

Overturing Certain Assumptions in Emerging Market Hotel Operations

Consider Franchise Models

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Various “rules of thumb” and — yes —stereotypes can often be reliably useful in planning business investment behavior, such as with emerging market (EM) countries. But they are by no means a certainty.

In my 30-plus years of hotel legal advisory in mainly EM countries (Russia/CIS, Eastern Europe, Middle East and Africa) I've learned there are some tried and tested rules: Engage experienced professional advisors at the planning, development and operational stage; be overly attentive to legal and compliance matters; and don't underestimate first-mover advantage in undeveloped markets.



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However, a couple of EM rules of thumb I see being either ignored or overturned in branded hotel projects are: a) the failure to place appropriate experienced senior management in properties, and b) the assumption that undeveloped markets are not sufficiently ready for the franchise vs. managed operational model.

On the brand management side, I am recurrently seeing major brands sending wholly “wrong fit” general managers and senior personnel to properties, particularly in smaller tertiary markets. While the EM rule of thumb calls for experienced managers who are trusted and well-regarded back at the brand home office, one often sees “should we fire”/“soon to retire”/ “first general manager hire” candidates put forth. This is not what these often new-to-the-hotel-sector owner/developers or their properties need or deserve.

Now the brands will respond that the owner, hopefully, got to approve the general manager from a pool of available general manager candidates put forward by the brand. That is indeed true; but that is also the problem.



Partially this goes to the product focus of the big brands today: They manage brands, not hotels, and it shows in their priorities.

The supply of experienced general managers, particularly with the credentials for new and emerging markets, is, unsurprisingly, thin. And the brands will candidly admit that they can't source experienced general managers for EM properties, especially in less attractive regions and/or remote cities. Sourcing qualified candidates for the Fairmont Monte Carlo is easy, but not so much for a brand hotel in Voronezh, Russia, or Goma, D.R. Congo, for example.

Another cause is the “jobs for the boys” club, which one tends to see in sourcing of candidates for higher-end properties. The brands have a pool of higher-comp-package general managers that they need to place somewhere and on someone else's (the owner's) payroll. And too often, in my experience, the need to place that person takes precedence over the right-fit person for the property.

The lack of local market culture and experience, the long-term commitment and connections to the local community, the costly “hardship” package inducements required, as well as the added risks of such an assignment being a right fit for families, make for a lot of moving parts in EM postings that can be hard to sync.

To partially avoid this risk, we always insist on including a right for the owner to propose a suitably qualified, locally experienced general manager from outside the brand's candidate pool, which the brand is not obligated to hire, but must at least reasonably consider.

This very problem of the brands being able to properly source proper management for EM hotels leads to the reevaluation of another EM rule of thumb — that developing markets are not sufficiently developed to support the franchise operational model. Based on the above, and in my two decades-plus experience in the Russian/CIS/African markets, the franchise model — at least with respect to mid- to upper- scale business hotel properties — can both deliver the brand standards and a better locally managed hotel. Whether this is achieved using a third-party party manager with international brand and local market expertise or hiring experienced local staff with international brand experience, this can make a great deal of sense to both the owner and the brand.

I have many times heard the brands reject this this proposal of external local management by saying, “Well, they have not worked for us and don't know our system.” I do not buy this. The fact that such individuals may have only worked for another major brand is not likely going to prove a barrier to managing brand standards. One need only look at the brand standards manual of the major brands to see there has been a lot of disguised “cross plagiarism” over time, such that a general manager of one brand (at least of comparable standards level) can relatively easily cross over to manage another.



In short, the old rule of thumb that emerging market properties are not ready for the franchise operational model and must be brand managed is increasingly no longer an appropriate assumption. Whether opting for an experienced third-party manager, recruiting regionally based experienced international brand personnel or developing people organically and then exercising an option to flip to franchise after 3-5 years, it increasingly makes sense for the property and all parties involved.

Scott Antel is an internationally recognized hospitality lawyer who has primarily worked for various international firms in emerging markets such as Russia/CIS, Eastern Europe, the Middle East and African markets. He now works independently advising mainly owner/developers on hotel, franchise agreements, disputes and operational issues.

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