

# TOP TIPS FOR NEW HOTEL BRANDS ENTERING THE US MARKET

*By Gosia Kosturek*



As travelers are becoming more particular about their vacations and especially the hotels that they visit, hotel companies have been rushing to develop brands that provide distinctive experiences for even the most discerning traveler from dog friendly amenities to sustainability focused properties. Companies bringing these new hotel brands into the US market include established U.S. and international hotel companies and start-up brands entering the hospitality market. These companies are tailoring their vision for a hotel much more finely than their hospitality predecessors which results in unique considerations for both the brand

(whether managed or franchised) and the developer.

**JOINT VISION/MOTIVATED PARTIES** – A new brand entering the U.S. has to show that it is fulfilling a niche in the market that has not already been captured. Therefore, in developing its first few hotel projects, finding the right location and developer are paramount. The brand needs to be certain that a developer will be (i) able to source a site that optimizes the brand strategy while offering significant visibility of the new brand to the market, (ii) able to complete the project on time and within their budget (to ensure

the project is completed), and (iii) committed to the brand vision so that they will be equally focused on building to brand standards. But this requires quite a balancing act. For example, opening a flagship property in New York City under the new brand may provide great visibility but such a location comes with big city challenges such as union relations, greater regulation, greater cost to develop, and potentially longer lead times to open. From the developer's perspective, it needs to make sure that the company behind the brand has the resources to support and grow the vision for the new brand and the financial commitment to overcome inevitable



initial challenges in rolling out the brand so that the brand has a legitimate opportunity for long-term success.

**BRAND INVESTMENT** – Although existing hotel brands typically allocate their overall brand marketing costs to their hotel owners, developers for new brands will often not be willing to bear the costs of ramping up the marketing efforts of the new brand both because of the significant upfront costs to launch a brand and the lack of a sufficient portfolio of hotels within the new brand to reasonably bear the allocated costs. Also, the brand may be looking to invest marketing dollars well outside

the locales of its initial branded hotels in order to extend brand awareness, and to create interest for new developers to build branded hotels in other markets. That said, developers of initial brand hotels also benefit from such initiatives, especially if their hotels are located in gateway markets, so such developers may be more motivated to contribute to marketing campaigns that do not have an immediate impact on their local market.

**DEVELOPING VISION** – Another consideration for new brands is that the brand standards may not yet be fully defined or may be evolving at the time of the initial project development.

This may allow an initial developer to be part of developing the brand vision or, alternatively, may allow the developer to request some concessions or changes to the standards for the project. However, this may also cause frustration between the brand and the developer as there is not a defined set of standards for the brand to point to in negotiating the agreements or requesting capital expenditures. This may be true even if the brand is already established in another market outside the US as some changes to the brand standards may be necessary to adjust the brand for the US market or to comply with US laws. To avoid unnecessary



tension between the brand and its initial developers and in order to avoid development delays as these conflicts are ironed out, it is important that the brand and the developer agree upfront on what is meant by the brand's brand standards; such as, whether there are comparable existing hotels the parties can look to in the future that set the quality level of the brand's standards, the projected competitive set of hotels to the new hotel, and the projected costs of implementing the standards, from a hard and soft goods perspective and from an operational and staffing perspective.

**BRAND RESOURCES** – Unless the brand is being launched by an established US brand or an established international brand, there may or may not be a larger platform supporting brand services for the initial hotels opening under the new brand, such as technical services, reservations, and purchasing. So the developer may be agreeing to brand services that may be developed in the future, may never be

developed or may never grow beyond a small platform or a limited number of properties. For the developer, it is important to ensure that the cost of any centralized services are fairly allocated to the property (i.e., the first hotel should not bear the burden of the entire centralized services or marketing costs for an international brand and the marketing fee should be fairly allocated between US and international marketing efforts). The brand should be sensitive to these concerns and have a strategy for the timing of development of brand resources in the future to present to any potential developers.

**BRAND LONGEVITY** – One of the biggest considerations for the brand and the developer is what happens if the brand does not grow or somehow misses the mark. If the hotel is not successful, then both parties may want to either end the relationship or reposition the property. It is important for the parties to discuss the parameters for any exit ahead of time as the brand's and the

developer's interest may not be aligned once the hotel fails to hit projections.

Above all, both the brand and the developer need to keep in mind that working with a new brand is different than working with an established brand and, to ensure that the project and the brand are a success, both sides need to be flexible in addressing the inevitable challenges of launching a new brand.



#### About the author

Gosia Kosturek focuses her practice on hospitality law and general corporate law. She assists clients in numerous types of corporate transactions, including acquisitions, mergers, and financings, primarily in the hospitality industry. Kosturek is also a member of the firm's Data Security & Privacy Practice Group. Contact her at [gsturek@eckertseamans.com](mailto:gsturek@eckertseamans.com)



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