All change

In this article, we explore some of the issues that arise when hotel owners and operators decide to change the hotel brand. In fact, we believe many of the issues are similar in each of the following circumstances:

- a global chain or a private equity house selling its non-core hotels
- a change in the company managing a hotel
- a franchise agreement coming to an end
- an unbranded hotel choosing to become an affiliate of a global marketing consortium
- a previously branded hotel being de-branded
- a hotel under construction moving into the pre-opening phase

Our experience is that, if value is not to be destroyed, great care is required to ensure that people, organisations, processes and technologies are aligned throughout the business. It is even more important to have those process and technologies that are aligned with those external to the business. The change process requires careful planning, skilful execution and patience if it is to be successful.

Leadership

The critical resource needed is human. Someone within the organisation should be appointed to be accountable for the change processes. Sometimes this executive is already in the organisation, sometimes they are hired in and sometime an external consultant is retained.

In 2005, Chardon Management Ltd converted seven Hilton branded hotels – five became Holiday Inns, with the other two now trading unbranded.

Robert Crook, managing director of CML says: “Early on in the decision making process, and whilst we were still in the due diligence stage, we hired James Ford as our transition director. His earlier career had included leading the InterContinental Hotels Group transition teams responsible for the conversion from Posthouse to Holiday Inn. Securing James’ expertise has proved critical to us and we’ve experienced much less impact to each the customer experience, staff retention and EBITDA than had been forecasted. And the expertise our team has developed has equipped us well for the next rebranding or conversion opportunity.”

Transition leadership is akin to leading an orchestra. The executive accountable for delivering the change needs to know when to engage with individuals and teams and when to allow them to return to the day job; how and why to engage with third parties and how to assure the business that the service level agreements with external parties are being met – on time, on budget, throughout the change.

And the most critical parties to maintain control over are both the exiting brand owner and the prospective brand providers. James Ford reports: “It is critical that a plan is drawn up and that those involved own it from outset. It must be reviewed weekly and ‘worried to death’. I was in almost daily contact with my counterparts at Hilton Group plc throughout the transition period. Once we had determined the new branding for the hotels, I began an intensive dialogue with counterparts at Holiday Inn, as well as ensuring that we adopted the same disciplines at the two hotels that were debranded. Suppliers also need a bigger picture than normal as one late delivery can affect the whole effort and, when you are rebranding, there is no reverse gear."

People

Management of the change needs to recognise that the current management and staff at the hotel have an understandable loyalty to the existing brand and a fear of the unknown that is represented by the new brand. Indeed, for some, the new brand will be viewed as competitive – the enemy. And, whilst this discussion focuses on management and staff, it needs to be remembered that exactly the same emotions will be felt by regular guests and intermediaries.

For this reason, it is important to be given a chance to address these concerns as early in the process - to engage management and staff in planning and executing the change, and to build a sense of excitement and pride in all that is represented by the new brand whilst retaining appropriate respect for the old brand's values, products and services. Presentations, team sessions, train-the-trainer sessions, FAQs posted on the intranet - all can support this process.

One aspect of the change that may require special care is any impact on the payroll. If the business is in fact changing hands, there will be a change of employer with all that this means for the employees, their remuneration and benefits packages. Very close attention needs to be paid to ensure that the first pay run made by the new brand is made on time and with as few errors as possible.

Processes

Whether the change takes place on the date of sale or at some date in the future, all parties need to be engaged in the dialogue so that all know their roles and responsibilities.

Sometimes such a communication plan can be achieved by launching a series of internal meetings, a change site on the intranet and by assigning executive and managerial responsibility. When the change involves a number of third parties, there will need to be an agreement between all the parties – a transitional services agreement (TSA).

Whether the TSA is in writing because it involves a number of third parties or is simply defined in a series of internal memos, it is likely that the matters requiring definition will include:-

- the terms under which the existing brand is to be phased out and the terms under which the new brand is to be phased in;
- the operational requirements under the old and the new brand as they apply to the physical product and in particular fire and life safety systems, guest service and products, guest loyalty and other programmes, management of the hotel, maintenance of the hotel's IT and reservation systems, and insurance coverage;
- the implications of the change to both the old and new brands' centralised and shared service organisations.

If these are the core matters that need to be addressed, the change process also needs to identify the points of contact within each organisation and department, the hotels and departments involved in the change, as well as the implication to both one off and recurring fees.

Some of the more critical issues to address from the get-go are the implications, if any, to the VAT registration, credit card merchant numbers and PAYE reference numbers that may change as a result of the underlying business changes. It may be necessary to maintain two sets of bank accounts to record the monies held for both the old and the new business. And almost certainly, there will be a major implication to stationery, room amenities, signage and other branded items. Even in the 'softest' of brands, it is surprising how much needs to be changed – and therefore how much cost is involved.

Care also needs to be paid to management and staff ability to transition business e-mail addresses seamlessly from joebloggs@branda.com to joebloggs@brandb.com. This may well prove a lot more challenging than it appears but it is attention to details like this that will both reassure staff as well as enable the changes in business processes to be made as trouble-free as possible.

Another technology implication may be the brand customisation of the PMS. The existing brand may have a two-way or 1½-way interface and GUI screen all of which will need to be taken off and may be replaced. Similarly the change in brands may bring a change in the description of market segments used in the PMS.

Channels, content and customers

One of the most critical elements of the change involves the re-routing of rooms inventory, and the associated re-pricing and fresh descriptions, within the GDS and other electronic channels. Great care is required to research and determine the appropriate provider of these channels - whether it be a hard brand organisation such as Holiday Inn, a soft brand such as Best Western, a marketing organisation such as Utell or an e-distribution organisation such as i-hotelier.com.

Whichever partner is decided upon will determine the fixed and transactional costs of the channels used. In many cases, the hotel will have, or will wish to build, its own website to accept reservations. Under the previous infrastructure, this may not have existed or have been linked to different underlying system than is now required.

The quality of future customer relationship management will be determined by the quality of both content and channel management on future channels. Poorly executed, this element of the change will have a long-term detrimental impact as both business and leisure demand need as far as possible to be able to look and book on all distribution channels before, during and after the change in GDS code. Doreen Boulding, an associate of Hotel Solutions Partnership, comments that 'in my experience, owners and managers alike often under-resource this critical element of the change process.'

The transition of databases of customers, intermediaries, targets and club members is an important element to consider; under some transitions the exiting brand neither wishes to, nor has the right to, pass over databases to the new brand. In other circumstances, some elements of databases are carried forward into the new organisation.

Lessons learnt

Brand transition in the hotel industry is an increasingly common occurrence; failure to resource the leadership of the change process, and failure to adequately plan the multitude of changes that are implied could seriously damage the health of your business.

Robert Crook and James Ford can be contacted at www.chardonmanagement.com

Doreen Boulding and Ian Graham can be contacted at www.hotelsolutionspartnership.com