

CONCEPTUALIZING BUSINESS MODELS OF INTERNATIONAL HOTEL CHAINS

Roxana Elena POPȘA¹

Lucian Blaga University of Sibiu, Sibiu, Romania

Abstract

Globally, hotel chains are emerging as major players in the hotel industry, and their expansion policy includes along with the construction of new hotels, acquisitions, mergers, also business models based on management and franchise contracts. The paper investigates various aspects of the international hotel chains, such as the proportion of franchised hotels, those based on management contract and owned in North America and Europe, but also the proportion of franchised hotels by hotel chain. The aim is to provide an overview on the business models of international hotel chains.

Keywords: *Hotel Chains, Business Model, Management Contract, Franchise*

JEL classification: L83, M21

1. Introduction

Worldwide, the hotel industry ensures the attraction in the economic circuit of various tourist areas, whose vast potential could not be exploited in the absence of appropriate equipment. In this sense, an import role in the hotel industry is occupied by hotel chains, defined as a sets of operational units that target a certain segment of customers under the same brand.

All international hotel chains have in their business model, to a greater or lesser extent, management, or franchise contracts, so that it becomes appropriate to know the differences between the two operating models in terms of taxes, conditions imposed on hotels, and the advantages offered to the

¹ *Lecturer Ph.D., Faculty of Economic Sciences, Lucian Blaga University of Sibiu, Romania, e-mail: roxana.popsa@ulbsibiu.ro*

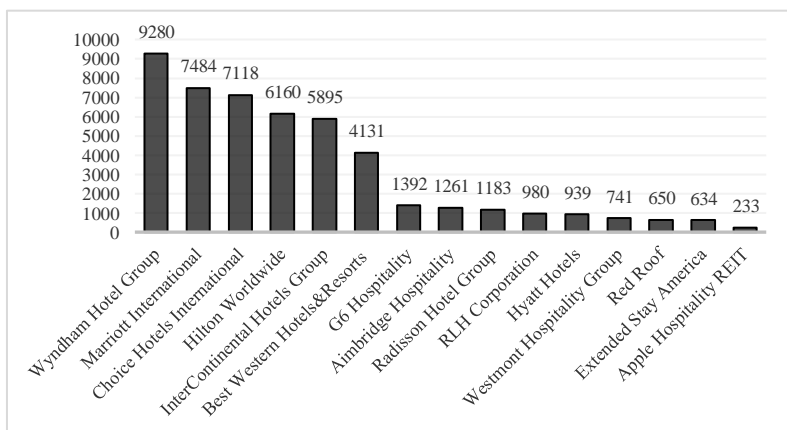
beneficiaries. In order to achieve this objective, the methodology consists of the descriptive data analysis of various studies and reports developed by HVS, Brand Finance and Statista.

2. Hotel chains - theoretical and practical delimitations

Hotel chains are gaining growing market segments, and the experience of countries with the most developed tourism industries indicates that hotel chains will become the dominant form of accommodation business. The global expansion of hotel chains is done through the construction of new hotels owned by the chains, mergers / acquisitions, management contracts and franchise agreements. Among the advantages offered to hotels adhering to a hotel chain can be mentioned: notoriety, which is based on the assured quality of services, the existence of its own reservation systems, to which member hotels are connected as well as travel agencies, staff qualification at a certain level, through its proper management and training.

In this context according to the data provided by Statista, in 2020 the hotel chain with the most properties, namely 9280, was Wyndham Hotel Group, on the second place with 7484 properties was Marriott International followed by Choice Hotels International with 7118 properties, while Apple Hospitality REIT ranked 15th with 233 properties, as can be seen from figure 1.

Figure 1. Leading hotel companies worldwide 2020, by number of properties



Source: www.statista.com

Moreover, in 2019 the top was also led by Wyndham Hotel Group, owning at the time 9,157 properties, as a result of the acquisition of La Quinta Holdings.

Another example of expansion through the acquisition of hotel chains comes from Marriott International, which between 2015-2016 acquired the Canadian Delta Hotels chain and the American Starwood Hotels and Resorts chain, which allowed it to currently have an impressive portfolio of 30 brands. grouped into four categories: luxury, premium, select, and long stays.

Looking at this context, it becomes opportune to know the most valuable hotel brands, see table 1.

Table 1: Most valuable hotel brands of 2020

2020 Rank	2019 Rank	Brand	2020 Brand Value (US \$billions)	Brand value Change
1	1	Hilton	\$10.83	35%
2	2	Marriott	\$6.03	19.6%
3	4	Hyatt	\$4.53	23.3%
4	3	Holiday Inn	\$4.5	14%
5	5	Hampton Inn	\$3.87	21.6%
6	6	Shangri-La	\$2.47	-1.8%
7	7	DoubleTree	\$2.4	16.6%
8	11	Mercure	\$2.33	56.6%
9	8	Courtyard	\$1.77	-5.1%
10	12	InterContinental	\$1.74	25.5%

Source: Brand Finance, The annual report on the most valuable and strongest hotel brands, 2020

Analysing the data contained in the table above, we notice that the most valuable hotel brand is Hilton, belonging to the hotel chain of the same name, its value increased by 35% in 2020 compared to the previous year. On the second place is the Marriott brand belonging to the hotel chain Marriott International, its value registering an increase of 19.6% in 2020. A spectacular increase registered the Mercure brand belonging to the ACCOR hotel group,

its value increased by 56.6% in 2020 compared to the previous year, which allowed it to rise three ranking positions.

Finally, it should be noted that along with Hilton brand, three other brands belonging to the hotel chain Hilton Worldwide, namely Holiday Inn - 14% increase in value - Hampton - 21.6% increase compared to the previous year - and DoubleTree - 16.6% increase in value - are in the top then of the most valuable hotel brands.

3. An overview on the business models of international hotel chains

Closely related to the knowledge of the most valuable hotel brands and the hotel chains that dominate the global industry, it is necessary to know the business models of international chains in terms of management and franchise contracts.

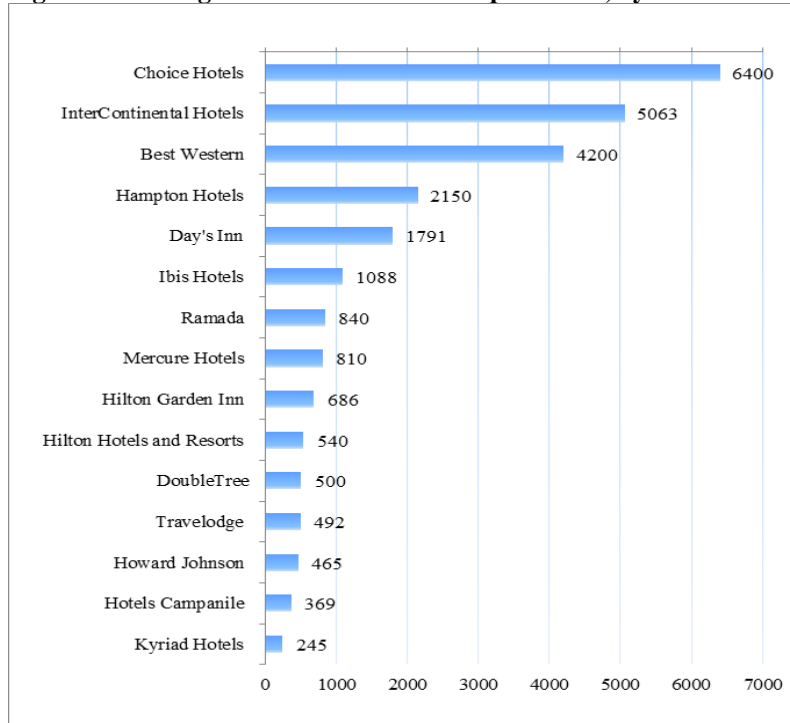
The hotel management contract is an act by which a person gives another the power to produce in his account one or more legal effects. Based on this management contract, even before the opening of the hotel, a series of specific services are provided, such as: assistance in organizing hotel services, training and recruitment of staff, definition, and implementation of marketing policy. Also, for the entire duration of the contract, the agent ensures: the use of the hotel brand, advertising at the chain level, analysis of results and permanent control (Stănciulescu and Micu, 2012).

The franchise agreement is a variant of the concession contract, whereby an undertaking producing or providing services called a franchisor gives, in return for remuneration, to another undertaking, called a franchisee or beneficiary, its product or service mark, together with technical assistance and all marketing methods, able to ensure the management in the best conditions of profitability (Stănciulescu and State, 2013).

The main idea in most franchise agreements is the right of the franchisee to use a national brand name in exchange for a share of the profits to the franchisor. The franchisee benefits from adequate support, information, experience, and knowledge from the franchisor. The main benefits of the franchisor are the entry fee, which is paid by the franchisee and the payment of the royalty, set as a percentage of the profits made by the franchisee. The franchisor has the right to choose the franchisee, considering his qualification, the location where the franchise right will be used, which should be a geographical intention of the franchisor for further expansion (Ikonomi, 2014).

In this context Figure 2. shows the top hotel franchises in Europe, by number of units, in 2018.

Figure 2. Leading hotel franchises in Europe in 2018, by number of units

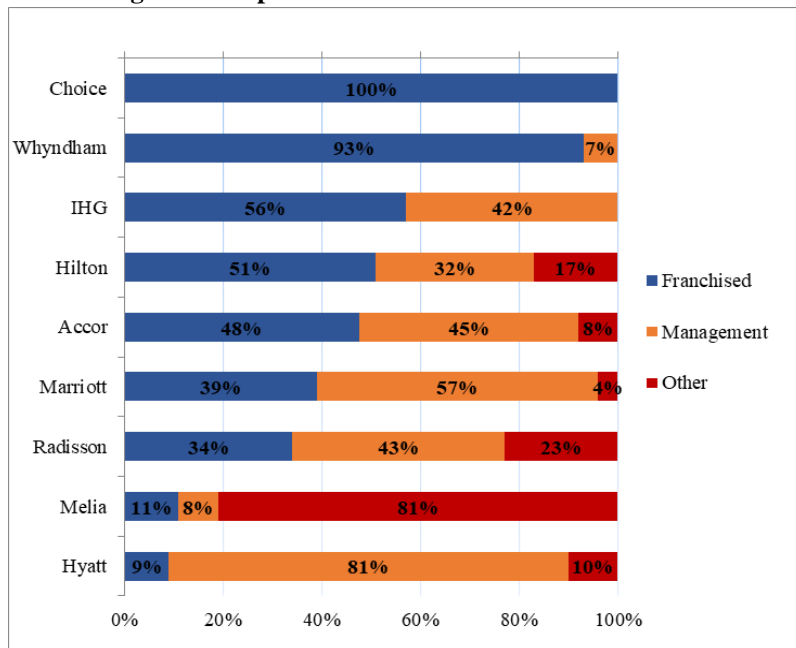


Source: www.statista.com

Analyzing the data contained in the figure above we can see that Choice Hotels is leading the top of the franchised hotel chains, with 6400 units in all Europe. On the 2nd place in the top, at a difference of over 1300 units is InterContinental Hotels, and on the 3rd place is Best Western, with 4200 units, while Kyriad Hotels has only 245 franchised hotels in Europe.

The data provided by HVS present information on the percentage ratio between hotels operating under the franchise agreement and those operating under the management contract, see Figure 3.

Figure 3. Proportion of franchised hotels in hotel chains

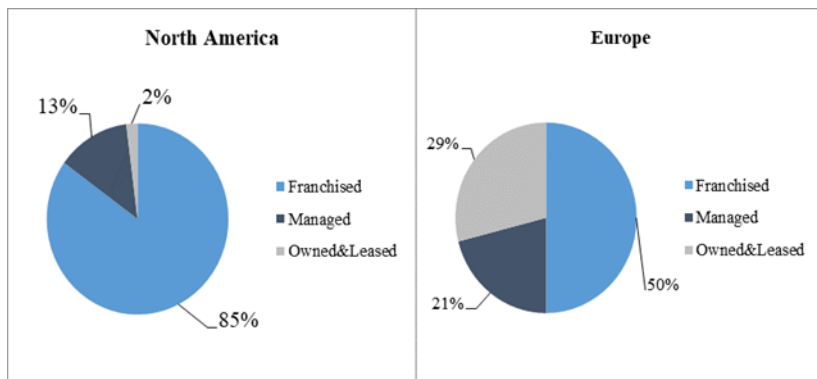


Source: Collins S., Perret S., Hotel franchising in Europe. The Push continues for new ways to expand, HVS, 2019

The data in Figure 3 indicate that the Choice hotel chain operates 100% in Europe with franchised hotels, followed by Wyndham, which has 93% franchised hotels and 7% hotels based on management contracts. Next in the ranking is the InterContinental hotel chain, which is relatively balanced, with 56% franchised hotels and 42% management contract hotels. At the same time, we notice that there are hotel chains that have in their business model a higher proportion of hotels that are operated based on management contract, such as Marriott with 57% hotels and Hyatt with 81% hotels operated on basis of management contract in Europe.

Differences in the operation of units of the hotel chains portfolio can also be analysed in comparison with North America, including by reference to owned hotels. Thus Figure 4 presents the proportion of franchised hotels, those on contract management and the owned and leased hotels in North America and Europe.

Figure 4. Difference Between Hotel Managements Agreements and Franchise Operators



Source: www.hospitalitynet.org

Based on the data provided by HVS we can say that the proportion of hotels operating under the franchise agreement is 35% higher in North America than in Europe, representing a significant portion. Regarding the proportion of hotels operating based on the management contract, it has a higher value in Europe, of 21%, compared to 13% in North America. Owned and leased hotels account for 2% in North America and 29% in Europe.

Therefore, both management and franchise contracts are part of the business models of international hotel chains. Usually, when it comes to a higher category property (up-scale or luxury), hotel chains impose management contracts rather than franchises. At the same time, for the optimal choice between the management contract and the franchise contract, it must be emphasized that the franchise is suitable for those who have experience in the field and who want to get involved in the business. The management contract is suitable for those who want a more secluded position, through which the manager coordinates the activity of the hotel, having a budget to meet. At the same time, in the case of both contracts, three types of fees are charged monthly: marketing fee, booking fee and royalty fee. The latter is related to the number of rooms or a percentage and is applied to the total net income or to the net income from accommodation. The booking fee is applied as a percentage to the gross accommodation income or to the total gross income.

As for the marketing fee, it can be paid depending on the number of rooms or as a percentage of the gross accommodation income or the total gross income. The disadvantage of franchise agreements is that the results depend on the level of understanding, learning and application of the rules that the hotel chain has made available. On the other hand, the disadvantage of management contracts is the high cost and the fact that performance is not guaranteed.

It is also worth mentioning that the affiliation between the chain and the individual hotel offers benefits for both. The hotel, for example, gains benefits from the chain's market knowledge, notoriety, service quality standards, while the chain receives increased financial resources (through franchise /management fees) and knowledge of local markets - demand, competition, etc. (Ivanova et.al. 2016).

4. Conclusions

Hotel industry leaders Wyndham Worldwide, Marriott International, Choice Hotels International, InterContinental Hotels Group, Hyatt Hotels Corporation, Hilton Worldwide have included management or franchise contracts in their business model. To meet the ever-changing needs of customers, consolidate or even expand their market position, hotel chains must accept innovation and use their knowledge in the field to create new personalized experiences.

The complexity of the hotel industry makes affiliation with a hotel chain an important strategy for hotel owners. Depending on the experience gained in the field and the extent to which they want to get involved in running the business, hotel owners can choose the franchise or the management contract. Through notoriety, quality standards but also commercial policies, hotel chains ensure those interested in joining their brand portfolio a competitive advantage materialized in superior results.

5. References

- Brand Finance (2020) *The annual report on the most valuable and strongest hotel brands* [online] Available at: <https://brandirectory.com/download-report/brand-finance-hotels-50-2020-preview.pdf>
- Collins S., Perret S., (2019) *Hotel franchising in Europe. The Push continues for new ways to expand*, HVS, UK.

- Ikonomi E. (2014) Franchise contract and good faith, *Mediterranean Journal of Social Sciences*, Vol.5(22): 313:319.
- Ivanova M. et.al., (2016)., *Hotel chains conceptual models*, Routledge Handbook of Hotel Chain Management.
- Korosh F. (2020) *Difference Between Hotel Managements Agreements and Franchise Operators* [online] Available at: <https://www.hospitalitynet.org/opinion/4099753.html>
- Statistica.com, (2020) Travel, Tourism & Hospitality, Accommodation: *Leading hotel franchises in Europe in 2018, by number of units* [online] Available at: <https://www.statista.com/statistics/665684/leading-european-hotel-franchises-by-outlet-number/>
- Statistica.com, (2021) Travel, Tourism & Hospitality, Accommodation: *Leading hotel companies worldwide 2020, by number of properties* [online] Available at: <https://www.statista.com/statistics/197869/us-hotel-companies-by-number-of-properties-worldwide/>
- Stănciulescu G., Micu C. (2012) *Managementul operațiunilor în hotelărie și restaurație*. București: Editura C.H. Beck
- Stănciulescu G., State O. (2013) *Tehnica operațiunilor de turism intern și internațional*, București: Editura C.H. Beck