

HOTEL GROUPS DO NOT OWN THEIR OWN HOTELS

In the hotel business, Hotel Groups such as ACCOR Hotels, IHG, Marriott, or Hilton are mostly asset-light. This means these groups do not own the hotels that carry their brands. For instance, you may be surprised to learn that the Holiday Inn across the street is not the property of IHG, the Sheraton you stayed in for your last vacation does not belong to Marriott, and ACCOR Hotels does not own the Novotel where you had your last business meeting.

These hotels belong to many kinds of owners, ranging from wealthy individuals, companies or even institutions, who all want to maximise business from their property. They, therefore, turn to Hotel Groups to provide services and support their business.

WIN-WIN DEALS

Hotel Groups need the hotel owners to expand their network footprint and to generate fees against the services provided. On the other hand, hotel owners need Hotel Groups to select from renowned hotel brands and benefit from powerful distribution and loyalty systems, the latest technology capabilities, and hospitality expert teams. This win-win deal transforms into either a Franchise Agreement or a Management Agreement.

FRANCHISE AGREEMENT KEY FACTS

In this case, the Hotel Group (e.g., ACCOR Hotels) is the franchisor, and the hotel owner (e.g., an individual) is the franchisee. They sign a Franchise Agreement for a specific hotel brand (e.g., ibis).

The overall principle of a Franchise Agreement is that the franchisee operates its hotel in compliance with the brand standards.

The franchisee is required to pay:

- A franchise fee, including the brand trademark, is based on the hotel's turnover percentage
- Mandatory services fees usually cover marketing and sales fees, distribution and loyalty fees, IT fees, hotel quality control and brand compliance audits fees.
- The franchisor must provide all the brand standards and deliver the mandatory services.
- The better the hotel's topline is, the better the franchisor's revenue is.
- With AccorHotels, Franchise Agreements are very common for economy and mid-scale brands.

MANAGEMENT AGREEMENT KEY FACTS

In this case, the Hotel Group (ex: AccorHotels) is the manager, and the hotel owner (ex: a financial company) is the managed owner. They sign a Management Agreement for a specific hotel brand (ex: Sofitel).

The overall principle of a Management Agreement is that the manager operates the hotel for and on behalf of the managed owner in compliance with the brand standards.

The managed owner is required to pay:

- A base fee and brand trademark correspond to a percentage of the hotel's turnover.
- An incentive fee based on the hotel's gross operating profit.
- Mandatory services fees usually cover marketing and sales fees, distribution and loyalty fees and IT fees.

- The manager is required to optimise the hotel's operation and deliver the mandatory services. The better the hotel's top and bottom lines, the better the manager's revenue.
- With AccorHotels, Management Agreements are very common for upscale and luxury brands.

MORE SERVICES ON DEMAND

The parties can agree on additional service delivery in both franchise and management cases. Most Hotel Groups have a range of optional services that answer specific needs throughout the hotel's lifecycle.

These optional services cover many fields, such as hotel renovation, revenue management, exposure to distribution channels, learning and development for hotel staff, procurement and much more.

These optional services are sold to the franchisee or managed owner at an additional cost. The franchisor/manager's role is to recommend these optional services when best needed to answer an issue the hotel encounters. The franchisee / managed owner always decides to agree on optional services.

HOW TO CHOOSE?

So, how does an owner choose between a franchise or a management agreement? The decision can be made based on numerous factors, but in general, a franchise agreement is best for an owner who wants to have "hands-on" involvement in the daily operations of their hotel. This person may already be an experienced hotelier.

A managed owner may instead be someone who does not have the desire or experience to run the hotel themselves. Their expertise or business interest is more strongly linked to hotel ownership's real estate investment aspect.

While the type of agreement chosen is important for the Hotel Group, it does not impact the guests. Based on the application of the brand standards, they enjoy the same experience whether they stay in a franchised or managed hotel of the same brand. (Ravanant, 2020)