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The Franchise Relationship Is Complicated  
*By Richard Barrett-Cuetara, Esq.*

Franchising is a way of business life in America. It is integral to the transformation of a locally known shop or service into a nationally and internationally recognized name. When people see a franchise, they know that they will be getting the same product or service in Dallas as they would in Duluth, Dayton or D.C. Franchises dominate the fast-food, automobile, rental car, restaurant and cosmetic industries, not to mention the hotel industry.

The hotel industry presents an interesting study on how franchising affects the relationships between the franchisor and franchisee, suppliers and vendors, and the traveling public. In the past seven years, individually branded hotel companies have joined and consolidated into major hotel companies, resulting in mega-hotel companies like Marriott, Hilton, Intercontinental Hotels Group and Starwood Hotels & Resorts, all touting multiple branded properties.

The Marriott line of hotels, for example, now extends beyond its upscale flagship accommodations and convention centers to include Marriott Hotels & Resorts, JW Hotels & Resorts, Renaissance Hotels & Resorts, Courtyard, Residence Inn, Fairfield Inns, Ramada and Ritz-Carlton, each catering to different segments of the corporate and recreational travel business.

In the wake of this wave of consolidation and branding, issues common to all franchise operations are projected in bright relief in the hotel industry. One of these issues is the impact of multiple branding. Impact, also called encroachment, exists when a franchisor, such as Intercontinental, wants to add one of its brands, such as a Holiday Inn, in the same geographical vicinity as an existing Holiday Inn. Expanding the brand benefits the franchisor and franchisee, but Intercontinental must be sensitive to the existing Holiday Inn's concerns that an identical hotel or a sister-branded property, such as a Holiday Inn Express, could undercut its financial performance.

Vendor/supplier relationships with franchisors enjoy the multi-branded approach. Many will give the franchisor a "rebate" in exchange for the expanded business. Sensitive to complaints of perceived self-dealing, franchisors are disclosing these rebate relationships to their franchisees and in some instances, are distributing the funds to the franchisee.

Vendors supplying products to a company with multiple brands may benefit from that relationship. For example, Marriott may use one supplier to provide products to all its multiple hotel brands. If the supplier is able to enter into a volume contract to supply multiple brands, then the costs to the hotel should be lower. The supplier, franchisor and franchisee all benefit from reduced costs.

Cross-selling of their brands is an issue facing multi-brand franchisors in all industries. In the hotel industry, for instance, Hilton has several brands including Embassy Suites Hotels, Doubletree Hotels, Homewood Suites, Hilton Hotels, and Hampton Inns. As part of its marketing plan, a Hilton cross-sells all of its brands to the traveling public on a national, regional and/or local basis.

When the franchisor offers reward programs, the guest benefits from cross-selling. For instance, with Hilton's HHonors Points & Miles Program, guests earn points and mileage regardless of which Hilton-brand hotel they stay at. This helps increase the rate in which rewards are earned, and it also promotes brand loyalty as a guest may make it a priority to stay at a Homewood Suites when traveling to a city without a Doubletree.

While this may be good for the traveling public, when several of those different brands are placed within the same geographical market, the local and/or regional marketing efforts by the franchisor will have to benefit all brands equally, whether those hotels are franchised or corporately owned. To avoid any discrimination among the various properties, franchisors have adopted protocols, or rules of engagement.

As with other franchisors that market to various segments of a particular industry, hotel franchisors inevitably accumulate a lot of customer information. The franchisor may feel entitled to use that guest information to cross-sell in a local market on the belief that it will benefit the brand as a whole, and the local franchisee in particular, by capturing market share.

The franchisee, however, might be reluctant to share guest information. Like a trade secret, the franchisee would not want customer accounts it cultivated to be used to benefit someone else, even a sister property. Similar to cross-selling, protocols should be developed on the use and entitlement to guest information to avoid future conflicts.

Franchisors and franchisees will continue to joust over impact, cross-selling and the sharing of customer information. Luckily, it's all for the benefit of the weary traveler looking for a comfortable bed and a "Do Not Disturb" sign for the door.

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