

# Reinventing Hotel Franchising

By Stanley Turkel

As we approach the year 2000, is there a hotel company out there that can reinvent hotel franchising? The 21st century franchisor would examine every aspect of its relationship with existing or prospective franchisees.

It would create a new system of franchising that would be so mutually beneficial that it would attract entrepreneurs, owners and investors. A hotel company would develop a franchise license agreement with features that would be far more owner-friendly to franchisees with regard to royalty fees, exclusive territories, termination clauses, renewal terms and product improvement requirements.

A company that could reinvent franchising would reveal just how good a reservation system is with regular reports quantifying the number of room nights actually delivered to franchisees. If the performance of a hotel brand fell below a certain agreed-upon reservation and occupancy level, the franchisee would be able to exit the system without paying any liquidated damages.

It would help to create independent franchise advisory councils which would partner with the franchisor to monitor service levels, insure compliance with license requirements, negotiate changes in product design, etc.

Revolutionizing franchising would help in the creation of purchasing cooperatives so that the rebates paid by preferred vendors would be shared equally. In any event, franchisees would be free to buy from any vendor (not just those mandated by the franchisor) as long as specifications and quality were equal.

A progressive hotel company would enable a franchisee to exit a license agreement without penalty after sixty days written notice provided the franchisee met certain reasonable prearranged conditions, such as being current in fee payments and passing the most recent physical inspection. In all other cases, the franchisee should be able to exit the system without liquidated damages after giving the franchisor a reasonable period of time to replace the property in the marketing area.

In creating a mutually beneficial franchising culture, the 21st century franchisor will carve out an exclusive territory for each franchise with definitive boundaries, so that no property of the same flag can be licensed. Regarding an affiliated brand, an independent impact study should be commissioned to determine the extent of incremental impact. The impact study should be paid for equally by the

franchisor and franchisee.

The franchisor would seek approval from a majority of the franchisees before:

- Increasing fees for reservations, advertising, marketing, training programs, computer and software upgrades, etc.
- Changing the physical requirements for facade and building design, signage, amenities, guest room and bathroom design, public space, recreational facilities, landscaping, food and beverage outlets, etc.
- Creating a new brand name.
- Engaging in any cross-brand selling through the franchise database.

It would mandate mediation and arbitration (in that order) to settle disputes. In the event of such disputes, the proceedings would take place in the county and state where the hotel is located, not in the franchisor's home state.

Finally, if the franchisor sells the brand to another company who changes the system requirements, the physical standards, or the level of amenities, the franchisee would have the option to depart the system without payment of any liquidated damages. The distinctive qualities of such a franchise package would create a level of trust between hotel owners and franchise companies that does not now exist in the hotel business. It would be the sine qua non by which all others are measured and, I believe, would be hugely successful.

*Stanley Turkel, MHS, ISHC is a New York-based hotel consultant specializing in operational audits, asset management and litigation support services.*