

# For franchisees, do brand benefits outweigh the costs?

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Do hotel brands still provide value for the significant percentage of revenue they claim through franchising fees?

Brands have always shopped themselves as providing unbeatable value through reservations, brand recognition and loyalty programs. Indeed, more than 70 percent of all hotel rooms carry a brand, according to STR.

“It’s a competitive market, and owners are asking what they will get and if they can negotiate with brands based on their unique circumstances, such as a property’s location,” said Chip Rogers, president and CEO of the Asian American Hotel Owners Association. “It all comes back to an owner’s perception of the [return on investment].”

But what, in particular, owners feel about the importance of brands is a bit of a mystery— Hotel Management contacted a number of hotel ownership companies for this article and all either declined to comment or did not respond.

Franchises and brands are a very necessary and positive part of the business, said Evan Weiss, COO and principal of LW Hospitality Advisors. The rewards and loyalty programs are “tremendously valuable.”

“Hotels with brands also are typically more easily financeable,” he added. “They are considered by many lenders to be safer and more profitable because the brand identity and tools drive business to the hotel.”

Tim Shuy, VP of owner & portfolio strategy, Choice Hotels International, sounded off on franchisee satisfaction. Choice franchises 5,739 properties in the U.S., and Shuy pointed specifically to the company’s Comfort brand. “There is very little turnover on Comfort because we have done a good job on the value proposition. Owners are happy with their ROI,” he said.

The economy helps, he added. Hotel industry health makes everyone more amenable to change, it seems.

During Choice’s annual owners convention, the company debuted a redesigned Comfort logo. Shuy said that as part of the logo update the company went back to the owners’ association, shared key customer feedback, walked through research results and listened.

“It requires trust for a logo change,” he said. “It’s usually more of a timing conversation, but generally speaking there wasn’t pushback.”

## Fee Trends

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Franchise fees appear to have less variance across segments or brands than they did in the past, according to the HVS 2016/2017 Franchise Fee Guide. The spread between the medians per product type is minimal, at only 0.3 percent variance. The median full-service franchise cost is 1 percent more than the median cost to franchise a limited-service brand, according to HVS.



*From left: Tim Shuy, VP of owner & portfolio strategy, Choice Hotels International; Champ Patel, CEO, Champion Hotels; Azim Saju, managing member and general counsel, HDG Hotels; and Jay Patel, CEO, Athena Hospitality Group. The four are part of the Rising Stars panel. Photo credit: Choice Hotels International*

The average fee as a percentage of total rooms revenue has ticked up when looking at 2009 data versus 2016/2017 data.

However, for all the money given to a brand company, independent hotels are proving that it is possible to survive without a flag—STR forecasted the independent hotel segment to have the largest revenue-per- available-room growth in 2018 (2.3 percent compared to 2.2 percent for the entire U.S.). Occupancy growth was expected to remain flat, while other segments were expected to see occupancy drops.

## FAC Input

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Franchisee advisory councils, the nominated or elected owners that liaise with their respective franchise companies, are usually seen as a method for open communication between brands and owners, but not all are equally effective, according to Rogers.

“It all depends on how the brands decide to use them, and whether communication goes both ways,” he said. “If they are responsive to hotelier suggestions and help the hoteliers understand why the brand is considering making certain changes or adding additional fees and seeking their honest input, then it is usually a win-win.

“FACs are most successful when the hoteliers that make up the council are a good cross-

section of franchisees.”

Choice believes it gets a good pulse with its touchpoints: the Choice Hotels Owners Council meets six times a year; they meet with AAHOA and field teams visit hotels directly, Shuy said.

“Additionally, the [area directors] meet with owners and management teams and give suggestions on revenue management and other issues,” he said. “We believe it’s a huge advantage for our owners.”



*Franchisees of Choice Hotels International attended the Rising Stars panel of experienced hoteliers, who will serve as formal mentors to newer franchisees. Rising Stars is a pilot program to highlight successful owners who also want to help other franchisees. Photo credit: Choice Hotels International*

## Unknown Variable

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The franchise contract is straightforward on fees for services provided, but when it comes to consumer competition, brands see upgrades and refreshes as a way to provide value to the customer, therefore maintaining rates and occupancy for owners. It’s a delicate balance.

“Larger brands are becoming more owner conscious, more friendly, but they’re still pushing on [capital expenditures],” Weiss said. “You do have more options with the proliferation of brands.”

As expected, owners sometimes push back on upgrades.

“There is very little leverage for owners against amenity creep,” Rogers said. “The relationship between an owner and a brand is governed by the franchise agreement. Because the relationship is contractual in nature, if the agreement allows new or increasing fees, there is little if anything the owner can do. When choosing a ag, owners should look to the brand’s history as far as fees go, but it ultimately comes down to what the owner perceives as his or her ROI. ... There are risks, for past fee structures are not necessarily indicative of future trends, especially as brands shift approaches to meet consumer demands.”

Weiss said the choice can come down to brand availability in any given market. “Then you see who is offering key money, who is offering better ramp up, you look at the [central reservation system] and the loyalty program,” he said. “Those are some of the factors you try and help an owner sort through, but also some clients just want to be in a particular brand family.”