

## Franchisors Starting to Clean up Their Act



Over the years I have blasted franchisors for offering one-sided and unfair franchise agreements. Issues I find particularly irksome include:

- the lack of an area of protection preventing a franchisor from establishing a competing property
- the inability to cancel an ineffective franchise affiliation without paying a liquidated damage penalty
- franchise fees that bear no relation to the amount of business produced by the affiliation
- franchisors that force hotel owners to adopt new (and sometimes unreasonable) standards during the term of the agreement.

Last fall, Cendant heeded its critics and instituted a new franchise relations policy that addresses some of my major concerns. Cendant's hotel division adopted the following new franchise policies:

- A franchisee can now terminate its franchise without penalty or payment of liquidated damages if, after two years of operating under the franchise, the property fails to achieve 50-percent occupancy for a 12-month period. The franchisee must comply with certain quality, marketing and related standards.
- A new Cendant franchisee can choose between a designated area of protection for the life of the franchise or protection under the brand's encroachment/impact policy.
- When a franchisee sells his hotel to an unrelated buyer, any required renovations will be limited to items deemed unsatisfactory on the quality-assurance inspection immediately preceding the transfer and facelift-type renovations that will modernize the appearance of the property to conform to brand entry standards for converting properties.

I applaud Cendant for these franchise modifications. The company's action demonstrates to the lodging industry that for a franchisor/franchisee relationship to succeed, both parties must keep each other's interest in mind.

I should also mention the efforts of U.S. Franchise Systems' Mike Leven. He pioneered hotel franchise reform several years ago by providing similar franchisee protections in his agreements.

Now is the time for other hotel chains to review the fairness of their franchise policies. Many hotels are now offering their customers a satisfaction guarantee; wouldn't it be nice if hotel franchisors did the same? Also, wouldn't you think that a franchisor with a user-friendly agreement would have a competitive advantage in selling new franchises? **LH**

*Stephen Rushmore, MAI, CHA, is president and founder of HVS International of Mineola, NY; San Francisco; Miami; Boulder; Vancouver; and London. HVS specializes in hotel feasibility studies and valuations.*