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CORPORATE INITIATIVE VS. FRANCISHEE RIGHTS

What Influence Does the Franchisee Have? From the Franchisee Perspective

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First let me preface my article by stating that Interstate respects and values its relationships with the brands. The brands are a major part of our collective success. In addition, as a technology professional, I fully understand the importance and benefits of having technology standards. However, as an independent management company our fiduciary responsibility is to meet the strategic and financial goals of the owners whose properties we manage and to maximize their investment.

Also, I want to note that David [Sjolander] and I have enjoyed a good professional relationship and have examples of specific successful joint business initiatives that have helped both our companies. However, I find it almost impossible to pass up a good argument.

It is my opinion that the standardized and centralized systems that the brands mandate really only *significantly* benefit the franchisors rather than the properties and owners that we both serve. At Interstate, we do not deploy technologies at the expense of the hotels' owners unless it can directly increase revenue, maximize efficiency or reduce operating expenses.

Let me give you some specific examples. During the past several years many of the brands have required one specific software vendor or a proprietary property management system. They have not only required a specific vendor but in most cases they own the software or software company. In addition, they require that you buy the hardware from them and that you pay them for the software support fees, which is, by the way, in some cases actually a percent of room revenue. Oh yeah, did I tell you that this is a "brand standard" so therefore it is required and the owners of the hotels have no choice? Also, since this is a recurring fee based on revenue, it is now an operating expense, which will impact the hotel's net operating income rather than a capital expense. I am told, however, that brands are not making any money from the franchisees. Sure! Want to buy a nice bridge in Brooklyn?

With all that said, the question you have to ask is why replace a system that is meeting the properties' needs, has a working interface to the brand's central reservation system and is operating just fine with a new system? I have seen this in many cases and the properties have not gotten any type of ROI

from this investment. When this question is posed to the brands, the common answer is that the new system will allow the properties to provide better customer service and allow for future CRM initiatives that will add value to the brand. I am still waiting for someone to show me how it has driven revenue for the properties and most importantly value to the owners. It all seems a bit self serving.

Then there is the question, why now? With the economy the way it is and RevPAR declining, why are we forcing the properties to invest in unnecessary technology? "Unnecessary" refers to a system that is working fine but is being replaced solely because the brands have created a standard. I know the owners would rather put the capital dollars toward guestroom improvements or the cash toward debt service. It seems that in this economic environment this type of initiative should be limited only to projects that can show a direct return on investment by increased revenue or cost reduction for the properties', not the brand's, corporate offices. As stated, in most cases not only is there a sizable capital investment but it also results in significant increased operating expenses.

Finally, if the brands need to solve their own technological issues for the hotels they own, they should not hide behind such excuses as "it is a brand standard" or "we must have consistency at all touch points" just to force the costs and technologies on the franchise community. In one case, we manage almost as many hotels of a specific brand as that brand actually owns itself, yet we (or any management company that I have talked to) had no input into the property management system strategy or have been asked how it will impact the franchise community.

To recap, the brands must be much better at considering how the new systems will financially impact the property owners. In addition, they need to significantly improve how they demonstrate a new technology's specific return on investment to the individual property that is forced to make the investment. Finally, I agree that we can't have hardware that is old, antiquated and unable to run the necessary applications; this is not a hardware argument. This is an application and investment argument. The brands can't continue to push the costs down to the hotel owners if it is not going to directly benefit their hotels.