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Assignment 1

Question:

Explain how the franchise system for Hotels (in general) are carried out?

Answer:

Introduction

Hotel businesses are among the popular franchising business model. The main business focuses on hospitality service as main source of revenue stream. Globalizing the hotel business is the motive of each of the industry players. The businesses always look forward for the opportunity of expending further especially globally. Meanwhile, although the hotel might have sufficient fund to extend their business further locally and globally, they will be still limited to their capability of controlling all the hotels. There is where the hotel management fined franchise as a good method of expending locally and globally.

At the same time, expending globally is not an easy task as need a serious market research and studies of the new market in the new country before entering the market. Beside, the hotel need to make sure several factors are took into accountability before deciding of expending to certain countries. As a kick to this problem, franchise business allows them to expend the business globally at the same time; they do not need to worry about the controlling or handling capability as it being taken care by the franchisee. And for sure the business progress will be reported back progressively. Meanwhile, the franchisee will also conduct the appropriate market researches to know how the business can work out in that particular place before he chooses to be franchisee.

Hospitality service franchising is slightly different because it is following business format franchising but seriously known as management contract arrangement. This is because the both parties are not tight with real franchise concept but merely an understanding agreement to benefit both parties. The fees will be high because franchisor does not own the business. Therefore he tends to charge high fees and loyalty to share this goodwill which is the hotel name, brand name, customers, management system, and others. This high fee does not let the franchisee down as they are eager for the brand name and systems which will help to enhance his hotel business to get more customers. Brand name also ensure the hotel reaches the customers faster than before as it is well known brand.

Management Contract Arrangement

Hospitality service franchising bounded by this agreement to keep them tied in business format franchising without owning over the franchisee's business. The franchisee will still be the owner of that particular hotel because he is not surrendering his ownership on the hotel properties. This agreement signed between the Hotel Company (franchisor who own the branding) and Hotel Owner (franchisee who own that particular hotel property). This sounds like Memorandum of Understanding or joint venture between both parties but it is not. The both parties will now work as one team but never losses their ownership at the same time entitled to pay certain fees periodically while running the hospitality service under that franchisor's brand name or other shared resources such as system.

This agreement allows the franchisee to use brand name, logo, slogan, color theme, and interior design similar to the franchisor as they are contracted and legal. The agreement also includes agreed period for continuous reporting to the franchisor. The franchisor can decide on how often he would like to see the report of the franchisee's business progress. This will ensure the franchisor had franchise the business to the right people whereas positive business progress is required to ensure their brand popularity. If the franchisee business do not making any good progress, it might be also due to poor franchisors brand power or lack of franchisee's management. Therefore the both parties can react to protect their own interest and roll back the agreement on mutual acceptance. By this, franchisor ensures their brand given to the right people. At the same time, the franchisee can take other brand to franchise which he might be believe to be stronger brand than earlier.

Cloning Management

One of the important features of franchise is not easy to clone. This is to avoid others cloning the business model and making money of out the real business model or idea. But in hospitality service franchising, we can find the different approach whereas the franchisor will make sure his business ideas and managements can be easily cloned. This will allow the franchisee to clone the franchisor's management follows the same method of management. This will increase the management skill of the franchisee. Why it is made to be clone-able? The answer is; in hospitality franchising, the franchisor looks to expend his business with less control and handling. Therefore making the business easily clone-able makes him to share the business model without need monitor or control. Things have been made easy for all parties. But for sure this is not for free and all are charged with its respective fees. Among the most clone-able parts of franchisor's business model are the operating procedures, management, controlling methods, marketing tools and activities, referral programs and reservation system. All this are not compulsory for the franchisee to follow. He can choose on what to follow and what to not because at the end of the day, he is the one will be operating the business daily.

If the franchisee chooses to clone those parts, the franchisor will increase the fee amount based on the cloned parts. In hospitality franchise, the most cloned part is the reservation system whereas the franchisee will want to follow the central hotel reservation system whereas the potential customers can call to the central hotel (franchisor) and reserve or book room in franchisee's hotel. This ensures the communication flows proper and no potential customers missed out. Same applied for marketing whereas what ever marketing activities conducted by franchisor hotel will also reflect the franchisee hotel.

Fees

Most crucial and interesting part of franchising business model is the fees paid by the franchisee to the franchisor. In classic way of franchising, the franchisee will pay a large sum of money as deposit to start franchising. This deposit is still refundable when the franchisee decides to quit. In hospitality franchising, this deposit often not imposed. The reason is, the hotel building and other hotel properties are not belonging to franchisor but it all prepared by the franchisee. Deposit played part in classic model to prepare the new outlet building and equipments. In hotel case, all the preparation carried out by the franchisee before signing the management contract arrangement. Therefore, franchisor will not require this large amount of deposit.

In contrast, they will impose one time up front payment which often non refundable. This goes in the way as an initial setup fees. The amount will be large as well because the franchisor will be giving the permission to franchisee to use his well established brand name. Furthermore, the franchisee also needs to pay ongoing fees which can be considered as loyalty fees. These ongoing fees depend on how much resources being shared between the parties. The more the franchisee clone out of franchisor, the more he needs to pay in return as ongoing fees.

The best part is, the fees are also charged based on the franchisee’s hotel or business size. Normally the number of staffs and the number of rooms will be taken into consideration to impose a proper fee on this franchisee. The bigger the hotel is, the bigger the fees will be. Additional fees such as promotion and advertisement will be imposed on the franchisee too if the is participating in the pool of promotion.

These fees will be used by the franchisor to cover the charges he face for sharing the resources. Such as central reservation will need more staff to handle when there are more franchisee, so the cost will be covered well. The balance of the fees is solid profit for the franchisor and he can decide to reinvest on improving his service or anything else. This is the main reason to claim that loyalty fees are second highest expenses of the hotel after payroll expenses.

Conclusion

Main customers in hotel business are the travelers. These travelers do travel across multiple countries. Therefore, if the brand established well and impressed that particular traveler, he will for sure look forward the same branded hotel to stay in although he goes out to other countries. This shows that potential customers are available worldwide and therefore expending globally is very important as well it will helps to bid for more market share as well as revenue. Franchising is a good method to adopt to expend widely with less hassle whereas low control and handling problems.

Hospitality franchising is slightly differentiated with other normal business format franchising as there are several rules been made flexible such as controlling and ownership. This benefits both franchisor and franchisee. The franchisor will get more brand exposure when they expending together earn more fees as profit. At the same time franchisee will be getting more customer who are aware of the brand's goodwill besides business model cloning allows more simplified management and saves management fees.

Word count: 1490 words

<u>Assignment 2</u>

Question:

What suggestion would you recommend to the franchisor of Hotels to improve their relationship with franchisees?

Answer:

Introduction

Hospitality franchising seems to be the most flexible franchise as many factors of core franchising model is being loosen to fit the both parties. This makes this business model as the most preferable way of franchising. But everything that comes with advantages will of course be accompanied by disadvantages as well. This applies to hospitality franchise as well. Many challenges are faced by both franchisor and franchisees in this franchise activity. This treats the relationship between both parties and relatively, the franchisor need to overcome these challenges to ensure the contractual relationship last longer.

Operation and Control

In hospitality franchise model, the franchisor had limited control over the operation and other activities. This enables the franchisees to run their hotel business under their own control and monitored passively by franchisors. Franchisee is the hotel owner and no wonder he should be given enough authority to operate and control his hotel although the branding is owned by franchisor. In some cases, franchisor tends to be more protective over their branding and they will try to take more control over the franchised hotel. The reason for this is to ensure their quality of service does not drop below the standard practiced by the franchisor. Of course this will make the franchisee unhappy because he is the owner who put in all investment for the building and everything, but at the end of the day, he left with not enough authority to operate and control his own unit. When franchisees are not happy or satisfied, the franchised business might not success. This will seriously affect the relationship between the parties and results bad impact of the franchised business.

Franchisor must overcome this situation or challenge by loosening down control over the franchised hotel. This will enable the franchisee to operate over his unit more flexible. This do not mean the franchisor need to loss all his control over the unit but yet he need to minimize the control and keep in update with the unit's activities as well as performance. At the same time, if the franchisor worried regarding the quality of service, then he can provide more training to the franchisee on how to control the quality up to franchisor' predefined standards. As a result of it, the franchisees and franchisor relationship will last longer.

Profit Sharing (fees)

Fees that earned by the franchisor is their solid profit from the franchised hotel. According to Rushmore and Henriksen (1999) studies, they found that franchisor fees are the highest expenses for the hotel after payroll. This is remarkable and concludes that hospitality franchise fees are not small at all. Besides the franchisee worked hard and operates the hotel unit with less control and support from the franchisor and end up paying large amount to franchisor. Again, the logic is very simple, when we work hard, we do expect something high out of it to benefit us first. Same applies to the franchisees; they work hard and expect a good return from it to benefit them first. But it seems like the work is benefiting the franchisor better than him. This will make the franchisee feel unacceptable. If this situation continues, it will spoil their relationship and might terminate the management contract agreement.

The franchisor must overcome this situation by reinvesting back some of the fees on the franchisee's unit in return. Or else the franchisor should reduce the fees. But in most cases, franchisor will be stubborn to not reduce the fees as they wanted to earn more. That is not wrong at all because that is what all franchise core business model is about. What would be the best is reinvesting the fees on the franchised unit so the franchisee can see the franchisor putting some investment back on his unit. Investment can be in the form of marketing, financing and development. The franchisee will be aware that the franchisor is reliable to invest continuously on the hotel unit as he continuously pays the fees. The franchisor is not losing the money because he had reinvested it and investing means plant now and harvest later which will bring benefit back in the circle.

Communication

Communication is another important part in relationship. Here, the franchisor and franchisees must continuously communicate and update each other over the business process. The franchisor controls the franchised hotel business less and this might cause them to communicate less. This is where is goes wrong, when you are having lesser control, means you must always be updated over the progress otherwise you will be lost.

Therefore franchisor should always communicate with franchisees and vise versa. The main thing to exchange about is the business progress and planned future development. This makes both parties are in the right flow and promises good and reliable relationship.

Ideal Franchisees

The selected franchisee must be the right person for the business otherwise it will fail the new unit as well as destroy the relationship. Simple criteria for selecting the good franchisee for hospitality services are; dominant, steadiness, high compliance, and high influence.

First, franchisee should a dominant whereas he is the one going to operate and handle the whole unit and he need to be dominant. Independent is not necessary as he can have a group of people to support his operation. Second, franchisees must have steadiness whereas they must stick to their decision until the end and never easily loss out of the business and stick longer in contract. Third high compliance, he needs to do what exactly he needs to do without failing. Forth is high influence, his influence will support the business to bid for more potential customers and that’s what franchisor wants too.

Conclusion

Loosening down the control, reinvesting the profit, keeping communication active, and choosing the right franchisee will help to improve the relationship. If this failed to be applied by franchisor, then franchisee might decide to terminate the management contract and will sign to gain other hotel brand who promises to apply those.

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