,
"$\forall - S2$" all strategies except S2

460

25

5.0 Discussion

461

462 Our analyses showed the best and worst-performing entry strategies for dual-branded hotels for

463 same-class and different-class strategies groups and overall. Contrary to what we hypothesized,

464 the worst possible strategy to adopt is D5, a different-class strategy. This result can be attributed

465 to internal operational synergies that are more prominent in same-class, dual-branded hotels than

466 in different-class (Kim & Tang, 2021). Operational synergies result in lower operating costs for

467 the hotel owner that could, in turn, increase the allotted budget to acquire new resources that

468 directly affect hotels' top line, such as marketing resources or hotel amenities. However, an in-

469 depth analysis of market entry strategies shows a different story. Indeed, the best choice for dual-

470 branded hotel owners is to pursue a different-class strategy (D1). This result could be attributed

471 to the fact that despite hotels adopting strategy D1 can achieve smaller operational synergies

472 compared to same-class hotels (Kim & Tang, 2021), benefits derived from superior resources

473 (González-Rodríguez et al., 2018), agglomeration externalities (Canina et al., 2005), and

474 diversification from the competition (Mazzeo, 2002) allows them to overcome the disadvantage.

475 The opposite can be said for strategy S2. Despite being able to secure higher operational

476 synergies, it remains the worst possible entry strategy for dual-branded hotels besides strategy

477 D5.

478 Within the same-class group, the best performing strategy is for dual-branded hotels to enter the

479 market with both classes above market mode (strategy S1). This result is dictated by superior

480 resources and a simultaneous diversification strategy (Mazzeo, 2002; Peteraf, 1993). Even

481 though entry strategy S3 employs fewer resources compared to the majority of other players in

482 the market, hotels using this strategy outperform hotels entering the market with both brands at

483 the mode of the market (strategy S2) by taking advantage of agglomeration spillovers and less

484 fierce competition (Canina et al., 2005; Kalnins & Chung, 2004; Mazzeo, 2002).

485 Among different-class strategies, we again find that the employment of superior resources

486 outperforms competitors and achieves a competitive advantage. The best different-class

487 strategies (D1 and D4) have at least one of the two brands employing more significant resources

488 than the market mode.

489 The finding that dual-branded hotels perform better when at least one brand is positioned above

490 market mode, be it for same-class or different-class strategies differs from previous research on

491 resource spillovers. Previous studies argued that high-class hotels should avoid co-locating with

492 lower-class hotels to avoid negative resource spillovers (Freedman & Kosová, 2012; Kalnins &

493 Chung, 2004). However, this is not the case for dual-branded hotels. One argument is that dual-

494 branded hotels extract an advantage in the resource appropriation market over single hotels. This

495 mitigates the negative effect of resources spilling over to lower-class competitors, resulting in an

496 insignificant result in our analysis. Hence, dual-branded hotels are not hurt from co-locating with

497 lower-class hotels.

498 We find that dual-branded hotels with the higher class and the lower class below market mode

499 (strategy D3) outperform dual-branded hotels with both classes below market mode (strategy

500 D5). This goes against hypothesis 2d, based on dual-branded hotels facing less competition when

501 adopting strategy D5 (Mazzeo, 2002). These results could be explained by the different levels of

502 agglomeration resource spillovers gained by hotels adopting the two strategies. Hence, despite

503 having both classes below market mode, dual-branded hotels adopting strategy D5 may not

504 homogeneously benefit from agglomeration spillovers as if they were two single-brand hotels

505 (Canina et al., 2005). Hence, different-class dual-branded hotels may be able to internally

506   channel agglomeration spillovers if they possess strategic resources that generate benefits (as in

507   dual-branded strategies D1 and D4). However, these dual-branded hotels may not internally

508   transfer resource benefits spilled over by competitors as only one of the two classes would be

509   able to accrue these benefits efficiently. Since this effect has not been seen in single-class

510   strategy S3, we believe this challenge is only connected to different-class dual-branded hotels.

511   Finally, results show that an increased degree of agglomeration with higher-class hotels

512   negatively affects dual-branded hotels' performance. Hence, the more competitors in the same

513   destination that are of a higher class, the more dual-branded hotels' performance will be

514   negatively affected. This result is surprising because previous literature has attributed a positive

515   effect of agglomeration on hotels' performance that adopted a diversification strategy in the

516   market (Mazzeo, 2002; Woo & Mun, 2020), especially if these hotels were higher class (Canina

517   et al., 2005). We believe these opposite results are directly connected to dual-branded hotels'

518   advantage in the resource appropriation process. Indeed, this advantage allows them to acquire

519   resources not accessible by other hotels, even if they are of a higher class.

520   Moreover, the negative effect of agglomeration suggests that although dual-branded hotels can

521   be advantaged by accessing resources at a lower cost (Hess, 2018) (Kim & Tang, 2021), other

522   destination hotels benefit too, potentially at the expense of the dual-branded hotel. For example,

523   a dual-branded hotel can build more meeting/convention facilities or increase the effectiveness of

524   its marketing strategy by leveraging on the possibility of accessing these resources at a lower

525   cost. Even though dual-branded hotels can improve their performance due to employing these

526   resources, partial benefits will be spilled over to other players as the destination's attractiveness

527   will be increased. Essentially, dual-branded hotels can create a bigger pie, but other players in

528   the destination will also be able to have a piece.

6.0 Conclusions

529

530 This study aimed to assess the impact of resource-based entry strategic decisions of dual-branded

531 hotels vis-à -vis incumbent competitors. The results allow us to make several contributions to the

532 literature. First, this study makes a double contribution to the resource-based view literature in

533 the hospitality context. It does so by investigating the exploitation of financial resources in

534 deciding the best entry strategy for dual-branded hotels vis-à-vis incumbent competition and by

535 examining how benefits derived from the possession of strategic resources are shared among

536 competitors in the destination. These contributions are particularly relevant because they can

537 help to bypass the theoretical stall derived from the absence of rare and inimitable resources

538 among hospitality firms and show how resource exploitation differs between dual-branded and

539 single-branded hotels. Second, this study adds to the nascent literature on dual-branded hotels by

540 assessing the performance of dual-branded hotels, given the existing composition of the market.

541 By doing so, we increment general knowledge on dual-branded hotels, a prominent yet under-

542 researched phenomenon in our field. Third, this study contributes to the literature on market

543 entry strategies by analyzing class decisions of a dual entry in the market. This addition is

544 important because current research does not investigate simultaneous actions of multiple entries

545 by a single actor at the same time.

546 Finally, this study has several practical implications: Owners can use these findings as a

547 guideline for a more informed decision regarding market entries for dual-branded hotels. This is

548 because while adopting a same-class strategy may be more appealing for owners given the

549 possibility of saving money on construction and operational costs (Kim & Tang, 2021), specific

550 strategies (D1 in particular) may lead to a return that is higher than the money saved.

551 Alternatively, owners can still open a same-class dual-branded hotel aiming at lower costs and

552   use these results to know better what entry strategy is best to avoid within that group. This

553   contribution is particularly important given that the best strategies in each sub-sample (Strategy

554   S1 for same-class hotels and Strategy D1 for different-class hotels) were the less-likely choices

555   in each group. Moreover, this study provides guidelines for destination policymakers. Dual-

556   branded hotels can access more resources than a single-branded hotel can at the same cost. These

557   additional resources, for example, more meeting rooms or marketing, benefit other hotels and

558   increase the destination's overall attractiveness. Policymakers should thus incentivize the

559   development of dual-branded hotels to increase destinations' attractiveness and benefit all other

560   hotels and businesses.

7.0 Limitations and Future Research

561

562   Despite its contributions, this study has some limitations. First, this study only considers class,

563   but not different types of hotels such as limited service vs. extended stay. Second, this study

564   focuses on hotels with two brands operating in destinations in the United States and participating

565   in the STR program. Future studies can include multi-branded properties beyond two brands and

566   operate in other countries. Third, we evaluated strategies based on performance compared to

567   competitors and controlled for size, operation, and the number of market competitors. However,

568   the model has unobserved variables such as local destinations' settings, preferences by the

569   owner, negotiation skills, bottom-down earnings, etc. Fourth, the sample severely shrank after

570   we eliminated some observations as STR does not provide observations for markets where less

571   than four hotels are present. This data shrinkage may have affected hotels in some environments

572   more than others. Finally, this study used submarkets to identify competitors and compare

573   performance. We believe that agglomeration or competition externalities may be somewhat

574   diluted using submarket despite this methodology being preferred to competitive sets, as argued

575   by Schwartz and Webb (2021) and by informal meetings with hotel executives. Future research

576   can assess competitive landscapes based on geographical mapping and geo-location for better

577   insight into the competitive landscape.

578

579 ## 8.0 Reference

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702
703

704   Appendix 1 – Preliminary Results

	Estimates	Std.Error
(Intercept)	23.71625***	9.735
Strategies		
Strategy S2	-31.753***	3.362
Strategy S3	-14.767***	2.566
Strategy D1	40.710***	4.178
Strategy D2	-32.466***	3.896
Strategy D3	-22.389***	3.367
Strategy D4	-11.263***	2.454
Strategy D5	-52.670***	3.287
Size		
75-149 Rooms	1.580***	0.875
150-299 Rooms	-8.473**	1.037
300-500 Rooms	-28.581***	2.321
>500 Rooms	-55.681***	7.105
Operation		
Managed	-2.582***	2.381
Scale		
UpperUpscale	-11.688***	3.076
Upscale	-1.896	3.840
UpperMidscale	-0.831	4.197
Midscale	9.879*	4.798
Economy	8.060	5.876
SameScaleProp	0.200***	0.057
HigherScaleProp	-0.349***	0.047
LowerScaleProp	-0.249***	0.058

. = p-value <0.1   *= p-value <0.05 **= p-value <0.01
***= p-value <0.001

AIC: 89384.719, BIC: 90551.308, R2(cond.) = 0.756, R2(Marg.) =0.323

Note: Results of Single Months have been excluded due to word count limit. They are available upon request.
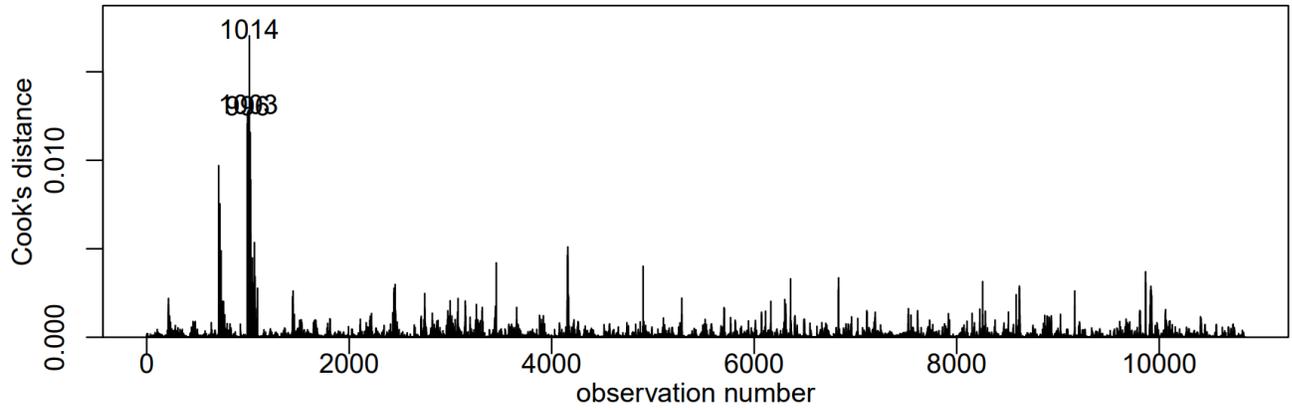
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707   Appendix 2 – Cook's Distance

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716   Appendix 3 – Estimations with exclusions of strategies D1 and D4

	Estimation Excluding Strategy D1		**Estimation Excluding Strategy D4**	
	Estimates	Std.Error	Estimates	Std.Error
(Intercept)	24.525*	9.733	34.272***	10.385
Strategies				
Strategy S2	-31.247***	3.339	-49.199***	4.249
Strategy S3	-14.182***	2.565	-31.413***	3.540
Strategy D1	-------------	-------	36.976***	4.222
Strategy D2	-31.950***	3.869	-49.365***	4.714
Strategy D3	-21.817***	3.345	-39.387***	4.220
Strategy D4	-11.461***	2.455	-------------	-------
Strategy D5	-51.970***	3.276	-70.316***	4.096
Size				
75-149 Rooms	1.445 .	0.878	0.900	0.935
150-299 Rooms	-8.639***	1.040	-8.627***	1.084
300-500 Rooms	-28.702***	2.323	-29.522***	2.353
>500 Rooms	-56.113***	7.111	-58.096***	7.229
Operation				
Managed	-2.577	2.380	-2.279	2.391
Scale				
UpperUpscale	-11.906***	3.079	-11.566***	3.103
Upscale	-2.303	3.846	-3.596	4.054
UpperMidscale	-1.572	4.212	-0.907	4.444
Midscale	8.108 .	4.868	20.509***	5.276
Economy	6.083	5.941	23.186***	6.410
SameScaleProp	0.196***	0.056	0.194**	0.062
HigherScaleProp	-0.342***	0.047	-0.444***	0.051
LowerScaleProp	-0.256***	0.058	-0.202**	0.065

. = p-value <0.1 *= p-value <0.05 **= p-value <0.01 ***= p-value <0.001
Note: Results of Single Months have been excluded due to word count limit. They are available upon request.

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718   Appendix 4 – Comparison Between Multilevel Model and OLS Model with main strategies re-
719   scaled using the worst performer as the base (Strategy D5)

	Multilevel Model		**OLS Model**	
	Estimates	Std.Error	Estimates	Std.Error
(Intercept)	-28.954**	9.533	-13.057	10.242
Strategies				
Strategy S1	52.670***	3.287	72.388***	4.116
Strategy S2	20.916***	2.299	17.505***	2.572
Strategy S3	37.902***	2.447	48.924***	2.886
Strategy D1	93.380***	5.245	112.850***	5.845
Strategy D2	20.204***	3.374	14.346***	3.952
Strategy D3	30.281***	2.177	27.195***	2.394
Strategy D4	41.407***	3.378	58.905***	4.045
Size				
75-149 Rooms	1.580 .	0.875	1.036	0.886
150-299 Rooms	-8.473***	1.037	-9.114***	1.047
300-500 Rooms	-28.581***	2.321	-32.473***	2.367
>500 Rooms	-55.681***	7.105	-57.443***	7.129
Operation				
Managed	-2.582***	2.381	-2.156	2.415
Scale				
UpperUpscale	-11.688***	3.076	-14.919***	3.118
Upscale	-1.896	3.840	-2.452	3.918
UpperMidscale	-0.831	4.197	0.211	4.356
Midscale	9.879*	4.798	14.354**	5.102
Economy	8.060	5.876	16.581*	6.470
SameScaleProp	0.200***	0.057	0.141*	0.067
HigherScaleProp	-0.349***	0.047	-0.422***	0.057
LowerScaleProp	-0.249***	0.058	-0.233**	0.072

. = p-value <0.1   *= p-value <0.05 **= p-value <0.01 ***= p-value <0.001

AIC: 89384.719, BIC: 90551.308, R2(cond.) = 0.756, R2(Marg.) =0.323
Note: Results of Single Months have been excluded due to word count limit. They are available upon request.

AIC: 89391.360, BIC: 91447.473, R2 = 0.492, R2(Adj) =0.478
Note: Results of Single Months and Submarkets have been excluded due to word count limit. They are available upon request.

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Bianco, S., Singal, M., Zach, F. J., & Nicolau, J.L. (2022). Dual-branded hotels: Resource-based entry strategies in agglomerated markets. *Tourism Management* doi:10.1016/j.tourman.2022.104663

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