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Hotel Franchising: Perspectives and Prospects

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Abstract

The outlook for lodging franchising in the new marketplace made possible by the growth of technology is the best it has been. The CEO of the Hotel Division of Cendant, the world's largest franchisor, offers operators opportunities to gain larger shares of a growing market.

Hotel franchising: Perspectives and prospects

by Eric E. Pfeffer

The outlook for lodging franchising in the new marketplace made possible by the growth of technology is the best it has been. The CEO of the Hotel Division of Cendant, the world's largest franchisor, offers operators opportunities to gain larger shares of a growing market.

Whoever was the first to say that there is nothing new under the sun cannot have lived in twentieth century America. The list of new things and new ways in our time is, of course, virtually endless.

It is likely, however, that few people asked to name some of these transcendent innovations would cite franchising as one of them. This is entirely understandable. Franchising is such a familiar part of our economic landscape as to be taken for granted. The fact of the matter, however, is that although franchising is an idea whose time came some 50 years ago, its full potential has yet to be realized.

Nowhere is this truer than in the hospitality industry. Lodging was, of course, one of the first business sectors in which the franchising concept took root, but it is only recently that its robust growth has begun being more precisely guided by the needs of a new generation of entrepreneurial franchisees and a significantly and increasingly more sophisticated customer.

This evolutionary transition has its origins in three concurrent and ongoing factors, or, if you will, phenomena.

One is nine years of continuous economic growth in the U.S. Since 1990 the nation's GDP has risen by over 70 percent, the greatest sustained expansion in our history. What makes this period unique is not so much its duration, but its characteristics: an unprecedented and steady rise in employment, wages, and disposable personal income, balanced by sustained low inflation, moderate

interest rates, and the availability of investment capital generated by profits and equity market values.

Second is the continued expansion of demand for both business and leisure travel. The vast majority of leisure travelers still rely on their cars to get them where they are going, but the growth of the economy has spurred a trend to short second and even third vacations to more distant resort and special interest destinations.

Third is the geographic diversification of both goods and services industries that has increased the revenue contribution of the lucrative business travel segment and forced the airlines to increase capacity in order to accommodate the traffic. Key signs are the recent surge in hotel construction, the growing role of commuter airlines, and the offering of more point-to-point flights than at any time since airline deregulation in 1978.

Internet has influence

But there is also now the establishment and rapid growth of personal communications and commerce via the Internet and the World Wide Web. The establishment and almost exponential emergence of this new marketplace is as important as the first three factors mentioned above. It is so important that Cendant has dubbed this phenomenon "The Eighth Continent." Whatever it is called, it is permanently altering the business landscape and chal-

lenging marketers to re-think their traditional approaches to selling, serving and retaining their customers. The chief reason is that in the electronic, virtual society of the Eighth Continent, the customer is king and the PC is his symbol of office.

At the heart of the revolution are the availability and volume of information, the methods and speed of its transmission, and how it is being used. Cendant has been tracking these forces since their inception. And the corporation has been responding, with changes of its own, such as the \$90-plus million Project Power Up, a program to place the company and its business customers on the cutting edge of the new technologies.

One look at the e-mail on the wall told us what we needed to know. It took television 25 years to gain a 25 percent share of homes. It took the Internet six years. On-line trading went from zero to 14 percent of all U.S. stock transactions in just three years. Furthermore, the electronic marketplace is expanding at a supersonic rate – one reason that AOL's market cap now exceeds that of General Motors. The volume of Internet traffic and the number of Internet web sites are doubling every hundred days. It is still only dawn over the Eighth Continent, but, to borrow from Shakespeare, we are staring at that rare tide "which taken at the flood leads on to fortune."

As the world's preeminent lodging franchisor, making the

decision to ride that tide was easy. But climbing to the crest of the wave and remaining there is an ongoing, complex, and often delicate task, because we in the lodging franchise business serve two primary customer groups – the chain’s franchisees and the chain’s hotel guests, who are technically the franchisee’s customers, but whose loyalties are to the chain and not to a particular franchisee, in most cases. The personal natures of the relationships that hold this three-dimensional structure together have always been instrumental to the success of our brands. To keep it that way requires an open mind, a streamlined decision process, and an eye for ideas that can be implemented and delivered in the franchise environment.

Consumers want more

For example, one of the essential realities to be confronted in the new marketplace is that consumer expectations are now far higher than ever. Today’s well-traveled and increasingly sophisticated hotel guest wants more than a room, a bed, a TV set, and a bathroom. The franchisee, in turn, wants and needs more support and assistance from the franchisor in order to meet his customer’s wants and needs in an intensely competitive business filled with choices. That is an important shift, because it reflects what is probably the defining difference in today’s circumstances; the individual guest, the core cus-

tomers, is now the driver and the dictator of change.

Accordingly, the franchisor’s job is also changing. Not long ago the role of the franchisor covered little more than the building of consumer awareness for and the image of a brand name, the setting of basic standards, basic manager training, and periodic performance evaluations. No more. It is simply no longer enough for the franchisor to establish and maintain brand equity and pull. In the new world where we all live and work, the franchisor must be an active participant in marketing a property and in developing the value-added features that will ultimately determine the core customer’s satisfaction on both the physical and the emotional levels.

If there were a time-tested and objective method of measuring the rising pressure of qualitative demands, we might find that it no longer applies – if for no other reason than that the magnitude of the challenge at hand is running off the scale. Cendant franchises eight major hotel brands: Days Inn®, Howard Johnson®, Knights Inn®, and Ramada®, in the United States; Super 8 Motel® and Travelodge® in North America; Villager Lodge®, and Wingate Inn®. They total more than 6,200 properties and almost 600,000 rooms worldwide. Tracking and analyzing their performance, property-to-property and room-to-room, was difficult and time consuming under the old rules of the marketplace. Under

the new rules the job might be so complex as to be undoable, rather like moving from checkers to chess without instruction.

It is not undoable, however, for various reasons. To cite just a few, the chains benefit from our efficient brand management system and Cendant's readiness to dedicate its own resources to the task at little or no cost to the franchisee. Combined, these strengths form the foundation of a solid working relationship with our franchisees. Then, too, there is the manner in which we monitor closely and continuously the expectations and needs of the core customer, the guest. The key to customer satisfaction and brand loyalty is responsiveness to guests.

Internet is provided

Two recent initiatives serve to illustrate this point. Because our core customers at first wanted it as an amenity and now see it as a necessity, we have committed to providing every guestroom in Cendant's inventory with high speed Internet connectivity and, where appropriate, to installing Internet capabilities in meeting rooms and Intranet-linked kiosks in the lobbies of selected hotels. Every guestroom in our 70 Wingate Inns is already Internet capable, and we plan to complete the process system-wide within two years. As we proclaimed in announcing this project, "The search for a data port in the night is over."

Simultaneously, because our franchisees expressed their desire for more efficient and user-friend-

ly communications, we have also committed to providing every Cendant franchise property with fully developed Intranet and web site capabilities, at our expense. We regard this side of the technology infrastructure as critical to the communications and the competitiveness of a hotel property. The day of the marketing and servicing intermediary is drawing to a close. Interested customers will do their comparison-shopping, room pricing, and availability homework inside comprehensive databases and then go directly to the brand or hotel web site for additional information, booking, and confirmation. The research may take minutes, the actual transaction time, perhaps, seconds.

Clearly, the hotel has to be ready to provide the requested information quickly and efficiently. It is a matter of respond or retreat. The challenges posed by the new technology may be numerous and difficult to overcome, but the advantages are not less formidable. We believe, in fact, that the advantages will outweigh the challenges by a wide margin in terms of customer service and satisfaction and business expansion opportunities. The following are several cases in point:

- The new technology extends the reach of Cendant franchisees almost to infinity. Instead of waiting passively for someone to call or click on, marketing managers can reach out and communicate actively with prospective

customers or intermediaries virtually anywhere and instantly, building market presence on top of brand awareness by offering promotional rates, special interest packages, and new value-added features.

- On the entrepreneurial side, Internet technology also significantly enhances the franchisees' ability to establish and coordinate promotional partnerships with local or regional attractions, restaurants, car rental agencies, and other hotels. Often overlooked in the excitement of the new marketplace is the concept of "community." With global reach now within everyone's grasp, the common assumption is that the community has somehow declined in its importance as a business factory. That is a false and dangerous assumption. In fact, we believe that technology is giving the term "community of interests" new meaning by making possible virtual ventures that until now might have been too cumbersome or too costly to manage.

From Cendant's perspective, the outlook for franchising in the new marketplace is the best it has been in memory. And not merely because the economy is strong and has gone global, or because personal income, productivity, and population continue to increase. These

are, of course, vital factors, but with specific regard to franchising there is another factor that is only now beginning to emerge: the relative leveling of the lodging and hospitality industry playing field.

Small and medium size properties belong to a different classification than major resort hotels. That is a given. Not far behind the tide referred to above, however, there is a sea change taking place in how these smaller hotels compete for customers in the middle market that constitutes the largest segment of the target audience. The keys are resources and capabilities. Put simply, a moderately-sized independent operation is not likely to have what it takes. In contrast, a franchise operation consisting of a collection of branded networks will be far more likely to have "the right stuff."

At Cendant, all of us – from our support staff right up to the brand CEOs – are keenly conscious of the responsibilities these growth opportunities impose on us as the world's largest hotel franchisor. We are meeting these responsibilities with – of course – resources and capabilities. The high speed Internet and web site initiatives described here are an example.

Relationships are built

Another is Cendant's own network of business partners. Through our Preferred Alliance program, we have built relationships with more than 100 companies in goods and services. This enables us to exercise the kind of

leverage and raw purchasing power needed to give Cendant franchisees the access they need to a full range of quality products and supplies at lower costs or better values and service. That is the franchising advantage, and our property operators can count on it as they seek to gain larger shares of a growing market and to compete in customer service and profitability.

Just how great is the outlook for the growth of franchising and the lodging industry? There is no telling, literally, because what we have here is very much a new ball game. More than a century ago George Eliot wrote, "Prediction is the most gratuitous form of error"; she was right for reasons then not even remotely imaginable. Today, with the total body of science doubling approximately every five years and technology leaping ahead in frequently quantum strides, assigning a number to even the medium-term future is pointless. The time and energy are far better spent on what can and must be done, in practice rather than theory, to pursue the numbers we set for ourselves and to seize the opportunities opening before us. To cite Will Shakespeare again, "The readiness is all."

Eric E. Pfeffer, chairman and chief executive officer of Cendant Corporation's Hotel Division, oversees all eight hotel brands franchised by the corporation, and the areas of Hotel Operations, Sales and Marketing, and International Development.