



Article Title

What's in a Brand Name? Assessing the Impact of Rebranding in the Hospitality Industry

Citation

Tsai, Yi-Lin; Dev, Chekitan S.; Chintagunta, Pradeep; Journal of Marketing Research, December 2015, v. 52, iss. 6, pp. 865-78

Abstract

In the context of the U.S. lodging industry (1994–2012), the authors empirically quantify the effects of the two main factors driving the rebranding effects identified by the theoretical branding literature—(1) the brand effect and (2) the interaction effect between the product (the hotel property) and the brands involved—on occupancy rate and other hotel performance indicators. They find that, on average, rebranding results in approximately a 6.31% increase in occupancy rates; 60% of this effect can be attributed to the brand identities (e.g., Holiday Inn) before and after rebranding while the remaining 40% is attributable to the interaction effect. The authors also find heterogeneity in the property–brand interaction effect of rebranding along various observable characteristics of the hotels. They assess the robustness of the results to various model assumptions and alternative instruments; in addition, they use matching estimators for analysis and exploit rebranding as a consequence of hotel mergers as a means of measuring rebranding effects. Finally, the authors consider the impact that rebranding might have on competitors' properties. Their approach to measuring rebranding effects can be applied broadly to firms and industries experiencing a decoupling of the individual components of their value chain.

Summary

Of broad significance is the increasing level of “decoupling of the value chain” that is happening in several industries, in which different entities perform individual functions of the business model. A hotel could be owned by one entity (e.g., an investment fund), “asset managed” by another (e.g., a real estate advisory firm), operated by a third company (e.g., a hotel management company), and branded by a fourth (e.g., a franchisor). This “decoupling” of functions makes it easier to change brand names because it does not involve completely changing any of the other functions. Other sectors of the economy experiencing this decoupling-led rebranding at the individual unit or property level include restaurants (Burger Chef to Hardees; with a similar menu and labor force), gas stations (BP to Marathon; same oil delivery

and store management entities), department stores (Mays to Macy's; same supply chain and labor force), pharmacies (Eckerd to RiteAid; same physicians and health plans), airplanes (US Airways to American Airlines; same labor force and air routes), and grocery stores (Grand Union to Tops; maintaining its supplier and employee relationships). We expect that our empirical approach to assessing the impact of rebranding can be useful to all sectors of the economy experiencing this rebranding phenomenon. Furthermore, in contexts in which franchising is prevalent, the franchise fee could be an important cost shifter allowing for its use as an instrument in cases in which rebranding cannot be viewed as being exogenous.

Second, the findings of this paper provide useful reference for policy-makers as the estimation results indicate that the effect of market concentration on hotel advertising can be nonmonotonic. Moreover, hotels in a more concentrated market environment are more prone to collusive behaviors than hotels in a relatively competitive environment. This may also arise as hotels have tie-ups or co-branding (i.e. share the same brand name) with their close competitors and hence the necessity for allocating resources on advertising efforts is reduced.

Such a combination between social media, advertising and e-commerce, all together mixed in a single application, could be a real booster for the future of the tourism.