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Global Hotel Chains and Franchisees

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Abstract:

This article examines the concept of global hotel chains and franchises in the hotel business. The article presents the main characteristics and advantages of such networks, as well as their features and operating principles. The differences between global hotel chains and franchisees, their impact on the hotel service market, and the specifics of managing and interacting with franchisees within such chains are examined.

Keywords: Hotel market, global hotel chains, franchise, independent hotels.

The hotel market can be formally divided into two parts. The first includes "independent hotels," which are not part of hotel chains, are not franchise owners, and are managed independently by their own staff and managers. The second part includes network hotels that are part of international and Russian networks, are managed centrally, and possess all the characteristics of a single brand.

Hotel network (chain) - an association of hotel real estate objects that have a single level of service, provide the same composition of additional services, have a single design solution and style, and work on the same principles with guests.

Cooperation begins with choosing a form of contract. The choice is important primarily because it shapes legal interactions and financial conditions.

The main forms that have a legal basis and can be offered to the owner are:

- Management Agreement (Trust Management Agreement or Sole Executive Body Agreement)
- Real Estate Lease Agreement
- Franchise Agreement (Management within a franchise agreement)

Each of the options works effectively with a certain number of rooms. A management contract will be less effective with a room fund of up to 30 rooms. The share of management services costs in this case will be significant in the income/expenditure budget.

A rental agreement will be less attractive for hotels with a large room fund (from 70 rooms), as rental deductions will be lower than the income from average annual occupancy. In this case, the owner receives a stable monthly income (guaranteed) and reduces the risk of not receiving income.

The management agreement between the property owner and the management company provides for the hotel's compliance with the standards of the selected chain. Such parameters include: the size and configuration of rooms, hotel halls and corridors, the composition of services, the number of elevators of different categories, etc.

Management implies the complete conduct of economic activity at the facility. Within the framework of the contract, the operator implements hotel standards, carries out personnel policy, trains personnel, conducts sales and booking of rooms, and manages finances.

The operator monitors the quality of service, in accordance with the parameters of the hotel brand. Reporting to the owner is held once a month, following the calendar month. The reports reflect the hotel's operating parameters according to the adopted annual budget. Conducted operations, deviations, and additions are contained in the report. The management agreement is concluded for an average of 5 to 20 years, depending on the operator and brand.

The remuneration for managing a hotel consists of two main payments:

Base Management Fee is the main payment, which constitutes a fixed percentage of the hotel facility's total revenue. That is, revenue from all services: selling hotel rooms, bars, and restaurants, organizing events, providing additional services, and so on.

Incentive Fee - this payment is tied to the effectiveness of the management company's activities and depends on the hotel's total operating profit.

There are also incentive rewards, marketing and booking fees, and license fees. Each hotel brand has its own reward and payment scale.

Rental in the hotel market is a rare phenomenon. Comparing rates with commercial real estate objects is incorrect, the hotel is a more complex instrument in terms of management and costs, and in terms of the formation of income items. Hotel chains do not operate in this format, with rare exceptions. This direction can be interesting for developing chains that set the task of entering new markets. The methodology for calculating management conditions can be different, both as a specified percentage (18 to 35) of gross revenue from all hotel revenue points and as a fixed monthly payment.

A popular area of interaction between real estate owners and hotel operators. For owners, there is one and the main advantage: they buy a package of standards, regulations, and services for work. The ability to quickly transition and implement all standards. Only the object's compliance with the operator's requirements is required.

A franchise is an object of contractual relations, a set of rights covering intellectual property objects for one or more trademarks, trade names, industrial designs and samples protected by copyright, as well as know-how technology and trade secrets that the franchisee will use to sell goods or provide services to consumers.

Franchise is the ability to conduct business under someone else's expanded brand, paying a down payment and making regular deductions in the form of profit percentage or fixed amounts. A franchise is a kind of complex of benefits consisting of a trademark, business methods, and comprehensive support from the franchisor at the stage of launching and operating a franchise enterprise (store, restaurant, office, production, etc.).

The object of partnership between the buyer and seller in franchising relationships is often called a business franchise. This definition perfectly reflects the essence of what is happening: first of all, it is a business, the main goal of which is to obtain profit for the parties. But this business is not built on a blank sheet, but on the basis of a concept that has proven its effectiveness, sustainability, and the product or service of franchising is in demand.

The franchisor makes such payments:

Franchising license payment

Permanent/periodic deductions

Expenses for advertising, marketing, promotion

Booking interest payment

Benefits for the franchisor:

Staff is standardized and trained

Unified interior design, navigation, uniforms, advertising

Unified Network, Reservation, and Reserve Standards

Network image, hotel brand, business reputation, company name

The attractiveness of the hotel as an employer. It's worth noting that in this case, the owner can create their own company or hire a management team to run the business. He can also engage a company to manage a hotel with a franchise. The contract form determines the advantages and disadvantages that the hotel owner will receive from joining the network.

To the positive side of working within the hotel chain:

Standardization of services, service, quality

Personnel adaptation, training, implemented regulations

Sale of hotel services (booking)

Marketing, advertising, and promotion

Brand recognition, status

Income per hotel room is higher

Unified client base

Guest loyalty system

Financial reporting standards

Unified Hotel Tariff Policy Options

Implementation of tested new technologies

Consulting throughout the entire length of hotel project creation

Adaptation to local conditions

Unified Internet Resource, Directories, Reference Books

Unified brand attributes. Accessibility for guests across the country

Experience and development of network objects

Monitoring and quality system for the hotel network

Frequency higher than independent hotels

Support for the entire duration of the management agreement

Long-term management agreement

Monthly financial reports.

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