

THE FRANCHISE-A WAY TO DEVELOP HOTEL BUSINESSES

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***Abstract:** The franchise is a business model that has proven its efficiency in many fields of activity, but especially in the hotel businesses. This paper presents the evolution and trends of the main hotel franchises worldwide. The franchise is a business model and also the most complex form of network distribution, based on the success of the franchisor's idea. The peculiarity of this study is the analysis of the hotel franchise system in Romania, taking into account the main efficiency indicators and the development opportunities.*

***Key words:** franchise, business model, hotel, tourism*

INTRODUCTION

The hospitality industry is a fast growing business in many parts of the world, especially in those areas where tourism has recently developed [2]. The link between tourism and the hotel industry is complex and is in both directions. On the one hand, the hotel industry develops and increases quantitatively and structurally, as a result of tourism flow and, on the other hand, the development of tourism is conditioned by the availability of accommodation units, their equipment, the quality and variety of their services.

The franchise is the most dynamic form of commerce in the world, through which the experience and know-how of the network intertwine with the franchise's spirit and desire to succeed [6].

The franchise network includes a set of contractual relationships between a franchisor and several beneficiaries to promote technology, products or services, and to develop the production and the distribution of products or services [9].

The franchise is a business model and also the most complex form of network distribution, based on the success of the franchisor's idea. The franchise name includes both the commercial operation and the network built by a franchisor, who can be a manufacturer or a distributor of products or services [4].

The franchise contract is a variant of the concession contract, through which a service producer or provider, called franchisor or transferor, assigns - in return for a remuneration - to another company, called franchisee or transferee (or beneficiary), its trade mark product or service, together with the technical assistance and all the means and methods of marketing, able to ensure the management under the best return conditions [3].

The essence of the hotel franchise contract consists of the following elements [7]:

- the legal and financial autonomy of the beneficiary (independent hotel) and of the franchisor;
- the use of the franchise mark, with all its attributes (logo, slogan, etc.) in the interest of the beneficiary;
- the beneficiary carries out his/her activity based on the knowledge designed and verified by the franchisor;
- usually the franchise is accompanied by a non-competition guarantee (beneficiary's territorial exclusivity), as well as the provision of specific joint services at the chain level;
- the franchisor's remuneration consists of an affiliation fee followed by hotel royalties.

The most important condition for the franchise penetration is the existence of a market for the franchised products and services. In addition to this condition, a number of other factors need to be considered, such as: the adaptability of the legislation on foreign

investment and, in particular, the regulation of the franchise system, the economic and social conditions, the geographical distance, the political stability in the country under consideration.

The franchise is suitable when someone wants to start a business and there is experience in this field. The investment funds and those wanting a more quiet position choose the management contract, through which the manager has a budget to fulfill and coordinates the entire activity of the hotel, being a delegate of the owner. It can also work on a combined variant of a management contract with a company providing property management and a franchise contract with another company that supplies the brand under which the hotel operates [7].

MATERIALS AND METHODS

The research consisted in collecting the data on global franchised hotel chains and the analysis of the hotel market in Romania. For this purpose, we consulted the sites Franchise Times, Horeca, as well as the papers published in international databases. In fact, the franchise is a vector of development for both the franchisor, for whom it is a way to cover an extended territorial area through its franchisees, and the franchisees that benefit from the experience already acquired by the franchisor and the specialized assistance provided during of the contractual relationship (therefore they reach the desired results faster than in the case of a normal start-up).

RESEARCH RESULTS

International tourism has gradually overcome domestic tourism in the last half century, continuing to develop as the result of vanishing administrative and political barriers to trade and travel, global economic growth and technical progress. The spectacular growth of international tourism flow has created new opportunities for expanding the retail market, especially for hotel companies in countries where the accommodation market has reached the maturity stage and the saturation threshold.

The purpose of geographic diversification of the hotel network distribution is to disperse the risks associated with the investment activities. Practice has shown that it is more prudent to invest, for example, in three hotel buildings in three different countries than in three hotel units in the same country.

In Franchise Times top 2017, the top positions are held by Marriott Hotels & Resorts and Hilton, ranked 9th and 13th in the overall franchise rankings, despite the fact that the brands are operated in this system at a rate of 43 %, respectively 41%.

Marriott is the largest hotel and resort chain in the world in terms of both number of units and annual revenue. Marriott currently operates 30 hotel brands, ranging from classic to luxury, to extended stay offerings, on six continents, including Courtyard and Sheraton brands. Hilton is a hotel company that specializes in both leisure and business-related travel with 14 brand expressions such as Doubletree, Embassy Suites, Hilton Garden Inn, Hampton Inn and Conrad Hotels & Resorts [10].

In case of the total units owned, Holiday Inn Express franchise ranks first, followed by two of the franchises Hampton by Hilton and Holiday Inn Hotels & Resorts. Holiday Inn Express offers simple services and low-price lodging, designed for busy travelers. The Hampton hotel brand is a chain of reasonably priced, midscale hotels with limited food and beverage facilities. The Hampton franchise includes more than 2,300 hotels worldwide. In case of the number of franchise units owned, the last place in the ranking is Westin franchise, with 225 hotel units.

All franchises in the upscale category saw estimated sales growths of at least one percent, while the biggest brand in the hotel category, Marriott Hotels & Resorts, posted

10,75 billion dollars in sales during 2016, a 7.5% jump [10].

Table 1

Top 10 hotel franchises worldwide, by sales volume, in 2016-2017

Rank		Franchise	Global sales millions \$		Units				Total units		Percent franchised 2017
2017	2016		2017	2016	US units		International units		2017	2016	
					2017	2016	2017	2016			
9	10	Marriott Hotels & Resorts	11.500	10.750	373	370	274	256	647	626	43%
13	13	Hilton	9.650	9.500	244	241	334	329	578	570	41%
15	16	Hyatt	8.750	7.800	527	491	192	166	719	657	49%
19	19	Hampton by Hilton	7.500	6.950	2144	2067	194	154	2338	2221	97%
21	21	Holiday Inn Express	6.650	6.400	2217	2154	383	343	2600	2497	95%
23	22	Holiday Inn Hotels & Resorts	6.010	6.100	773	774	469	467	1242	1241	86%
24	23	Sheraton	5.950	5.875	192	196	251	253	443	449	50%
22	24	Courtyard	6.100	5.750	994	961	148	137	1142	1098	70%
30	30	Westin	4.400	4.150	131	125	94	92	225	217	47%
31	33	Double Tree By Hilton Systemwide	4.350	4.050	338	313	182	144	520	457	79%

Source: <https://www.franchisetimes.com/pdf/2017/ReprintBook2016.pdf>

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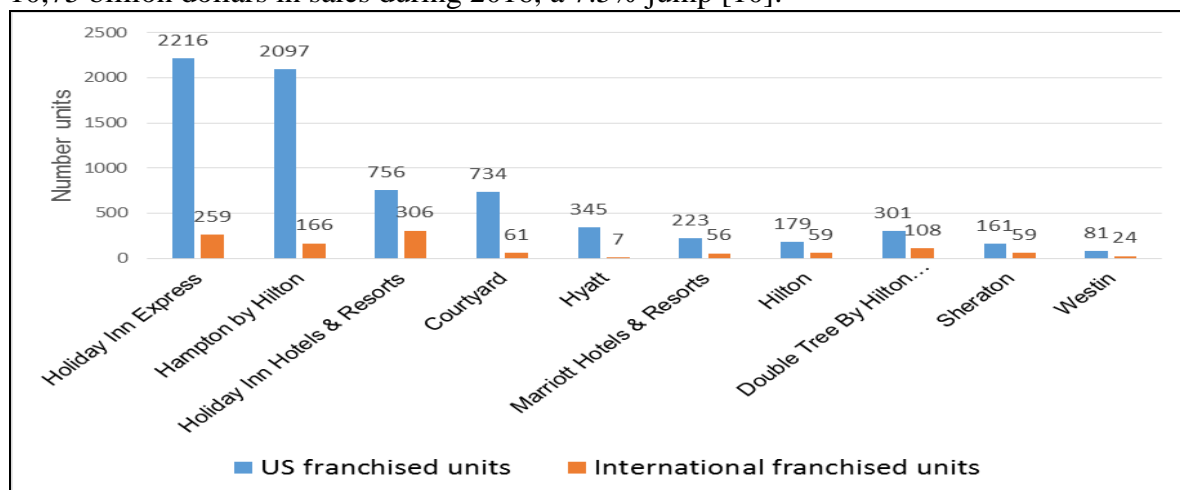


Figure 1. The evolution of US franchised units and international franchised units in 2017

A driving force behind Marriott's growth is the acquisition of Starwood in 2016, which increased the company's properties by 40%. As part of the restructuring of

Starwood's portfolio, the company moved rooms from Sheraton to Marriott, maximizing the profitability of its flagship brand. This also affected the value of the Sheraton brand, which fell by 50% to \$ 1.9 billion last year [13]. The American hotel group Marriott International reached third place the ranking of hotel groups established in the EU, with 88,824 rooms, up by +7.2% in comparison with 2015 [15].

The biggest threat to the hotel industry is the growth of sites like Airbnb. Although Airbnb is not included in this ranking because Airbnb has no assets, Airbnb's brand value has risen by over 51% to over \$ 5.5 billion this year. Moreover, Airbnb could soon enter a more direct competition with hotels, as it begins to set up business trips through the "Airbnb for Business" program, launched in the second half of 2017.

Since its launch in 2008, Airbnb online market has grown rapidly, with more than three million properties worldwide and over 160 million customers. The Airbnb business model currently operates with minimal regulatory controls in most locations, and therefore both hosts and guests have incentives to use signaling mechanisms to build confidence and maximize the probability of a successful booking [5].

In 2017, the hotel market in Romania was the second most attractive in the region, after Poland, in terms of the transaction sector, following two major sales, with a cumulative value of 183 million Euros.

Bucharest remains a predominantly business destination, a fact demonstrated by the average stay in the city hotels, of only 1.63 days, an indicator comparable to the hotel market in Warsaw. Instead, Prague hotels receive their tourists on average for 2.35 days, while in Budapest, the average accommodation lasts for 2.25 days, the two cities being more attractive destinations for city-break tourism [8].

The local hotel market will continue to grow in the coming years, according to Cushman & Wakefield Echinox's analysis, backed by air traffic dynamics, which has doubled over the past decade, with airports in Romania surpassing 20 million passengers in 2017.

The new hotels aim either to the business environment, such as Courtyard by Marriott in Bucharest, or ISHO Radisson Blu in Timișoara, or recreational tourism, as is the case of Nymphaea Resort Hotel, located near Nymphaea Aquatic Park in Oradea, or the Mercure Hotel & Spa in Brașov.

At present, the international hotel groups own 51 units locally and the market is waiting for new hotel openings under brands like Ibis, Mercure, Radisson Blu or Hilton. Ramada, a brand of the American chain Wyndham, is the world's largest international hotel brand, with 12 local units and a total of over 1,900 rooms. Best Western with 8 units and 480 rooms ranks second. The podium is completed by Hilton, which has 7 units under several brands such as Athénée Palace, DoubleTree, Hampton by Hilton and Hilton. None of these hotels is owned by an international hotel group. They function as franchises or under management systems. Most of these hotels are owned by local entrepreneurs and operated by large foreign groups [14].

From a financial point of view, buying a hotel franchise is one of the most affordable ways to enter a tourism business. Network entry costs include the entry right and the specific expenses of the brand: hotel design, decorative elements, staff training. The right to enter the network may range from EUR 10,000 to EUR 1,000,000 for the franchise of a hotel of great success.

The cost of operation consists of royalties, but also of expenses imposed by permanent training. Usually, the annual royalties the franchisee has to pay are proportional to the turnover. Therefore, one may forecast a minimum periodic royalty may be charged to the franchisee or a certain turnover should be achieved by the franchisee, in order to guarantee a certain minimum income to the franchisor [12].

The payment of royalties starts when the hotel assumes its franchise affiliation, and fees are usually paid monthly during the deal. For the economic class, the cheapest brand is Passport Inns, costing 5.6% of the room revenue, while the most expensive is Crossing Inns at 15.8%. For the middle class, the least expensive is InnSuites Hotel Collection at 0.2%, and the most expensive is Comfort Inns of America at 13.2%. For the premium class, the least expensive is Historic Inns of America at 0.6%, and the most expensive is Westin Hotels at 17.2%.

As a franchisee, the owner of the hotel has many benefits: the right to use a well-known brand, guarantee, immediate reputation and positive image, the use of an internal and international system of bookings and marketing, professional managerial assistance, operational standards and staff training, the right to purchase the necessary products from a central distributor, professionalism, risk reduction. The main disadvantages for the beneficiary refer to the discouragement of his own creativity and the fees paid on entering the system and periodically to the franchisor.

For the franchisor, the advantages are the possibility of penetrating foreign markets without substantial contribution, branding, marketing control, periodic profits from royalties. The disadvantage of the franchisor or rather the risk he assumes is the choice of an inappropriate beneficiary who will not pay his obligations [1].

Once the franchise contract has been concluded, both parties will make every effort to protect, maintain and promote the name of its distinctive features and other marks, slogans, etc. associated with the system. The franchisee will not use the marks in any way that could damage their value or the reputation associated with the trademarks, including the use of trademarks in a generic way. The franchisor will be entitled to transfer or assign the contract or any rights and obligations to another natural or legal person.

CONCLUSIONS

The franchise system influenced significantly the hotel capacity renewal, due to its double advantage for both the franchisor and the franchisee.

Franchise business has become an attraction for Romanian investors. Many want a business of their own to be their own superior or to earn more than from the position of simple employees. Buying a franchise often involves selling products or services that are already renowned on the market. In addition, one can benefit from constant help or training to ensure the desired success. However, investing in a franchise requires caution, because regardless of the business, the benefits do not come without risk, and such a purchase is not the absolute guarantee of success.

The tourism industry is assaulted by waves of changes and an extremely unpredictable macro-environment, both related to technology and consumer behavior. Despite this unpredictability, there are plenty of opportunities for the tourism companies willing to invest in new technologies, in developing new tourism products, in developing customer relationships, and even in adopting new business models.

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