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# 2014 UNITED STATES HOTEL FRANCHISE FEE GUIDE

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## 2014 U.S. Hotel Franchise Fee Guide

*The purpose of the HVS U.S. Hotel Franchise Fee Guide is to provide a comparative review of various hotel franchise brands based on the applicable franchise fees. The selection of an appropriate franchise affiliation affects a property's ability to compete in the local market, generate profits, and achieve a certain image or market orientation. Since the success of a hotel is based primarily on the cash flow generated, owners and lenders must weigh the benefits of a brand affiliation against the total cost of such a commitment. Please note that our study results may not be indicative of the impact an individual brand can have on a hotel's overall profitability because only the costs and not the benefits of the franchise affiliations have been analyzed. Furthermore, our study does not reflect, nor does it claim to address, operating results of any one particular brand, or any one brand affiliation with any single property. This 2014 U.S. Franchise Fee Guide is meant to illustrate a basic comparison among franchise fees charged by participants.*

### Summary of Findings

- Franchise fees for Full-Service brands were mostly above the median franchise cost, while Extended-Stay brands were largely below the median.
- The median franchise cost was 11.8% of rooms revenue.
- The ten highest franchise costs represented a mix of chain scales and product types.
- The ten lowest cost franchises were primarily economy properties.
- In general, most of the franchise fees paid by a hotel are based on rooms revenue and are highly variable. However, since reservation fees vary by channel, a change in the source of reservations may have a significant impact on the ratio of franchise fees as a percentage of rooms revenue. Focusing on the origins of one's hotel reservations is the most productive way to reduce one's franchise costs.

### Disclaimer

Hotels are complicated investments. Selecting an appropriate franchise for a property entails exhaustive research and investigation by an investor. The information presented in this Franchise Fee Guide was developed to provide insight into franchise fee structures and should not be relied upon by an investor other than as a preliminary resource. We do not warrant data the accuracy of the data contained in this study, and all of our sources are assumed to contain accurate information. Finally, we note that the 2014 version of this guide is not necessarily comparable with previous versions, due to the new methodology of calculating franchise costs, which takes into account historical data for each brand and does not subject all brands to uniform assumptions.

## Types of Hotel Franchise Fees

Brand attributes play a crucial role in an investor's decision to acquire or change a franchise affiliation. When evaluating a potential hotel franchise, one of the important economic considerations is the structure and amount of the franchise fees. Second only to payroll, franchise fees represent one of the largest category of operating expenses for most hotels.

Hotel franchise fees are compensation paid by the franchisee to the franchisor for the use of the brand's name, logo, marketing, and referral and reservation systems. Franchise fees normally include an initial fee with the franchise application, plus ongoing fees paid periodically throughout the term of the agreement.

### Initial Fee

The initial fee typically takes the form of a minimum dollar amount based on a hotel's room count. For example, the initial fee may be a minimum of \$45,000 plus \$300 per room for each room over 150. Thus, a hotel with 125 rooms would pay \$360/room and a hotel with 200 rooms would pay \$300/room. The initial fee is paid upon submission of the franchise application. This amount 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 or conversion phases. In cases of re-flagging an existing hotel, the initial fee structure is occasionally reduced. Some franchisors will return the initial fee if the franchise is not approved, while others will retain a portion, approximating 5% to 20%, to cover the cost of reviewing the application.

Converting the affiliation of an existing hotel may require the purchase of certain soft and trademarked goods to conform with the franchisors minimum standards. The potential affiliate may have to undertake property refurbishment or renovation (e.g., laying a higher-grade carpet or enclosing a property's exterior corridors). Certain brands also require the presence of additional amenities, such as a fitness center. Both new franchises and conversions also pay for the cost of signage. Some franchisors require the operator to cover a property improvement plan fee. Although these potential costs are not quantified in our study, they must be considered when measuring the costs and benefits of an affiliation. Requirements of this kind vary from brand to brand and property to property, and should be closely reviewed when evaluating potential franchise affiliations.

### Continuing Fees

Payment of ongoing franchise fees commences when the hotel assumes the franchise affiliation, and fees are usually paid monthly over the term of the agreement. Continuing costs generally include a royalty fee, an advertising or marketing contribution fee, and a reservation fee. In addition, ongoing fees include a frequent traveler loyalty program as well as other miscellaneous fees. The continuing fees we analyzed are categorized as follows.

**Royalty Fee:** All franchisors collect a royalty fee, which represents compensation for the use of the brand's trade name; service marks and associated logos; goodwill; and other franchise services. Royalty fees represent a major source of revenue for a franchisor and are calculated based on a percentage of rooms revenue. Moreover, some brands charge an additional royalty fee based on a percentage of food and beverage revenue.

**Advertising or Marketing Contribution Fee:** Brand-wide advertising and marketing consist of national or regional advertising in various types of media, the development and distribution of a brand directory, and marketing geared toward specific groups and segments. In many instances, the advertising or marketing contribution fee goes into a fund that is administered by the franchisor on behalf of all members of the brand.

**Reservation Fee:** If the franchise brand maintains a reservation system, the reservation fee supports the cost of operating the central office, telephones, computers, and reservation personnel. The reservation fee contains all distribution-related fees, including fees payable to third parties, such as travel agents and distributors. Reservation fees are based on a combination of a percentage of rooms revenue and/or a dollar amount per available room per month, which depends on the source of booking per reservation. These sources include:

- CRS – Centralized Reservation System
- Brand Web Site
- GDS – Global Distribution System
- OTA - Online Travel Agencies.

**Frequent Traveler Program Fee:** Some franchisors offer incentive programs that reward guests for frequent stays; these programs are designed to encourage brand loyalty. The cost of managing such programs is financed by frequent traveler assessments. Many franchisors now require franchisees to bear their fair share of the costs associated with operating a frequent traveler program. Typically, frequent traveler program assessments are based on a percentage of total or rooms-only revenue generated by a program member staying at a hotel, or a fixed dollar amount for each room occupied by a program member. Many brands also require hotels to contribute a one-time participation fee, while others use a combination of the three methods.

**Other Miscellaneous Fees:** This category includes fees payable to the franchisor or third-party supplier(s) for additional system and technical support. It also includes fees related to training programs as well as national and regional annual conferences.

Generally, franchisors offer additional services. These services generally include consulting, purchasing assistance, computer equipment, equipment rental, on-site pre-opening assistance, centralized revenue management, sales commissions, and marketing campaigns. The fees for these services are usually not quantified in the disclosure document as they are normally optional. Our study considers only those costs that are mandatory and quantified by the franchisor.

## Methodology & Assumptions

In the past, this guide has subjected each brand's criteria to a broader and uniform set of assumptions. However, the 2014 guide was remodeled to enable every brand to retain its own unique set of variables.

Our research began by collecting the Uniform Franchise Offering Circular (UFOC) or Franchise Disclosure Document (FDD) from 65 hotel brands. The sections pertaining to the costs associated of being a franchisee were then analyzed. Since the Federal Trade Commission regulates the sale of franchises, information regarding each franchise fee structure is readily available through these disclosure documents. For purposes of this study, UFOCs and FDDs published in 2013 and 2014 for all brands represented herein were collected

and reviewed. Franchisors must reveal and adhere to all terms of the franchise agreement as set forth in these documents, thereby eliminating (in theory) any potential for negotiating a more or less favorable contract. Only mandatory and quantified fees were included, and each of these was categorized into one of the following:

- Initial fee
- Royalty fee
- Marketing fee
- Reservation fee
- Frequent Traveler Program fee
- Miscellaneous fee.

Only the “Big 8” hotel companies (Hilton, Marriott, Starwood, Hyatt, Choice, Carlson Rezidor, Wyndham, and IHG) require the use of a specific PMS system; these were incorporated into the Miscellaneous Fees category. While the nine other properties (out of a total of 65) didn’t include this fee, the overall impact is less than .1% of rooms revenue, which is a minor adjustment when the total franchise cost median is 11.8%. Nonetheless, a PMS is essential to the operation of any hotel, and if a one is considering a brand outside of the “Big 8”, then one should make a comparative cost adjustment based on the computer system one plans to use.

In order to calculate the estimated costs associated with each of the fee categories, we made assumptions on the following property characteristics and operating performance of each of the brands:

- Average rate
- Average room count
- Stabilized occupancy
- Reservation segmentation (walk-ins, GDS, CRS, OTA, brand web site)
- Loyalty program participation
- Average length of stay
- Food and beverage as a percentage of rooms revenue.

As these variables are different at every hotel, we primarily developed our assumptions by calculating averages on a brand-by-brand basis from a selection of data sources. More specifically, this included HVS’ extensive database of financial statements and operating data collected from over 8,000 appraisals in the past three years, as well as data provided directly from the hotel companies. These assumptions are intended to reflect on property characteristics and operating performance of a “typical” hotel from each brand. Location, reservation segmentation, facilities, amenities and other factors could cause our hypothetical property to vary significantly from an actual one.

We also assumed that a hotel entering into a franchise agreement has recently opened and is under contract with the brand, and has not converted from a different brand. As such, we have forecast a stabilized occupancy level that the hotel would capture in Year Three. Accordingly, in Year One each hotel would attain 85% of its expected stabilized occupancy; in Year Two each hotel would attain 95% of its expected stabilized occupancy, and in Year Three the hotel's occupancy would reach its stabilized level. Henceforth, occupancy would remain unchanged.

Finally, we have made average rate inflation assumptions of 2.0% in Year One, 2.5% in Year Two, and 3.0% in Year Three and thereafter.

Once all the assumptions were entered into our model, we projected the operating performance of the hypothetical property over a period of ten years and calculated the various franchise fee costs over the time period to account for a stabilized hotel. In order to provide a consistent basis of comparison, all of the franchise fees are expressed as a percentage of room revenue.

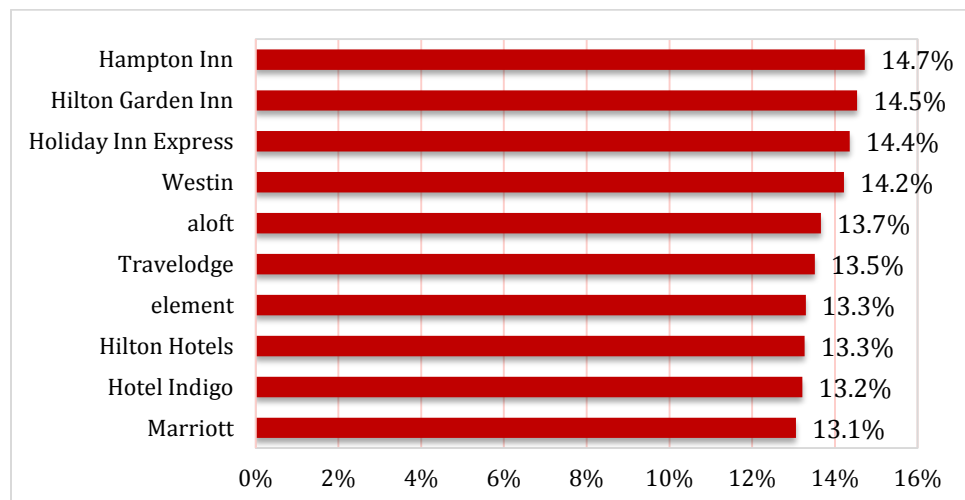
The following results were derived from our analysis:

## Highest and Lowest Franchise Fees

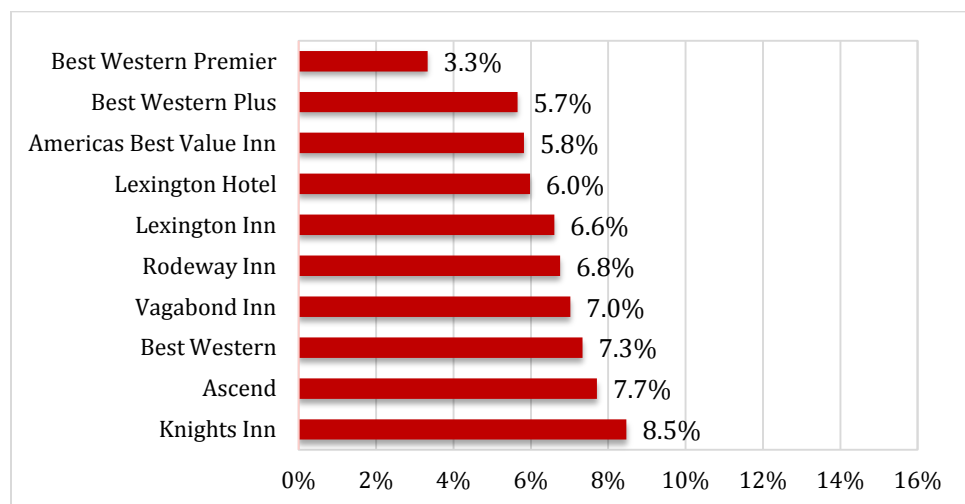
The charts below illustrate the ten highest and lowest franchise fees from the 65 analyzed. A summary of findings include:

- The median franchise cost was 11.8% of rooms revenue.
- The ten highest franchise costs represented a mix of chain scales and product types.
- The ten lowest cost franchises were primarily economy properties. The Best Western brands ranked as some of the lowest because their fees vary from typical franchises, which can provide upside to owners. Best Western charges membership and annual dues (as opposed to royalty fees) and fees are largely issued as dollar amounts (as opposed to percentages), which benefits owners in certain circumstances.

### HIGHEST FRANCHISE COSTS (FRANCHISE COST TO ROOMS REVENUE)



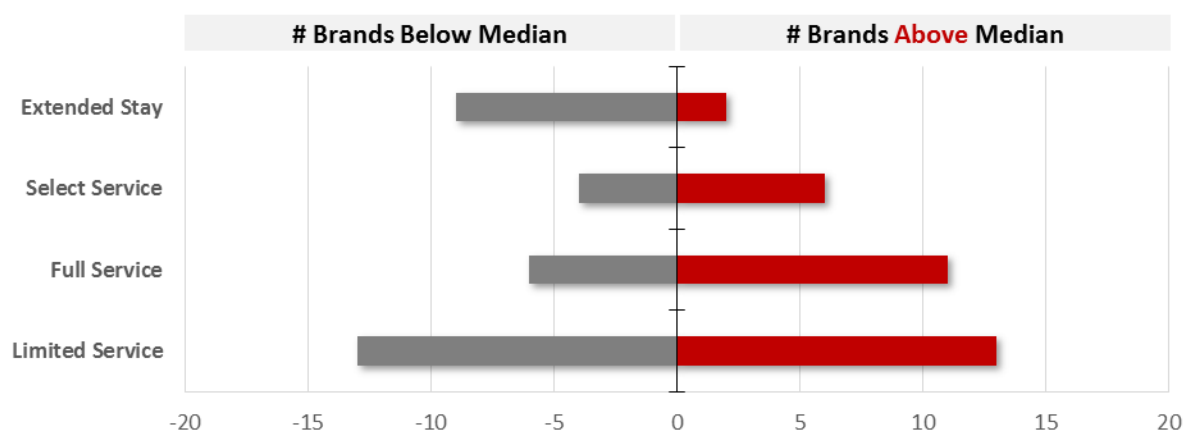
### LOWEST FRANCHISE COSTS (FRANCHISE TO ROOMS REVENUE)



## Franchise Fees Segmented by Hotel Product

Selecting a particular hotel product can influence the amount of franchise fees paid. We calculated the total number of properties whose franchise fees were either above or below the median of 11.8% and then segmented them by product type. As shown in the following chart, the number of brands below the median is significantly larger for the Extended-Stay segment, while the Full-Service segment is skewed above the median. Select-Service and Limited-Service brands are divided more evenly.

### Extended-Stay brands mostly pay lower fees than the median



The following tables detail the categories of franchise fees, and are grouped by hotel type. Unless specified otherwise, all fees are expressed as a percentage of rooms revenue:

#### FRANCHISE FEES – EXTENDED STAY HOTELS

Brand	Total Cost to Rooms Revenue	Initial Fee % of Year 1 Revenue	Royalty Fees	Loyalty Fees	Marketing Fees	Reservation Fees	Misc Fees
element	13.3%	1.8%	5.5%	2.3%	2.0%	2.5%	0.9%
Homewood Suites	12.6%	2.4%	5.5%	1.6%	3.5%	0.2%	1.7%
Candlewood Suites	11.5%	2.8%	5.0%	1.2%	2.5%	0.8%	1.8%
Value Place	11.3%	5.5%	5.0%	0.0%	2.5%	2.4%	1.0%
Hyatt House	11.3%	2.0%	5.0%	2.1%	3.5%	0.1%	0.4%
Residence Inn	11.2%	2.2%	6.0%	0.9%	2.5%	1.3%	0.4%
Hawthorn Suites	11.0%	3.1%	5.0%	1.5%	2.5%	0.8%	1.0%
Staybridge Suites	10.9%	1.8%	5.0%	1.2%	2.5%	1.0%	1.0%
TownePlace Suites	10.6%	2.4%	5.0%	0.7%	1.5%	2.7%	0.5%
Mainstay Suites	9.7%	2.4%	5.0%	0.8%	2.5%	0.6%	0.7%
Suburban Extended Stay	9.5%	2.4%	5.0%	0.6%	2.5%	0.4%	0.8%



## FRANCHISE FEES – LIMITED SERVICE HOTELS

Brand	Total Cost to Rooms Revenue	Initial Fee % of Year 1 Revenue	Royalty Fees	Loyalty Fees	Marketing Fees	Reservation Fees	Misc Fees
Hampton Inn	14.7%	2.9%	6.0%	2.6%	4.0%	0.4%	1.5%
Holiday Inn Express	14.4%	2.5%	6.0%	2.4%	3.0%	1.2%	1.6%
Travelodge	13.5%	5.5%	4.5%	1.5%	2.0%	3.4%	1.7%
La Quinta Inn & Suites	13.1%	3.5%	4.8%	2.4%	2.5%	2.2%	1.0%
Wingate by Wyndham	13.0%	3.0%	4.5%	1.5%	2.0%	3.3%	1.5%
Days Inn	13.0%	3.3%	5.5%	1.5%	1.9%	3.0%	0.8%
Country Inns & Suites	13.0%	3.6%	5.0%	0.9%	2.5%	3.4%	0.9%
Super 8	12.5%	3.7%	5.5%	1.5%	1.5%	2.6%	1.1%
Fairfield Inn	12.2%	3.2%	5.0%	1.0%	2.5%	2.7%	0.7%
Baymont Inn & Suites	12.0%	2.5%	5.0%	1.5%	2.0%	2.5%	0.9%
Park Inn by Radisson	11.9%	2.2%	4.5%	0.9%	2.0%	3.4%	0.9%
Comfort Inn & Suites	11.8%	3.6%	5.7%	1.0%	3.9%	0.5%	0.6%
Microtel	11.8%	4.9%	6.0%	1.5%	1.0%	2.0%	0.9%
Sleep Inn	11.8%	4.3%	4.7%	1.7%	3.9%	0.5%	0.8%
Howard Johnson	11.3%	2.8%	4.5%	0.8%	2.0%	3.1%	0.8%
Quality Inn & Suites	10.8%	2.8%	4.7%	0.9%	3.9%	0.6%	0.7%
Econolodge	9.9%	3.5%	4.5%	0.4%	3.5%	0.4%	0.8%
Clarion	9.2%	1.9%	4.3%	0.7%	3.3%	0.5%	0.4%
Knights Inn	8.5%	1.0%	5.0%	0.8%	0.0%	1.9%	0.7%
Best Western	7.3%	4.0%	5.9%	0.2%	0.6%	0.2%	0.1%
Vagabond Inn	7.0%	1.7%	3.3%	0.1%	3.3%	0.3%	0.0%
Rodeway Inn	6.8%	1.6%	3.3%	0.3%	1.3%	0.7%	1.0%
Lexington Inn	6.6%	1.2%	1.5%	1.2%	0.9%	2.8%	0.1%
Americas Best Value Inn	5.8%	1.5%	1.5%	0.0%	1.1%	3.1%	0.1%
Best Western Plus	5.7%	3.0%	4.4%	0.2%	0.5%	0.3%	0.0%
Best Western Premier	3.3%	1.8%	2.4%	0.2%	0.4%	0.2%	0.0%

## FRANCHISE FEES – SELECT SERVICE HOTELS

Brand	Total Cost to Rooms Revenue	Initial Fee % of Year 1 Revenue	Royalty Fees	Loyalty Fees	Marketing Fees	Reservation Fees	Misc Fees
Hilton Garden Inn	14.5%	2.0%	5.5%	2.5%	4.3%	0.3%	1.6%
aloft	13.7%	1.9%	5.5%	2.1%	2.0%	2.6%	1.0%
Hotel Indigo	13.2%	1.6%	5.0%	1.5%	3.5%	2.1%	0.9%
Courtyard	12.6%	2.2%	5.5%	1.4%	2.0%	2.8%	0.6%
Four Points	12.6%	1.6%	5.5%	1.8%	1.0%	2.5%	1.5%
Ramada Inn	12.1%	3.7%	4.5%	0.7%	2.0%	3.6%	1.0%
SpringHill Suites	11.7%	2.1%	5.0%	1.1%	2.5%	2.4%	0.5%
Wyndham Garden	11.4%	1.1%	5.0%	1.4%	3.0%	1.3%	0.5%
Hyatt Place	11.3%	2.5%	5.0%	1.8%	3.5%	0.3%	0.6%
Lexington Hotel	6.0%	0.9%	1.2%	1.2%	0.6%	2.8%	0.1%

## FRANCHISE FEES – FULL SERVICE HOTELS

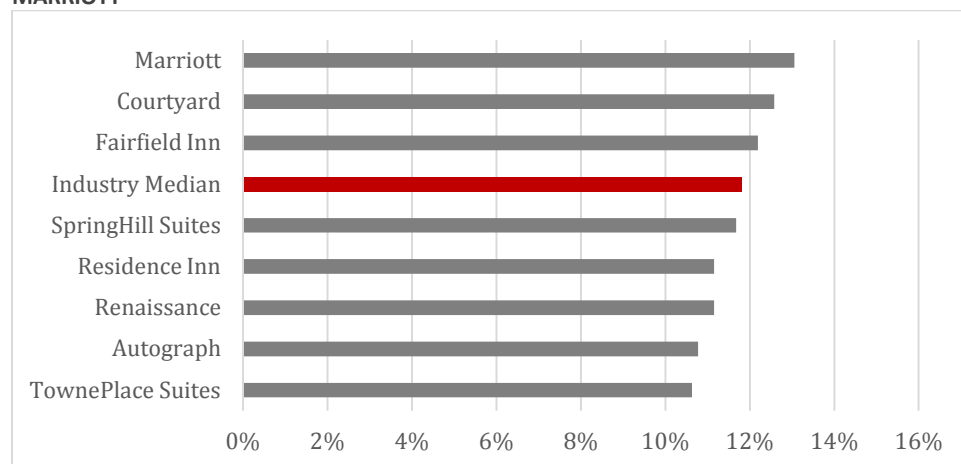
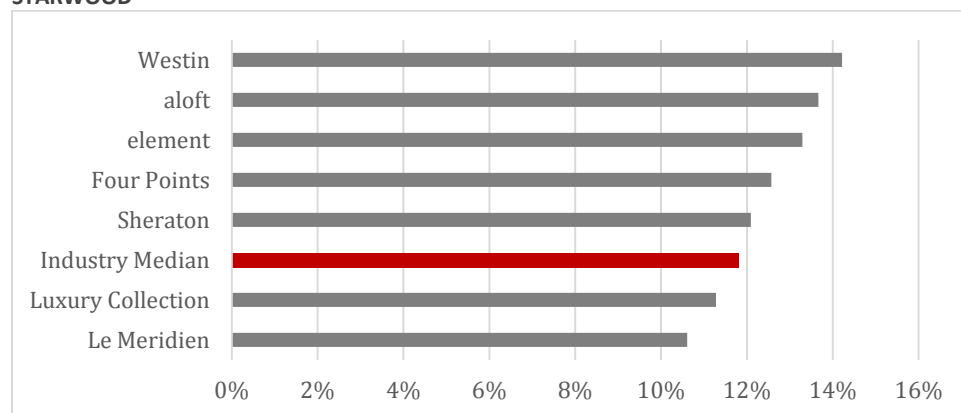
Brand	Total Cost to Rooms Revenue	Initial Fee % of Year 1 Revenue	Royalty Fees	Loyalty Fees	Marketing Fees	Reservation Fees	Misc Fees
Westin	14.2%	0.9%	7.9%	1.7%	1.3%	2.1%	0.6%
Hilton Hotels	13.3%	0.9%	5.8%	1.6%	4.0%	0.3%	1.0%
Marriott	13.1%	0.8%	6.9%	2.1%	1.0%	2.0%	0.3%
Embassy Suites	13.0%	1.0%	5.5%	1.9%	4.0%	0.2%	1.1%
Holiday Inn	12.9%	2.4%	5.0%	1.8%	3.0%	1.5%	1.2%
Radisson	12.7%	2.5%	5.0%	0.8%	2.0%	3.8%	0.8%
Crowne Plaza	12.4%	2.0%	5.0%	1.2%	3.0%	1.9%	0.8%
Doubletree Hotels	12.3%	1.0%	5.0%	1.4%	4.0%	0.3%	1.2%
Hyatt Regency	12.1%	0.8%	6.8%	0.8%	0.0%	0.3%	3.9%
Sheraton	12.1%	1.6%	6.5%	1.5%	1.0%	1.6%	1.1%
Wyndham	11.9%	1.1%	5.0%	1.1%	3.0%	1.8%	0.5%
InterContinental Hotels	11.5%	0.9%	5.0%	1.0%	3.0%	1.8%	0.3%
Luxury Collection	11.3%	0.7%	5.8%	1.7%	1.0%	1.4%	0.6%
Renaissance	11.2%	1.1%	5.0%	1.9%	1.5%	1.7%	0.4%
Autograph	10.8%	0.5%	5.0%	1.6%	1.5%	1.9%	0.3%
Le Méridien	10.6%	0.7%	5.4%	1.8%	1.0%	1.4%	0.5%
Ascend	7.7%	1.2%	4.0%	0.4%	2.5%	0.3%	0.3%

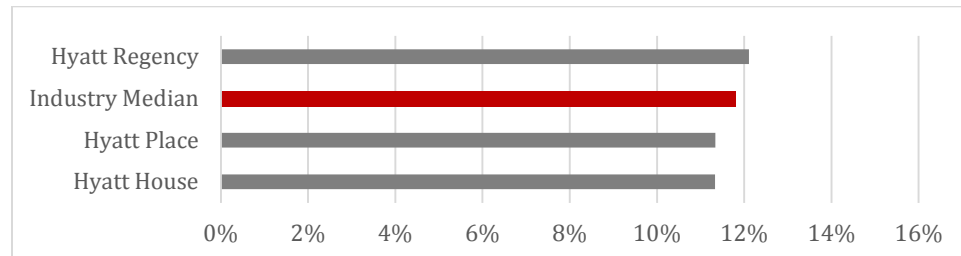
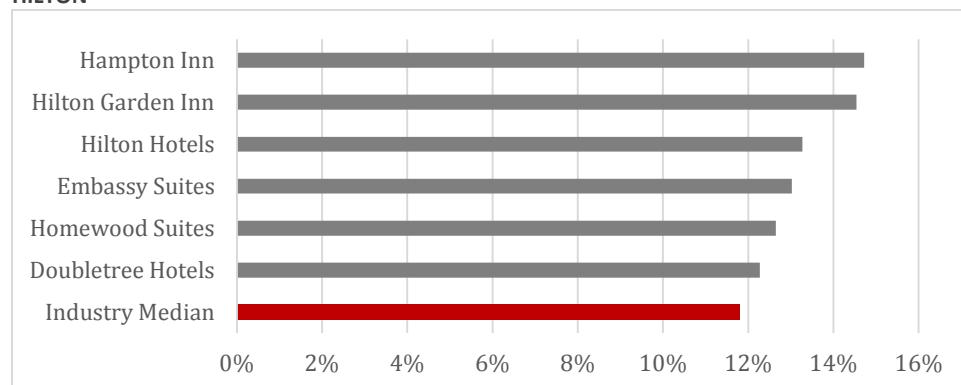
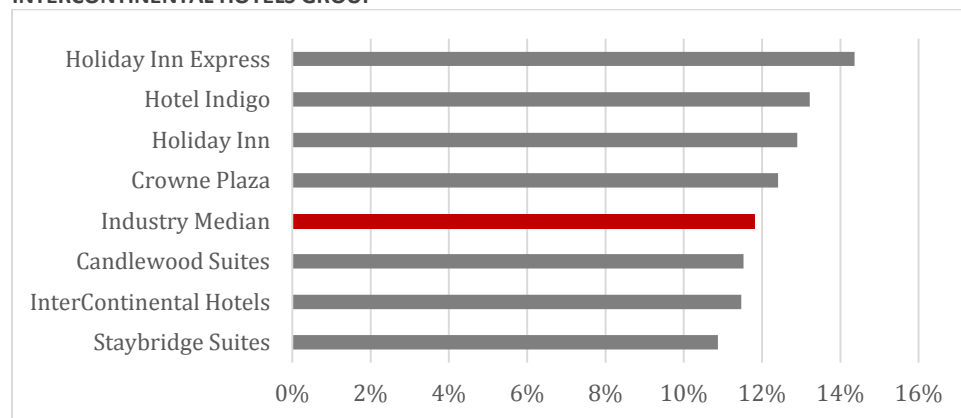
## Franchise Costs by Hotel Company

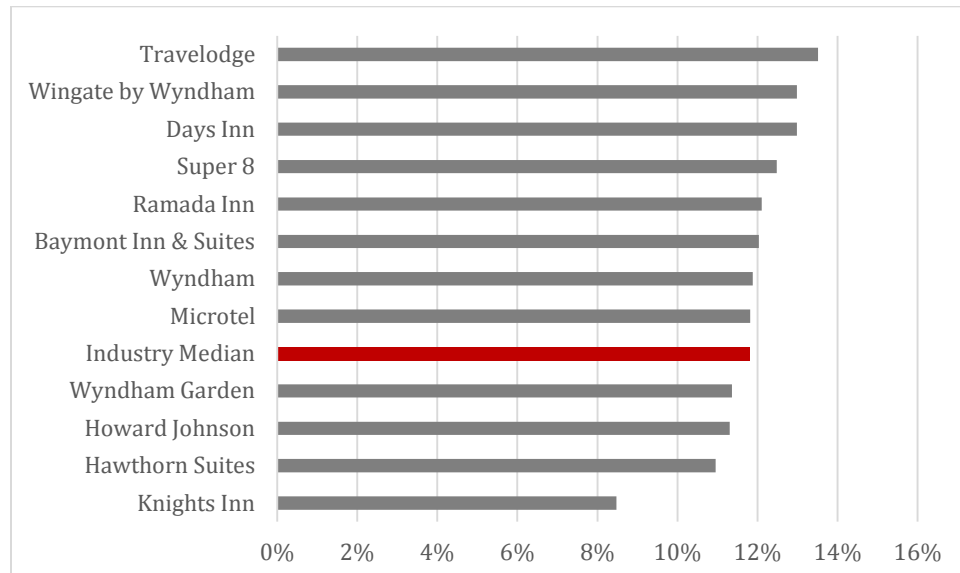
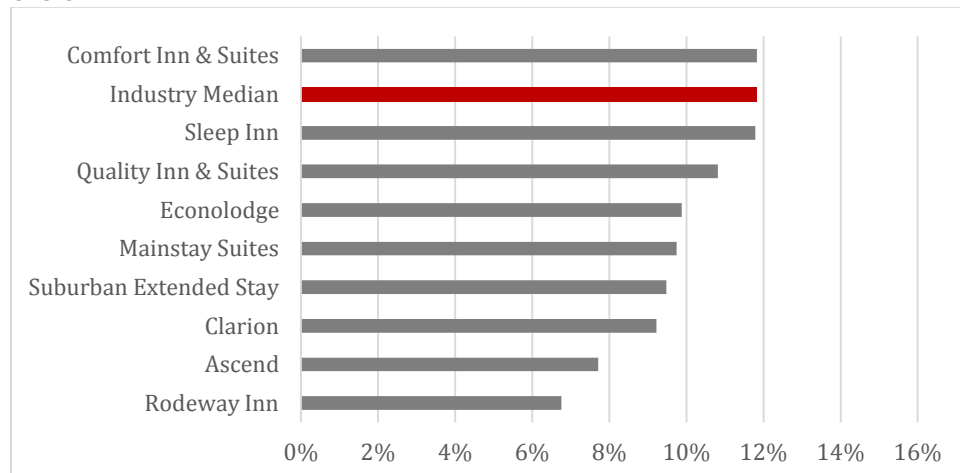
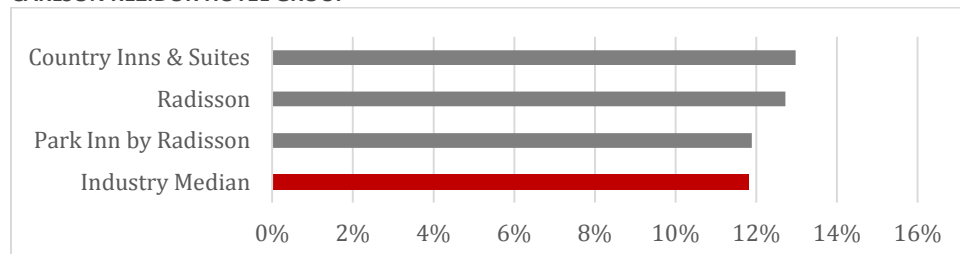
The following charts compare franchise costs as a percentage of Rooms Revenue for the “Big 8” hotel companies. The industry median, which is based on all the franchises, is included as a point of comparison. A summary of findings include:

- **Marriott** – Marriott brands were split from the industry median franchise costs. The TownePlace Suites had the lowest cost while the Full-Service Marriott was the highest within the company.
- **Starwood** – With the exception of the Luxury Collection and Le Méridien, all of the Starwood brands were above the median.
- **Hyatt** – All of Hyatt brands were very close to the industry median.
- **Hilton** – The franchise cost of each of Hilton brands is above the industry median. This trend is specifically influenced by some of the highest marketing fees in the industry. Hampton Inn and Hilton Garden Inn had the highest costs of all the “Big 8” hotel companies.
- **InterContinental Hotels Group (IHG)** – IHG brands were split from the industry median franchise costs. The royalty fees for Holiday Inn Express are some of the highest in the industry, and the highest overall franchise cost within the company.
- **Wyndham** – Wyndham properties were split on either side of the industry median franchise cost. The Knights Inn had the lowest cost, while the Travelodge was the highest within the company. Both of these brands are classified under the Economy segment by STR.
- **Choice** – All brands were at or below the median, with both Comfort Inn & Suites and Sleep Inn brands recording costs equal to the industry average.
- **Carlson Rezidor Hotel Group** – All of the brands were above, yet quite close to, the industry median.

A detailed comparison of the hotel company franchises is included on the following pages:

**MARRIOTT****STARWOOD**

**HYATT****HILTON****INTERCONTINENTAL HOTELS GROUP**

**WYNDHAM****CHOICE****CARLSON REZIDOR HOTEL GROUP**

## A Focus on the Initial Fee

Typically, the initial fee takes the form of a minimum dollar amount based on a hotel's room count. For example, the initial fee may be a minimum of \$45,000 plus \$300 per room for each room over 150. Thus, a hotel with 125 rooms would pay \$360/room and a hotel with 200 rooms would pay \$300/room. For purpose of analysis, we reviewed two measures of the initial fee:

1. **Total initial fee expressed as a percentage of the first year's rooms revenue** - The Economy brands had some of the highest, while Full-Service brands were on average at the bottom of the ratios. A higher ratio translates to increased upfront investment costs for a hotel.
2. **Total initial fee on a per-room basis** - Both the average and median initial fee on a per-room basis was \$385. Unlike the previous ratio, the Economy brands did not top the list - the first Economy hotel to appear is ranked thirteenth in a dataset of 65.

### UPPER QUARTILE OF INITIAL FEE EXPRESSED AS A PERCENTAGE OF YEAR ONE ROOMS REVENUE

Brand	Segment	Initial Fee %	Initial Fee per Room
Travelodge	Economy	5.5%	\$402
Value Place	Economy	5.5%	\$417
Microtel	Economy	4.9%	\$533
Sleep Inn	Mid-Rate	4.3%	\$571
Super 8	Economy	3.7%	\$373
Ramada Inn	Mid-Rate	3.7%	\$350
Country Inns & Suites	Mid-Rate	3.6%	\$581
Comfort Inn & Suites	Mid-Rate	3.6%	\$556
Econolodge	Economy	3.5%	\$347
Best Western	Mid-Rate	3.5%	\$565
La Quinta Inn & Suites	Mid-Rate	3.5%	\$500
Days Inn	Economy	3.3%	\$354
Fairfield Inn	Mid-Rate	3.2%	\$595
Hawthorn Suites	Mid-Rate	3.1%	\$367
Wingate by Wyndham	Mid-Rate	3.0%	\$396
Hampton Inn	Mid-Rate	2.9%	\$677

## UPPER QUARTILE OF INITIAL FEE PER ROOM

Brand	Segment	Initial Fee %	Initial Fee per Room
Homewood Suites	First-Class	2.4%	\$694
Hampton Inn	Mid-Rate	2.9%	\$677
Residence Inn	First-Class	2.2%	\$630
Fairfield Inn	Mid-Rate	3.2%	\$595
Country Inns & Suites	Mid-Rate	3.6%	\$581
Sleep Inn	Mid-Rate	4.3%	\$571
Best Western	Mid-Rate	3.5%	\$565
Hilton Garden Inn	First-Class	2.0%	\$560
Comfort Inn & Suites	Mid-Rate	3.6%	\$556
Best Western Plus	Mid-Rate	2.9%	\$550
Holiday Inn Express	Mid-Rate	2.5%	\$549
Courtyard	First-Class	2.2%	\$536
Microtel	Economy	4.9%	\$533
La Quinta Inn & Suites	Mid-Rate	3.5%	\$500
Radisson	First-Class	2.5%	\$500
Holiday Inn	Mid-Rate	2.4%	\$500



## A Focus on the Royalty Fees

All franchisors collect a royalty fee, which represents compensation for the use of the brand's trade name, service marks and associated logos, goodwill, and other franchise services. Some of the Full-Service brands charge royalty fees on food and beverage revenues; these range between 2 to 3% of total F&B revenue. The following brands require additional F&B royalty fees as illustrated below:

Brand	Hotel Company	F&B Royalty
<b>Marriott</b>	Marriott	3%
<b>Westin</b>	Starwood	3%
<b>Sheraton</b>	Starwood	2%
<b>Le Méridien</b>	Starwood	2%
<b>Luxury Collection</b>	Starwood	2%
<b>Hilton</b>	Hilton	3%
<b>Hyatt Regency</b>	Hyatt	3%
<b>Marriott</b>	Marriott	3%

The impact on the overall franchise cost as a percentage of rooms revenue is approximately 1%, which is considerable in the context of an 11.8% median.

## A Focus on the Reservation Fee

The reservation fee supports the cost of operating the central office, telephones, computers, and reservation personnel. The amount of fees paid per reservation depends on the source of the reservation. Each hotel company has a different methodology for calculating these fees and it is essential to thoroughly understand these calculations before deciding on a franchise affiliation. Certain brands have the ability to draw in customers through their web site, which minimizes a hotel's reservation fees. Fees associated through bookings via online travel agents vary greatly amongst the brands. For example, Hyatt franchises don't charge an additional fee for bookings through online travel agents, while IHG and Carlson Rezidor charge 10%.

In general, most of the franchise fees paid by a hotel are based on rooms revenue and are highly variable. However, since reservation fees vary by channel, a change in the source of reservations can have a significant impact on the ratio of franchise fees as a percentage of rooms revenue.

The following table shows the degree of variations between reservation fees per reservation by channel:

RESERVATION FEES BY CHANNEL

	<u>CRS</u>		<u>Brand</u>		<u>GDS</u>		<u>OTA</u>
<b>Marriott</b>	varies						9%
<b>Starwood</b>	\$	3.85	\$	2.00	\$	5.50	\$ 1.50
<b>IHG</b>					\$	6.30	10%
<b>Hilton</b>			\$	0.18	\$	4.50	\$ 1.50
<b>Wyndham</b>					\$	6.50	\$ 8.55
<b>Choice</b>					\$	6.75	\$ 1.50
<b>Hyatt</b>					\$	6.40	
<b>Carlson</b>					\$	3.75	10%

## Conclusion

A potential franchisee must initially consider the fee structure and project the total cost of initial and continuing franchise fees, and then determine whether or not the price/value relationship warrants the acquisition of the franchise. To appropriately comprehend how much a franchise affiliation enhances a hotel's occupancy, average rate and overall revenue as well as the impact of on-going brand-mandated capital improvement costs, an in-depth analysis is necessary to evaluate the value of a brand.

The decision to affiliate with a national hotel brand, and if so, which brand to select, should be carefully assessed in order to determine when the price-value relationship is favorable to the hotel owner, and when that relationship demonstrates promise for long-term stability. One of the tools available to compare the relative cost of a franchise brand affiliation is the data presented in this study. As a preparatory guide, owners can use this information and then subsequently research the additional costs pertinent to their particular property to determine the overall cost of affiliation.

## Contact Us

HVS has a sophisticated model that can assist in evaluating and selecting the optimal franchise, soft brand or independent classification for your site or existing property to match your investment objectives. Please contact Stephen Rushmore Jr. +1 617-868-6840 ([SRushmoreJr@HVS.com](mailto:SRushmoreJr@HVS.com)) or Erin Bagley +1 516-248-8828 x236 ([EBagley@HVS.com](mailto:EBagley@HVS.com)) if you are interested in our services.

*Correction October 17, 2014: An earlier version of this guide stated that Best Western International does not charge royalty or marketing fees. Best Western does charge marketing fees, as well as annual dues and membership fees, in lieu of royalty fees. We have updated our report language to reflect the accurate nature of Best Western's fee structure.*



## About HVS

**HVS** is the world's leading consulting and services organization focused on the hotel, mixed-use, shared ownership, gaming, and leisure industries. Established in 1980, the company performs 4500+ assignments each year for hotel and real estate owners, operators, and developers worldwide. HVS principals are regarded as the leading experts in their respective regions of the globe. Through a network of more than 30 offices and 450 professionals, HVS provides an unparalleled range of complementary services for the hospitality industry.

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## About the Authors



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As President and CEO of HVS, Stephen directs the worldwide operation of the firm and is responsible for future office expansion and new product development. He is a state certified appraiser in New York, New Jersey, and New Hampshire, and frequently lectures at major hotel schools and industry associations around the world. Stephen earned his Bachelor of Science degree from the Cornell School for Hospitality Administration.



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Erin is a Senior Associate with HVS's New York office, specializing in hotel valuation and consultancy. She joined HVS in 2012 and worked with HVS Caribbean on consulting assignments and the HVS Caribbean Investment Conference in conjunction with her post-graduate studies. After completing a Master of Arts in Public International Management at Sciences Po (Institut d'Etudes Politiques de Paris) she joined HVS as a full-time analyst. Since then she has conducted valuations, feasibility studies, and other consultancy assignments across the United States, and specializes in the greater Manhattan market. She continues to work closely with HVS Caribbean as a conference coordinator. Erin also has a Bachelor of Arts in International Affairs from Boston University.