

Hotel Lawyer: The 5 questions every owner should ask before selecting a hotel brand - By Jim Butler,
author of www.HotelLawBlog.com

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Hotel brand proliferation offers more choices - and challenges - for hotel owners. What are the 5 questions every owner should ask before selecting a hotel brand?

With the battle scars earned as the hotel lawyer and advisor on several hundred hotel management agreements, my partner, Bob Braun, is one of the senior members of JMBM's Global Hospitality Group(R). While we have a very "deep bench" of hospitality lawyers experienced in dealing with hotel operators, Bob is one of the real veterans who has seen it all.

Bob and I work together frequently, and we often present practical guidance on many aspects of hotel management agreements at industry conferences and here on the Blog. In fact, an entire section of the Blog is devoted to Hotel Management Agreements. (Just go to www.HotelLawBlog.com and click on the "TOPICS" tab at the top, and then select "Hotel Management Agreements." Alternatively, you can point your browser to http://hotellaw.jmbm.com/management_and_franchise_agree/).

Many of our rich library of resources focus on getting the right hotel operator, and how to get a fair management agreement, but today Bob gives us 5 Questions that every hotel owner needs to ask BEFORE even getting to the hotel management agreement.

Here is Bob Braun's article. . .

The 5 questions every owner should ask before selecting a hotel brand By Robert E. Braun, Hotel Lawyer | Partner | JMBM Global Hospitality Group(R)

Brand proliferation

Recent years have seen an explosion in the number of hotel brands, since 1980, the number of brands reported by Smith Travel Research and PricewaterhouseCoopers LLP in Hotel Business has increased from 81 to 324. In recent years, established hotel companies have introduced new brands, while newcomers have developed their own concepts.

New hotel brands create both opportunities and pitfalls for hotel developers and owners seeking to brand, or re-brand, hotel properties. With so many new choices, owners have a greater variety of potential choices, but also need to understand what they are getting.

Old Company, New Look

When an established hotel company introduces a new brand it has some distinct advantages. They don't have to learn on the job, they have "done it before," and can apply their experiences to a new brand. They have reservation systems, standardized procedures, the money to establish the identity of a new brand, and most importantly, bench strength -- they can draw upon human resources that can only be developed through years of experience and training.

However, the resources of brand companies are not limitless. Brands within a family of brands naturally tend to compete with each other, not only for resources within the company, but for guests. For example, there may have been a time when it was clear that a limited service hotel would not compete with a full-service property. But now, the lines between different concepts are often blurred and can result in heavy competition.

New Company, New Look

New brands developed by new hotel companies present different benefits and challenges. A new hotel company can be more focused on the success of a single brand. Because new brands are likely to be more dependent on the financial success of a smaller number of properties, their goals may be more in line with the goals of owners. There is a greater opportunity for flexibility, giving owners greater say in the design and operation of the property, and a greater willingness to address unique issues of location, size and design.

However, these benefits are also weaknesses, new hotel companies do not have the same systems and resources as do seasoned hotel companies. New hotel brands are unlikely to have the same economies of scale as existing brands, often, sharing costs "equitably" among a very small group of hotels will put a large burden on each hotel. Additionally, one of the advantages of a new brand - flexibility - might make it difficult to create and maintain a consistent brand image.

A caveat - newly established brands often try to gain additional leverage by "acting as if" they were established brands. Owners should be aware that simply because a hotel anticipates competing with W doesn't mean that it actually does compete with W and can demand the same terms.

What Brand is the Right Brand?

Matching the right brand and operator with the hotel project determines, possibly more than any single factor, the ultimate success of the project. The right brand -- and the right management or franchise agreement -- can add, or subtract, as much as 25% of the value of a project. Because of this, owners need to evaluate, systematically and realistically, what each brand brings to the table. Owners need to ask some key questions:

Does the brand's goals match mine? A key element when considering a new brand is understanding whether the goals of that brand and its standards of operation correspond to the owner's vision of the hotel.

Is the brand really a brand, or just an idea? Whether it is a new or old company, a brand must consist of more than a single hotel to gain meaningful acceptance. Owners should evaluate and get assurances of the brand's commitment and resources.

Who's running the shop? Brands are not simply names and pictures, they are people who implement concepts and ideas. Owners must understand the systems developed or acquired by the brand. Will it depend on shared reservation systems, or on an internally developed system? Where are key personnel trained? What purchasing programs does it have in place?

I love the idea, but how much will it cost me? Hotel management agreements are uniformly designed so that an owner pays all operating costs. An owner has to understand how the brand could save, or spend, the owner's money.

Will my brand be competing against me? As noted above, brand expansion can blur the lines between different products. Owners should strive for non-competition clauses, which protect not only against a particular named brand, but also against all competing hotels offered by the management company.

Getting the Right Brand

Most hotel owners and developers don't negotiate with brands on a day-to-day basis. The best, most effective way to get the right brand is to engage an expert consultant who does. As hotel lawyers, we at JMBM's Global Hospitality Group(R) serve that function by investigating the owner's goals, the specifics of a project and its market fundamentals. From that, we identify an exhaustive list of possible brand and operator candidates. Working with the hotel developer or owner and other team members, we review and prioritize choices, and compare the different terms the brands demand.

We have come to this approach through lessons learned over the last two decades -- the JMBM Global Hospitality Group(R) has represented clients in more than 1,000 management agreements over the years. Asking the critical questions before selecting a brand adds significant value to the management agreement.

We also recommend that the owner actively "sell" the merits of the project to the brand candidates, and explain this is a great project that they want to have in their family of hotels. The owner can clarify its vision of what distinguishes the project, how it will be successful, and why it may be strategically or financially important to their particular hotel company.

Asking brands the 5 critical questions -- and presenting the merits of their properties -- can result in achieving successful strategic relationships that are a "win-win" for both brand and owner.

Thanks for the tips, Bob. I enjoy collaborating on those "wins" for our clients!

About the Author



Jim Butler is recognized as one of the top hotel lawyers in the world. He devotes 100% of his practice to hospitality, representing hotel owners, developers and lenders. Jim leads JMBM's Global Hospitality Group(R) -- a team of 50 seasoned professionals with more than \$40 billion of hotel transactional experience, involving more than 1,000 properties located around the globe. In the last 5 years alone, they have brought their practical advice to more than 80 "hotel-enhanced mixed-use" projects, a term Jim coined to fill a void in industry lexicon. This term describes one of the hottest developments in real estate--where hotels work together with shopping center, residential, office, retail, spa and sports facility components to mutually enhance the entire project's excitement and success.

Jim and his team are more than "just" great hotel lawyers. They are also hospitality consultants and business advisors. They are deal makers. They can help find the right operator or capital provider. They know who to call and how to reach them. They are a major gateway of hotel finance, facilitating the flow of capital with their legal skill, hospitality industry knowledge and ability to find the right "fit" for all parts of the capital stack. Because they are part of the very fabric of the hotel industry, they are able to help clients identify key business goals, assemble the right team, strategize the approach to optimize value and then get the deal done.

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