



Excellence in Hospitality Consulting
and Services Worldwide

Six Things To Consider Before Obtaining A Hotel Franchise

Stephen Rushmore, MAI, CHA, CRE

HVS INTERNATIONAL

372 Willis Ave.

Mineola, NY 11501

516.248.8828 ph

516.742.3059 fax

January 2001

New York San Francisco Boulder Denver Miami Dallas Chicago Washington, D.C. Weston, CT Phoenix Mt. Lakes, NJ
Vancouver Toronto London Madrid New Delhi Singapore Hong Kong Sydney São Paulo Buenos Aires Newport, RI

Six Things To Consider Before Obtaining A Hotel Franchise

Hotel owners throughout the world are starting to realize the benefits of utilizing a recognized hotel brand to create an instant identity and attract customers to their properties. For more than 40 years, franchising has been the most popular method for obtaining a hotel affiliation without giving up ownership or operational control. In the United States, more than 70% of all hotels are chain affiliated and less than 30% are independent. Elsewhere in the world these percentages are reversed. If you currently operate one of those hotels without a brand affiliation, you should probably consider a hotel franchise sometime in the near future. In today's competitive and global hotel market, being part of a group of hotels that share a recognized brand and provide services such as a central reservation system, marketing and defined operational procedures might mean the difference between financial success and failure.

With a number of hotel companies offering franchises, the selection process can become a complicated cost benefit analysis. Let me give you some things to consider:

- **Understand the brand image.** A hotel brand connotes a certain type of facility along with a specific level of quality. For example, Hilton is recognized by meeting planners for their first-class, group oriented facilities. Holiday Inn Express caters to more price sensitive travelers who are not looking for meeting and banquet rooms. Both of these brands are focused on entirely different traveler markets. Be careful to select a brand that will draw the market segments that will find your hotel facilities and level of service attractive.

- **Understand the feeder markets.** You need to know where your guests are likely to originate from. If you operate a Caribbean resort hotel catering primarily to Spanish vacationers, affiliating with a British hotel chain may not be the optimal choice. Hotel chains that have hotels in the markets you are drawing from provide a higher level of brand recognition.

- **Understand the total cost of the affiliation.** The actual franchise or royalty fee is only part of the cost of becoming part of a hotel chain. You will probably also be charged an initial fee for joining the chain, an annual cost of the reservation system, various marketing and frequent guest programs, and a liquidated damage fee should you want to terminate the affiliation before the term ends. When you compare the cost of one franchise with another, be sure to include all the expenses that will be incurred over the entire life of the agreement.

- **Understand the franchisor.** Your hotel's financial future could be largely determined by the actions of your franchisor. For example, be sure to investigate how the franchisor deals with impact issues such as giving similar franchise affiliations to other hotels in your market. With today's massive brand consolidation, it is likely that competing brands could become part of the same chain and start sharing reservation networks, marketing and other initiatives. Talk with some actual franchisees to determine their level of satisfaction with the franchisor. Also seek out some former franchisees who might have terminated their affiliations. Most countries require franchisors to disclose the nature of their active litigations, which often indicates the types of problems they face with their hotel owners.

- **Understand the performance numbers.** The primary benefit of a hotel franchise affiliation is the brand's ability to generate additional occupancy. Make sure the franchisor can prove their competitive advantage over the other hotels in your market. Ask for a comparison of actual operating results for other similar markets to determine the positive occupancy impact provided by such an affiliation.

- **Understand the franchisor's future.** Most hotel franchises run for 20 years—a long time for an important business relationship. During this period it will be necessary for the franchisor to aggressively control the brand image of the chain. This entails maintaining quality through regular property inspections and terminating franchisees that do not conform to the standards. Determine whether the franchisor will continue to grow or if the brand might start to stagnate. What types of marketing initiatives and brand enhancements are being planned? Is the chain spending money on technology such as improved reservation systems and Internet connections?

As with any business decision, those who thoroughly research the options and understand the issues involved are more likely to select the right course of action. Selecting the right hotel franchise is one of those decisions that warrants an all out effort to utilize a factual basis rather than a quick judgment.



By Stephen Rushmore, MAI, CHA, ORE, president and founder of HVS International, a global hotel consulting firm with offices in New York, Miami, Denver, San Francisco, Vancouver, Mexico City, London, New Delhi, Singapore, Sao Paulo and Toronto. Mr. Rushmore can be contacted at 1.516.248.8828 Ext. 204.