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***DEVELOPMENT OF HOTEL COOPERATIONS:  
AN EMPIRICAL AND THEORETICAL  
ANALYSIS WITHIN THE GERMAN MARKET***

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**ABSTRACT**

The German hotel market is very heterogenic and diversified. 5% of all hotels account for 50% of total revenues in Germany. Furthermore, 95% of the hotels in Germany have less than 1 million Euro turnover. 88% of all German hotels have less than 50 rooms. A possible solution for these small hotels could be the access to a hotel cooperation.

The aim of this paper is to analyse the development of leading hotel cooperations from 2004-2014 with a focus on the German market and to investigate which changes are necessary for hotel cooperations in order to remain competitive. For this, we first collected data on 717 hotels of 10 well-known cooperations from 2004-2014 via a web analysis and travel journal research. Second, we evaluated this data and looked at the development of their members' number. Third, we investigated which kind of hotel cooperation developed positively or lost members during the last 10 years. When data was missing via our online research, we contacted the hotel cooperation and asked for exact numbers (telephone call).

As a result, we found that the size of a hotel cooperation in the year 2004 varied from 20 to 181 hotels (2004: min=20 , max = 181, SD= 55, M=52). Hotel cooperations developed within 10 years in different directions, visible in a cooperation, which has now 28 members, and in 2004 there were still 57 members (2014: min=28, max=202, SD=48, M=76,5). Results show that especially “green cooperations” (bio[1]-hotels, greenline hotels) with environmental and sustainable aspects have high rates of growth (greenline hotels  $\Delta$  260% and bio-hotels:  $\Delta$  262,5%). Our additional literature analysis emphasizes that guests prefer hotels with health-oriented and natural products. Furthermore, we recognize that clear and self explanatory brand names like romantic hotels have higher member numbers in comparison to cooperations like VCH hotels or CPH hotels which need more of an explanation. A further look on the actual business models of hotel cooperations show the necessity of a redesign. Business models have to be more flexible and not totally standardized. Further results based on several analyses will be presented at the conference.

**Key Words:** hotel cooperation, member development, empirical analysis, business models

## **1 INTRODUCTION**

More and more sales challenges face the hospitality industry. How can a hotel manager gain new guests? Which distribution channels are efficient and affordable? Where does a hotel acquire qualified sales employees? These are all questions that apply to many hoteliers in everyday business as distribution becomes more and more laborious, complex, and difficult to handle. The German hotel market is very heterogenic and diversified. 5% of all hotels account for 50% of total revenues in Germany. Furthermore, 95% of the hotels in Germany have less than 1 million Euro turnover. 88% of all German hotels have less than 50 rooms (Warnecke & Luthe, 2014, p. 39). Standardized chain hotels with central guided programs that facilitate distribution management are easily maintained, but for private, small and medium sized hotels this can be hard to handle (Gardini, 2010). A possible solution for these small hotels could be the access to a hotel cooperation. A hotel cooperation is the horizontal aggregation of legal and economic independent hotels with the goal to achieve synergy effects which a single enterprise alone could not realize (Freyberg & Gruner & Lang, 2012, p. 35). Responding to the ever-growing specialization in the hotel industry, a hotel cooperation offers the flexibility to fulfill the special requirements of the individual market and to associate with the appropriate cooperation. Some of the oldest cooperations are “Romantikhoteles” and the so called “Ringhotels”. Regardless of whether it is a resort or city hotel, a family-run four star house or a luxurious

spa hotel, a deluxe or a budget hotel, more than 56 hotel cooperations exist with brand character on the German market (N.N., 2014). Hotel cooperations are trendy and a possible solution for the middle-class to retain competitive with chain hotels.

## **2 Research Design and Hypothesis**

The aim of this paper is to analyse the development of leading hotel cooperations from 2004-2014 with a focus on the German market and to investigate which changes are necessary for hotel cooperations in order to remain competitive. This study is based on a deductive approach, which means that we start with a compelling social theory test its implications and collect data. That is, we move from a more general level to a more specific one. Looking at the literature 3 hypothesis ( $h_1$ ,  $h_2$ ,  $h_3$ ) occur to investigate:

*Hypothesis 1 ( $h_1$ ): If the German hotel market is heterogenic and diversified, then hotel cooperations have to develop positively*

*Hypothesis 2 ( $h_2$ ): If hotel cooperations have self-explanatory brand names, then they are more successful in terms of member numbers.*

*Hypothesis 3 ( $h_3$ ): If new and flexible business models are introduced to a hotel cooperation, then it needs to increase its ability to remain competitive.*

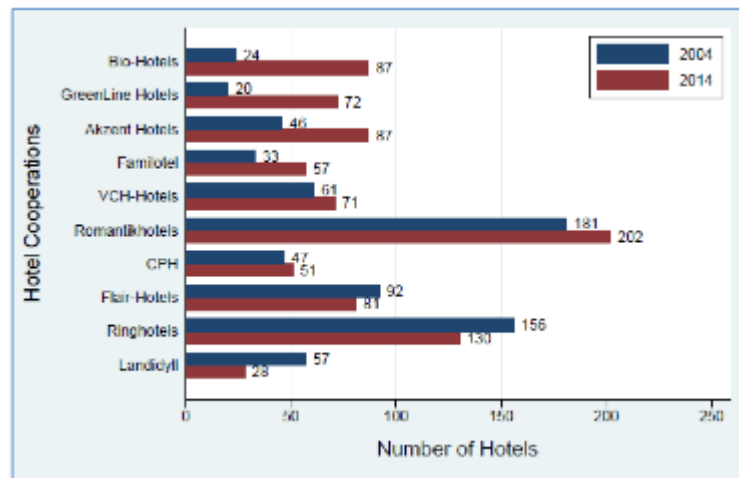
In our empirical research we first collected data on 717 hotels of 10 well-known cooperations from 2004-2014 via a web analysis and travel journal research. Second, we evaluated this quantitative data and looked at the development of their members' number. Third, we investigated which kind of hotel cooperation developed positively or lost members during the last 10 years. When data was missing via our online research, we contacted the hotel cooperation and asked for exact numbers (telephone call). For the 3<sup>rd</sup> hypothesis we conducted a personal interview with a leading hotel cooperation in order to get a more detailed insight. This study benefits of a mixed method approach to data collection. We use the term mixed methods research here to refer to all procedures collecting and analysing both quantitative and qualitative data in the context of a single study. Our objectives are to describe how and why hotel cooperations develop in this direction and to answer our mentioned hypothesis.

### 3 Empirical and Theoretical Analyses

We focused our analyses on cooperations with hotels between 20-100 rooms and not on cooperations for chain hotels, very big hotels or luxury five star hotels. Actually, the well-known brand Best Western is not evaluated, because - due to own information - they do not feel like a hotel cooperation. Furthermore, so far they only accepted hotels with more than 50 rooms (according to a magazine interview in April 2014 this strategy is currently changing) (Smola, 2014, p.3). A critical mass of hotels is essential in order to have affordable member fees and to achieve memorable brand awareness. This size today comprises of at least 70 hotels.

#### 3.1 Development OF HOTEL Cooperations

Subsequently, you find a selection of well-known medium sized hotel cooperations within the last ten years with variations in their member numbers. Within these ten years, hotel cooperations have developed in different directions. This is visible in a cooperation named Landidyll, which now has 28 members, though in 2004 there were still 57 members. The Median increased from 52,00 to 76,5 hotels, the mean from 71,7 to 86,6 hotels over ten years and the maximum increased from 181 to 202 hotels, which means a general positive size development[2]. As a new cooperation. Greenline Hotels started in 2001 with 7 hotels and was, in 2004, still the smallest cooperation.



|      | N Valid | N Missing | Mean | Median | SD    | Variance | Minimum | Maximum |
|------|---------|-----------|------|--------|-------|----------|---------|---------|
| 2004 | 10,00   | 0,00      | 71,7 | 52,00  | 55,29 | 3056,9   | 20,00   | 181,00  |
| 2014 | 10,00   | 0,00      | 86,6 | 76,50  | 48,61 | 2362,9   | 28,00   | 202,00  |

Figure 1: Development of hotel cooperations 2004/2014[3]

Interestingly it is not the absolute numbers that are intriguing, but the rates of growth (see figure 2). Results show that especially “green cooperations” (bio-hotels, greenline hotels) with organic, environmental and sustainable aspects have high rates of growth (greenline hotels  $\Delta$  260% and bio-hotels:  $\Delta$  262,5% ).

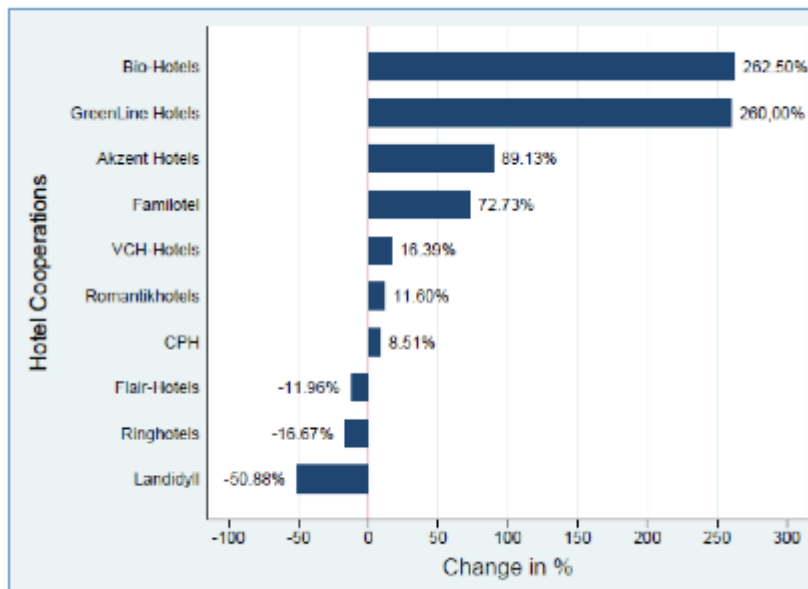


Figure 2: Rates of growth of hotel cooperations 2004/2014[4]

Both greenline hotels and biohotels developed from a very small an unknown cooperation to a remarkable size. Flairhotels, Ringhotels and Landidyll hotels have negative rates of growth. However, we have to consider that Ringhotels and Flairhotels had a much higher base level in 2004 than other cooperations and therefore rates of growth are more

difficult to achieve. Suzanne Weiß, the general manager of Ringhotels quoted, that they are planning an increase of members to 200 hotels by 2020 (Weiß, 2014).

Romantikhotels are continuously on a high level and could also generate new members during the last years. For this cooperation more hotels apply for membership that can be accepted each year. Do hotel's guests set a high value on nature, organic and sustainability or do these cooperations gain more members because of successful marketing activities? For sure a combination of both: Actual investigations show the trend of people focusing on health-oriented products and the responsible handling of natural resources is increasing in our society (Warnecke & Luthe, 2014, p. 77 / 170ff.). A current survey of hoteltonight.com shows that 97% of hotels in Germany, Austria and Switzerland respect eco-friendly processes, e.g. energy saving lamps and towel changing on guest demand. For German travellers an environmental useful handling is much more important than in other nations. The Online Travel Agency Agoda launched a study with 57,000 users: 58% of all respondents prefer to stay in a eco-friendly hotel, but only 39% are willing to pay 10 US\$ more for this environmental respect. 54% of German travellers prefer "green hotels", although but only 27% are willing to pay for this environmental aspect. The biggest fans of green hotels are Chinese guests. 79% of respondents from China favour these kinds of hotels. (Henning, 2014) These data proves the importance of a green orientation and the correlation between guest wishes and the development of hotel cooperations. Coming back to our 1st hypothesis ( $h_1$ ), the assumption could not be confirmed. The positive development of a hotel cooperation depends on their characteristics and the target group of the hotel cooperation. Green cooperations have much higher rates of growth than others. Therefore, this hypothesis could only be confirmed for special interest hotel cooperations.

### **3.2 Brand Management of hotel cooperations**

Looking at the different hotels in figure 2, we can see that there are a few hotels with self-explaining brand names (Familotel or Romantikhotels) and some with only abbreviations like CPH[5] or VCH[6]. The second hypothesis deals with the question if a cooperation has a clear association / branding, do they have more members.

Branding a hotel is substantially different from branding a line of consumer products. Brand Management can be extremely challenging as managers have to consider how to market both the tangible elements of the hotel experience (room, infrastructure, food etc.) and the intangible ones (Hänssler 2004). Hotels, at their core, offer an intangible

product a good nights stay. An entry to a hotel cooperation is useful if the hotel is gaining new guests and the hotel cooperation can push the distribution activities (e.g. room occupancy). But guests of a hotel cooperation need a clear image of the cooperation and the core competences. In Germany, there are so many generally named cooperations with names like City, Country, Top, Herz (Heart) that it can lead to brand dilution. Especially international guests need a clear identification of the cooperation (Prange, 2009). Guests have to understand easily and immediately the unique selling points, otherwise a cooperation can lead to a erosion of brand profiles. Familotels appeal to family travellers, Romantic hotels to couples with the wish for a romantic stay, but what are the target groups of a ringhotels or an akzent hotels? Although these two cooperations are well known in circle of experts, guests will have problems identifying their unique characteristics according to their appellation.

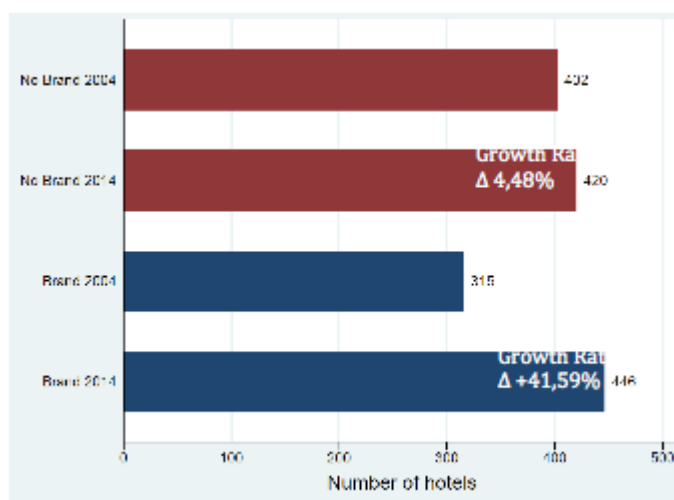


Figure 3: Growth rates und member numbers of “brand” and “no-brand” hotel cooperations 2004/2014[7]

A hotel cooperation should primarily appeal to the hotel’s guests and reflect their wishes. For abstract brand names more communication activities are essential in order to create a clear consumer image. These cooperations need much higher marketing budgets in order to create strong brands. In our investigation we divided our hotels in 2 groups: One group with self-explaining names and a second group with more abstract, explicable cooperations names. In practice we have one “brand group” consisting of Bio-Hotels, Familotel, GreenLine hotels, Landidyll Hotels, Romantikhoteles and one “no-brand group”

with Akzent hotels, CPH hotels, Flair-hotels, Ringhotels and VCH hotels. As you can see in figure 3 in a second step we looked on the development of the member numbers between 2004 and 2014 and got the following results:

|                 |          |         | 2004   | 2014   |
|-----------------|----------|---------|--------|--------|
| <b>no brand</b> | N        | Valid   | 5      | 5      |
|                 |          | Missing | 0      | 0      |
|                 | Mean     |         | 80,4   | 84,00  |
|                 | Median   |         | 61,0   | 81,0   |
|                 | SD       |         | 46,1   | 29,12  |
|                 | Variance |         | 2131,3 | 848,0  |
|                 | Minimum  |         | 46,0   | 51,00  |
|                 | Maximum  |         | 156,0  | 130,00 |
| <b>brand</b>    | N        | Valid   | 5      | 5      |
|                 |          | Missing | 0      | 0      |
|                 | Mean     |         | 63     | 89,2   |
|                 | Median   |         | 33,0   | 72,0   |
|                 | SD       |         | 67,50  | 66,7   |
|                 | Variance |         | 4557,5 | 4451,7 |
|                 | Minimum  |         | 20,00  | 28,00  |
|                 | Maximum  |         | 181,00 | 202,00 |

Table 1: Statistical SPSS results

In the brand group there are some cooperations, which are relatively new founded and therefore still very small. The maximum of hotels in 2004 and 2014 is higher than in the control group. Whereas hotels in the brand group could realize growth rates of over +40%, the hotels in the no-brand group showed minor growth rates between 2004-2014. Thus, our 2nd hypothesis could be confirmed, that if hotel cooperations have self-explaining brand names, then they are more successful in terms of member numbers.

A hotel cooperation has common guidelines and standard procedures which have to be respected, in order to guarantee the brand quality (Jaeschke & Fuchs. 2011). This is often not easy for hotel owners, to give up part of their flexibility. In a further step we will look at current business models of hotel cooperations in order to check our third hypothesis.



### **3.3 Business Models of Hotel Cooperations**

A further look on the personality of hotel owners and managers show that these are often very individual personalities with tacking their goals on ones own account. Jens Diekmann the founder of Romantikhotels said: "A hotel cooperation is like a good marriage, both gain something new and both lose independency, therefore a good check is necessary in advance" (Prange, 2009, p. 214). To join a hotel cooperation should be an intensive consideration and an appreciation of values. Usually a hotel has to pay a special entry fee and a monthly fee for the participation in a hotel cooperation with a fixed set of services. A membership lasts at least 12 months. While traditional business models focus on large vertical span of activities, new models are distinguished by large horizontal business portfolios, with a smaller vertical range typical of manufacturing (Bieger und Rügge-Stürm 2002). External and internal forces have been eroding the traditional business model; but this has not been a slow, gentle re-shaping. Over a period of a few years, the global recession, the rise of social media and advancements in hotel technology has combined with a myriad of other factors to reveal the new face of business (Amersdorfer & Bauhuber & Oellrich, 2010, p.3 ff). Successful business models create a heuristic logic that connects technical potential with the realization of economic value. In the most basic sense, a business model is the method of doing business by which a company can sustain itself - that is, generate revenue. The business model spells-out how a company makes money by specifying where it is positioned in the value chain (Rappa, 2014).

Looking on the current business models of hotel cooperations they are often standardized and not very flexible. Hotels can book a marketing and sales package and have to follow special rules and quality standards (Prange, 2009, p. 202). Current developments in the hospitality industry show more flexibility in guest wishes. This desired flexibility should also be transferred to hotel cooperations. To maximise value-development each hotel requires a flexible business model that creates potential for a situation-adapted strategy. A hotel manager does not want to book a full service unity; furthermore, a combination of different performance aspects would be appealing.

According to Bieger, the following eight dimensions have to be considered when developing a new business model. The later can be illustrated using a potential business model for an hotel cooperation:

| <b>Dimensions</b>                  | <b>Objectives</b>  | <b>Activities</b>  |
|------------------------------------|--|--|
| <b>Performance system</b>          | For which hotel which use?<br>Target hotels and target benefits?                     | Not each hotel fits for each cooperation. Analysing the need of a hotel (efficient support, current activities).                           |
| <b>Communication concept</b>       | How are the produced offerings positioned and communicated in the relevant market?   | By building an self-explaining cooperation umbrella trademark, with the focus on online communication and social media.                    |
| <b>Profit concept</b>              | How are revenues to be realized?   | Online and offline sales support of a cooperation.   |
| <b>Concept extension</b>           | Which new produced extensions get evaluated?   | Initiation of new technology programs and cooperations. Measurable quantity of online distribution channels.                               |
| <b>Configuration of competence</b> | Which core competencies are essential?   | Creating innovative and memorable guest experiences in a special field by networking with other service providers.                         |
| <b>Form of organization</b>        | What is the scope, division of labour and incentive system in the hotel cooperation? | Concentration on own competencies, which create value for the customers; outsourcing of less efficient or effective units to partners.     |
| <b>Cooperation concept</b>         | Who are the potential partners?  | OTA's, Online reputation management tools, retail industry, new online platforms, tourism firms, hardware suppliers, policy and education. |

|                             |                                       |  |
|-----------------------------|---------------------------------------|--|
| <b>Coordination concept</b> | Which coordination concept is chosen? | A balancing act between a modular offering set and a holistic brand approach is necessary. |
|-----------------------------|---------------------------------------|--|

Table 2: A Business Model for a hotel cooperation

(own table according to Bieger & Rügge-Stürm, 2002, p. 123 and 128)

The successful implementation of a new business model depends on the configuration of the referred dimensions. The goal of each business model should be to create value for customers (=hotels). Current developments in the hospitality industry show more flexibility in guest wishes. This desired flexibility should also be transferred to hotel cooperations. To maximise value-development each hotel requires a flexible business model that creates potential for a situation-adapted strategy. A hotel manager does not want to book a full service package, furthermore a combination of different service aspects would be more useful. Guests want to create individual hotel stays via Internet booking Engines (IBE). Singular modules can be booked directly online and an individual package emerges. In a personal interview with Suzann Heinemann, founder and general manager of greenline hotels, we conducted that this cooperation changed her business model strategy dramatically last year. They now provide their hotels with a “greenline-max” offer with offline entries, online services, faire participation and consulting options. For clients with different wishes they offer “greenline-flex” which includes an online representation and a booking engine. If hotel mangers like more support they can additionally ask for more assistance. In 2013 from all new members (approx.. 20 hotels), 2/3 booked greenline flex and 1/3 booked greenline max. IT is important that a few minimum criteria be maintained in order to guarantee quality standards and a corporate identity. A strict acceptance of a uniform group of hotels is essential for brand creation. A similar quality level has to be established in order to earn guest’s trust and commitment (Gardini 2009). The balancing act between modular offerings and a holistic brand approach is challenging. The focus of individual elements lies especially in the online field with new technologies (e.g google hotel finder, IBE, reputation management tool, property management tool etc.). For many family owned hotels the mass of new technologies and online offers are hard to evaluate and hotel cooperation can be of use. Therefore, a participation check of the potential new client makes sense, with the goal to create an individual cooperation package for each hotel. Without quantitative evidence our qualitative interview underlined the necessity of redesigned business models. Then a

hotel cooperation attempt to increase its ability to remain competitive. Therefore, our third hypothesis can be confirmed.

#### **4 Conclusions**

This study has identified some empirical evidence about the development of hotel cooperation form 2004 / 2014. In a nutshell, hotel cooperations have developed in different directions over the last 10 years. Results show that especially “green cooperations” with environmental and sustainable aspects have high rates of growth. Our additional literature analysis emphasizes that guests prefer hotels with health-oriented and natural products. Furthermore, we recognize that clear and self-explaining brands have higher member numbers.

Kinds of “snapshot” of the situation of current business models were presented. Business models have to be more flexible and not totally standardized. The efficiency of hotel cooperations and therefore a differentiation from chain hotels depends largely upon the realization of synergy effects, especially in the online field. Our  $h_1$  could not be confirmed; our  $h_2$  and  $h_3$  could be proved.

A study showed that hotels belonging to a cooperation had a better economic development than individual standalone hotels (Henschel, 2009, p. 58.) In the future, further analysis will follow up the empirical evidence suggested in this study and will be carried out to gain a deeper insight for positive or negative developments.

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[1] bio = organic

[2] The results show a positive correlation, although they are according to our SPSS analyses not significant. This is probably based on the small sample size.

[3] Own research from Nov. 2013- March 2014 based on 717 hotels via a web analysis / a travel journal research and personal phone calls.

[4] Own research from Nov. 2013- March 2014 based on 717 hotels via a web analysis / a travel journal research and personal phone calls.

[5] CPH is the abbreviation for City Partner Hotels, Conference Partner Hotels and Country Partner Hotels

[6] VCH is the abbreviation for Verband Christlicher Hoteliers e.V.

[7] Own research from Nov. 2013- March 2014 based on 717 hotels via a web analysis / a travel journal research and personal phone calls.