THE IMPACT OF MERGERS AND ACQUISITIONS ON BRAND VALUE IN THE HOTEL SECTOR DURING THE ECONOMIC CRISIS IN SPAIN. A CASE STUDY OF NH HOTELES & HESPERIA

Dissertation in marketing, 15 ECTS credits

Authors:
Laura Arteaga Amorós (910529 – T042)
Juana María Rosselló Dalmau (910606 – T048)

Supervisor:
Urban Ljungquist

Examinator:
Venilton Reinert
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Laura Arteaga, lauarte11@student.hh.se
Juana Maria Rossello, juaros11@student.hh.se

Marketing report no. Mf:3:2012:047
Department of Marketing
School of Business and Engineering
Halmstad University
PO Box 823
SE-301 18 HALMSTAD
Sweden
Telephone: +46 35 16 71 00
ACKNOWLEDGMENT

This Bachelor thesis was written for the Business and Administrations degree during the spring semester of 2012 at the Halmstad University and was completed on 20th may, 2012. First, we would like to express our gratitude to our supervisor, Dr. Urban Ljungquist for his supervision, guidance and advices from the beginning to the end of our research. Moreover, we would like to thank our friends and families, for their moral support and useful advices in every moment. Last but not least, we would like to thank the Marketing department of NH Hotels for share their knowledge and contribute to this study.

Halmstad, 2012
Laura Arteaga & Juana Maria Rosselló
ABSTRACT

This dissertation examines the role and impact of the M&A’s created during the economic crisis in the tourism sector on the brand strategy, and their portfolio. We analyze different theories explaining brand concept, the advantages and disadvantages of building a new brand or buying an existing brand, how the portfolio can change after the merger and the concept of rebranding to draw conclusions through the examination of a case study based on the biggest urban hotel chain in Spain: NH Hotels and its merger with Hesperia. This research has been made through secondary data regarding the hotels chains and all the theories studied during the study research and it has been completed through an in-depth interview made by telephonic and e-mail techniques, with the marketing department of NH Hoteles in Spain. The finding of this study provides useful information regarding brand strategies and portfolio strategies acquired during the economic crisis for many hotels and others industries.
Summary of the thesis

Title: The impact of merger and acquisitions on brand value in the hotel sector during the economic crisis in Spain. A case study of NH hotels and Hesperia.

Authors: Laura Arteaga Amorós and Juana Maria Rosselló Dalmau

Supervisor: Dr. Urban Ljungquist

Level: Bachelor Thesis in Business Administration, Marketing

Key words: Brand value, rebranding, portfolio, tourism, NH Hoteles, Hesperia, economic crisis.

Purpose: To describe M&A during the economic crisis in Spain.

Theoretical framework: First of all we have defined the brand concept. The second step is to know how to obtain a brand: building a new brand or through M&A (Doyle & Stern, 2006). We have explained the advantages and disadvantages of these two different ways to obtain a brand and the conditions which are better to build or merge or acquire a brand. Afterwards we have focused on M&A explaining the different kind of them, the post M&A portfolio (Basu, 2002), the rebranding after M&A (Ettenson & Knowles, 2006) and the innovation concept.

Method: In the method, it is explained the different research methods and how we have used them. Secondly, it is described qualitative and quantitative research and why we have chosen to use both of them. The methods to collect data have been explained in this chapter: We have collected secondary data from the library within our university, Halmstad University, and data from Google scholar to write the theoretical framework. To make the analysis we have used both secondary data and primary data. Secondary data because we have analyzed every annual report of NH Hoteles since 2005 until 2011; and primary data due to we have realized one personal interview. Finally, we have defined validity and reliability concepts and we have explained the importance of these concepts in the research work.

Empirical data: In the empirical data, it is presented all the data collected. Firstly, information about the hotels analysed and the interview results is provided. We described the different brands belonging to NH hoteles, and the merger between NH hoteles and Hesperia. Secondly, we provide information about the annual results of NH since 2005 until 2011.

Analysis: In the analysis chapter the theory studied during the theoretical framework is compared with the empirical data to draw conclusions about our case study and get the best answer possible to our purpose.
Conclusion: To conclude, it is answered our purpose according to the findings in the analysis part. Furthermore, in this chapter, it is presented the limitations of our thesis and the further research.

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1. Introduction

1.1 Background

Since five years ago Europe has seen a big change due to the economic crisis. The economic crisis has affected each country differently and has had a severe impact on the different sectors and industries. Spain is well-known for the tourism sector, a large, powerful, innovative, and diversified industry, but the Spanish situation has made it difficult for the survival of many big companies, small businesses and familiar stores established in the tourist business. Many tourist businesses, with a lot of years of work, no longer exist since the economic and financial crisis (Hosteltur, 2012). At the beginning of the economic crisis, this sector was not as badly affected as other sectors such as the building sector. However, in 2008 the first recession results in the Spanish tourist industry were proved. The Spanish tourism depends on two different types of tourism, the national and the international tourism. The national tourism decreased quickly due to the loss of purchasing power of the Spanish population, and the decrease of incomes per family. On the other hand, the international tourism has been decreasing slower. The international tourism depends on the situation of the other countries therefore if the situation of the others countries is bad, it will aggravate the Spanish situation. However, here we are not going to talk about economic issues because is not our main purpose. We are going to talk about the behavior that some companies inside the tourism sector have adopted to survive the economic crisis and how these changes have affected the brand value of the company.

Since 2008, tourism sector is living the most important transformation in 50 years. The crisis has produced changes in the customer behaviour and the tourism sector has to be prepared for these changes and for the new needs of the customers. During the economic crisis these changes can mean cutting prices without reduce the quality of the service or affront the decrease of the visits, but this task is not an available option for all the companies. In order to this situation, the small hotels are the most vulnerable in front of the crisis and some of them have already disappeared, while the big hotels have adopted a new position to affront this time of crisis. This transformation is accelerating the process of business concentrations in the different tourism subsectors such as the hotel subsector. These concentrations can adopt different ways: Mergers, acquisitions, joint-ventures, strategic alliances, etc.

According to Price Waterhouse Coopers (PwC), M&A’s are going to increase in the next years in Spain. Otherwise, we can already find a lot of examples either in Spain and abroad. Some of them are: Iberia with British Airways, NH with Hesperia, AC with Marriott, Sol Meliá with Wyndham, American Express-Barceló Viajes, Öger Tours by Thomas Cook, etc.

Companies are aware of how it is important to join with others to grow in the market share, and become more competitive. M&A’s can be a solution to affront the difficult time that the country is living better.
1.2 Problem discussion

M&As has been the solution for many companies to affront the crisis situation, seen by companies as an efficient and fast way to gain market share, expand into new markets and gain new competences including brand. But making an M&A does not warranty that the new firm will succeed in every objective. It is difficult to achieve all the challenges with the stakeholders. The reports from both analysts and the media are that most mergers fail, almost 70 percent of mergers fail to achieve their anticipated value. Therefore more often than not, the mergers or acquisitions end up destroying, instead of creating value for the companies involved. For this reason it is important for the companies that are assuming a merger or an acquisition to take care of some issues. An important part of the problem is that of all the complex decisions that the senior executives make before and during the process of the merger, one is mandatory and critical but often given short shrift: the branding of the new corporate entity. In many cases, the corporate brand strategy receives serious attention only after a deal is approved or the merger is announced (Ettenson & Knowles, 2006). But sometimes it may be too late, especially if employee morale, customer satisfaction and the new entity’s share price have already plunged. The corporate brand strategy is an issue that requires a special attention if the companies want to make a successful merger or acquisition before, during and after the merger or the acquisition. This study analyzes the different aspects that the companies should have in mind during the branding process.

1.3 Problem formulation

How do mergers and acquisitions have an impact on the brand value during the economic crisis?

1.4 Purpose

The purpose of this thesis is to describe M&A during the economic crisis in Spain and analyze the impact of these unions on the corporate brand strategy and on the brand value of the companies.

1.5 Delimitations

In our thesis, we focused on two hotel companies: NH Hoteles and Hesperia. Finding information about NH Hoteles was not too difficult. We could check all the annual reports where we found some interesting accounting data to analyze the situation of NH Hoteles during some years. Moreover, we had the opportunity to interview an employee who is working in the marketing department of NH Hoteles. The problem was when we tried to seek some information about Hesperia before the merger. In internet was almost impossible to find something, it seems like if Hesperia was not there before. Likewise, we tried to contact
with the marketing department of Hesperia, but it was not possible because now NH Hoteles handles everything about Hesperia.

2. Theoretical framework

In this chapter, we present the theoretical framework useful for this thesis. Every theory presented in this part is important to understand better our analysis and to answer to the purpose formulated previously. We collect some theories about M&A, brand building, rebranding after M&A, portfolio after M&A and so on.

2.1 What is a brand and brand value

For most companies, their brands are their most valuable assets. Brands generate customer loyalty and through this they build growth, profit and shareholder value. A brand is the symbol, name, design, sign, term or some combination of them that is used to distinguish the goods or services of one seller from the others competitors (Doyle and Stern, 2006). To obtain successful brands is necessary to have a product which meets the functional assets that expect the consumer and an added value, which will make the product well-know (the brand’s recognition) (Kotler and Armstrong, 2008).

According to Interbrand.com (2011), there are ten factors whose give a comprehensive framework for managing brands as well as valuing them. These factors are divided in internal and external factors. Internal factors are: clarity, commitment, protection and responsiveness.

- Clarity: clarity about target customers, customer’s insight, its values, positioning and proposition.
- Commitment: internal belief with the brand. This means receiving support in terms of time, influence, and investment.
- Protection: the security that has the brand across legal issues, propriety, scale or geographical spread, design and so on.
- Responsiveness: brand should have an ability to evolve and renew itself, respond to market changes, opportunities and challenges.

On the other hand, the external factors are: authenticity, relevance, differentiation, consistency, presence and understanding.

- Authenticity: the brand has a well-defined values and heritage. Here there are the foundations which with customers make their expectations.
- Relevance: the set of customer needs, desires, expectations and more across issues such as demographics and geographic.
- Differentiation: the fact that customers perceive a distinctive advantage from the others brands in the market.
- Consistency: the degree to which a brand is experienced.
Presence: the degree to which a brand is judged by customers, consumers and opinion formers about its features.

Understanding: consumers have an in-depth knowledge and understanding of the brand’s qualities and characteristics.

In accordance with Doyle and Stern (2006) in their book Marketing Management and Strategy, brands may generate value for companies in four ways. First, successful brands normally obtain price premiums from either consumers or resellers. Second, successful brands acquire higher market shares. Third, successful brands generate less risky and customer loyalty. Finally, successful brands offer avenues for further growth.

There are different strategies that a company can choose to focus its brand:

- **Company brand**: is the practice of using the company’s naming across all or most their products. For example, Disney includes the word "Disney" in the name of many of its products. Other examples include IBM, Virgin and Heinz.

- **Individual brand names**: This strategy contrasts with "company brand", since each product has a unique brand name and the corporate name is not promoted to the consumer. The advantage of this strategy is that each product has an image and identity that is unique. Some examples are: Procter & Gamble and Unilever.

- **Company and individual brand**: this is a middle way between "company brand" and "individual brand names". For example Danone (Danone Griego, Danone Original, Danone Vitalinea, Danone Danissimo and so on.) uses both the name of the company and another name to distinguish the products from the others.

- **Range branding**: some companies group families of products under separate range names. We can find it for example in the food sector (Green Giant, Campbell, Heinz, Whiskas and so on).

### 2.2 How to obtain a brand?

A company can choose two alternatives to obtain a brand: it can develop or build one, or it can acquire one, through licensing or acquiring the companies that possess it. Here, it will talk about mergers too, since acquisitions and mergers are often used as though they were synonymous (M&A= Mergers & Acquisitions).

#### 2.2.1 Brand building

We explain this section because although our main issue is the brand value after M&A, NH Hoteles, the company of our study, built a lot of brands before the economic crisis.

To obtain a successful brand, management must start with a product which has the functional needs required by customers. It has to be a quality product, since quality is the first necessary point to obtain a successful brand. Then, it must get an attractive presentation to differentiate the product from
the competitors as well as must be built the brand personality (using marketing mix). Third, it must seek the competitive advantage by augmenting the brand with supplementary products and services to delight customers, some examples of them may be guarantees, financial support, delivery and installation and so on. The brand-building process starts when the customers try the brand. If this process has done properly, the customer will think to buy the product again. To get trial and repeat purchase, however, requires triggering mechanisms. These mechanisms are the tasks of advertising, selling, promotion, etc. With consistent communications, quality, satisfactory usage experience, brand awareness, confidence and brand equity are built (Doyle and Stern, 2006).

**2.2.2 Types of takeovers**

In accordance with the business dictionary, a takeover is the assumption of control of another firm through purchase of 51 percent or more of its voting shares or stock. In this project it will talk about two kinds of takeovers: acquisitions and merger. Firstly to start to explain these terms it is necessary understand what each one means exactly.

- Acquisition means the purchase of one firm by another.
- The combination of two or more companies, generally by offering the stockholders of one company securities in the acquiring company in exchange for the surrender of their stock.

Mergers and acquisitions (M&A) have a great importance in the business world. National and International acquisition and mergers have become important tools to grow in size and to go international.

According Interbrand.com database (2011), among the top 20 brands with the strongest growth in brand value, there are brands that make use of acquisitions such as IBM, Google, HP, Oracle and Phillips. Even so, it is true that the outcome of these strategies is highly uncertain. It has been estimated that more than half of them are financial failures. To guide to successful organisational marriage between two brands, everything has to be examined: Initial target identification, decision-making stage, the merger announcement, predicting employee response and so on.

**2.3 Advantages and disadvantages of building a new brand**

Nowadays it is really difficult to find a good new product idea. Less than one in a hundred new product ideas gets a satisfactory profit in the market. Further, even with a good product is really complicate to build a successful brand which is in the minds of consumers. This requires a long time and to assume high risk (Doyle and Stern, 2006). Studies show clearly the high failure rate which occurs in new brand development. By developing a new brand is necessary a substantial initial investment. At the beginning ones never knows if it will be profitable or not, thereby the company must take a high risk which many companies are unwilling to take. If they choose taking this high risk, they will have to spend a long time to perceive customer recognition and equity, and perhaps, the new brand will never be viable. It takes years to
develop a brand image and augmented it with support services and product enhancements. Such investments do not have a pay-off in increased short-term sales and profits. Another disadvantage for investing in brands is that the resulting assets do not appear on the balance sheet. Furthermore, it will reduce the return on shareholder funds to increase the investment. Even so, some advantages can be found. If a company gets to build a new brand, it will have complete and perpetual control over brand development, deciding all the aspects of the brand. The initial investment will be rewarded and the firm will be able to enjoy of brand equity fully.

2.4 Advantages and disadvantages of M&A

When two companies merge their corporate identities either through the process of merger or acquisition, they create a new entity which offers them a unique opportunity in developing an attractive and distinctive positioning strategy (Balmer & Dinnie, 1999). According to Friedrich Trautwein (1990), the theories of merger motives can be classified into seven groups: Efficiency theory, Monopoly theory, Raider theory, Valuation theory, Empire building theory, Process theory and Disturbance theory. Here are explained the theories that seem most relevant:

Efficiency theory:

This theory thinks that mergers are created to achieve synergies. A synergy, according to Doyle and Stern (2006) is “resources and capabilities that complement and reinforce one another”. Synergies can benefit the company by accelerating innovation, increasing sales of current products, decreasing costs or reducing the levels of investment needed to run the business. It can be distinguished three types of synergies:

- Financial synergies: result in lower costs of capital. There are three ways to achieve this:
  - Investing in unrelated business to lower the systematic risk of a company's investment portfolio
  - Increasing the company's size to access to cheaper capital
  - Establishing an internal capital market to allocate capital more efficiently

- Operational synergies: may lower the cost of the involved business units or may enable the company to offer unique products and services.

- Managerial synergies are realized when the bidder has superior planning and monitoring abilities that benefit the targets performance.

Monopoly theory:
Monopoly theory views mergers to achieve market power. It supports that a merger is a way of limiting competition in more than one market, deterring potential entrants from its markets.

**Valuating theory:**

This supports managers who have better information about the target's value than the stock market and who have a better position in the market, are who planned and executed the mergers.

**Disturbance theory:**

It has not be forgotten that economic disturbances and the environmental change cause changes in individual expectations and increase the general level of uncertainty. Thereby, they change the ordering of expectations.

Besides these advantages, Doyle and Stern (2006) add a few more. Firstly, M&A are a quick route to obtain a brand portfolio. Secondly, acquisitions expenditures are written off directly on the balance sheet instead be written off against profits. Third, while the cash flow implications of internal development and acquisitions may be identical in a firm that tries to build a brand and in a firm that acquire a new brand, the former will appear to reduce the return on shareholder funds and the latter to increase it. These advantages of speed and good accounting conventions have made acquisitions an attractive route.

But, of course, not all are advantages, it is studied that more than half of them are financial failures. Four problems have suffered many of the companies that have used acquisition strategies:

- Excessive gearing: many companies are too much optimistic and by finance acquisitions, they borrow high levels of capital. Thus, when their benefits are not those that they were waiting, these companies become vulnerable.
- Incoherent brand portfolios: sometimes a company may have different brand names in different countries, conflicting positioning strategies and no synergies with the existing business.
- Inadequate expertise: the acquirer can lack the necessary knowledge to realize about the real value of the acquisition.
- Pay too much: normally they pay too much to acquire a business.

Furthermore, according to Ron Zhiss (2011), when it is talked about building brand value, there are three common mistakes made by mergers and acquisition:

- Prioritizing shareholders over customers: Sometimes some companies forget that the main goal is the customer value. They prefer focusing in enhancing shareholder value, and when it treats about two companies this can be a problem because each one is searching its own revenue. It happened with Cadbury and Kraft, one year and a half after merger, it was separated into two distinct businesses.
The impact of the mergers and acquisitions on brand value in the hotel sector during the economic crisis

- Balancing Scale and Focus: mergers and acquisitions are usually initiated to gain scale advantages, but as often occurs the risks from a merger overtake the illusive scale advantages.
- Using acquisitions as a substitute for organic growth: some companies view acquisitions and mergers to drive growth, but these schemes usually fail to generate sustained increases in value. Companies with a successful organic growth include Zara, IKEA and Danone, and they are focusing on brand value, rather than trying to buy growth.

2.4.1 How mergers and acquisitions can enhance brand value?

Ron Zhiss (2011) has created a checklist for merger and acquisition success. These factors include authenticity, relevance, differentiation, consistency, presence and understanding.

- Authenticity: the brand has a well-defined values and heritage. Here there are the foundations which with customers make their expectations.
- Relevance: the set of customer needs, desires, expectations and more across issues such as demographics and geographic.
- Differentiation: the fact that customers perceive a distinctive advantage from the others brands in the market.
- Consistency: the degree to which a brand is experienced.
- Presence: the degree to which a brand is judged by customers, consumers and opinion formers about its features.
- Understanding: not only the customers recognize the brand, there is also an in-depth knowledge and appreciation of its distinctive qualities.

2.5 Conditions under which it is better to build a new brand or it is better to merge or acquire one

After see the advantages and disadvantages of building a new brand or M&A submitted above, it seems that building a new brand is not profitable, but acquiring brands rather than building them sometimes makes sense.

To know which one of these two routes is best, it is necessary keep in mind some conditions: market attractiveness, relative cost of acquisitions, acquisition’s potential synergy, brand’s strategic opportunity and corporate situation (Doyle and Stern, 2006).

For example, looking the following table it can be seen that when a market is attractive and high-growth, without a high strength of competitors, building a new brand can be a good idea, since the company in this stage has normally potentially strong brands and inside the company there are strong marketing and development skills.

<table>
<thead>
<tr>
<th>Build</th>
<th>Buy</th>
</tr>
</thead>
</table>
The impact of the mergers and acquisitions on brand value in the hotel sector during the economic crisis

<table>
<thead>
<tr>
<th>Market attractiveness</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Market growth</td>
<td>High</td>
</tr>
<tr>
<td>Strength of competitors</td>
<td>Weak</td>
</tr>
<tr>
<td>Retailer power</td>
<td>Weak</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Relative cost of acquisitions</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry attractiveness</td>
<td>High</td>
</tr>
<tr>
<td>Valuation of company</td>
<td>Full</td>
</tr>
<tr>
<td>Restructuring potential</td>
<td>Low</td>
</tr>
<tr>
<td>Brand’s potential</td>
<td>Realised</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Acquisition’s potential synergy</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost reduction potential</td>
<td>Low</td>
</tr>
<tr>
<td>Marketing competence</td>
<td>Unchanged</td>
</tr>
<tr>
<td>Complementary</td>
<td>Low</td>
</tr>
<tr>
<td>Relevant management expertise</td>
<td>Low</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Brand’s strategic opportunity</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Product performance</td>
<td>Breakthrough</td>
</tr>
<tr>
<td>Positioning concept</td>
<td>New</td>
</tr>
<tr>
<td>Market opportunity</td>
<td>High</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Corporate situation</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth potential</td>
<td>High</td>
</tr>
<tr>
<td>Cash situation</td>
<td>Average</td>
</tr>
<tr>
<td>Marketing/R&amp;D capability</td>
<td>Strong</td>
</tr>
</tbody>
</table>

Figure 2.1: Buying versus building brands

Although all these theories are necessary to understand in a better way the purpose of this thesis, now the theory will more focused on the main purpose: rebranding after M&As.

2.6 Different kinds of M&A

The Federal Trade Commission classified M&A’s into three categories: horizontal, vertical and conglomerate (McClure, 2011). Although is made a brief explication of these kinds of M&A’s, this paper only considers the horizontal mergers.

- Horizontal merger: is a merger usually between two companies in the same business sector, thus these two companies are in direct competition and share the same product lines and markets. In this case synergy can obtained through many forms including such as; increased market share, cost savings and exploring new market opportunities. According to UNCTAD (2006) horizontal M&A’s are approximately 80 per cent of the total M&A’s transactions.
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- Vertical merger: is the purchase of supplier of a business. It has as main goal reducing overhead cost of operations and economy of scale.
- Conglomerate: the merger is between two irrelevant companies, there is a whole host of different mergers. An objective may be for example diversification of capital investment.

2.7 The post M&A portfolio

A portfolio is “a set of brands owned by one company” (Riezebos, 2003). It is important manage well the brand portfolio because is a strategic issue that will have a profound and permanent impact on the outcome and because it will help to have a sustainable competitive advantage, therefore it is necessary to find a strategic equilibrium of brands in a portfolio (Chailan, 2008). “Successful business mergers demand successful brand mergers. If they are to succeed, managers need to be aware that there are different types of mergers and strategies and to identity the one that will work best” (Basu, 2002). This is necessary to create the basis for superior customer value and competitive differentiation for strategic advantage.

When analyzing the brand portfolio, must be answered these questions: “how many brands are necessary in order to obtain balanced management?”, “what is the impact on brand portfolio policy of product categories, markets, or globalization?”, and, “what is the best way to organise the relationships between brands?” (Chailan, 2008). In the same way, Pierce and Moukanas (2002) suggest that it is important to settle means of inventorying, classifying and grouping the existing brands in a portfolio

Adopting a brand portfolio:

On the one hand, Chailan (2008) in his analyze suggests that a company has to follow three steps after M&A’s. These are: brand accumulation, brand portfolio reformation, and developing a model based on a structured brand grouping. Furthermore, in the process of building the new portfolio the time and the experiences are involved as well.

- Brand accumulation: This phase addresses the needs created by market segmentation. The company wants to respond in the best possible way to customer expectations either launching or buying new brands.
- Brand portfolio reformation: In this period companies try to limit the number of brands and reorganize the brand group developed in the first step. This phase is a consequence of the pressure from different company stakeholders. Here, the criteria for brand selection and coordination of the brands are established.
- Creation of a development model based on a structured brand grouping. Finally, the last phase, the purpose is to establish groups of brands that will become a permanent source of sustainable competitive advantage. The key skills that allow the company to make the most of an organised ensemble of brands have been built up.

On the other hand, According to Basu (2006), there are four different approaches to merging brands:
Streamline: involves choosing a form that presents little resistance to flow, increasing speed and ease of movement. It consists in removing obstacles that create turbulence and in this way efficiency is enhanced. Brands are seen as ways of fulfilling expanded potential. Brand movement decisions or brand elimination depend on desired synergies at the supply-end, such as efficiency, economies of scale, added distribution power, and advertising related advantages. It is possible that brands require some changes, adaptations and so on, always with the challenge of developing the most efficient flow, using the combined resources of the merged firm. Key advantages of streamlining are speed in arriving at the desired portfolio and cost savings within a reasonable time. The problem here is loss of customer franchise for brand that have been repositioned or eliminated from the merged portfolio. Removing duplicated overheads the business has less cost and it can invest in marketing.

Rationalizing: this is an extreme form of streamlining. It involves creating a single global brand, reducing a lot of brands. Such global brand includes the values of all the segments, ones that rise above cultural or regional preferences. These brands do not require much adaption.

Consolidation: This approach takes a more customer-driven view of brand mergers. The merged firm eliminates overlaps and adds strength by leveraging the whole portfolio. The new company considers the same range of customers that the two companies had before merged with expanded opportunity for market coverage. As an advantage is the customer retention and the continuation good relationships with trade channels that existed prior to the merger. However, as disadvantages are the risk of diluting the overall corporate purpose, the chasing market-share growth over profitability, to have more or less the similar products, and inadequate sharing of knowledge across the firm.

Reconfiguring: it involves changing the organizational structure, choosing other target customers, and movement towards new technologies. It discovers a new way of thinking about the business of the merged firm. To have the same points of views about brands mergers may be difficult.

2.8 Rebranding after M&A

Mergers and Acquisitions have become a common strategy for many companies searching rapid growth and thereby enhanced value (Vu, D.A., Shi, Y., & Hanby T., 2009). When M&A’s are carried out, the companies must think about the brand name. This practice carries a high level of reputation risk as well as being a very costly exercise by companies. Changing a brand is not so easy. Strong brands are built through many years of sustained investment; changing it, those years of effort can be seriously damaged as well as the equity of the brand (Muzellec, L., & Lambkin, M., 2006). But there are companies that do not care a lot about the new brand name. Sometimes, only after a deal is approved or the merger is announced, the corporate brand strategy receives serious attention. The problem is that if they do it like this, it may be too late, especially if employee morale, customer satisfaction and the new entity’s share price have already plunged.
According to Richard Ettenson and Jonathan Knowles there are ten different possibilities for branding a merger. These ten strategies can be grouped into four main categories that communicate fundamentally different things to customers, employees and investors. They are: “backing the stronger horse”, “the best of both”, “different in kind”, and “business as usual”.

**Figure 2.2: Different Strategies for Branding a Merger**  
*Source: MIT Sloan, Management Review*

- **Backing the stronger horse**: this is the most common strategy. They adopt the stronger brand, the name and symbol of the lead company. Perhaps is the most common strategy because the benefits to scale and presence can best be achieved through the adoption of a single, well-known, unified identity across the merged companies. Another advantage might be the benefits that the employees and customers of the less prestigious brand achieve after the merger with a company with a stronger reputation.

  But, advantages are not everything. This strategy means to have a winner firm and a loser firm. For the employees can be difficult to adapt to the new company because they need to learn about the new company’s culture, furthermore such workers usually report that they feel less valued and more vulnerable after the merger. Customers are also affected.

  The second strategy in this category has an advantage over strategy 1 (which one has been explained until now) since it can reduce the severity of the winner/loser dynamic; in this case sometimes is not clear who actually won in the deal. Lead company workers may feel disenfranchised as they wonder how the target firm achieved such lofty status.
There is a third strategy; this is to share the name of both companies, the lead company and the target company in a given period, one to two years normally. After this time, the new firm takes the name and symbol of the strongest company, typically the lead company. It is a way to maintain a sense of identity and pride for each organization’s employees. The strategy also permits to the weaker brand to be absorbed gradually by the stronger brand. However, this strategy involves significant costs for the two rebranding, first for the transition period and then for the eventual identity.

Finally, the fourth strategy in this category involves adopting the corporate name of one of the companies but adding a new symbol and logotype. It aims create a new visual identity for a well-known and recognized brand that signals a fresh beginning for the company.

- The best of both: this is characterized by the best part of both, the lead company and the target company. Each company is contributing significantly to the future of the merged entity. The two companies are moving ahead together to share a combined future. Here, it is found the fifth strategy. One of the benefits is that both sets of employees feel equal and valued. The challenge for managements is differentiate and define the new entity’s values and identity, thing that is quite difficult.
- The sixth strategy involves combining the names of both companies but adopting a new symbol and logotype to signal significant change and a new vision. The new symbol means a new vision, culture and future, but with a familiar perspective since the customers and employees still feeling in the same company. The new symbol helps to break with the past.
- Seventh strategy, this strategy combines the name of a company and the symbol of the other. It is a way of communicating a new perspective and a shared future keeping in mind both companies. Finally in this category, the eighth strategy involves one firm acting as an endorser partner of the visual identity of the other corporation. It aims add credibility for the endorsing brand or prestige to the target brand. One disadvantage in this theory is that it can lead to brand dilution or brand confusion.

- Different in kind: this means create a different corporate brand. Here the merger is a completely new vision and direction, for this reason is the strategy that needs more work and dedication. Furthermore, it is the most risky strategy
- Business as usual: as says the name of this tenth strategy, business continues as usual. Employees of both companies maintain their culture and known-how. About the customers, they continue like always, they are comforted by the familiar. But one problem might be that if customers do not see too many changes, they could question the M&A, and the investment part could think that M&A perhaps does not add value.

2.9 Innovation
To conclude the theoretical part we want to talk about innovation because is a main point in the NH Hotels and Hesperia strategy. They use the innovation in all their brands to enhance their value and recognition.

The innovation concept and new service developments are key concepts to assure growth for every industry but especially for those industries where markets are saturated and clients choose products and services all over the world, such as in tourism (Peters & Pikkemaat, 2005). According to Novelli, Schmitz, and Spencer (2006), we can distinguish four types of tourism innovation:

*Product innovations*

The product innovation is the development of new products, changes in design of established products, or use of new materials or components in the manufacture of established products (Policy Studies Institute, 2010). This definition considers a product innovation such as a new or an altered product. Inside this type of innovation we consider the service innovations and their attributes also. The strategy that the companies use to develop a product innovation is a master plan that conducts your business’s new product efforts. It is a part of a business strategy, and deals particularly with new products and new services. This type of innovation means operational, action-specific strategies that include defined objectives (R.Cooper & S.Edgett, 2009).

*Processes innovations*

Change and development processes are central to such organizational phenomena as innovation. There are two variants of process innovations: internal or external innovations. They could involve direct or indirect contact with customers. The most common process innovation is the operational processes (M.Vila, C.Enz and G.Costa, 2011). The process innovation may be particularly useful or suitable for small companies, since by this means they can share in advanced technology developed by larger firms. The limitation of depending upon investments in process innovation, however, is that any competitor can easily follow suit, removing the initial advantage gained from the investment.

*Knowledge of the market*

The market knowledge is useful to produce innovation. The most frequent market knowledge innovation that the hotels carry out is the use of new sales channels, followed by communications improvements. The hotel chains that innovate in the area of market knowledge tend to be hotels located at holidays destinations with a medium level of innovation overall and their innovation is measured by looking at sales increases and improvements in quality (M.Vila, C.Enz and G.Costa, 2011).

*Management innovations*
The management innovation is the implementation of new management practices, processes and structures that symbolize a significant departure from existing norms. It has changed the way many functions and activities work in large companies and organizations.

Some management innovations such as quality management, innovation in human resources, purchasing management, organizational structure, and environment impact are used in urban and holidays hotels such as NH and Hesperia (M.Vila, C.Enz and G.Costa, 2011).

3. Methodology

This thesis tried to analyze the impact of the merger between NH and Hesperia over their respective brands. The methodology is an essential part in the research work relevant information need to be provided to the readers therefore reliable data is needed. In this section will be explained how the primary and secondary data has been collected therefore will be explained how the research work has been carried out. A detailed description of the research methodology is explained below.

3.1 The research methods

3.1.1 Deductive vs inductive

Reasoning is a process of thought that produce a conclusions from assertions, percepts or thoughts. Two main approaches of reasoning exist: the inductive and the deductive method. On one hand, inductive reasoning moves from the particular to the general, from a set of a pattern that represents some degree of order among all the given events (Earl, 1989). Induction is the research process whereby one generalizes through a limited number of examples, observations or a group of people in order to find a description that applies to them all, consequently the data collected is analyzed first to draw conclusions (Tomic, 1995). On the other hand, the deductive reasoning moves from the general to the particular. Deductive competence explains what is analyzed in carrying out deductions. By definitions valid conclusions must be given by deductive process because their premises are true (Laird, 1999). It moves from a pattern that might be logically or theoretically expected to observations that test whether the expected patter actually occurs (Earl, 1989). It is a research based on the ideas of a theory or a conclusion already established. The conclusion follows from a set of premises or hypotheses. In this study the theoretical pattern was build before to collect data. The data collected will be used to analyze the relation of the merger between NH Hoteles and Hesperia studied with the theories studied in the theoretical framework. Based in this theory, the method used moves from the general to the particular therefore it can be concluded that the method that we have used is the deductive method.
3.1.2 Exploratory, descriptive and causal research

To do this study we have some information needed that can be found by doing marketing researches. The way to make the research will depend on the kind of information that is required. There are three different research designs: exploratory, descriptive and causal research.

**Exploratory research**

The major emphasis on exploratory research is to collect preliminary information such as ideas and insights that will help to define the main problem, developing hypotheses, gaining familiarity with a problem or opportunity or to provide insights on how to do more causal research. At the moment of this research, almost anything is known about the matter of the project therefore this kind of research is appropriate for any problem about which little is known. The researcher during the exploratory research will start to familiarize with the topic proposed (Brown & Suter, 2008). This approach normally occurs when the researcher examines a new interest or when the subject of study itself is relatively new (Earl, 1989). Exploratory research can be made through literature searches, usual interviews, focus group, case analyses or consultations with experts in the field. We have used this research design to explore the merger case between Hesperia and NH through a depth interview with the NH Hoteles marketing department, and to explore the models and theories used in this study through literature searches as well as to explore secondary data about the companies in which we are interested.

**Descriptive research**

The descriptive research has the objective to describe data that has been collected about events, populations or a phenomenon being studied. Two different kind of descriptive research can be found: Longitudinal and cross-sectional. The longitudinal design generally takes the form of a sample of respondents who are studied during a period (from few months to few years). These kinds of studies are usually done through a panel where the respondents belong to a defined target population chosen for the study. The cross-sectional design is most common for marketing researches. This type of research is done during just one stage and consists of a sample of the population of interest. The main advantage of this type of descriptive research is that it gives a good overall picture of the position at a given time (Brown & Suter, 2008). This type of research has been used to describe the data found during the exploratory research.

**Causal research**

In research, we can never be sure that a particular variable (X) influences another one (Y), but a causal design seeks to establish causations as far as possible by employing controls and conditions under which we can state with reasonable confidence whether or not a variable is affected by another one (Nargundkar, 2002). In causal research, the emphasis is on specific hypotheses about cause-and-effect
relationships (Kotler & Armstrong, 2008). If the objective of the research is to determine which variable is causing a certain behavior, if exists a relationship between variables, causal research should be used. Causal research differ from descriptive research in their greater probability of establish causality. We have uses this type of research to determine how has been the influence of the financial crisis among the merger between NH and Hesperia, and to determine if this merges has affected to the brand value of NH positive or negatively.

![Diagram](image)

**Figure 3.1: The relationship among research design.**  
*Source: MR Student Edition. Tom Brown & Tracy Suter, 2008*

### 3.2 Qualitative versus quantitative research

Action research process is as a spiral of activity: plan, act, observe and reflect (Kemmis and McTaggart, 1988). When conducting a research process, two types of approaches can be used: qualitative and quantitative. Different kind of research –qualitative and quantitative- requires different analytic methods and each kind of data is useful for answering certain kinds of questions, but analyzing is always the same thing: The search for patterns in data and for ideas that help explain why those patterns are there in the first place (Russell, 2000).

#### 3.2.1 Qualitative research

The first method to collect and analyze empirical data is the qualitative method. Qualitative research seeks to know why people behave as they do: their knowledge, attitudes, motivations, inspirations, culture or lifestyle and the use of this method has as a main objective observing, listening and interpreting therefore this method will be used during the exploratory research. Qualitative data is defined as unstructured information, therefore is appreciated for its flexibility. It can be collected by in-depth interviews or focus group. This kind of research is said to be more subjective since different researchers may reach different conclusions based on the same interview (Zikmund, Babin and Carr, 2012).

Qualitative research methods are methods for the collection, analysis and interpretation of data on phenomena that are not easily reduced to numbers or that might be destroyed by any attempt to do so (Bradley, 1997).
Focus group

The primary purpose of the focus group is exploratory. A focus group is a form of qualitative research that meets a small number of people, from 8 to 12 individuals, for an in-depth discussion about the topic of interest. The group should be small to get that the people feel free to explain its thinking and the people are chosen to represent a cross section of the population having an interest or stake in the area to be studied. The meeting is run by a facilitator who has to be well trained and very familiar with the underlying goals of the focus group because he can significantly influence the nature of the discussion. This form of collecting data remains one of the most insightful and valuable ways of getting a true understanding of the main factors of the study (Goeldner & Ritchie, 2009).

Survey method
The survey method, also frequently referred to as the questionnaire technique, gets information by asking questions which can be opened or closed answer. This method includes factual surveys, opinion surveys or interpretative surveys which can be conducted by personal interview, mail or telephone techniques. The factual surveys are the most beneficial and tend to produce excellent results, however all finding are still subject to certain errors, such as errors of memory and ability to generalize or the desire to make a good impression. The opinion surveys are surveys in which the individual has to express an opinion or make an evaluation or appraisal. These kinds of surveys tend to produce excellent results if they are properly constructed. Finally, the interpretive surveys the respondent acts as an interpreter as well as a reporter. The kind of questions asked in interpretive surveys is why? Normally for the respondents is always easier to respond what than why (Goeldner & Ritchie, 2009).

**In-depth interview**

Interview seeks to achieve the same objective than the focus group but here the dynamic is different. In-depth interviews consist in an individual interview with opened answers. Personal interviewing takes two forms – individual and group interviewing. Individual interviewing involves talking with people in their homes or offices, on the street, or in shopping malls. Such interviewing is flexible. Trained interviewers can guide interviews, explain difficult questions, and explore issues as the situation requires (Kotler and Armstrong, 2008). The interview can be made by a personal interview, mail or telephone techniques. The personal interview is always the best way to make the interview because they are much more flexible than the other two. The interviews in this research work will be made by telephone techniques since the first option is not possible to achieve. The telephone interviews are usually conducted much more rapidly and at less cost than are personal interviews therefore speed and low cost tend to be the primary advantages of telephone interviews (Goeldner & Ritchie, 2009).

**3.2.2 Quantitative research**

The second method to collect and analyze empirical data is the quantitative method. The quantitative research consists on measuring concepts with scales that either directly or indirectly provides numeric values. The numeric values can then be used in statistical computations and hypothesis testing therefore this process involves comparing numbers in some way (Zikmund, Babin and Carr, 2012). The data collected in a quantitative research is structured and objective. The quantitative research is useful in a particular issue, after to pose hypotheses to verify if is true. This type of data is collected during a descriptive or a causal research designs. Quantitative data consist on all kind of data that can be a product of all research strategies. It can range from simple counts such as the frequency of rates to more complex data such as test scores, prices or rental costs (Saunders, Lewis and Thornhill, 1997). In this approach researchers are very clear about their objective of study. The study is designed before the data collection. This type of approach involves some tools for data collection e.g. questionnaires or equipments (Gorard, 2001).
3.2.3 Conclusion

Gilmore and Carson (1996,) advocate:"Qualitative techniques are highly appropriate for marketing research in the services industry, given the dynamic nature of the service delivery and they mostly occur through human interaction." However, for this research study qualitative and quantitative techniques have been used. During the exploratory research design qualitative data was collected, such as articles and interviews. On the other hand quantitative data has been used during the descriptive and causal research design such as the annual results of NH Hoteles between 2005 and 2011.

3.3 Primary and secondary data

The research plan can be achieved by two types of data: Secondary data and primary data. Cross analysis of primary and secondary data will help to draw conclusions for the research work.
3.3.1 Secondary data: Web and literature search

The secondary data consists of information that already exists somewhere because it has been collected for another purpose. It is available in the library, internet or other such storage area of secondary data (Kotler & Armstrong, 2008). The secondary data is generally free or available at low cost; it is cheaper than the primary data because it does not need to be collected and can also be found much more quickly than the primary data.

Attention needs to be paid to the secondary data's limitations. Many times the information does not fit the problem for which you need information. Another problem is timeliness; many secondary data become outdated (Goeldner & Ritchie, 2009). The secondary data presented in our bachelor thesis has been collected through the database from Halmstad University library (internet and books) and other scientific articles from the Hotels studied such as the annual reports concerning the corporate responsibility of NH Hoteles from 2005 to 2011. In these reports we found information about accounting, finance, new brands, strategies developed, and so on which have been useful to understand in a better way this firm year per year.

For our study, recent articles were needed, the secondary data found have helped us to make the analysis and be able to draw conclusions.

3.3.2 Primary data: Interview

Primary data consist of information collected for the specific purpose at hand. The primary data should meet these adjectives: relevant, accurate, current and unbiased (Kotler & Armstrong, 2008). The primary data is necessary to be collected when there is no secondary data available.

Attention needs to be paid to the primary data's limitation as well. The data collected could be subjective or biased and the price to acquire the primary data could be too expensive. There are three basic ways to obtain primary data: Surveys, observations and experiments (Gilligan and Hird, 1986).

The primary data used in this research work is an in-depth interview through e-mail and telephone techniques to the marketing department of NH Hoteles.

Chosen respondent

In this study, we conducted the interview with a person belonging to the marketing department of NH hotels.

We chose NH Hoteles because is one of the biggest and more innovative hotel chain in Spain, and it carried out a merger with Hesperia in 2009, once the economic crisis had started.

Through the interview, we gathered some useful information to analyze the impact of the merger between these hotels on the brand value and be able to study the situation of other Spanish companies in the same circumstances.
Interview method

Interview can be done by e-mail, telephone or face-to-face. In our case, face-to-face was not available; therefore we used e-mail and telephone methods. The first contact was by telephone, to explain what our purpose of this study was, to explain why did we choose NH Hoteles and why were we interested to talk with them. The second contact was by telephone as well, that time, we presented our questions (see appendix), and they responded to us. The third and the fourth contact were by e-mail, to clarify some issues that were not clear.

3.4 Validity and reliability

Validity and reliability are the criteria upon a research work have to be focused. The veracity and credibility of research finding are important in all conclusions drawn. The methods to achieve these qualities will vary depending on the type of research.

3.4.1 Validity

Validity underpins the entire research process and refers to the degree to which an instrument measures what it is supposed to be measuring (Cormack, 2000). A study will be valid only if the results match with to the reality. Yin (1994), gives two types of validity; these are internal validity and external validity.

Internal validity consists on the truth about deduction, conclusion or supposition regarding causal relationships. External validity is needed at research design. External validity examines whether or not an observed causal relationship should be generalized to and across different measures, persons, settings and times. External validity is needed at research design (Calder, Phillips and Tybout). On one hand, we think that our thesis is valid because to obtain results and collect data we have researched through different authors from different years. Therefore, we did not take just a point of view. On the other hand, the results of the interview made match with the theories studied in the theoretical framework therefore we can affirm that the results of the interview are valid.

3.4.2 Reliability

The objective of reliability is to make the study in a way that if someone else makes the same research, then he or she finds the same results (Cormack, 2000). Reliability refers to the extent to which a variable or set of variables are consistent in what they have intended to measure. Lack of reliability refers to random or chance error. If measurement results are not reliable, it becomes more difficult and precarious to test hypotheses or to make inferences about the relations between variables in a research (Kerlinger, 1964). We think that our thesis is reliable because the results that we have found are realistic.
and they are proved by NH Hoteles. The results that we found are the same not just for the hotels that we have analyzed; these results are as well the results of other hotels in the same situation than NH Hoteles and Hesperia.

4. Empirical data

In this chapter the data collected for this thesis, will be presented. For a better understanding of this chapter secondary and primary data has been collected. To develop the primary data, the information has been taken from NH Hoteles (Marketing departme... through a personal interview.

4.1 Interview

The person interviewed for our study was Catalina Sánchez Neira, who was incorporated to the marketing department of NH Hotels in 2009. She has been working since 2009 in the brand strategy department and all the actions related with the good profit of the NH Hoteles brand.
As we have explained in the methodology, we used two different ways to make the interview: e-mail and telephonic techniques. Almost all the interview was made by telephone while only some details were answered by e-mail. Therefore, we cannot attach the answers that we got in the following questions:

How has the merger between Hesperia and NH Hoteles enhanced the brand value of NH?
Have the employees been affected by the merger?
Which are the main values of NH brand? Have they changed after the merger?
Is Hesperia following the same innovations strategies than NH Hoteles?
How do you see the future of NH Hoteles?
Which is the brand portfolio of NH Hoteles?
Why did not the Hesperia brand name change? Is there any change expectations?
Are the customers still demanding Hesperia services?
Have Hesperia and NH Hoteles the same target customer?

All these questions have been answered by Catalina Sánchez, but we have completed them according to the secondary data found in NH Hoteles website, and other articles to achieve a better knowledge. To a better understanding, we have divided the empirical data into different points, where it is explained the data collected (primary and secondary).
4.2 Empirical data regarding NH Hotels’ evolution from the economic perspective

NH Hoteles are one of largest hotel chains in Spain, created in 1978 by Antonio Catalán in Pamplona. Due to rapid growth in 1988 NH Hoteles were already one of the first hotel chains in Spain with institutions in Madrid, Barcelona and Zaragoza.

In 1988, COFIR S.A joined the company as a reference shareholder and it was increasing its participation in the company. Since that moment, NH Company has been a model of growing, quality and prestige. NH builds a brand and a consistent business model unknown until that moment. During the years 1996 and 1997, COFIR radically changed its strategy and started to focus on activities related to its main subsidiaries such as NH Hoteles. That is when COFIR acquired the 100% of the capital of NH Hoteles. One year later, the merger between COFIR and NH was culminated. NH Hoteles listed in the Stock Exchange with the position of COFIR (Burns, 1997). In 1998, the company began its journey toward international expansion through its expansion in Latin America while in 1999 is the year it disembarks in Europe through the acquisition of a part in Jolly Hotels. During that year, NH had already 88 hotels in the Spanish territory. This growth was confirmed by its listing on the IBEX 35 for the first time. Finally, in 1999 NH acquired a 91’5% of Sotogrande and in 2006 NH hoteles offered to buy rest of Sotogrande Hotels (Mulligan, 2006). The new century was a brilliant start for NH Company. In 2000 Krasnapolsky was acquired by NH hoteles. This merger supposed for NH hotels to acquire 168 hoteles and be present around 15 countries. For this reason, NH hoteles was at that moment the third business hotel chain in Europe (Burns, 2000). One year later, the purchase of the Chartwell (Mexican hotel chain) contributes with 14 buildings and the purchase of Astron Hotels (Germany hotel chain) contributes with 53 more buildings. In 2008, NH and Hesperia signed and accord to merge their hotels. Through this operation, NH acquired the 51 hotels of Hesperia or operated by Hesperia. These hotels go from urban hotels to sun and beach hotels. During the year 2009, NH Hoteles and HUSA signed an agreement for the creation of a cooperation platform in the acquisition sector. The new company was called Cooperama, which merged the purchases volume of the two companies. Nowadays, NH is positioned in the third place in the European ranking of business hotels. It has 400 hotels with 59,847 rooms in 25 different countries around the world.

4.2 Empirical data regarding NH hoteles’ evolution from the brand perspective

NH world, one of Spain's leading chains consists of nine different brands that make up the company. In this paragraph a brief introduction of each brand will be explained according to Catalina Sánchez.

**NH Hoteles**

The original brand is **NH Hoteles** and later eight following brands were formed from the original. The history of NH Hoteles begins in 1978, when its first establishment opens its doors.
The marketing strategy carried out by NH, apart from the constant innovation, is the relation between price/quality and the excellent location of its hotels. NH hotelés bring the theme of “Wake up to a better world”. This claim shows to the customers the optimistic outlook that the company has. This concept reflects the attitude of the brand, the products, promotions, projects and everything shared by the company. Furthermore, this theme has a relation with the compromise of NH to reduce the toxic waste produced by the hotel activity.

*Nhube*

At the beginning of the new century, NH hotelés created a new alliance with one of the most prestigious chefs in Spain, Ferràn Adrià. Thanks to this accord, NH was able to launch new brands, concepts and product innovations. One of these brands was launched in 2002 in order to support the brand experience of their customers. NH Hoteles launched a new brand called Nhube. It is an initiative that seeks to combine in a single space the lounge, the restaurant and the café-bar of the hotels (Sandulli & Chesbrough, 2011). It can be defined as a multifunction space inside the hotel that combines food, entertainment and rest. The customers can enjoy traditional yet sophisticated food at affordable prices (Vila, Enz and Costa, 2011).

*Nhow*

During the year 2006 NH Hoteles launched a new brand: Nhow. This brand is a new boutique-style brand aimed at the younger business traveler. The first Nhow hotel was inaugurated in Milan, while the second one was opened in Berlin. The Spanish company chose Milan because “the city is the capital of fashion and design, which are Nhow’s main focus” (Welch, 2007). This brand is a lifestyle brand where the target customers are exclusive young people looking for high quality and exclusive hotels. They can enjoy the hotel as soon as they enter in because of its ambience and decoration.

*NH resorts*

The same year than the inauguration of the first Nhow hotel, was launched the brand NH resorts. The NH resorts hotels were thought to enhance the leisure moments. The target customers are customers looking for a comfort vacations, high quality cuisine, relax moments, and a nice place to celebrate a special event such as a wedding, a familiar event, etc. NH Hoteles has used the theme “Hotel, sweet Hotel” in the website to advertise the NH resorts. This message shows to the customers the high level of comfort that they will enjoy in this hotels made up of luxury places, modernity and high quality products.

*Hesperia*
The main brand inside the company for our research study is Hesperia, now called “Hesperia, a part of NH Hotels”. Hesperia has more than 40 years of experience in the hotel sector. This company is formed by 7786 rooms divided into 51 hotels around Spain, Andorra, London and Isla Margarita. Hesperia hotels are urban, sun and beach and Resorts hotels. All the hotels that belong to this company have an exclusive service, and a high quality ambience to make the customers feel comfortable during their holidays. Hesperia belongs to NH Hoteles since 2009, year in which they carried out the merger between the two companies. Since the merger between NH and Hesperia, NH is the biggest urban hotel chain in Spain.

Casino de Madrid

Casino de Madrid is one of the most famous buildings in the center of Spain because of its architecture and history. It has been one of the most attractive locations to celebrate important events over 165 years. During the year 2002, NH Hoteles entered as shareholder of the Casino de Madrid and signed an accord with Paco Roncero (Head chef of the Casino de Madrid and a well-recognized chef in Spain). Paco Roncero started to collaborate with NH hoteles to improve and modernize the quality of the gastronomic offer of the hotel group.

Estado puro

Estado Puro-Las tapas de Paco Roncero is on of the latest brand innovation launched by NH hoteles with the support of Paco Roncero. Estado Puro is the result of a restaurant with a creative renovation and traditional tapas cuisine. Traditional recipes and high quality food form the basis of this brand always with the personal touch of Paco Roncero. One of the most traditional characteristic of the Spanish culture is go for a drink and some tapas; this is the reason why NH launched this brand, where Paco Roncero makes each tapa with a genuine surprise.

Elysium

Elysium is a brand created by NH Hoteles to satisfy the relax moments of the customers. This brand is based on concepts of health and comfort. It is synonymous with beauty, relaxation and the perfect moment to disconnect and search for the inner self. Elysium combines water spaces, such as hydrothermal circuits, with massages, beauty centre, and fitness. The Elysium centres combine high technology and high innovation with a customized service.

Agua de la tierra

Agua de la Tierra is the brand that NH uses for the bathroom cosmetics that the customers can find in all the hotels. This line of cosmetics is complemented with products such as citrus essences and
refreshing aromas. The purpose of NH with this brand is to make the customers feel unique when they are spending the holidays in one of NH hotels. NH Hotels implemented a new “Agua de la Tierra” line in 2010 to respect the environmental plan that the company implemented a few years ago. This line has the bottles produced using oxo-biodegradable materials to reduce their impact on the environment. The cosmetics produced by this new line will be present in more than 60,000 rooms.

4.3 Hesperia under NH ownership

Commercial policy of Hesperia and NH is underlined by concepts such as comfort, modernism and quality. Hesperia was created in 1971 and its relation with NH hotels started in 2003 when NH Hoteles made an attempt to acquire Hesperia launching the first public offer to acquire stocks of Hesperia. On the other hand, during these years Hesperia was trying to enter in the board of directors of NH hoteles, but this offer was rejected because it was considered that the entrance of Hesperia in the board of directors would be the entrance of one of the main competitors of NH hotels. The history of the merger between NH Hoteles and Hesperia started in 2007 when Jose Antonio Castro, owner of Hesperia, wanted to take control of NH Hoteles. Hesperia in 2008 had a 25% of the capital of NH Hoteles. The key year was 2009, when they signed the merger of their hotels. Due to the fusion, NH acquired the 51 hotels of Hesperia, and Hesperia listed in the board of directors of NH with a 25% of the capital of the company. The merger carried out by these two companies allows to NH enlarge its national and international presence. "Hesperia has 51 hotels in Spain, and the infrastructure to manage them," said Mr Burgio (2009). "We have 140 hotels in Spain and the infrastructure to manage them. With few extra costs, we can manage their hotels as well as ours." From 2009, Hesperia hotels have changed their brand from “Hesperia, somos hoteleros” (Hesperia, we are hoteliers) to “Hesperia, a part of NH hoteles”. The merger between these two hotel chains resulted in the creation of the biggest Spanish urban hotel group and ensures the reduction of costs and the increase of benefits.

Figure 4.1: Evolution of Hesperia brand before and after the merger.
Source: Made by the authors.

4.4 Innovation

Developing and applying new ideas that add value to a service or a product is not an easy task, particularly when hotel competitors are seeking to duplicate any innovation they detect. The resource
based view of firm differentiation argues that some businesses persistently outperform others because they are able to develop distinctive competencies (Barney, 1991). Before the merger between NH and Hesperia, the innovation was already one of the most important concepts for the two companies. These companies are characterized by the constant innovation to make easier the communication and the entertainment for their customers. Since its foundation, NH has been innovating to improve the quality of its products and services and to increase the customer satisfaction.

On the other hand, Hesperia before its merger with NH hotel was already one of the most innovative chains in the urban hotel sector in terms of technology, design, image, architecture, management and processes.

4.4.1 Empirical data regarding NH hoteles and Hesperia evolution from the innovation perspective

NH University

Since the beginning, the formation of the employees is really important for NH hoteles. For this reason was created in 1996 the NH University. This university hosts more than 15000 people and around 43000 through e-learning. There are around 300 trainers giving courses to improve the experience and the formation of the employees. This university was created for the employees and now it is shown with the theme: “Wake Up to a Better World: Wake Up to a Better Work”

NH world

NH world, the loyalty program of NH hoteles, was created in 2004. This program has as a main objective to offer advantages and discounts to the loyalty customers. Around 1,700,000 members belong to this program. In 2011 NH world starts to work in the client experience in a more personalized way creating 3 different categories. The segmentation of the market is really important for NH hoteles to be able to satisfy the target customer every moment. NH world, with these new three categories will be able to personalize the advantages obtained with the NH world card for different type of customers. The first category is the basic card, with this card, the customers are able to acquire some advantages such as earn back a 3% of their total bill in Credits. The Credits can be spent in the majority of NH hoteles and NH restaurants. The second category is NH World Attraction. In this category the customers will receive their card with a personalized style and they will be able to order an early check in and late check out without additional costs. With this card, they will earn back a 5% of their total bill in Credits. And the last category is the NH World Fascination, and it is the most exclusive card inside NH world. The members belonging to the last category have the best advantages and discounts such as a private website, free Wi-Fi and they will earn back a 7% of their total bill in Credits.
Stock Art

One of the first innovations growing the brand NH Hoteles was made in 1998: NH Stock Art. This innovation was carried out to support young painters through expositions inside the hotels. It is made up 50 artworks chosen between more than 3000 which belong to NH Hoteles. The artworks exposed inside the Stock Art are a reflection of the creative tendencies during the eighties and nineties.

Micro-segmentation

Another innovation launched by NH was the micro-segmentation. The micro-segmentation consists on personalized messages and specific communication actions aimed at segment client groups. Thanks to the e-mail marketing, the micro-segmentation options are almost limitless. The precision marketing initiate began in 2002, proposed and managed by the marketing department, with the creation of the company’s global computer system (Trollinger, 2002).

Chef alliances

One of the innovations carried out by NH hoteles and Hesperia before the merger was the “chef alliances”. NH Hoteles and Hesperia have allied themselves with well recognized chefs. This phenomenon started to be recognized few years ago around the Spanish hotels. Spain is home to a high number of Michelin star-rated chefs such as Ferràn Adrià, Paco Roncero or Santi Santamaría; this reflects the importance that Spanish culture places on gastronomy. Hesperia improved its restaurants as well as reflect the chef’s image with an alliance with Santa Santamaría, one of the most prestigious chefs in Spain, on the other hand NH hoteles in 2004, due to the accord with Ferràn Adrià launched the first Fast Good, a place created with the aim of offering quality quick-service food to meet the demands of clients who, although they do not have too much time to eat, are unwilling to settle for less healthy or inferior quality food. These alliances differentiate Hesperia and NH hoteles from local competitors and also from those in other regions where the cuisine culture is not as well-recognized as in Spain (Vila, Enz and Costa, 2011).

Environmental area

The environmental area is an important area inside a company and in the hotel industry it has been more recognized recently. NH hoteles launched its environmental area in 2007 which allows controlling the impact of its activities, products or services on the natural environment (Chan, 2009). The environmental plan of NH has as a main objective to reduce at least a 20% the energy, water and lighting consumption and a 20% of the waste produced. NH has carried up some initiatives such as the substitution of the plastic by another material, or the new line launched by the company “Agua de la Tierra” which all the cosmetics are made by respectful materials. In 2010, NH launched a new product
called Ecomeeting. It is a new concept to organize events, meetings and conventions reducing the energy, water and lighting consumption.

4.5 NH results from 2005 until 2011

In this part we want to show the evaluation that has had NH Hoteles since 2005 until 2011, to understand in a better way how has changed this company before the economic crisis, in the economic crisis and afterwards.

We will make it in two ways. First of all, we will show two graphics; one about the net profit and one about the increase EBITDA since 2005 until 2011. Then, secondly, we will talk about some happenings of these years specifically.

This table shows the net profit which is a measure of the profitability of a venture after accounting for all costs (Wikipedia).

Figure 4.2: Net Profit NH Hoteles 2005-2011
Source: Graph adapted to NH Hoteles corporate responsibility reports

In 2005 NH Hoteles had a net profit of 62,24M. In 2006, the company remained stable. The net profit increased only 0,34% due to the company had some losses with the housing revenue. 2007 was a good year, the net profit was 77,4M with one variation of 24% since the last year. On the contrary, 2008 was characterized by the beginning of the economical crisis. The net profit was 26.8M, with one variation of -65,4%. 2009 was the worst year of the economic crisis, NH Hoteles obtained -697,1M of benefits. The economic recovery was not until 2011, in 2010 the net profit was still negative.
This other table shows the increase of EBITDA. EBITDA is an acronym for earnings before interest, taxes, depreciation, and amortization (Wikipedia) which is important to see the profits that the company earns with its own activity, in this case hotel activity.

![EBITDA evolution 2005-2011](image)

**Figure 4.3: EBITDA NH Hoteles 2005-2011**

*Source: Graph adapted to NH Hoteles corporate responsibility reports*

In 2005, NH Hoteles had 260 hotels with 37851 rooms in 20 different countries, its EBITADA over the previous year was 8.5%. In 2006 the portfolio augmented in 74 hotels more. The EBITDA increased 27.2%, although the net profit was not so good, as we have seen before. In 2007, NH Hoteles had 241 hotels with 49677 rooms in 21 different countries, the EBITDA increased 59.5% over 2006. In 2008 the increased EBITDA was not so good, only 3.6%, in this year NH Hoteles was operating in 22 different countries with 345 hotels and 51591 rooms. But the worst year, as we have analyzed before with the net profit was 2009, EBITDA decreased 74.7%. Likewise, the company augmented the number of hotels in 401 due to the merger with Hesperia, but this information will be explained in detail in the next section. After 2009, EBITDA increased again, in 2010 10% over 2009 and in 2011, 15% over 2011. In 2011 NH Hoteles was in 25 different countries with 59109 rooms distributed in 400 hotels.

Now, it will be analyzed some years in detail for its importance in the course of NH Hoteles.
In this study we are analyzing the merger between NH Hoteles and Hesperia, therefore we have thought that it is interesting to know in which competitive step was Hesperia before to the merger. The next table shows a ranking with the Hotels companies who have more urban hotels in Spain. The first one is NH with 120 hotels followed by Sol Meliá with 90 urban hotels. Hesperia is in the seventh position.

![Ranking urban hotel chains Spain 2007](image)

**Figure 4.4: Ranking urban hotel chains Spain 2007**
*Source: Graph adapted of GBS Finanzas (march 2007).*

First of February of 2007, NH started to control Jolly Hotels and Framon, Italian Hotels Company. Before, Banca Intesa, Joker and NH Italy signed a statement to create Grande Jolly, which would become the Italy’s largest hotel chain. These three companies would control the 75% Jolly Hotels’ capital (51% NH, 42% Joker, and 7% Banca Intensa).

With the integration of Framon and Jolly Hotels, in 2007 NH Hotels became the leader hotels chain in the Italian market. NH University offered the necessary training and e-learning in front & back office systems, and making the new program NH Spirit to every employee.

In the following table can be seen how the M&A with Jolly Hotels and Framon augmented the number of rooms of NH during 2006-2007. In 2007, 7592 new rooms from Italy were introduced in the portfolio. The reason why EBITDA has increased 50% is due to this acquisition.
This year was characterized by the beginning of the economic crisis. Even so, NH Hotels was congratulated about its brand. The following table is about Hotels world ranking, NH Hotels is the 17th.

<table>
<thead>
<tr>
<th></th>
<th>Companies</th>
<th>Hotels</th>
<th>Rooms</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Intercontinental Hotels Group</td>
<td>4137</td>
<td>608481</td>
</tr>
<tr>
<td>2</td>
<td>Wyndham Hotel Group</td>
<td>6951</td>
<td>579219</td>
</tr>
<tr>
<td>3</td>
<td>Hilton Hotels Corporation</td>
<td>3200</td>
<td>537998</td>
</tr>
<tr>
<td>4</td>
<td>Marriott International INC.</td>
<td>3029</td>
<td>535831</td>
</tr>
<tr>
<td>5</td>
<td>Choice Hotels International</td>
<td>5577</td>
<td>453447</td>
</tr>
<tr>
<td>6</td>
<td>Best Western International</td>
<td>3944</td>
<td>300565</td>
</tr>
<tr>
<td>7</td>
<td>Starwood Hotels &amp; Resorts Worldwide INC.</td>
<td>934</td>
<td>286336</td>
</tr>
<tr>
<td>8</td>
<td>Accor</td>
<td>2038</td>
<td>261584</td>
</tr>
</tbody>
</table>
The impact of the mergers and acquisitions on brand value in the hotel sector during the economic crisis

<table>
<thead>
<tr>
<th></th>
<th>International</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>9.</td>
<td>Carlson Hotels</td>
<td>994</td>
<td>147727</td>
</tr>
<tr>
<td>10.</td>
<td>Accor North America</td>
<td>995</td>
<td>105452</td>
</tr>
<tr>
<td>17.</td>
<td>NH Hoteles</td>
<td>349</td>
<td>50825</td>
</tr>
</tbody>
</table>

Figure 4.6: Hotels world ranking
Source: Graph adapted of AH&LA/Smith Travel Research Directory of Hotel & Lodging Companies

Furthermore, according to Futurebrand (2008), NH Hoteles was the first company in giving more confidence in Spain, followed by Iberdrola, El Corte Inglés, Gamesa and Mapfre.

2009

It was the year of the merger. In the worst years of the crisis, with -697.1M of benefits, NH Hotels strengthened its national and international presence without increasing its debt. Likewise, the operation involved having Hesperia in the management board. Hesperia got the 25.09% of the shares of NH Hotels.

![Shareholders 2008](image)

Figure 4.7: Shareholders of NH 2008
Source: Graph adapted of NH Hoteles reports
The impact of the mergers and acquisitions on brand value in the hotel sector during the economic crisis

The M&A with Hesperia allowed becoming the largest hotel group in Spain, it also allowed keeping its third position of urban hotels in Europe, and it became the fifth hotel company with more importance in Europe. Hesperia added 49 hotels more in NH portfolio (45 hotels in Spain, 1 in Andorra, 1 in London, and 2 in Isla Margarita (Venezuela), and two hotels more that were still in construction.

Figure 4.8: Shareholders of NH 2009
Source: Graph adapted of NH Hoteles reports

Evoluation with the number of rooms
NH Hotels changed its slogan, the new one is: Wake Up to a better World
In 2009 was the first time that Hesperia, as a part of NH Hotels, appeared with the others brands of NH Hotels. It may be seen in the next image.

2010
Gabriele Burgio left his job like chairman and Mariano Pérez Claver was his successor. According the new president, the integration process of Hesperia was a success. It was really helpful the training that the employees received. Anyway, one of the strategic points to the next year was strengthen the communication with the employees, customers and society about Hesperia.

2011
Finally, 2011 is the recuperation year, the net profit is positive again. NH Hoteles is located in the first places about corporate reputation in the RepTrakTM Pulse 2011 Spain report. The company is in the 14th place, it has enhanced four positions since the last ranking (2010). Furthermore, it is the only touristic firm which appears in this analyze in the first 25th positions.
5. Analysis

In this part, it will be conducted a detailed analysis of the data collection studied in the previous part. This analysis consists of a progression of different parts as are followed in the theory part. It will be combined the theories explained previously with the data recollected from NH Hotels and Hesperia. It will start explaining the brand, why build a new brand or involve in a M&A, what happens with the new portfolio after M&A, is it necessary to change the name the brand after M&A, and has the M&A created value to the brand?

5.1 Brands: NH Hotels and Hesperia

The NH Hoteles brand is well known in Spain and lately also in the rest of Europe. As is possible to see in the empirical data, NH Hoteles has several awards for the work that is making through its brand. Currently, NH Hoteles is located in the 14th place in the RepTrakTM Pulse 2011 Spain report, one ranking about corporate reputation. Furthermore, NH Hoteles was the 17th in the world ranking of hotels groups and it is always one of the first brands in the list of “generating trust” in Spain. The question is: how did NH Hoteles get this good reputation? How has the brand become the most valuable asset for the company?

One of the first things that someone needs to know about a company and about what involves a brand is the vision, mission and values of it. In this case are the following:

Vision: “to enhance the time that our customers spend with us by heightening their experience and contributing to a more sustainable world”

Mission: “At NH Hoteles we are committed to offering sustainable, consistent and efficient hotel services for our customers, shareholders, partners, employees and for society in general. We aspire to lead the tourism sector in sustainable development and inspire others”.

Values: People Focus (the main asset is the people: clients, employees shareholders, and suppliers); Innovation (to anticipate the current and future needs of the customers and of a society in constant change); Environmentally Friendly (common responsibility to the development of present and future generations); Business Sense (to ensure economic viability, profitability and funding for the Company into the foreseeable future).

But these proposals are not enough if the company does not carry out completely. To achieve customer loyalty is a hard job during a long time. NH Hoteles has some tools to achieve customer loyalty. Some of them are: Stock Art which consists in supporting young painters through expositions inside the hotels; Micro-segmentation which is a technique that personalizes messages and specific communication actions aimed at segment client groups; Chef alliances, both NH Hotels and Hesperia have allied themselves with well recognized chefs; Environmental area, always controlling the impact of its activities; and Mario Vargas Llosa NH Story
Award, with a total fund of 24500€, this contest pursues to foster reading and literary creation, support current writers and help promote cultural leisure opportunities.

5.2 How to obtain a brand?

As has been seen in the theoretical part, a company can choose two different alternatives to obtain a brand: it can create a new one, or it can acquire one (what we call M&A) (Doyle and Stern, 2006).

With the NH Hoteles case is easy to discuss this because it used both alternatives. In the following lines they will be analyzed.

5.2.1 Building a new brand

The group NH has different brands for different kinds of products or services. These brands which were explained in detail in the empirical data are: NH Hoteles, Hesperia, Nhow, NH Resorts, Casino de Madrid, Estado puro, Elysium, Nhube, and Agua de la tierra. These brands that have been created by NH, the whole previous list less Hesperia, are really joined to NH Hotels. It means that is easy to sell them because are part of the main service, tourism service. For example, Nhow is a new style hotels aimed at the younger business traveller. These hotels are characterized for their fashion decoration and ambience; NH Resorts is characterized for wonderful hotels with golf courses, good cuisine, spas, etc.; Casino de Madrid is an attractive place to hold events; Elysium consists of spas and wellness centres; Nhube, different style hotels where they try to make feel the guest like at home. Guests can enjoy a chat, browse the internet, listen to music, read, eat or simply relax. And finally, Agua de la tierra that it is a bath room kit used in the bathrooms of NH hotels, it is not sold in the mass market.

Building these brands, although sure were costly, most of them are actually a classification of hotels depending on the style and the target customers. Of course, they involved a large sum of money, a large investment, but they were built when the brand NH already was well-known. NH Hoteles was created in 1978 and for example Nhube was in 2002, Nhow was built in 2006, and NH Resorts was created in 2007. Therefore, introduce these new brands to the market was easy because they are backed by NH brand.

The own building brand is beneficial for NH, because the company may control and decide about everything. Furthermore, with these new brands is easier to aim target market and specific necessities.

If all the brand names are looked carefully, we realize that some of them are formed by the NH word, for example Nhow, Nhube, and NH Resorts. This is one of the strategies about focus a brand was described in the theoretical part. This one combines the company brand (in this case NH) and an individual brand name to differentiate it from the others. However, the company uses another strategy to name their brands. For example Estado puro, Elysium, and Agua de la tierra do not share the letters NH in their brand name. This strategy is called “individual
brand names”. These products and services have a unique brand name and the corporate name is not promoted to the consumer.

5.2.2 M&A

This section will be explained in more detail in the next section, deepening in the Hesperia case.

5.3 M&A: Hesperia

The relationship between NH hotels and Hesperia started in 2003 when NH Hotels made an attempt to acquire Hesperia launching the first public offer to acquire stocks of Hesperia, but NH refused it. The next years Hesperia was trying to enter in the board of directors of NH hotels, but it was not until 2009 when they finally signed the merger of their hotels.

5.3.1 Why merge in 2009 and not before?

According to the World Tourism ranking compiled by the United Nations World Tourism Organization (UNWTO) Spain is the third country more visited with 52.67 millions of tourist arrivals. In Europe, Spain is the second country in the ranking. Therefore, Tourism is one of the most important sectors of Spain’s economy, for it not only promises strong revenue growth, but also provides fertile opportunities for Spain to increase employment (Domingo Ribeiro Soriano, 2002).

With the economical crisis that started around 2007, the Spanish tourism has been affected. For example, 5.7 percent drop in tourism revenues in 2009 over 2008 due to the global economic crisis (Exceltur).

In the following table can be seen the variation of the RevPAR (Revenue Per Available Room) in the urban destinations among one of the first years of the crisis (2008) and the last year, 2011. Only four communities have achieved to increase the revenue per available room. Barcelona has not gotten, its RevPar has decreased 4.1%, and the capital, Madrid, has also decreased, in this case 12.8%. The worst community has been Zaragoza with -62.1%.
The impact of the mergers and acquisitions on brand value in the hotel sector during the economic crisis

Figure 5.1: Variation of the RevPAR in the urban destinations (2008-2011)
Source: Exceltur

Therefore, after see how the economical crisis has affected the Spanish tourism is easy to understand that some companies have merged to achieve to get out of the crisis strengthened and not loosing value. As it has been seen in the empirical data, in 2008 NH Hoteles started to have negative net profits (-65.4%). In 2009 the M&A with Hesperia took place and it was not until 2011 when the company started to have positive revenue again.
5.3.1.1 Advantages

Back to the theory, Friedrich Trautwein gives us some theories of mergers motives:
The first one, Efficiency theory explains that M&A are a good solution to achieve synergies. Synergies can benefit the company by accelerating innovation, increasing sales of current products, decreasing costs or reducing the levels of investment needed to run the business. As Gabriele Burgio (last NH Hoteles chairman) stated “the transaction will lead significant synergies about revenue and expenditures and will allow NH acquire more competitiveness”. Inside this theory can be distinguished three types of synergies, two are the best fix in our case:
Financial synergies: Financial synergies want to get result in lower costs of capital. One way to do it is investing in unrelated business to lower the systematic risk of a company’s investment portfolio, but the M&A between NH Hoteles and Hesperia is horizontal, two companies in the same business sector (hoteliers) and therefore these two companies are in direct competition. Another way to do it is increasing the company’s size to access to cheaper capital. This was possible in one way with the creation of Coperama. Coperama is a new procurement desk, lead by NH Hoteles, Hesperia and Husa, which consolidated during 2010 as Europe’s second and Spain’s first Procurement Desk, by business volume. This is one of the reasons why the number of suppliers in 2008 was 29801 and in 2010, after the merger, 26702, keeping in mind that the company was bigger (50 hotels more) in 2010. Of course, it results in lower costs of capital. Managerial synergies: Hesperia was who achieved more value with the M&A, since NH has superior planning and monitoring abilities that benefit the target performance.
The second theory according to Friedrich Trautwein is the Monopoly theory. This theory is well fixed to our case. According to Gabriele Burgio statement, the merger has been a good way of limiting competition. In 2007, NH Hotels was the company with more urban hotels in Spain and Hesperia was the seventh (GBS Finanzas, march 2007). Peter Doyle and Phillip Stern suggest that M&A is a quick route to obtain a brand portfolio. NH has increased the company’s size after M&A. In 2008, one year before the merger, NH Hoteles had 345 hotels with 51591 rooms. One year later, with Hesperia incorporated, it had 401 hotels and 61327 rooms. “With the merger, we have reinforced our strategy to lead the European market in the urban segment, by acquiring the management corporation of Hesperia” said Gabriele Burgio.
The impact of the mergers and acquisitions on brand value in the hotel sector during the economic crisis

The third theory is “Valuating theory”. This supports that those have a better position in the market are who planned and execute mergers. But in our study case was the opposite. Hesperia was who at the beginning wanted to be part of NH Hoteles.

Finally, the fourth theory, “Disturbance theory” is the main theory that we can apply to our study. The merger is conditioned by an environment of economic uncertainty and the weakness of more of the markets where the company is working.

5.3.1.2 Disadvantages

More than half of M&A are financial failures. According to Peter and Doyle, four problems are usually common when acquisition strategies are used:

- Excessive gearing: many companies borrow high levels of capital because are very optimistic, but sometimes the benefits are not those that they were expecting. In the NH Hoteles and Hesperia case has been different. NH Hoteles did not spend a large sum of money to buy Hesperia, but Hesperia was incorporated into the board of directors of NH Hoteles. The operation allowed NH Hoteles to reinforce its domestic and international presence without resorting to a capital increase or increasing its debt.

- Incoherent portfolios: it is not its problem either. Both NH Hoteles and Hesperia had a hotels portfolio targeted to the urban sector, therefore has been quite easy integrate the Hesperia’s portfolio in the NH Hoteles’ portfolio.

- Inadequate expertise: sometimes the acquirer can lack the necessary knowledge to realize about the real value of the acquisition, but it is not the case of our study because Hesperia wanted to be part of NH Hoteles' board of directors since 2003 therefore, many studies were made before the merger process.

- Pay too much: as it has been said NH Hoteles did not paid a large sum to acquire Hesperia. Likewise, NH Hoteles let Hesperia in the board of administration, becoming the major...
shareholder taking 25.09% of capital. Maybe this point was the worst for NH Hoteles because now has less power at the time to decide something.

Anyway, some disadvantages that the M&A carries are the costs of training the employers to know how works the main company, in this case NH Hoteles, and that some hotels that now are in the NH Hoteles’ portfolio do not have its brand, but we will talk in more detail in the next section.

5.4 What about the portfolio after the M&A?

After M&A, managers decide what they will do to their brands and brand portfolios. In the NH firm can be found two different ways to represent its brand portfolio. The first one is that one that just names all the brands that the firm has without make a selection or distinction. Like this, the brands which are part of NH world are the following: NH Hoteles, Hesperia, NH Luxury Resort, Nhow, Nhube, Fast Good, Casino de Madrid, Estado Puro, Elysium, and Agua de la Tierra.

The second way is explaining the different categories which can be found in the NH Hoteles and then all those brands that not are hotels, but they are a part of the hotel or are some places of leisure, they call them; part of the NH world.

The classification of the categories is the next one, and we have put to which market segment is addressed each one.

<table>
<thead>
<tr>
<th>NH Categories</th>
<th>BRAND</th>
<th>Target market</th>
</tr>
</thead>
<tbody>
<tr>
<td>NH Resorts</td>
<td>Luxury</td>
<td></td>
</tr>
<tr>
<td>NH Express</td>
<td>Low price</td>
<td></td>
</tr>
<tr>
<td>NH Collection</td>
<td>Luxury boutique hotels</td>
<td></td>
</tr>
<tr>
<td>Sotogrande</td>
<td>Exclusive residential</td>
<td></td>
</tr>
<tr>
<td>Nhow</td>
<td>Modern young travellers</td>
<td></td>
</tr>
</tbody>
</table>

Figure 5.3: NH categories
Source: Information adapted of NH Hoteles website

The brands which are part of the NH world are Nhube, Casino de Madrid, Elysium, Agua de la Tierra, and Estado Puro.
According to Chailan the company must follow three steps to adopting the new brand portfolio: brand accumulation, brand portfolio reformation, and the creation of a development model based on a structured brand grouping. In the case of NH – Hesperia, it cannot be followed these three steps. The main aim of this M&A has to be remembered, and it is that the M&A was not to acquire a new brand; it was for facing economic problems and growing the hotels portfolio. Therefore, it was not a need created by customers expending something more, or because NH Hoteles wanted to have a new brand more.
If we see how NH Hoteles presents Hesperia in the web side, we see that it is a kind of brand like might be Nhow or NH Resorts. But if we check the categories of NH, we can not find Hesperia there. In the categories of NH we find different kinds of hotels address different customers and different needs and wants. Thus, it follows that Hesperia has been incorporate to the NH world like it was before; it has not been addressed special target customers. Instead, the NH Hoteles’ portfolio has added the Hesperia’s hotels portfolio; when a client is looking for a hotel can find a NH hotel or a Hesperia hotel in the same list without distinctions. They have been distributed in the different NH categories.

Moreover, as it has been seen in the theoretical part, Basu (2002) has four different approaches to merging brands: streamline, rationalizing, consolidation, and reconfiguring. The approach that understands better our study case is the Consolidation, still, we do not have to forget that we are talking about hotels therefore in this case is adopting all the old portfolio is quite easy, since there are not overlaps and thus the company adds strength by leveraging the whole portfolio. Hesperia and NH Hoteles continue working with the same range of customers that the two companies had before merged. One advantage of this strategy is that the customer retention and the continuation good relationship with trade channels that existed prior the merger.

5.5 Rebranding

When an M&A is carried out, the companies must think about the brand name. Hesperia has not changed its name brand, only its logo and its slogan. Before the merger it was Hesperia, we are hoteliers as it can be seen in the next picture. Now, without change its name, it is part of NH Hoteles, and this is exactly what says the new logo: Hesperia a part of NH Hoteles.

![Figure 5.4: Evolution of the Hesperia’s logo](source: Made by the authors)

Hesperia before the M&A had 49 hotels built and 2 hotels in construction. It was the seventh hotel group more important in Spain, thus many people knew the brand and were clients of it. Since the moment that a brand name is changed, a lot of customers loose the contact with it, and keeping the contact with all the customers, means a large sum of marketing investment. NH Hoteles is the lead company, but Hesperia is the major shareholder of the group and is represented in the board of directors now, thus the last owners of Hesperia still take care of the brand.
Taking the model explained in the theoretical part written by Richard Ettenson and Jonathan Knowles (2006), we can choose two different strategies depending what it will happen in the future. The first strategy that can be adequate for our case is the third strategy. They are still using the name of the two firms, although they have changed the symbol to remember that Hesperia is a part of NH world now. Normally, this is a transition strategy to notice to the target customers that the two companies are together, but then the smallest company adopts the name and symbol of the lead company. The benefits of this strategy are the following:

- Employees have time to adjust: the integration of Hesperia in NH Hoteles meant a rigorous and detailed training for the employees. NH University held 302 sessions for over 2600 people, using 67 in-house instructors during 3 months. Moreover, many analyses were carried out with the aim of identifying common factors and best practices.
- Customers can gradually get used to the new company while maintaining emotional connection: it was said before, if the name Hesperia does not disappear immediately, customers have time to adapt to the new company.
- Transition phase helps investment community have a connection to the familiar: it has to be strange for the NH shareholders go over to have a new partner who has 25.09% of capital in one day. Learning how to take the decisions about the future of the company and so on needs time.

The problem in this strategy, or maybe the challenge that has the company is make clear who is the customer making business with, because perhaps he is not sure about if it is with Hesperia or with NH. The second strategy that can be adequate is the fifth strategy. The two companies are contributing significantly, they are moving ahead together to share a combined future. Some characteristics of this strategy are the following:

- The message is of a truly shared future and vision with preservation of the familiar: the employees are still working by the same brand.
- Customers are glad to know that the products of both companies will remain as before. Nothing has changed in the Hesperia hotels since the M&A.
- The investment community has a strong cooperation since Hesperia is inside, the NH interests and Hesperia interests are the same now.
The strategy adopted by NH Hoteles and Hesperia is a mix between these two. Likewise, the most adequate seems the third strategy (the first one explained here), but everything will depend on the future, if the Hesperia brand continues working or not.

**5.6 Has Hesperia enhanced the brand value of the NH company?**

If the brand Hesperia will disappear in the future is an enigma. It will probably depend on if Hesperia is enhancing the NH Hoteles value. Perhaps, it is too soon to know it, we asked to Catalina Sánchez who works in the NH Hoteles marketing department and she answered us that they are making branding studies to check it.

We have made some analysis, studying the NH Hoteles before to merger and after, but anyway we have to think that 2011 was the first year that NH Hoteles had positive revenue, therefore the results of the brand value might be affected by the hard moment that the company lived with the economic crisis.

Firstly, if we check the customer satisfaction surveys, it can be seen that the degree of satisfaction is growing; in 2008 was 8.03 and in 2010 8.41.

![Figure 5.6: Customer satisfaction and price-performance ratio](source)

Anyway, this is not really meaningful because the degree of satisfaction may have growing for many different causes.

Some prizes have been awarded to Hesperia, some of them are:

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- 2009 Environmental Prize: recognition granted to the Hesperia Hermosilla Hotel by the Council of the Environment of the Community of Madrid, the Chamber of Commerce and the CEiM.

In the Spanish brand ranking of interbrand, a global branding consultancy, NH Hotels was in the 26 position in 2007 (the ranking had 30 positions). But in the next rankings, NH Hotels was not there anymore. All these prizes or recognitions are not really relevant, they help to know how has been the integration of Hesperia but they are not decisive to answer our question.

One thing that might be decisive to know if Hesperia is enhancing the value of NH Hotels is to know if the company is thinking in building new hotels with the Hesperia brand. The next table shows us the expected openings for the next years.

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>CITY</th>
<th>HOTEL NAME</th>
<th>EXPECTED OPENING</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>Mar de Plata</td>
<td>NH Gran Hotel Provincial (Ext.1)</td>
<td>2011</td>
</tr>
<tr>
<td>Argentina</td>
<td>Mar de Plata</td>
<td>NH Gran Hotel Provincial (Ext.2)</td>
<td>2012</td>
</tr>
<tr>
<td>Colombia</td>
<td>Bogota</td>
<td>NH Bogotá 93</td>
<td>2011</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>Praga</td>
<td>NH Senovazne</td>
<td>2013</td>
</tr>
<tr>
<td>Hungary</td>
<td>Budapest</td>
<td>NH Irany Utca</td>
<td>2012</td>
</tr>
<tr>
<td>Hungary</td>
<td>Budapest</td>
<td>NH Museum Utca</td>
<td>2012</td>
</tr>
<tr>
<td>Hungary</td>
<td>Budapest</td>
<td>NH Steindl</td>
<td>2012</td>
</tr>
<tr>
<td>Italy</td>
<td>Bari</td>
<td>NH Bari (Gaslini)</td>
<td>2013</td>
</tr>
<tr>
<td>Italy</td>
<td>Milan</td>
<td>NH Via Columella</td>
<td>2011</td>
</tr>
<tr>
<td>Italy</td>
<td>Milan</td>
<td>NH Santa Giulia</td>
<td>2013</td>
</tr>
<tr>
<td>Italy</td>
<td>Parma</td>
<td>NH Parma Stazione</td>
<td>2012</td>
</tr>
<tr>
<td>Italy</td>
<td>Roma</td>
<td>NH Capena</td>
<td>2011</td>
</tr>
<tr>
<td>Panama</td>
<td>Panama</td>
<td>NH Ciudad de Panama</td>
<td>2012</td>
</tr>
<tr>
<td>Spain</td>
<td>Barcelona</td>
<td>NH Diagonal Center</td>
<td>2011</td>
</tr>
<tr>
<td>Spain</td>
<td>Barcelona</td>
<td>NH Trafalgar</td>
<td>2013</td>
</tr>
<tr>
<td>Spain</td>
<td>La Laguna (Tenerife)</td>
<td>NH La Laguna</td>
<td>2011</td>
</tr>
<tr>
<td>Spain</td>
<td>Madrid</td>
<td>NH Palacio Mejia Lequerena</td>
<td>2011</td>
</tr>
<tr>
<td>Spain</td>
<td>Madrid</td>
<td>NH Puerta de Toledo</td>
<td>2013</td>
</tr>
<tr>
<td>Spain</td>
<td>Segovia</td>
<td>NH Segovia</td>
<td>2012</td>
</tr>
<tr>
<td>Spain</td>
<td>Sevilla</td>
<td>NH Alcalá de Guadaira</td>
<td>2013</td>
</tr>
<tr>
<td>Spain</td>
<td>Teruel</td>
<td>NH Palacio de la Marquesa</td>
<td>2013</td>
</tr>
<tr>
<td>Spain</td>
<td>Vigo (Pontevedra)</td>
<td>NH Porriño</td>
<td>2013</td>
</tr>
<tr>
<td>Venezuela</td>
<td>Valencia (Venezuela)</td>
<td>Hesperia WTC Valencia (Ext.)</td>
<td>2011</td>
</tr>
</tbody>
</table>

Figure 5.7: Expected openings
Source: [www.nh-hotels.com](http://www.nh-hotels.com)

We see that just one hotel has the Hesperia name, Hesperia WTC Valencia, a 15-floor hotel houses with 323 luxurious rooms. But we have checked that this hotel was in project when NH Hotels merged with Hesperia, thus its construction is not a NH Hotels own idea. With this, we can observe that NH Hotels
is not thinking in building more Hesperia hotels. Furthermore, several Hesperia hotels have left the portfolio: Hesperia Balneario Guitiriz (2010), Hesperia Alicante Golf (2010), Hesperia Centurión (2011), and Hesperia Chalet del Golf (2011). However, as it has been said before, the economic crisis sometimes is the protagonist of these failures.

After our investigations with the secondary data found in the corporate responsibility annual reports of NH (2005-2011) and the interview done to Catalina Sánchez, we can say that Hesperia brand is not remembered too much by the customers, this is why NH Hoteles has not built a hotel with its name. The merger was the key for an expansion strategy since it has become the leader urban hotel chain in Spain, but not for a branding strategy to enhance value.

Therefore, little by little the Hesperia brand will disappear, just staying the NH Hoteles brand. Likewise, the NH Hoteles marketing department is thinking about changing the Hesperia brand for another one, a NH category surely. If this is correct, the strategy about rebranding that we take is the third strategy of our model made it by R. Ettenson and J. Knowles (2006): a transition strategy to notice to the target customers that the two companies are together, but then the smallest company adopts the name and symbol of the lead company.

Although Hesperia does not enhance the NH value too much, one thing is true: NH Hoteles became the leader hotel chain in Spain and the third in Europe in 2009 thanks to the integration with Hesperia.

5.7 Innovation

It has been studied during the theory and the empirical data that the innovation is an important concept for NH hotels and Hesperia and is a key factor in the tourism industry because the customers can choose different option all around the world and the innovation is an important source to differentiate your hotel from the competence. NH Hotels and Hesperia have made different innovations along the years before the merger, and NH hotels have continued growing and innovating after the merger. According to the theory studied there are four types of touristic innovation: Product innovation, processes innovations, knowledge of the market and management innovations. These four types of innovations have been carried out by NH and Hesperia, but they particularly focused on innovations related to market knowledge. This type of touristic innovations is a key method of avoiding commoditization. On the other hand, a key element of innovation for NH and Hesperia before the merger and still today, is customization and be focus on a defined and specific segment. On the other hand the management and the processes innovations have been carried out successful by both companies before the merger, and nowadays by NH hotels. Finally, the product or service innovations have been carried out through alliances and partnerships such as the chef alliances with well recognized Spanish chefs.
6. Conclusion

The last chapter of our bachelors thesis is the conclusion. In this chapter we will conclude our research work answering the problem formulation and we will explain how we have reached the purpose of our thesis and some limitations to reach it. Finally, we will give a few ideas and recommendations to solve the main problem.

6.1 Overall conclusion

The economical situation in Spain is not going better since the crisis started in 2007, in mid-2012 Spain has not seen evidence of economic recovery yet. Other countries are already seen it and thus their economic outlooks are more attractive than Spanish one. For this reason, Spanish beach tourism such as Balearic Islands and Canary Islands is getting better thanks to economical improvement of some countries like Germany, whose citizens are common in the Spanish beaches. Still, during this research work, we have focused in urban hotels, and we have seen that they are not so lucky normally.

We have seen that one of the most frequent solutions is to merge. A lot of companies have taken this key to reinforce against the crisis. We have studied during this thesis how the companies decide to carry out this process, the advantages and disadvantages of a merger or an acquisition how is the rebranding process after the merger and so on.

During our study, we have focused in one example of this phenomena, and through this study case, we have seen evident conclusions that can help to understand what is happening with the urban hotels carrying out mergers and acquisitions during the economic crisis: Through our study case, we can conclude that the mergers realized due to the economic situation between urban hotels in Spain, have not improve their brand value and their brand reputation.

The main problem with the brand value starts to be clearer once the companies have realized the merger. It is at this moment when the results can be seen better; the companies begin to wonder if it was a good decision. They have saved their company, but have they gained value? Have their brands achieved a better reputation?

The rebranding process is one of the most important processes during a merger because the new brand has to be accepted by the customers in a better way or at least in the same way than the previous brand was accepted.

In this study, we have seen that most of the companies start to think about the rebranding process after the merger has been made. This supposes a real problem, and nowadays it is more evident due to most of the mergers carried out are because of the economic situation instead of acquire more value for the company and for the company brand.

The case about NH Hoteles and Hesperia that has been studied in this thesis is just one example of all the mergers carried out due to the economic crisis between hotels in Spain. These are examples of mergers made for economical issues without thinking before carefully about the brand value that can be acquired or lost in the merger process.
6.2 Limitations

This research work based on two urban hotels from Spain, has given us clear conclusions about the impact that the mergers realized nowadays have on the brand value. However, we have just based our study on a single case study: NH Hoteles and Hesperia merger. This means that our study could be more completed if this kind of study is applied to a multiple-case study in order to verify our results or if we apply this study to different countries instead that only in Spain to compare the different situations. Another limitation has been the primary data. We have made just one interview because of the limited time, and the limited resources. This interview was really helpful to conclude the thesis and analyze the hotel situation, but the possibility to contact with more personal, would be better for our study conclusions.

6.3 Further research

This bachelor thesis has been made during the economic crisis, but for sure, we will be able to find more results and draw more conclusions once the economic crisis will be finished. Many hotels will merger their companies during this year or the next year, this means that we will find more study cases to base on and to analyze in order to answer new questions, or to complete the answered. It could be interesting to continue this study and develop it more largely to find new findings and new cases to verify the validity of this study research more efficiently.
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The impact of the mergers and acquisitions on brand value in the hotel sector during the economic crisis


Internet

www.hosteltur.com
www.interbrand.com
www.nh-hoteles.es
www.futurebrand.com
Appendix

English interview

How has the merger between Hesperia and NH Hoteles enhanced the brand value of NH?
Have the employees been affected by the merger?
Which are the main values of NH brand? Have they changed after the merger?
Is Hesperia following the same innovations strategies than NH Hoteles?
How do you see the future of NH Hoteles?
Which is the brand portfolio of NH Hoteles?
Why did not the Hesperia brand name change? Is there any change expectations?
Are the customers still demanding Hesperia services?
Have Hesperia and NH Hoteles the same target customer?

Spanish interview

¿Cómo ha aumentado la adquisición de Hesperia el valor de la marca de NH hoteles?
¿Se han visto los empleados afectados por la fusión?
¿Cuáles son los principales valores de la marca NH? ¿Han cambiado estos valores una vez realizada la fusión?
Teniendo en cuenta la importancia de la innovación para la cadena de NH, nos gustaría saber si Hesperia sigue las mismas estrategias de innovación, o en que puntos se diferencia con NH.
¿Cómo se ve el futuro para la marca NH?
¿Cómo esta formado el portafolio de NH hoteles? ¿Hay expectativas de crecimiento a corto plazo?
¿Por qué razón Hesperia sigue manteniendo el nombre de su marca? ¿Hay expectativas de cambio?
¿Siguen los clientes demandando los servicios de Hesperia?
Hesperia y NH hoteles ¿tienen el mismo cliente objetivo?

NH brands 2012