

Fair Franchising Is Not An Oxymoron: No. 6

By Stanley Turkel, MHS, ISHC

In 1998, the Asian American Hotel Owners Association identified a set of standards called the 12 Points of Fair Franchising by which to judge the actions of franchise companies. Now, nine years later, AAHOA has updated the 12 points and has embarked on a survey of franchisors to assess their compliance with these fair franchising standards. In this Hotel Interactive article, I highlight Point 7:

Point 7: Maintaining Relationships With Franchisees

Franchisors should strive to maintain and build on their relationships with the Franchisees by actively seeking feedback from the Franchisees themselves, and by working with the various councils and associations that represent the Franchisees, including the Franchise Advisory Councils (FACs) and AAHOA.

A. Franchise Advisory Councils.

Franchisors should encourage and support the establishment of independent and democratic FACs, which are comprised of a representative group of Franchisees who are elected by the Franchisees themselves, and who can advise the Franchisor on matters of importance to the franchise system, Franchisors should seek feedback from the FACs, and use their best efforts to follow the recommendations proposed by the FACs on such matters.

- **Amenity Creep.**

Amenity creep is a recognized problem in the hotel industry, and Franchisees are concerned that they are not being heard on such issues. Franchisors should regularly seek input from the FACs concerning whether specific amenities should be added, eliminated or changed for the brand name hotels. Prior to mandating the addition of a new amenity, Franchisors should submit the issue for a vote to the Franchisees themselves, and obtain a 66% vote of approval from all Franchisees who vote on the matter.

- Marketing and Advertising.

Franchisors should regularly seek input from the FACs concerning how best to market and advertise the various brand name hotels and their services. For example, Franchisors should consult with the FACs concerning the annual marketing and advertising budgets, the annual marketing and advertising plans, the format and scope of the directories of hotels in the franchise systems, the franchise system internet websites, and the operational plans for the franchise central reservation system. As discussed in Fair Franchising Point 6 above, there should be greater Franchisor disclosure and accountability concerning the expenditure of the marketing and reservation fees, including annual audits that are shared with the FACs or their audit committees.

B. AAHOA Relations.

Franchisors should strive to work closely with AAHOA and its members to promote fairness in the franchise system, and to enhance their respective business interests.

Franchisors also should seek ways in which they can (a) increase and improve their communications with AAHOA and its members, (b) obtain input and feedback from AAHOA and its members on issues concerning the franchise systems, and (c) educate and train AAHOA and its members on matters that will improve the individual hotels and strengthen the franchise system on a global basis. Franchisors should attempt to meet with AAHOA personnel on a regular basis to discuss these and other related issues that are of importance to the AAHOA Franchisee members.

- AAHOA's CHO Program.

The AAHOA Certified Hotel Owners (CHO) program is an innovative professional development program for hotel owners offered by the AAHOA Institute of Management (AIM). The CHO program involves an intense, eight-day comprehensive course taught by world class instructors. At the conclusion of the coursework, attendees take a CHO certification review and a CHO examination.

Franchisors should recognize and support the AAHOA CHO program as a hospitality professional accreditation program, and CHO graduates should be given credit for successfully

completing the CHO program in the same manner that, for example, the Certified Hotel Administrator (CHA) and Certified Lodging Managers (CLM) training courses have been supported and recognized by Franchisors in recent years.

Commentary: The CHO Program was designed to recognize and certify the expertise of AAHOA's member hotel owners, and is the first program of its kind in the country. The CHO program covers a variety of topics, including (1) Front Desk Operations & Reservations; (2) The Laws of Inn Keeping; (3) Leadership; (4) Hotel Sales, Marketing & Public Relations; (5) Hotel Accounting & Business Ownership Structure; (6) Technology For the Lodging Industry; (7) Human Resource Management; and (8) Housekeeping, Laundry, Engineering & Maintenance. The CHO program has several recognized sponsors, including Best Western International, Inc. and was developed by Kapoor & Kapoor Hospitality, Inc.

Turkel Comments

Are franchise advisory councils (FACs) powerhouses or powder puffs? Unfortunately, my long experience with hotel franchising reveals many of them to be paper tigers with no real clout and no independence. On the major issues: encroachment and impact, termination and liquidated damages, transferability, choice of venue, and dispute resolution. FACs have little negotiating strength and no veto power.

While franchising dates to the Middle Ages, FACs are a relatively recent development. How they came about, why they exist, and the extent to which they contribute to the success of both franchisor and franchisee bear looking into as more companies become players in the franchising game. These organizations began back in the early days and rose out of controversy. Franchisees who were dissatisfied banded together to present a more unified response to the franchise company. There were often adversarial relationships between franchisor and franchisee which centered around the same sorts of issues about which the two sides still debate: impact and encroachment, quality-assurance guidelines and inspections, fees, royalties, marketing promotions, length of licensing agreements, termination and liquidated damages, etc.

Some people trace the creation of FACs back to the 1920's. A&W Root Beer and Terminex Pest Control were the first franchise companies whose licensees formed organizations to negotiate with their respective franchisors. Hotel FACs arose in the 1950s and 1960s, when hotel franchising began to proliferate. In 1955, just three years after the founding of the Holiday Inns brand, Kemmons Wilson created a franchise advisory council of Holiday Inn franchisees. The original name "National Association of Holiday Inns" was changed in 1963 to the International Association of Holiday Inns (IAHI). Today the IAHI represents the interests of the owners of InterContinental Hotels Group brands including Holiday Inns, Holiday Inn Express, Crowne Plaza, Staybridge Suites and Candlewood Suites. While it bills itself as a separate/ independent organization, it nevertheless is essentially a franchise advisory council not an independent owners association. IAHI corporate offices are located in Holiday Inn Worldwide Headquarters in Atlanta. IAHI is funded by a combination of Association membership dues, system funds and expense allocations from the Holiday Inns Corporation.

To hear most chain executives tell it, their respective franchise organizations strive to be fair, vital and meaningful. By most accounts, however, FACs are in-house organizations, funded and controlled by the franchise company.

Hotel owners concerned about the relative power of their franchise advisory councils should ask the following questions:

1. Does your FAC have a meaningful voice when it comes to reaching decisions about important franchisee issues?
2. Does the FAC have an office away from the franchise company headquarters?
3. Is the FAC funded by the franchisor or by member franchisee fees?
4. Is membership mandatory?

5. Does the FAC communicate directly to franchisees or must its communication be filtered through the franchise company's corporate office?
6. Are there open FAC meetings at the chain's annual convention?
7. Who elects FAC officers and by what procedure?
8. Does your franchisor seek FAC input regarding changes in amenities?
9. Does your franchisor submit suggested building design and amenity changes to FAC members for a 66% vote of approval?

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, don't hesitate to call Stanley at 917-628-8549 or email stanturkel@aol.com.

If you would like to reserve an autographed copy of Stanley's new book, "Great American Hoteliers: Pioneers of Hotel Industry" (to be published by Fall 2008), send an email to stanturkel@aol.com.