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Abstract

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Franchise Opportunities Abound with New and Established Brands

by
Don Landry

The president of Choice Hotels International discusses important considerations for investors and operators interested in pursuing franchise affiliations.

The proliferation of new hotel franchise brands has complicated the task of choosing the right flag.

Not long ago, the choice was limited to such stalwarts as Quality, Comfort, Holiday, Best Western, Ramada, and Howard Johnson's.

Today there are a host of new names including MainStay Suites, Sleep Inns, Candlewood Hotels, Sundowner Inns, Taj Suites, Taj Inns, Club Hotels by Doubletree, Sumner Suites, Extended Stay America, and Fairfield Suites.

Some of these brands were introduced within the last 12 months.

The influx of new brands, boosted by an industry that enjoyed record profits of \$8.8 billion last year, has created a unique dilemma for those investors, developers, and independent operators who are considering franchise affiliation.

Established names such as Comfort and Holiday long ago achieved critical mass and consumer acceptance. New brands may offer compelling, unique features, but these new names are not yet widely known or trusted by the public.

While it might be tempting to choose a brand based simply on the criteria of "fresh and new" or "established and widely known," there are additional variables to consider.

Experience, for example. Neophyte and would-be operators should look for a brand that is relatively easy to build and operate.

My own company's Sleep Inn brand would be an excellent choice for such operators. Sleep Inn, introduced by Choice in 1988, is a highly consistent, all-new-construction product.

Because Sleep Inn hotels are built to prototype specifications with standard furniture, fixtures, and equipment, there is little risk of cost overruns.

Sleep Inns also are less labor and management intensive than most older brands, which makes them relatively easy to operate and affords investors a faster payback.

An important consideration when selecting a new brand is the franchisor's willingness to invest its own money to help achieve critical mass.

Because Sleep is a relatively new brand, Choice is investing several million dollars to build new hotels and subsidize the brand's marketing efforts.

Likewise, we will spend up to \$100 million to develop the first 25 MainStay Suites hotels in key markets. MainStay Suites is our newly introduced mid-market, extended-stay brand.

New Brands Offer Advantages

An undeniable benefit of new brands is that they are not burdened by the "baggage" of negative consumer experience that may plague an established brand with worn out and outmoded structures and facilities.

Consumers and investors have demonstrated an unequivocal bias in favor of fresh, new products.

Some established brands offer the best of both worlds: wide name recognition and a fresh product. Choice has brought those two benefits together in its Quality brand, which has been serving the public for more than half a century.

To ensure the continued vitality of the Quality brand, Choice developed an innovative, cost-effective plan to revitalize aging hotels by converting some guest rooms into high-performing suites and giving the properties a facelift, inside and out.

The result is a hotel that looks new and offers the latest features, such as the Quality Executive Room, with its oversized desk, bright task lighting, upgraded furnishings, and speakerphone with modem jack.

Conversions Can Be Cost Effective

By converting a portion of the rooms inventory to suites, a Quality Inn and Suites can compete for consumers who might otherwise gravitate to an all-suites brand. Just as important, suites command a significant rate premium, which helps boost the property's overall profitability.

An older hotel can be converted to a Quality Inn and Suites at half the cost or less of building a comparable new hotel. To demonstrate our commitment to the concept, Choice has committed \$25 million to finance Quality Inn and Suites conversions.

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We encourage owners to use part of the financing to replace money-losing restaurants and coffee shops with the innovative new Choice Picks Food Court, modular franchise food and beverage system featuring branded items.

Choice Picks Food Court is the first system of its kind in the lodging industry and features nationally known food service brands.

Hoteliers choose the number and type of brand models that suit their market. With shared labor and equipment, Choice Picks Food Court yields significant operational and cost efficiencies.

When choosing a hotel brand, owners should consider the support systems offered by the franchisor. Established franchisors such as Choice, Holiday, and Marriott offer sophisticated marketing, worldwide reservations, comprehensive training, and personal field support.

Choice Offers Support Systems

We like to call them "success systems" because they are designed to generate maximum profitability for our franchise partners. Choice's comprehensive support services begin at the pre-development stage and continue throughout the operating life of every hotel.

Development professionals assist with site identification and acquisition, market assessments, prototype plans and specifications, architectural programming and plan reviews, contractor and lender introductions, and loan package kits.

Choice also offers financing programs in conjunction with respected companies to help franchise partners refinance and acquire capital for development, acquisitions, and renovations.

Choice's professional designers and buyers help franchise partners with interior design services, direct-order discount purchasing through endorsed vendors, food and beverage programs, and exterior signage.

Choice provides pre-opening training and orientation and on-going seminars and education programs held on a regional basis that address operations, management, housekeeping, front desk, maintenance, and human resource issues.

Members of the Choice field staff meet with franchise partners regularly to facilitate compliance with operating standards, conduct on-site training, consult on improvements, and provide sales, marketing, and operational consultation.

All Choice licensees benefit from the state-of-the-art CHOICE 2001 reservations system, with its brand-specific tool-free number and global distribution system links to travel agents.

National television advertising, complemented by consumer and trade print ads and an aggressive publicity effort, ensure top-of-mind awareness for Choice licensees with the traveling public.

Partnership marketing programs with national credit card, car rental, and travel-related companies provide a highly effective vehicle for reaching key target audiences.

Choice's worldwide sales team generates leads through direct sales calls, trade shows and continuous contact with travel agents, meeting planners and motor-coach operators.

Commitment to Innovation Is Important

Owners should look for franchisors with a strong commitment to continuous innovation and technology. Operators whose franchisors stay at the leading edge of technology and product development benefit from a competitive advantage.

Last year, Choice became the first hotel company to develop an interactive home page on the Internet with security encryption that allows consumers to book their own rooms and guarantee them to credit cards.

Choice has integrated geographical information systems technology with its CHOICE 2001 reservations database, which allows company reservations sales agents, travel agents, and Internet users to pinpoint the location of any hotel and its proximity to local attractions.

We are developing a new property management system that will allow our licensees to provide "last room availability," eliminating the need to close out inventory as a means of avoiding overbooking during high-demand periods.

The system will include a comprehensive, user controlled yield management system to allow managers to make the most profitable rate and length-of-stay decisions for their hotels.

In response to licensee requests to bring one-on-one training to the property level, Choice is developing CD-ROM computer training programs for its licensees that will cover a wide range to topics from housekeeping to yield management.

We recently introduced software that allows "inside availability" for users of the Galileo global distribution system, giving travel agents search options and capabilities similar to Choice's own reservations sales agents.

Choice soon will offer similar capability for users of Sabre, Amadeus, and Wordspan systems with the objective of creating "seamless connectivity" for travel agents.

At the property level, Choice is pursuing technological advantages to keep its brands labor-lean and provide consumers the latest guest room conveniences.

MainStay Suites, for example, will feature an automated check-in, check-out system, two-line speakerphones with one line dedicated to computer modem communications, and a guest-controlled voice mail system.

Other questions to consider when considering brand affiliation include:

- What resources are available for the conversion?
- Is the brand right for the market relative to the competitive set, customer mix, and product niche?
 - Does the brand fit the owner's experience and expertise?
 - Is the franchisor stable and financially strong?
 - Does the franchisor respond promptly and effectively to its licensees' concerns?

Finally, remember the mantra of the real estate business: location, location, location. Location is critical to the success of any hotel, second only to the selection of the right brand and the right franchisor.

Don Landry is president of Choice Hotels International.