

What Does A Franchise Cost?

The selection of an appropriate hotel franchise affiliation affects a property's ability to compete in the local market, generate profits, achieve a certain image or market orientation and benefit from referral business. Because the success of a hotel is primarily based on the cash flow it generates, owners must weigh the benefits and services of a national franchise affiliation against the total cost of such a commitment.

The cost of a hotel franchise affiliation is based on various fees and expenses charged by the franchisor for the use of the brand's name, logo, identity, image, good will, procedures and controls, marketing, and referral and reservation systems. Franchise fees normally include an initial fee paid with the franchise application, plus continuing fees paid periodically throughout the term of the agreement.

The initial fee typically takes the form of a minimum monetary amount based on a hotel's room count. For example, in the United States the initial fee may be a minimum of US\$45,000 plus US\$300 per room for each room over 150. The initial fee covers the franchisor's cost of processing the application, reviewing the site, assessing market potential, evaluating the plans or existing layout, inspecting the property during construction, and providing services during the pre-opening and conversion phases. The continuing fees are typically paid monthly over the term of the agreement and include the following costs:

Royalty Fee. Usually based on a percentage of rooms revenue, the royalty fee represents compensation for the use of the brand's trade name, service marks and associated logos, good will and other franchise services.

Advertising or Marketing Contribution Fee. This fee covers the cost of brand-wide advertising and marketing placed in various types of media, the development and distribution of a brand directory, and marketing geared toward specific groups and segments.

Reservation Fee. If the franchise brand utilizes a reservation system, the reservation fee supports the cost of operating and paying for the central office, telephone, computers and reservation personnel.

Frequent Traveler Program. Some franchisors maintain incentive programs that reward guests for frequent stays; these programs are designed

to encourage loyalty to the brand. The cost of administering the program is financed by a frequent traveler assessment.

Miscellaneous Fees. Depending on the franchise agreement, the franchisor may provide and separately charge for additional services such as training programs, travel agent commissions, global distribution system fees, computer hardware and software and software maintenance.

Periodically, HVS International reviews the franchise documents of 89 major franchise hotel companies to determine the various fees they are charging their franchisees. Three models utilizing different revenue assumptions representing the economy, mid-rate and first-class hotel brands provide the basis for determining the total cost of the affiliation over a 10-year holding period.

The table below shows the results of the HVS franchise fee survey for the two lowest and the two highest total 10-year costs for each of the three class assumptions. The table breaks out the initial cost, royalty cost, reservation cost, marketing cost, frequent traveler cost, miscellaneous cost, the 10-year cost and the 10-year cost as a percentage of the assumed rooms revenue during that 10-year term.

Obviously the cost of a hotel franchise affiliation is an important consideration when selecting a franchisor. However, other factors such as the strength of the brand, the ability of the reservation system to deliver customers, the availability of other services such as a frequent traveler program are all critical factors that go into developing a price-value relationship necessary for making the correct decision.

Note: Parris Jordan and Zubin Saxena of HVS International developed the data for the HVS 2005 Hotel Franchise Fees Analysis Guide. ♦



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	Total Initial Cost	Total Royalty Cost	Total Reservation Cost	Total Marketing Cost	Total Frequent Traveler Cost	Total Misc. Cost	Total 10-Year Cost	Percent Of Total Rooms Revenue
Economy Brands								
Budget Host	US\$5,000	US\$71,250	US\$12,000	—	—	US\$4,900	US\$93,150	0.6%
Best Value Inn	5,000	93,000	—	36,000	—	2,400	136,400	0.9
Select Inn	10,000	383,086	17,053	153,234	7,994	150,385	721,752	4.7
Super 8	25,000	766,172	229,852	229,852	61,294	256,096	1,568,266	10.2
Travelodge	36,000	689,555	315,594	315,594	61,294	207,354	1,625,390	10.6
Days Inn	36,000	766,172	291,145	291,145	61,294	243,228	1,688,985	11.0
Mid-Rate Brands								
Best Western	\$61,000	\$545,680	\$292,000	—	—	\$489,653	\$1,388,333	2.8%
ClubHouse Inn	30,000	1,961,401	164,666	—	69,943	—	2,226,010	4.5
Master Host Inns	6,000	1,961,401	—	1,225,876	—	19,750	3,213,027	6.6
Baymont	50,000	2,189,056	980,701	1,225,876	196,140	557,663	5,199,436	10.6
Hampton Inn	95,000	2,451,752	—	1,961,401	196,140	509,192	5,213,485	10.6
Comfort Inn	100,000	2,574,339	858,113	1,029,736	196,140	493,985	5,252,313	10.7
First-Class Brands								
Omni	\$50,000	\$3,034,043	\$1,152,936	\$1,152,936	\$1,152,936	\$523,000	\$7,065,851	7.0%
Luxury Collection	120,000	4,045,390	954,931	1,011,348	404,539	696,044	7,232,252	7.2
Woodfin Suites	120,000	5,056,738	—	2,528,369	—	90,000	7,795,107	7.7
Radisson	150,000	6,068,085	2,022,695	2,022,695	239,805	454,306	10,957,587	10.8
Hilton	92,500	5,056,738	2,022,695	2,022,695	621,372	1,376,681	11,192,681	11.1
Marriott	90,000	7,888,511	648,320	1,011,348	582,536	1,010,329	11,231,043	11.1

Source: HVS International