

Nobody Asked Me, But.... No. 36

Franchise Kickback Scheme; Tony Marshall Would Be Pleased; Isn't Paying a Living Wage the American Way? Some Surprising Statistics; How Do You Measure Brand Value? Quote of the Month

By Stanley Turkel, MHS, ISHC

1. Alleged Franchise Kickback Scheme- 20 franchisees of Michigan- based Tubby's Sub Shop accused Tubby's of creating a subsidiary, SDS, from which franchisees were required to buy their supplies. In the January 2008 Franchise Times, the scheme was described as follows:

“Management convinced the vendors to charge 130 to 150 percent of their normal charges, according to the complaint. Vendors passed on the extra funds to Tubby's.”

The franchisees found out that Tubby's also received 35% of the distribution fees from SDS even though the UFOC and the franchise agreement stipulated that they were entitled to only 2%. Tubby's was found liable for failing to disclose the distribution scam and settled the case.

2. Tony Marshall Would Be Pleased- The Anne Arundel, MD, County Council has upheld the requirements that lifeguards be posted at small pools in hotels. Council members said they were inclined to maintain the requirement that all community pools must have lifeguards while exempting hotel pools less than 5 feet deep. The county averages seven to eight drownings a year, including two or three suicides.

3. Impertinent Question in Search of a Pertinent Answer:

Why is it that the advertisements for the largest hotel franchise companies never mention:

- areas of protection and encroachment
- termination and liquidated damages
- arbitration vs. litigation
- transferability of the license agreement
- reservation productivity
- venues for law suits

4. Isn't Paying a Living Wage the American Way?- Nationwide, 145 cities and counties have enacted living-wage bills which generally require businesses that receive government contracts to pay an amount above the state or federal minimum wages. The highest living wage in the country is \$14.75 per hour in Fairfax, Ca.

In May 2007, Maryland became the first state to approve a living wage bill which requires employers with state contracts to pay a minimum of \$11.30 an hour. Maryland's state minimum wage is \$6.15 an hour, one dollar above the federal minimum.

Meanwhile, a controversial living wage law was upheld by a California state appeals court which requires hotels at the Los Angeles International Airport to pay salary and benefits equal to \$10.64 an hour.

5. Here Are Some Surprising Statistics- San Juan, capital city of the Commonwealth of Puerto Rico, has hotel occupancies and average rates much higher than the United States. HVS International reports the following historical performance:

<u>Occupancy %</u>	<u>San Juan</u>	<u>United States</u>
2004	84%	60%
2005	79%	63%
2006	78%	64%
2007 (est.)	77%	65%
 <u>Average Rates</u>		
2004	\$170	\$87
2005	172	90
2006	191	98
2007	203	103

6. How Do You Measure Hotel Brand Value? In a world gone brand mad, creating yet one more hotel brand is a relatively simple process. But there is a wide gap between creation and value. The only measurable benefit to brand value is the number of reservations produced at a satisfactory average daily rate. Everything else is peripheral, cosmetic and unimportant. If a new hotel franchise is clearly positioned, forcefully marketed and provides a fair franchise agreement, then it can be beneficial to hotel owners. If, however, it is undistinguishable from its competitive set, unknown to the traveling public and poorly promoted, it will not be successful. As it stands right now, the eight major hotel companies market 60 different brand names. No wonder consumers are confused and bewildered by the proliferation of new hotel brands.

7. Quote of the Month

“If at first you don’t succeed, try again. Then quit. No use being a damn fool about it.”

W.C. Fields

Stanley Turkel, MHS, ISHC operates his hotel consulting office as a sole practitioner specializing in franchising issues, asset management and litigation support services. If you need help with a hotel franchising problem such as encroachment/impact, termination/liquidated damages or litigation support, call Stanley at 917-628-8549 or email stanturkel@aol.com.

Stanley will be speaking on the program of the CHOC Owner’s Summit in Dallas, TX April 6-8, 2008.