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Brand extensions for hotels' food and beverage expansion to the outside of property: A case of Westin Chosun Hotel in Korea

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Brand Extensions for Hotels' Food and Beverage Expansion to the Outside of Property: A Case of Westin Chosun Hotel in Korea

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PART I

Introduction

Branding is one of the most dominant trends in the global hospitality industry. In the USA, brand penetration in the ratio of branded vs. non-branded properties is larger than 70 percent in the commercial lodging industry; in Canada it is just under 40 percent, and in Europe it is under 25 percent but increasing (Forgacs, 2006). Hotel companies have become multi-branded organizations, and increased competition between the brands is affecting the hotel industry in many ways (Richter, 2004).

The United States now has more than 200 hotel brands competing for business (Jiang,W., Dev, C.S., Rao, V.R., 2002). Many of these brands are extensions of existing brand names. Brand extension is a strategy of introducing a new brand using a well-established brand name as leverage. To capture the momentum of a new niche segment, and to leverage the goodwill associated with their existing brands, many hotels have turned to brand extension. The classic example is that of the brand Holiday Inn. During the past decades, its parent company has extended the original name to Holiday Inn Express, Holiday Inn Select, and Holiday Inn Sunspree Resorts, Crowne Plaza by Holiday Inn, and Staybridge Suites by Holiday Inn. These properties compete for different segments and price points in the market.

Brand extension is not only effective for the outward business expansion at the corporate level but also for specific inward business expansion at the department level. Considering the fact that food and beverage (F&B) is one of the fastest growing revenue departments in full service hotels (Mandelbaum, 2000), it is not surprising to discover that brand extension has been employed by many hotels for their F&B business expansion. Particularly, hotels in Korea have been extremely successful in actively using the brand extension strategies to develop their F&B, expanding the business to the outside of properties.

The purpose of this paper is to identify branding extension strategies employed by hotels in Korea when they expand their food and beverage (F&B) business to the outside of their properties. It is also to help multinational hotels to achieve a better understanding of the F&B business nature in the hospitality industry of Korea and to provide them a good reference of the brand extension strategies for their F&B business management.

Statement of Objective

First, this paper will explain the term "brand" in general (i.e. brand, brand equity, brand image, and brand extensions) and allow readers to understand the broad concept as they begin reading. The paper will then look into the growing importance of F&B business in the hospitality industry. From the overview of the industry's branding strategies for their F&B business management, the readers will notice that the hotels in Korea have focused on brand extensions. This paper will then introduce and examine the case of Westin Chosun Hotel in Korea which property has been known for successfully using brand extension techniques for F & B business expansion. Suggestions will follow for multinational hotels' F&B business growth.

Justification

The hospitality industry considers building and managing strong brands as one of the key success points, because a hotel's brand image is a customers' overall impression of the hotel. In business, it is well noted that hotels with strong brands outperform non-branded properties in terms of such performance indicators as average room rate (ARR), level of occupancy, revenue per available room (RevPAR), and return on investment (ROI) (Forgacs, 2003). Kim and Kim have affirmed that there is a positive relationship between brand success and financial performance in the luxury hotel sector (2005).

To capitalize on the brand equity and to maximize the value, brand extensions have become a popular strategy in worldwide markets. Brand extensions allow the "use of established brand names to enter new product categories or classes" (Keller, Aaker, 1992). The parent brands develop their extended brands in expecting to reduce the introductory cost of the new product by trading consumers' awareness and perception of the existing brands. The extended brands also contribute to retain a higher profile in the consumers' mind (Fu, Saunders, Qu, 2009). That is, extended brands increase their brand recognition and enhance customers' purchasing intention in a positive way by using the established hotels' images and/or reputations.

Having noted that the similarity between the hotel and the extended brand can have a positive impact on customers' purchasing intention, hotels utilize brand extensions to grow their business, including when a hotel expands its departmental business to the outside of its property, including F & B venues.

F & B revenue is a key component in the U.S. Lodging industry. Restaurants and Institutions reported the total 1996 F & B sales of the major U.S. lodging chains at 13 billion dollars. Holiday Inn properties and the Sheraton group made almost 2 billion dollars each (Lowe, 1997). Not only has F & B changed its role from a cost center to a profit center (Lynch, 1999) but also it has become a lucrative source of revenue for hotels. When profit in F & B department grows, the overall revenue of hotels is also positively influenced.

Despite the rationale behind successful hotel brands being increasingly significant, there have only been a small number of studies that have focused on branding in a hotel context (Kim & Kim, 2005; Kim et al., 2003; Kim et al., 2008). There have been fewer academic works that have explored brand extensions specifically used for hotels' F & B business. The concept of expanding hotels' F & B business to the outside of properties is even much unheard of. Yet many hotels in a specific country like Korea have been very successful in generating substantial revenues by expanding their F&B business with their extended brands and managing both onsite and offsite F&B outlets. For this reason, more rigorous studies are needed in order to inform multinational hotels to achieve a better understanding of

F&B business in Korean hotel sector. Since business circumstances and market conditions can be diverse, brand extension strategies used by hotels in Korea may be inappropriate for the direct application to hotels in other countries. Nonetheless, it is worth paying attention to those cases especially for multinational hotels who deal with global markets.

Glossary

- F&B: food and beverage
- ARR : average room rate
- RevPAR : revenue per available room
- ROI : return on investment
- CAGR: compound annual growth rate

PART II Literature Review

Branding

Branding is a pivotal issue for organizations operating in today's international market. Although branding is not a recent idea, the way organizations employ branding strategies is evolving. In the ever-changing business environment, branding opportunities and the applications for branding strategy will continue to develop and change (Rooney, 1995, p.54).

There exists a full body of literature on definitions of brand. Aaker (1991) understood brand as a:

> . . . distinguishing name and symbol (such as a logo, trademark, or package design) intended to identify the goods or services of either one seller or a group of sellers, and to differentiate those goods or services from those of competitors (p.7).

Brand has also been described as "the impressions received by consumers resulting in a distinctive position in their mind's eye based on perceived emotional and functional benefits" (Shoemaker, Lewis, Yesawich, 2007, p.346). Brand interacts with a consumer's mind, thus firms are required to touch all aspects of their business comprehensively and consistently through brand. Brand provides a distinctive, central, and enduring value, appealing organizations' identification as a whole.

When goods or services are perceived to be similar in quality and/or price, their status and reputation can be the crucial determinants of what people will buy (Selame,

Selame, 1988). People admire strong brands and the represented qualities of the brands. People want to acquire the attributes that the brands have to offer (Blackston, 1995). Thus, firms utilize the brand attributes to meet customers' expectations in numerous market conditions. By building brand, companies can link themselves with consumers in various aspects including what people value and what they identity with. That is, companies must associate themselves with what appeals to be positive to consumers. (ASHE, 2005).

Service organizations have become common users of branding techniques (Rooney, 1995). Particularly, hotel companies have increasingly evolved from mere management organizations to hotel branding organizations. Now they face a greater challenge of standing out in a competitive marketplace (O'Neill, Mattila & Xiao, 2006). In fact, services may require more notion of branding than physical goods because of the inherent service characteristics: intangibility, inseparability, heterogeneity and perishability (de Chernatony, McDonald, 1998). For service companies, the brand name is represented by the company name, not an individual product name, and consumers tend to group most of the offerings as one product (Berry et al., 1988). As previously mentioned, a customers' overall impression of a hotel is what the customer perceives as the hotel brand.

Brand equity

The value of a given brand is referred as brand equity (ASHE, 2005). One of the vital marketing concepts since 1980s, brand equity, has been illustrated as:

> . . . a set of brand assets and liabilities linked to a brand, its name and symbol, that add to or subtract from the value provided by a product or service to a firm and/or to that firm's customers (Aaker, 1991, p. 15).

Because of the value that a brand has for a firm, brand equity "provides a competitive advantage since it gives the brand the power to capture and hold onto a larger share of the market and to sell at prices with higher profit margins" (Solomon, Stuart, 2002, p. 273). In discussing the intangible nature of brand equity, such notions as image, identification, values, status, and prestige are included (ASHE, 2005).

Consumers and companies pursue benefits from strong brands. Consumers believe that they can make a satisfying decision in purchasing with confidence based on given information of the brands. As Aaker stated, knowing a piece of jewelry coming from Tiffany can make people feel different about wearing it (1991, p.16). All the notions occurring in people's minds are closely correlated with brand equity.

In understanding the abstract concept of brand equity, Aaker's four-part model has been a keystone for decades. Aaker viewed brand equity consisting of four features: brand loyalty, brand awareness, perceived quality, and brand associations (1991). First, brand loyalty has been explained as a behavioral response and a function of psychological processes (Jacoby and Kyner, 1973). Having noted the concept, Tepeci explained that brand loyalty is a function of both behaviors and attitudes (1999). That is, a brand loyal purchasing practice should be intentional. This is distinguished from a simple repurchase, requiring a certain extent of commitment toward the brand (Tepeci, 1999). The fundamental conditions of brand loyalty, both positive behaviors and attitudes, can be affirmed by repetitive purchases (Tepeci, 1999). Hence, brand loyalty is presumed to create awareness and reassurance of a brand, to retain and attract new customers, and to provide an advantage with the supplier and reduce marketing expenses accordingly.

To create brand loyalty, consumers need to become aware of the product first (Aaker, 1991). At the awareness point, a brand name offers values to consumers by helping them clarify process, understand, collect, and retrieve information of the product (Aaker, 1991). When the bond between a consumer and the product is low, brand awareness provides a ground on which other associations can develop. Brand awareness can be greatly enhanced through a number of marketing activities including advertising, direct mail, word-of-mouth communication, and promotions (Grover, Srinivasan, 1992). As noted from the success story of Holiday Inn, many of the hotel companies realize the necessity to create brand awareness and increase brand-loyal consumers by exposing their products to more consumers.

A brand should represent a promise of genuine quality to the consumers (Aaker, 1991). The third attribute of brand equity, perceived quality, differentiates the brand from the product class. Perceived quality effectively positions brand within markets and provides consumers with a sound reason to stay with the brand. Once the consumers become convinced that the brand delivers the promised quality, they will choose brand products over unbranded ones. Elliott noted that brand products set a 10-to-15 percent price premium over unbranded ones in competition (1996). The price difference can be recognized as quality variance in consumers' decision-making process. As Four Seasons appeals to a large clientele with its extraordinary quality service, higher perceived quality persuades people to be interested in the brand. The support leads the brand to be successful when it extends into other areas or activities.

Aaker (1991) defined brand associations as the underlying value of a brand name, the meaning of a brand name to people. According to Keller (1993), brand associations are "the other informational nodes linked to the brand node in memory and contained the meaning of the brand for consumers." Brand associations occur in all forms and may reflect the product features as well as all the aspects related to the product (Chen, 2001). A set of associations creates value by interacting in the brand equity formation processes: helping consumers to process and retrieve brand information; to differentiate the brand over competition; to generate a buying appetite; to create favorable attitudes and emotions; and to provide a basis for brand extension.

In addition to the four features, Dyson et al. suggested to include a commitment and bonding component to brand equity in consideration of consumer relationship with the brand (1996). On the other hand, Berry (2000) developed a brand equity model containing six key components in a hotel context: brand equity, brand awareness, brand meaning, company's presented brand, external brand communications, and customer experience with company. He asserts that brand awareness is affected by both company's presented brand and external brand communications. Externally orientated marketing activities include advertising, word-of-mouth communications, publicity, and promotions (Berry, 2000). Among the six components, brand meaning is primarily linked to customer experience with the company. The service experience can be influenced by internally focused brand activities, such as managing the design and layout of service presentation, encouraging employees to provide consistent quality of service, and ensuring the relevance of the core service promised by the organizations (Berry, 2000). Many practitioners and academics of the hospitality industry have paid more and more attention in developing and maintaining brand equity. Strong brands provide competitive advantages in the current marketplace.

Brand image

According to Keller (1993), brand image is the "perceptions about a brand as reflected by the brand associations held in a consumer's memory." The resulting images of a brand's association in the mind of consumers lead them to recognize differences between competing brands. In a word, these associations link the brand with the consumer's memory (Aaker, 1996). Therefore, brand image is one of the key components that enable hotel companies to gain a superior advantage among others.

Some scholars viewed brand image to be "directly related to the product category within which the brand is marketed" (Martinez, Chernatony, 2004). Keller (1993) also noted that brand image includes associations related to the product. Products are often marketed under a broad brand strategy, and this contributes to generate a more general brand image (Martinez, Chernatony, 2004). Brand image is a multi-dimensional concept. Direct associations have been observed with both the product features and aspects of the brand (Keller, 1993). Therefore, brand image is a determinant factor for hotels.

Brand extension

In order to increase a brand's equity, brand extension is commonly used as one of the oldest branding strategies. Many companies are inclined to extend a popular and successful brand into new markets (Rooney, 1995, p.52). Most of all, brand extension allows firms to reduce introductory costs and risks of launching new products (Fu, Saunders, Qu, 2009). Using brand extension, companies can expect to increase sales and profits (Roedder-John, Loken, Joiner, 1998) as well as market shares (Smith, Park, 1992). The techniques can also enhance brand awareness by adding up brand attributes to the extended brand (Keller 2003).

Yet, there have been many concerns that brand extension can bring negative consequences. Above all, products that extend brands into extremely dissimilar categories may fail (Park, Milberg & Lawson, 1991). According to Wells in *Forbes Magazine*, "a customer enjoying a massage on a Virgin Atlantic flight may be pre-disposed into drinking

Virgin Cola or staying in a Virgin hotel, but a customer who has a bad enough experience with any one of the product lines may shun all the others" (2000). The wrong extension decisions may weaken the brand associations and dilute brand equity. This may cost very much to change (Fu, Saunders, Qu, 2009). Brand extension failure may harm the parent brand and even the brand family.

To reduce the risks associated with brand extension failure, companies should ensure that consumers have a good understanding of why a company is using the brand name on new products (Rooney, 1995, p.53). That is, successful brand extensions allow consumers to be able to expand the scope of the existing brand image and information to the new areas (Keller 1993). Park et al. argued that consumers judge if the original brand and the extended brand are based on the consistent brand concept or image (1991). Hence, consumers' perception on the brand concept or image consistency between the parent brand and the extended brand should be considered for successful brand extensions.

Brand extensions enable the hospitality industry to better serve more heterogeneous consumer tastes (Tepeci, 1999). For brand names with high customer value in the hospitality industry, such as Holiday Inn and Marriott, brand extension has been proved to be a good tactic for active marketing and a potential growth (Tepeci, 1999). For example, the Ramada group has increase the brand awareness by including the name "Ramada" for Ramada Inn, Ramada hotel & Resort, Ramada Encore, Ramada Plaza, and Ramada Hotel & Suites. Also, it was estimated that the Fairfield Inn increased occupancy rates by 15 percent by adding the name "Marriott" next to it (Farquhar, 1990). Hotel companies can maximize profits by selecting the most appropriate brand extension strategies according to the characteristics of the target markets.

F & B business in the hospitality industry

The F & B department at hotels has transitioned significantly over the past decades. The department continuously improves the operations from developing menu items to creating unique offerings (Miller, 2006). According to PKF Consulting's analysis of 214 full-service hotels during the period from 1994 to 2004, the percentage growth in F&B profit increased almost twice as fast as total net operating income growth (Miller, 2006). As the room occupancy rate was very similar in the sample hotels in 2004 as in 1994, the report did not take the variances in room occupancy into consideration when analyzing the growing F&B department revenue. To be specific, food revenues grew to account for 25.6 percent of total revenues in 2004 from 23.7 percent in 1994 (Miller, 2006). On the other hand, beverage revenues have stayed on average 6.0 percent of total revenue for the past three years, ranging from 5.3 to 6.4 percent during the past ten years (Miller, 2006). Hotels' F & B divisions are now making a significant contribution enough to impact the entire property's bottom line with any changes in their revenues.

The compelling F&B revenue growth was mainly achieved by hotel F&B outlets' consistent efforts to be upgraded and to hold a better position in the competition. Hotels have improved their F&B outlets with increased emphasis on the quality of food offerings. As a result, hotel restaurants and bars have increasingly appealed to the dining interests of the local community and have become popular places for both hotel guests and locals (Miller, 2006). In the mean time, hotel management has controlled the F&B expenses, enabling F&B profitability to keep pace with the profit growth of other departments (PKF Study, 2005). An increase in high-priced banquet activity, such as wedding receptions and events, have also attributed to the outstanding growth of F&B departments (Adler , Chien, 2004).

Branding strategies to manage F&B business in the general hospitality industry

In the past, hotel F&B outlets have been notoriously unprofitable (Shoemaker, Lewis, Yesawich, 2007, p.346). The time and expertise required to manage F&B services did not justify the return on investment. Hence, Hotel operators and owners eliminated non-revenue producing public areas including meeting rooms and elaborate F&B facilities. Instead, the operators focused on room management (Rees, 1995, p.5). Guest rooms accounted for 75 percent of departmental profits while F&B accounted for 10 to 15 percent before un-allocated expenses (Rees, 1995, p.5). Therefore, it was evident why there was a change of focus.

While finding solutions to minimize costs and adding values to the properties, the operators realized the benefits of forming relationships with outside restaurants. For example, Denny's restaurant chain used its brand recognition, market strength, and around-the clock service to make it an attractive partner for hotels (Rees, 1995, p. 6-7). Mirage resorts in Las Vegas, Nevada made a franchise agreement with California Pizza Kitchen which became one of the most profitable restaurants in the property based on a diverse customer base of the casino (Rees, 1995, p. 9). The idea of creating something that appeals to guests while minimizing the risk to hotel operators makes the hotel and restaurant relationship a continuing trend. The Ritz-Carlton Powerscourt in Ireland decided to have an additional selling point, a Gordon Ramsay restaurant. This hotel believes that Gordon Ramsay's celebrity profile will attract more business (Baggott, 2007). A hotel that has a restaurant run by a well-known chef or celebrity uses it as the point of difference that encourages customers to opt for one hotel over another.

In seeking of alternatives to the direct management of F&B outlets, hotels have generally relied on the following three approaches (Shoemaker, Lewis, Yesawich, 2007, p.367). First, a hotel leases the space for a fixed fee and/or a percentage of sales/profits. Second, a hotel acquires a franchise and become a franchisee, paying fees and royalties to the franchisor. The hotel is still responsible for the day-to-day operation and management of the restaurant. Examples include Marriott with Pizza Hut in 1989. Third, a hotel and a restaurant undertake a joint venture in which the both parties share the costs and the profits. Carlson Hospitality Worldwide introduced a scaled down version of the T.G.I concept into their hotels, called 'Friday's American Bar'. The core concept remained the same and became a brand extension in smaller venues and establishments.

Brand extensions to manage Hotel F&B in Korea

In Korea, the domestic hospitality industry has developed through big international events such as the 1988 Seoul Olympic Games, "Visit Korea 1994 Year", and the 2002 World Cups. In Korea, the rooms department and the F&B department have been regarded as the two major operating divisions of hotels as they are in the USA. However, the sales of rooms and F&B in Korea exhibit somewhat different patterns of the sales percentages to total sales, compared to the ones of the USA or Japan (Kim, 1996). In the United States, the average sales percentages of rooms, F&B, and others to total sales were 59.5%, 34.0%, and 6.5% respectively. In Japan, these percentages were 25.3%, 48.3%, and 26.4% respectively (Horwath & Horwath International, 1987). In Korea, on the contrary, the sole percentage of F&B sales to total sales was 61.2% for five-star deluxe hotels (Korea National Tourism Corporation, 1994). The significant differences in the hotel F&B sales ratios of each country imply that the culture and dynamic environment in different countries may affect the local hotel business at a great extent.

Hotel operators in Korea have been seeking ways to boost profits and gain competitiveness of F&B business. In managing the F&B facilities, the hotels in Korea have downsized or closed unprofitable F&B outlets. Meanwhile, they have renovated the old buildings and added new extensions to the surviving outlets for more competitive and centralized F&B management (Jung, 2007). In other words, instead of outsourcing or leasing out the facilities, hotel operators in Korea have taken control over almost all of the on-site F&B facilities and have been responsible for remodeling or replacing the unprofitable existing venues. For instance, the hotel Lotte World in Korea closed four unprofitable or inefficient F&B outlets in 2006 and determined to be focused on the successful remaining five outlets (Jung, 2997). The hotel Ritz-Carlton in Korea also decreased the number of F&B outlets from 11 in 1999 to 6 in 2007 in an effort to restructure the F&B management system (Jung, 2007). For them, F&B business is what hotels should directly own, control and operate to increase their own profits. With the notion that the hotel and its F&B outlets should be under the same identity, some Korean researchers have stated that the hotel F&B business exists primarily in order to increase the hotel's general market share and overall revenues; F&B units are subordinate to the hotel. As a part of the hotel, the F&B outlets can utilize the refined and organized hotel systems, which include human capital, resources, and management know-how when differentiating themselves over competition (Lee, Kim, 2006). Accordingly, one of the strengths found in hotel F&B business of Korea is that the hotels make full use of departmental interrelationship to build the structured marketing systems. F&B sales volumes can be boosted accordingly (Jung, 2007).

Any restaurant or F&B outlet outside of hotel properties other than their own are regarded as a common competitor to the hotel F&B outlets as well as to the entire hotel (Jung, 2007). When hotels are affected by various conditions including contemporary epidemics or international politics, the revenue portion contributed by F&B division means more than numbers. In Korea, one of the strategies to offset the business risk of room management and to increase their F&B revenue is to expand the F&B business to the outside of their properties. For example, the Plaza hotel in Korea first launched its offsite Chinese restaurant in the Federation of Korean Industries building in 1980(Jung, 2007). The Sheraton Walkerhill Hotel in Korea established an offsite affiliate dedicated solely for F&B business in 2001 (Hotel & Restaurant, 2001. 9). The InterContinental Grand Seoul has directly operated offsite F&B outlets such as the restaurant Marco Polo as well as the bakery Delimonde (Jung, 2007). These expansion strategies have utilized the hotels' established brand equity in developing the offsite F&B outlets and have enabled consumers to better recognize the names of new F&B outlets. The overall concept of the brand reduces some of the uncertainty of extended brands for consumers (Riley, 2005).

In Korea, the role of brand extensions when expanding a hotel's F&B business to the outside of the property has attracted much attention of the industry. Tower Hotel established an affiliate 'Sun@Food' that has launched more than 21 offsite restaurants as of December 2007. Having the hotel's brand equity as the solid foundation, Sun@Food has successfully targeted different market sectors with its offsite outlets including Spagettia, Tony Roma's, Mad for Garlic, and Pepper Lunch. Hotel Amiga is also enlarging its market share in the restaurant industry by establishing the independent corporation Amoje. Amoje has introduced the Swiss concept restaurant Marche and has employed the concept in developing small cafeterias. Amoje is appearing in the food courts of many high-end department stores and even enlarging its territories to other areas such as home shopping. In other words, it is fair to say that brand extensions have a significant impact on the hotel's F&B business performance. Those hotels that adopt the extended brand concept in expanding F&B outlets are far more likely to gain market share and be successful than those who do not.

Conclusion

The literature shows that branding has been one of the core concepts that companies practice to gain competitive advantages in the global market. There have been a number of examples showing that hotel companies have been also familiar with using branding techniques, especially brand extension. Considering the growing importance of F&B revenue contribution in the hotel industry, most of the hotels in Korea have employed brand extension to expand hotels' F&B to the offsite. The approaches that directly control hotel's F&B facilities and expand their F&B business to the outside of properties are clearly different from the general hotel industry's trend of leasing out or outsourcing unprofitable F&B outlets. Therefore, although the examples of brand extension for hotel's F&B management only come from the South Korean market in the literature review, the branding strategies could be a good reference for any global hotel company's F&B business plan.

Part III

Introduction

During the last decade, increased revenues from F&B divisions have contributed to the growth of a number of hotels. Accordingly, there has been a growing demand for an effective F&B management approach. Using brand extension is one potential approach to achieve hotels' successful F&B development as proved by the following case hotel in the Korean market.

Case Hotel: Westin Chosun Hotel, Seoul ('The Chosun')

In Part III, the case of Westin Chosun Hotel, Seoul, will be examined. The Chosun's successful brand extension techniques to develop its F & B will illustrate how the hotel's branding strategies work in the F&B industry. The case hotel is located in downtown Seoul, Korea. The property is a 453-room five-star hotel, employing an average of 190 employees. The F&B facilities include 9 restaurants, such as Vecchia e Nuovo, as well as bars and extensive banqueting capacity. With its renowned facilities and services catering to international executives, the Chosun was selected as one of the world's top 100 hotels by international financial institutional investors in 1999 and 2003. The property was not only referred as one of the top five hotels in Korea by *Business Traveler* in 2003 but also listed on Condé Nast's prestigious 2004 Gold List of "World's Best Hotels."

Brand extension applied to the Chosun

The Chosun is one of the leading hotels that intensely push forward F&B business expansion for their property development in Korea. The hotel has been able to maintain A2+ as the credit rating of its commercial paper since 2007, because its successful F&B growth was significantly taken into account for the credit evaluation (Korea Ratings, 2010). The Chosun's F&B business includes both its onsite and offsite outlets. In that regard, the hotel's F&B management may be examined according to the following three categories: direct brand extension; sub-brand extension; independent brand extension.

First, a hotel has total and direct authority in direct brand extension. That is, the hotel has direct responsibility for giving orders to the employees of extended F&B outlets, and the employees report to the hotel management. The Chosun manages a number of restaurants both onsite and offsite from the property. In addition to the nine onsite restaurants, the hotel directly owns and runs four offsite restaurants: Gramercy Kitchen, two branches of Vecchia e Nuovo, and In the Kitchen. In operating these offsite restaurants, the hotel explicitly displays the brand name within view, which provides customers with the impression that the restaurants promise to provide high quality of products and service. Indeed, the hotel has easily transferred menus, inventory, and human resources from the original restaurants to the extended brand restaurants. As a result, customers readily associate the offsite outlets with both the onsite restaurants and the hotel itself.

The Chosun extensively utilizes sub-brand extension as the second approach for F&B development. Sub-branding is a strategy to develop a new brand name in conjunction with a family brand name (Milberg, Park, McCarthy, 1997). Sub-brand extension can be a highly valuable strategy for the hotel industry in that it facilitates a subtyping process to differentiate extended brands from an existing brand (Milberg, Park, McCarthy, 1997). That is, a new sub-brand name (e.g. Marciano by Guess) may directly provide consumers with an explicit mechanism to resolve any inconsistency between the family brand (Guess) and its extension.

Sub-brand extension has enabled the Chosun to pioneer different segments of the offsite F&B market, partially revealing the original brand name. The hotel still controls and indirectly influences this type of business expansion. That is, the hotel's brand equity is implicitly intertwined in all aspects of the sub-brand outlets. Yet, the operators of the outlets are encouraged to be more independent and creative in developing their dining facilities. If customers approve the new brands in the long term, the sub-brands can be completely separated from the hotel's direct operations. As a result, the sub-brands can independently exceed the basic business in reputation, even without the representation of the family brand. The Chosun shows how to employ this strategy by running two branches of O'Kim's Brauhaus; an authentic micro brewery with worldwide cuisines, Bizbaz; a buffet, and several restaurants in the Incheon International Airport.

Third, the Chosun established an offsite branch of its F&B department as an independent corporation and aggressively enlarged its F&B market shares in various sectors. This independent brand extension mostly includes offsite bakeries, such as Day and Day, Dalloyau, and One Cupcake. None of these brands reveal the hotel's brand name anywhere. As an example, Day and Day, a bakery chain which operates in conjunction with more than 120 outlets of the retail supermarket E-mart as of April 2010, does not display the name Chosun anywhere in their stores. Day and Day, however, tries its best efforts to let customers recognize the extraordinary quality of the Chosun's bakeries.

As mentioned in the literature review, a strategic brand extension can positively affect the extended brands based on a similarity between the original brand and the extended brands. A hotel may initially design its F&B business plan to diversify the hotel's overall business portfolio. However, after a certain point of growth, the hotel requires a more organized and experienced body for F&B management. This may be the reason the Chosun established an offsite independent branch of its F&B department. For hotels, it is crucial to drive as much revenue as possible from F&B business by gaining competitive advantages in various market sectors, using any value included in or associated with the hotel brand.

Implications and Suggestions for Multinational Hotels

When hotels expand their F&B business, especially outside of the properties, they face many difficulties to overcome. As pointed out in the literature review, the time and expertise required to manage F&B services may not justify the return on investment. High labor costs and overheads of opening an offsite restaurant can be a burden, particularly in fierce competition with specialty restaurants. Hotels may seek ways to minimize the investment costs based on their brand value, proven service, and expert management. However, the fact that the extended brand restaurants are run by hotels encourages customers to have strong expectations from the restaurants. To satisfy those customers, the extended brand outlets are supposed to provide, at least, similar quality of food and service that the original onsite restaurants offer. As a result, the extended brand outlets incur high expenses of food supplies, facilities, and quality employees. In addition, if the outlet's performance is poor, the brand associations can weaken and dilute the whole brand equity and image. This may cost very much to change as mentioned earlier.

For any hotel considering the feasibility of employing brand extension for F&B growth, the restaurant business areas should be analyzed in order to compete with local specialty restaurants equipped with fine facilities and quality food service. Unlike the ones inside the hotel, the offsite outlets are especially required to select the most appropriate locations considering various conditions such as the original brand image, context, target market, and competition. In the scenario where a hotel lacks any required skills, the hotel may establish a specialized body in forms of a department, an independent corporation, a joint venture company and so on. As an example, the Chosun established an offsite independent branch of its F&B department. Similarly, many of the high-end hotels in Korea have established such specialized organizations. These establishments are dedicated for F&B business only. Thus, these organizations are specialized to manage risks and poor performances of the extended brand restaurants on the basis of the hotels' expertise and experience in both internal and external restaurant management. Clear decisions have to be made on which level of service the extended brand outlets aim to provide. The offsite restaurants have to position themselves according to the relevant target markets. Independent brand or sub-branding concepts can be utilized to give the impression that the extended brand restaurants are not merely subordinate outlets of the inside restaurants, but more creative and developed dining facilities on the foundation of the hotel's overall assets including its dedication to meet the customers' expectations.

Recommendations for Future Studies

As stated in Part I, there have only been a few studies that have explored branding extensions in hotels' F & B businesses. Thus, more research should be conducted on the development of brand extension for hotels' F&B. It would be helpful for the industry to know how the strategy works differently in various conditions considering demographics, locations, and ethnics as well as hotels' attributes including property size, target market, room numbers, and level of service provided.

Conclusion

Brand brings both advantages and disadvantages to the hotel industry in running F&B business. People may choose hotels extended F&B facilities because of the expected qualities associated with the hotel brand. This notion can raise expectations and positively appeal to a larger clientele. The extended F&B facilities may also fail the hotel if the customers' expectations are not exceeded. With fluctuations in economy, the hotel industry cannot afford to miss any chance to generate revenues. As the literature review explains that there is a growing contribution of F&B to the hotel industry, F&B is the area that the industry should not overlook. Among many strategies that can be applied to hotels' F&B management, expanding the business to the outside of property with hotels' extended brands may be worth noting as seen in the South Korean market. Multinational hotels are exposed to a dynamic global business environment. Thus, the strategy used by most of the upscale hotels in one country can be a good reference for the business development plans of the global hotels.

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