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Brands defend unfair franchising allegations

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Story Highlights

- Brand executives stressed that they view their relationship with franchisees as partnerships.
- Brand standards have to be maintained, panelists argued, which means some hotels have to be kicked out of the system from time to time.
- The franchisors displayed a lot of flexibility during the downturn.

ATLANTA—Brand executives took to the defensive over issues of franchisee rights Friday during a heated general session at the Asian American Hotel Owners Association annual conference.

The assault was led by Robert Zarco, a partner with Zarco Einhorn Salkowski & Brito, P.A. and representative of hundreds of franchisees across various industries in the United States, who delivered pointed questions that elicited cheers from the thousands in attendance.

The panelists' responses, on the other hand, often drew heckling and boos.

The greatest outcry came when Steve Joyce, president and CEO of Choice Hotels International, responded to Zarko's charge that brands typically seek liquidated damages if a franchisee is deflagged, and the brand opens another property in the same market to recover any losses that might have resulted.

"That never happens," Joyce said of the scenario. The average time to build a new hotel is two to three years, which means a franchisor would necessarily lose two to three years of royalty charges and other fees.

The panelists remained united in their defense that brand companies do not actively seek to kick out franchisees for their systems.

"You make an assumption that is perhaps not correct," Eric Danziger, president and CEO of Wyndham Hotel Group, said to Zarko. "We are not on different tides. We are trying to get to the same place."

If individual franchisees are successful, the panelists argued, that means the franchisor is successful. That's why the brand companies delayed property improvement plans and brand standards during the downturn—they understood the pain of their franchisees and wanted to work with them.

"We immediately postponed a lot of the work that needed to be done and pushed back a number of the requirements that were there," Joyce said, referring to the flexibility Choice showed during the downturn.

Danziger, too, said his company helped carry "hundreds and hundreds" of hotels through the downturn.

But as the economy ramps back up and hotel demand continues to increase, owners are responsible for maintaining the quality of their assets, the panelists agreed.

A franchisee who doesn't invest in his asset is bringing the whole brand down, said Bill Fortier, senior VP of development for the Americas for Hilton Worldwide.

"Being in business, we all understand that you have to spend money to make money," said David Kong, president and CEO of Best Western International.

A number of panelists also said they receive more calls from franchisees who complain about the quality of other assets in their brand.

It is unfair to the owners who put in the money and invest in the necessary standards and PIPs to see the value of their brand erode because others in the system are not maintaining their assets properly, said Bob Morse, senior VP and COO of InterContinental Hotels Group.

"We have to do everything we can to always enhance the image of the brand and increase the regard for the brand," Kong said. "Therefore if there's a franchisee or a member that is detracting from the brand, we have to deal with that because we want to protect the rest of the organization. … Therefore sometimes we have to make those tough decisions."

Franchisors can and are flexible if a franchisee is proactive about addressing potential problems with financing property improvement, the panelists said. But if they do not seek help and let their hotels slip into disrepair, then it is a franchisor's duty to kick them out of the system.

'OPM'

Zarco said he frequently uses an acronym when describing franchisor's demanding, oft-unrealistic expectations to implement costly standards and upgrades: OPM, or other peoples' money.

The brand companies, he said, are quick to demand major changes because it's the individual hotel owners who have to foot the bill.

The panelists took offense to the charge.

Joyce, for example, said everything Choice implements throughout its portfolio has been carefully beta-tested to ensure it impacts the guest experience and drives revenue as a result.

"We look for a return with everything we're doing," he said. "We're not going to force people to do stuff if there's no money available. That doesn't help anybody."

Morse argued that every IHG initiative is carefully and exhaustively vetted with the IAHI, the hotel company's owners association.

"We listen to the owner. It's a very, very loud voice," he said.

"We don't make these decisions in a little ivory tower," Danziger said. Like IHG, Wyndham also seeks input and approval from its advisory councils.

When asked how brands can mandate renovations that won't generate a return in every market, the panelists again emphasized the collaborative, common-sense approach to their dealings with franchisees.

Joyce pointed to Choice's recent refresh of the Comfort Inn and Sleep Inn brands, which allowed for variations based on region and location in either suburban or urban markets. The goal there, he said, was not to force unrealistic expectations on owners that didn't make sense, but rather to positively impact the guest experience based on the dynamics of each market.

And in cases where a franchisee might not be able to finance a sweep renovation or refresh, the panelists said they're willing to work with owners.

"We look at every single opportunity that's brought to us," Morse said, before emphasizing "there are certain brand requirements. … Depending on that individual location, we sometimes have to be more difficult."

Fair franchising legislation

Zarco closed the session by asking panelists their thoughts on fair franchising legislation, which would help "level the playing field" between franchisors and franchisees.

"I do believe it's a flawed concept," said Liam Brown, executive VP of Marriott International.

And not only flawed but also slightly hypocritical, he suggested. Hotel owners can't claim there is too much government interference on issues such as the Americans with Disabilities Act but then demand more government interference on issues such as fair franchising.

"We should be able to reasonably address our own issues," Brown said. "The concept of legislating a relationship from Congress is a flawed one because there's always unintended consequences."

"As a strong brand, it requires strong contracts," he concluded. "It's only as good as its weakest link."