Bed and Breakfast Wire

Fire Your Franchisor? - By Craig W. Cooley

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Maybe there is merit to giving this some consideration. Here is why...

First, lets consider what has changed recently that might make this a serious consideration, franchisor vs. independent hotelier.

• **Internet, internet, internet...** As Thomas L Friedman suggests, in his recent best selling book 'The World Is Flat', technology has flattened the world. Indeed we can 'see' everywhere, 24/7, and with great detail we can communicate globally, 24/7.

This means for the hotelier that any property anywhere can now easily and quickly be located in a manner that was simply not a possibility just a few short years ago. An independent property can now more easily present their intrinsic and unique features in greater and more appealing detail than before; in a customized manner. And realizing that content rules the roost here, the more content we provide in greater and more compelling detail, the more likely to convert shoppers into buyers. The playing field has also been flattened.

For the franchisor this change means the visibility that they have traditionally provided can be easily challenged and therefore it likely has lost some value; their one size fits all branding may not be a custom enough of a fit for a truly unique and appealing property, and/or a property in a truly unique and appealing location.

• **3rd Party Re-Sellers....** Let's face it, they have become experts at providing an abundance of location and product information to help sell our properties; from packaged theme parks, to corporate business meeting solutions. There is virtually nothing off limits for these aggressive marketing companies. Franchise companies may be strong at promoting their 'brand' on a national level, but when it comes to local integration of all the destination area's features and property amenities, the 3rd parties have it down. Even small weddings, anniversaries, class re-unions can be booked through a partnership with Travelocity through a website portal, (www.Groople.com), partnered with local food and beverage facilities and entertainment attractions that you may not have even considered.

Another item the 3rd party resellers have really taken a lead in is their rating systems. Expedia recently created the most comprehensive and successful model; likely everyone will soon have a standardized customer rating system.

Even the franchised hotels have to be concerned with this; they can no longer simply stand behind their brand name. Suddenly 'Trip Advisor' with their motto 'Get the truth, then go!' has become the savvy traveler's best friend for evaluating hotels, (www.tripadvisor.com). Even AAA and Mobil Travel Guide have become more valuable selling tools, especially for the independent hotel.

And the last consideration when examining the rd party resellers is realizing the worth of their strong internet visibility. This is particularly important in many popular destination locations where the competition is fierce. Recently we in one such market were successful in achieving an 82% production with 3rd party resellers, without any loss of net ADR. I feel production can easily reach 75% in similar locations. In commercial locations more than 35% of our reservations were from these same 3rd party sources. The argument that 3rd party resellers with their heavily discounted rates were just a temporary remedy and merely a comeback recovery tool after 9-11 has faded into history. They have become 'package' and 'partner' experts in the sales and marketing of our guest rooms.

That brings me to another important topic with rd party resellers, net ADR. I made a careful examination of the 3rd party discount costs compared to our more traditional GDS and TA reservations. I found that typically our ADR appears higher for GDS / TA reservations when compared to the ADR for 3rd party. But I also found that when I compared apples to apples, net revenue for both revenue sources, that the expense for 3rd party resellers is actually the same or less, as represented in the following examples:

What Mobile App Do You Use The Most?
Hotel Pms Solutions
Feature Requests

Recent Comments

SALTO NFC enabled XS4series
iPads are not customer service
Fail
query from the V.P. Of Hospitality - North America
Sorry about that

Newsletters

Hotel Industry News
Hospitality Newsletter
Hospitality Trends
Hospitality Technology
Your Email Address
Go

Average GDS Fees		
Room Rate		$75.00
Length of Stay	1.5	
Gross Room Revenue		$112.50
Typical 5% Internet Portal Fee	5.0%	-$5.63
Typical GDS Pass Through Fee	$5.50	-$5.50
Travel Agent Commission	10.0%	-$11.25
NET REVENUE:		$90.13
RESERVATION COST:		$22.38

Average Franchise Fees		
Room Rate		$75.00
Length of Stay	1.5	
Gross Room Revenue		$112.50
Average 10.9% Franchise Fee	10.90%	-$12.26
Travel Agent Commission	10.0%	-$11.25
NET REVENUE:		$88.99
RESERVATION COST:		$23.51

Average 3rd Party Discount		
Room Rate		$75.00
Length of Stay	1.5	
Gross Room Revenue		$112.50
Net Discount 19%	19%	-$21.38
(23.5% Mark Up for Sell Rate)		
Allowance Credit Card Processing	2%	$2.25
NET REVENUE:		$93.38
RESERVATION COST:		$19.13

WALK INS or PMS BOOKING ENGINE DIRECT		
Room Rate		$75.00
Length of Stay	1.5	
Gross Room Revenue		$112.50
NET REVENUE:		$112.50
RESERVATION COST:		$0.00

As you can see the best bargain is certainly our 'direct' channel, but surprisingly the second best is often the 3rd party channel; in this example a savings of $3.25 over our GDS or franchise source reservations. A recent phenomenon, with last year's de-regulation of the GDS and the very competitive market for therd party re-sellers, is the negotiability of the GDS and 3rd party discount percentages. In my recent experience I was successful in obtaining a 19% discount rate with a major 3rd party name brand, or in the manner that they prefer to view it, a 23.5% markup margin with reseller parity.

It can all be confusing and certainly is in a state of rapid change; change that often can bring opportunity.

• **Property Management Systems...** . The PMS has been long considered a sacred component of the franchisor's offerings by the property operator. Indeed it has been the owner's and management's security; their means of connecting to the revenue pipeline; their means of managing their property, front and back of house.

While their sheer size and leverage can allow the franchisor to develop strong new management software products, there is now also a plethora of new off the shelf property management systems, (PMS). Some also offer very powerful business intelligence modules integrated into their software that are often more powerful and dynamic than anything the franchise has to offer. With these new PMSs' available there are now many more reasonable priced solutions. No longer does the large franchisor have a corner on the market.

Indeed, some of the more visionary PMS suppliers have leapt from being just software companies to becoming full service PMS companies, with insightful marketing and dynamic technological support that wasn't there before; with

3rd party and GDS connectivity and integrated room's inventory management; customized revenue and yielding management tools. Simply put, they realize that if they can provide intelligent business information that supports their product and the utilization of their technologies, they have placed themselves in a great spot in an evolving marketplace. There are some excellent and scalable PMS solutions to choose from; perhaps most importantly they can often be custom tailored to your product for a perfect fit.

• **Condo Hotels...** In the laws of supply and demand we all know that the more 'supply', the less the 'demand' and revenue opportunities. The hospitality industry is going through a profound increase in supply. But surprisingly not from new construction. Rather it is the multitude of resort condominiums and timeshare properties, (often referred to as 'vacation ownership' properties) and condominium associations. For the first time these 'CondoTels' can be easily marketed to the user with new software and internet connectivity. A process that simply was not reasonably feasible in the past. Suddenly we have a great many more guest rooms, or two room suites, available in the market place and many of them are in great resort locations. LeisureLink, (www.LeisureLink.com), a relatively new company with full GDS and Travel Agent connectivity, has taken a bold step to capture this market, and indeed they have created their own independent market segment 'GDS' to service their new customer base.

With 'CondoTels' on the market they will primarily impact the leisure travel market, but will likely have some strong effect on the corporate/commercial traveler with multiple night stays. The independent hotelier and franchise company's market shares will likely be substantially impacted, particularly 'extended stay' properties.

• **Numbers don't lie..** . Ok, some things have changed, but what about real costs and benefit comparisons to being an independent hotel vs. a franchised hotel.

Let's look at some averages for a mid scale 150 unit properties, along the line of a Comfort Inn, Holiday Inn, Radisson, Hampton Inns & Suites, Ramada, or Marriott. Let's keep it simple with an annual occupancy of 65% and an ADR of $75, 10% of the guests are on a loyalty plan, 25% are from 3rd party sources, and 15% are from the property web site. All these considerations affect the outcome. You can see how it compares in the following model1, Independent vs. Franchise Expenses2.

1 This business model is based on a three year term comparison of franchise expenses vs. independent management expenses. The initial franchise start up fees and the initial PMS (property management system) training and start up expenses are amortized over the three year term in their respective areas in the comparisons. While the franchise expense information obtained for this comparison was from publicly available sources including the Uniform Franchise Offering Circular distributed by the FTC, we have for the sake of simplicity averaged some of the information. Additionally some individual franchises fees may vary greatly with revenue and we recommend contacting the specific franchises being considered for actual costs as they may relate to your revenue. 2 The Federal Trade Commission regulates the sale of franchises. Information regarding each franchise fee structure was obtained through a disclosure document known as a Uniform Franchise Offering Circular.

Expense Comparison	ECONOMY
REVENUE	
Property Statistics	
Number of Rooms	100
Average Rate	$50
Annual Occupancy	65%
Property Revenue	$1,186,250
Total Three Year Revenue:	$3,558,750
EXPENSE COMPARISON	
Franchise Expense	
Annual % of Gross Revenue Franchise Fees	9.0%
Total Three Year Franchise Expense:	$320,288
Independent Expense	
Three Year Property Mgmt. System Expense	$81,530
% Gross Rev. E-Commerce Marketing	3.0%
Three Year Marketing Expense	$106,763
Total Three Year Independent Expense:	$188,293
Independent vs. Franchise Savings:	
Monthly Savings	$3,667
Annual Savings	$43,998
Three Year Savings:	$131,995

Expense Comparison	MID LEVEL
REVENUE	
Property Statistics	
Number of Rooms	150
Average Rate	$75
Annual Occupancy	65%
Property Revenue	$2,669,063
Total Three Year Revenue:	$8,007,188
EXPENSE COMPARISON	
Franchise Expense	
Annual % of Gross Revenue Franchise Fees	10.9%
Total Three Year Franchise Expense:	$872,783
Independent Expense	
Three Year Property Mgmt. System Expense	$97,380
% Gross Rev. E-Commerce Marketing	3.0%
Three Year Marketing Expense	$240,216
Total Three Year Independent Expense:	$337,596
Independent vs. Franchise Savings:	
Monthly Savings	$14,866
Annual Savings	$178,396
Three Year Savings:	$535,188

Expense Comparison	PREMIUM
REVENUE	
Property Statistics	
Number of Rooms	300
Average Rate	$150
Annual Occupancy	65%
Property Revenue	$10,676,250
Total Three Year Revenue:	$32,028,750
EXPENSE COMPARISON	
Franchise Expense	
Annual % of Gross Revenue Franchise Fees	10.6%
Total Three Year Franchise Expense:	$3,395,048
Independent Expense	
Three Year Property Mgmt. System Expense	$138,980
% Gross Rev. E-Commerce Marketing	3.0%
Three Year Marketing Expense	$960,863
Total Three Year Independent Expense:	$1,099,843
Independent vs. Franchise Savings:	
Monthly Savings	$63,756
Annual Savings	$765,068
Three Year Savings:	$2,295,205

Franchise operations indeed have the laws of averages set in their favor, like insurance companies and the gaming industry, they do the math, and they know just how much 'revenue' based fees the market will bear when considering the value to return ratio for the services they offer. That is OK; everyone is in business to make a living, you provide a service, you deserve to be reasonably compensated.

But admittedly there are many considerations, with product value and brand image ranking near the top. And as an example for mid-range properties, franchise fees of half million dollars in fees for a three year period, would also be near the top.

It is fair to say there are a great many 'good fits' for franchise operations and property owner / investors. But with the quickly changing topography of our cyber centric culture it begs to ask the question is the property franchise you have or the one you may be considering a 'good fit', is it optimal? Or is likely that other more dynamic independent custom tailored solutions would be a better fit; solutions that provide the benefit of a sharper marketing edge that may indeed be a necessary component for financial success? If you have multiple properties should you consider your own independent 'branding'?

All things considered, alternative independent product distribution and marketing options are at a minimum a bargaining point when negotiating franchise fees; on the other hand, they may indeed well be the best product marketing business solution, bringing the best ROI.

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