

Opinions

The danger of hotel management program and service fees

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Hidden fees can undermine any management agreement between an owner and operator.



By Scott Antel

Whenever I review a hotel manager's "group services and benefits" program list tucked discretely in the back of a hotel management agreement, I compare it to those hidden fees hospitals charge that can really add up.

At times, that program list isn't even attached. Sometimes the HMA simply states that "Owner shall participate in various mandatory (or elective) group program and services as operator determines shall apply to all participating Brand hotels from time to time in operator's sole discretion." What a black box when you read through one of these programs.

Operators are quite transparent when pitching their letter of intent to an owner with respect to the gross revenue base fee and the GOP-based incentive fees. It starts to get a bit a bit cloudy when they add the central marketing and reservations and discerning just what is and is not included. But when you get to the group services and benefits charges, it becomes completely murky, with very little detail as to the substance, content or cost of these add-on services.

When you ask a SVP of development with 15-plus years with the brand what some of these "services" are ("antivirus solutions," "Lobster Ink," "Star-Gaze"—I am not kidding), they often can't answer you. Nor can they give you an estimate of how much these added mandatory charges will cost the hotel each year. This is not surprising since to quantify them is nearly impossible. Some are assessed as annual fees, others as a fixed charge, still others as a percentage of revenue, by use or number of bookings.

Again, these additional fees are typically mandatory and non-negotiable and a condition for all participating brand hotels.

What also strikes you when reading the detail of these programs is how many of these additionally charged services (e.g., internal audit, revenue management, staff training, service culture and guest satisfaction, IT security) are pretty basic things that one would reasonably assume a prudent and professional hotel operator ought to provide as "standard equipment" of their brand machine. These should not be "options," particularly given that without them an owner will likely not be able to have the hotel operate to the standards that the brand contractually demands, much less optimize owner revenues.

Then there is my favorite: the guest loyalty program fees, typically 3.5% to 5% of "qualifying" or total revenue. That is likely more than 50% of the total base and incentive fee amounts that the owner spent so much time haggling with the operator during the HMA negotiations.

These loyalty program charges are a relatively "new" charge that did not exist 15 years ago and primarily arose because the operators "lost" the customer to OTAs and other distribution channels and are now asking the owner for a "tip" to get them back to booking direct. And unless you are a popular resort or gateway city hotel property, there is very little likelihood of your hotel recovering this loyalty fee through redemption bookings.

Starting from the initial letter of intent by the operator and often through the HMA negotiations, operators are not being fully transparent about—and owners are not adequately comprehending or negotiating—the full economic impact of the 20-plus year HMA contract they are committing to. Owners and their advisors need to pay far more attention to these back-of-the-contract fees and insist more forcefully that operators better explain and quantify the impact of these charges to a hotel property.

While most operators will claim that these group service fees are non-negotiable and payable equally by all participating brand hotels, there is room to negotiate some of these fees from mandatory to discretionary, defer their frequency from annual to bi-annual or agree a cap on the amounts annually budgeted for these fees. It's certainly worth paying more attention to given the substantial costs involved.

Yes, the modern hotel operator management model is very "asset- and services-light" indeed.

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