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FRANCHISING IN INTERNATIONAL HOTEL BUSINESS

The features of franchising usage in the international hospitality industry are disclosed. The basic factors in the formation of additional benefits of franchise agreements in the hotel business are explored. The mechanisms of franchise relations interaction are outlined. The permanent role of the hotel operator in solving problems of the franchise agreement is explored. The mechanisms of allocation of financial and organizational resources at in franchise agreement of hospitality industry are researched. The features of franchise payments in hotels of different rank are highlighted. The features of formation of franchise industry average size of payments in key hotel chains in the world are investigated. The advantages and disadvantages as well as the main duties of the franchisor and franchisee are systematized. The five criteria for success hotel business organization that develop under the network name are highlighted. The features of franchising usage as a classic symbiosis of management and franchising in hospitality industry are disclosed. The first stage of franchising consists of permanent influence of the main hotel operator on the development of hotels included into the network. The second stage of franchising includes classic franchise agreement of hotel operator and other hotels in its network. The prospects development of franchise relations in the hospitality industry in the nearest future is forecasted. The unique experience in the regulation of franchise relations in the hospitality industry is analyzed via the example of Ukraine's leading national hotel operator Premier Hotel and Resorts. The different examples of implementation of specialized program «Compass» provided by this operator are proposed. The above mentioned specialized program «Compass» is designed to further development of the network of budget hotels under the single standards of franchise agreement.

Keywords: franchising, franchising, international hospitality, franchise fees, advantages and disadvantages of franchising.

Ткаченко Т., Сидлецкая И., Гладкий А. Франчайзинг в международном гостиничном бизнесе. Раскрыты особенности использования франчайзинга в международном гостиничном бизнесе. Освещены основные факторы формирования допол-

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нительных преимуществ бизнеса от вхождения в гостиничную сеть на основе франчайзинга. Определены механизмы взаимодействия основных сторон франчайзинговых отношений. Отмечена роль гостиничного оператора при заключении франчайзингового договора. Раскрыты механизмы распределения финансовых и организационных ресурсов при заключении франчайзингового договора в гостиничном бизнесе. Проанализированы особенности осуществления франчайзинговых платежей для гостиниц различных категорий. Определены особенности формирования среднеотраслевых размеров франчайзинговых платежей для ключевых гостиничных сетей мира. Систематизированы преимущества и недостатки, а также основные обязанности франчайзера и франчайзи. Выделено пять критериев успешности гостиничного бизнеса, функционирующего под сетевым именем. Раскрыты особенности использования манчайзинга как симбиоза менеджмента и классического франчайзинга в гостиничном бизнесе. Выделено первичную стадию манчайзинга, при котором управление гостиничным предприятием осуществляет управляющая компания, а также вторичную стадию, на которой начинает действовать классический договор франчайзинга. Определены перспективы развития франчайзинговых отношений в гостиничном бизнесе в ближайшей перспективе. Приведен уникальный опыт регулирования франчайзинговых отношений в гостиничном бизнесе Украины на примере ведущего национального гостиничного оператора – «Premier Hotel and Resorts». Проанализированы примеры внедрения этим оператором специализированной программы «Компас», предназначенной для дальнейшего развития сети бюджетных отелей в рамках единых стандартов организации, объединяющей предприятия франчайзинговыми договорами.

Ключевые слова: франчайзинг, манчайзинг, международный гостиничный бизнес, франчайзинговые платежи, преимущества и недостатки франчайзинга.

Background. Franchising as a system for transferring equipment, materials, technology and brand gains particular importance and popularity in the modern hotel industry. It stimulates global distribution of the international hotel chains in the world, promotes development and interpenetration of the unified international business models, and establishes common standards for the hotel services. Franchising in the system of international hotel chains is a connecting link that creates specific conditions and unified parameters of business operation of hotels in the most countries of the world [1].

Analysis of recent research and publications. Many researchers contributed to the analysis of franchise development in the system of international hotel business. In particular, specifics of the franchise organization in the international hotel business are disclosed in the works by A. A. Mazaraki [1], T. I. Tkachenko, M. V. Bosovskaya, M. G. Boiko, N. I. Vedmid, L. G. Luk'janova, T. T. Doroshenko, I. M. Minich [2–7]. The problems of franchising business concept formation were considered in the works by S. V. Melnichenko, L. S. Trofimenko, O. O. Gats, G. B. Timoshenko, V. P. Munin, [8–9] and others. The issues related to the franchising system globalization in the market of hotel services are elaborated in the works by V. V. Minenkova, A. V. Mamonova. However, the role of franchising in developing the system of international hotel business has not yet been considered in detail.

The **aim** of the article for that very reason the goal of this research is to analyze the franchising system as the most common form of international hotel business. Tasks of the research include analyzing the franchising specifics in the international hotel business, reviewing the main aspects of franchising relations and mechanisms for concluding a franchise agreement in the hotel industry, assessing specifics of franchise payments, systematizing advantages and disadvantages of franchising, assessing the main obligations of the franchisor and franchisee, establishing criteria for success in the international hotel business operations under the chained-brand name and specifying the features of franchising as it is used in the international hotel business.

Materials and methods. The materials of the article are developed with the use of general scientific methods of dialectics, comparative analysis, deductive synthesis, logical modeling, classification and typification, system-structural analysis and scientific forecasting.

The results of the research. Modern hotel chains of the world are based on the widespread use of franchising mechanisms in their activities. They are attractive because they form unified, globalized, integrated and proportional relations between a franchisor and a franchisee and have a high level of organizational transparency and sustainable activities, as well as the advantages of mutually beneficial systemic connections for efficient allocation of capital investments and enhancement of competitive advantages within a particular franchise package. Additional benefits include potential for establishing a wider system for selling goods and providing services within a franchise and possibilities for faster market entry with minimal risk for all stakeholders [5–6].

Nowadays the hotel franchising becomes one of the most effective business models in the hotel market as the hotel (or group of hotels) owner may join the greater chain, which successfully functions in the hospitality industry, has its own brand, internal servicing standards, technological and structural-organizational specifics [4–5].

Franchising is effectively used in the international hotel business practice. A franchisor and a franchisee are the parties of franchising relations at the national and international levels. The former creates a successful product in the system of international hotel business, for example, provides a special style of a hotel or a restaurant functioning, while the latter acquires this opportunity by paying royalty. Franchisee in this case remains the rightful owner of his business financing its organization at his own cost (unless otherwise is specified in the agreement) [1–2].

The hotel operator signs an agreement with the hotel owner to acquire the right to use the brand for promoting and managing sales on behalf of the operator and to apply the internal service standards. Such agreement is valid for 7–20 years. In signing the contract the operator receives a fixed fee by the formula «rate times the number of rooms» (the so-called ‘entrance fee’).

The contract also provides monthly royalty fees, whose percentage varies depending on the hotel rank. The owner performs operating activities independently, but in some cases receives advice from the operator [8].

Franchise package of the hotel operator presents a confidential work book (Intra net Page) and other operator's documents covering procedures and standards to be used by all hotel owners joining the group. This package includes a minimum list of services, technological procedures and quality standards, minimum requirements for organization of services and equipment, a description of the organizational structure of the enterprise, positions and competencies, forms of internal control and motivation of personnel, marketing and financial sections, a pool of contracts, etc [10].

The hotel operator's franchise package is based on the coexistence and mutual complementation of several systems. Among them there is a system of professional training, a system of control and accounting (usually based on such software as 1C, Property management system, Cloud PMSCloud), an efficient system of undercover and open surveillance, a system of communication (calls, intranets, arrivals, round tables, briefings, monthly reports), staffing system (round tables, determining the best employees, internal initial training school, basic training programs), supply system (central warehouse, pricing monitoring), consulting support).

The generally accepted practice of franchising payments in the international hotel industry includes an entrance fee (a fixed one-time payment calculated depending on the number of the hotel rooms), royalties (calculated as a percentage of room revenues), advertising fee (deductions for brand name advertising), payment for the reservation and for the regular client program [7]. Depending on the room revenues, the average size of franchise payments may vary from 0,01 % to 13,62 % (9,85 % on average) for budget hotels, from 4,84 % to 13,86 % (9,96 % on average) for medium-priced hotels and from 1,93 % to 15,86 % (10,99 % on average) for full service hotels (*table*).

The main obligations of the franchisor in the international hotel business is to transfer exclusive rights relating to the subject of the contract to the franchisee including the transfer of the necessary documentation, know-how, organizational and commercial experience, etc., training the franchisee in the area of business management. In turn, the franchisee is obliged to use the name and/or commercial designation of the franchisor specified in the contract and to ensure that the quality of the services provided or the work performed corresponds to the declared quality of the works and services provided by the franchisor, and also to inform the customers of services in the most obvious way that he uses the brand name, commercial designation and trade name for the franchisor's goods and services [11–13].

A franchise agreement in the international hotel industry is a combined contract covering various aspects of legislation and including various elements

of a commercial concession contract. Among them it is worth specifying license agreements (permission to use exclusive copyright objects), agreements on providing various services (advisory, marketing, etc.), cooperation agreements to achieve common business objectives, sales agreements (in particular, agreements on advertising products, etc.), labor agreements, etc. [14].

Table

Franchise fees – full service hotels

Brand	Total Cost to Rooms Revenue	Initial Fee % of 1 Year 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

Reference: HVS Hotel Franchise Fee Guide, 2014/2015 [11].

In addition to traditional franchise agreements, a number of hotel operators in Ukraine effectively developed and implemented the so-called «manchising» (combination of words ‘management’ and ‘franchising’). Its specificity suggests that a hotel owner attracts an international hotel operator for entire management and control of the enterprise in the initial period of its development until the hotel provides sustainable operational results. According to experts, this period lasts about five years [15]. After expiration of the special period of the agreement, it continues to act as a traditional franchise agreement in the hotel industry, which means that the hotel owner assumes responsibility for managing his business independently while retaining the brand of the operator for which the annual royalties are paid. Despite changing the hotel management model nothing else affects specificity of it’s functioning. Manchising is especially beneficial for young companies, as it provides

them with comprehensive experience in the hotel management, assists in launching new brands and, in addition, offers the opportunity to exercise operational control over the activities of the hotel in the first years of its existence, while the brand is establishing and strengthening its reputation in the market. Such agreements also provide certain preferences to their owners: they allow reducing the costs of the object operation after having acquired sufficient experience in its management, they can freely combine in time management depending on the concluded agreements, facilitate the development of partnership relations between the hotel operator and the owner of the hotel by freely using the competitive benefits of all subjects of the franchising agreement. Implementation of the so-called franchising agreements also proves that the international hotel chains in Ukraine are beginning to trust the managerial capacities of the national hotel owners.

«Premier Hotel and Resorts» is the first in Ukraine national operator providing comprehensive and ready franchise solutions in the hotel industry. It works mostly with the chain of budget hotels offering affordable accommodations and guaranteeing high quality of services and facilities. By using a special software «Compass» designed by the Premier Palace Hotel and Resorts the budget hotels receive additional opportunities to promote in the chain website a unified system of messaging on a single template, to participate in the chain loyalty programs (Premier Award, Premier Club), to promote and sell their products through smart phones, to use unified layouts for chain printing and consumables (letterheads, business cards, envelopes, questionnaires for hotel customers, presentation templates, model transport arrangement documents, fact sheets, pens, papers, door-plates, directory templates etc.). Proactive sales policy, access to corporate and tour operator partners, establishment of sales channels (thanks to on-line reservation, sales through Global Distribution System with own chain-code UA, through Internet Distribution System, through shared database of the Central Sales Department and others) is a significant advantage for the franchisee.

Specialists and practitioners generally specify five criteria for successful operation of the chained-brand name hotel [2; 5; 9]. They include the complete acceptance of the franchisor vision, goals and values in business, trust and respect for the franchisor, and in turn, franchisor's growing attention and trust to himself, the adoption of clearly established rules and responsibilities described in the agreement, observance of operational procedures and management standards set by the franchisor, integration into the chain by introducing new ideas into business and consistently attracting new efforts to conduct international business.

However, along with the evident benefits of a franchise agreement for the hotel owners, there are a number of shortcomings. Among them, according to the apt remark of the business analysts and hoteliers practitioners [11–13] there is some limitations in implementing own ideas (which

in part conflicts with the national mentality of the country where the hotel is located). Also, there is a certain restriction in the use of the hotel operator resources, as the staff policy of the hotel remains under the competence of the owner. The lack of motivation rewards significantly complicates the work of the franchisee since operating costs are not under the financial control of the hotel operator. The franchisee cannot withdraw from the international hotel chain quickly, because the agreement is signed for a more or less prolonged period, while re-equipment of the hotel for the new standards of service takes a lot of time. The need for cooperation with other franchisees, including not only organizational but also financial aspects is a significant disadvantage for the hotel owners in the chain. And to cap it all, the franchisee remains closely and directly dependent on the financial stability of the franchisor and the reputation of his trademark for the entire duration of the agreement.

Conclusion. As Stephen Rushmore, the Hospitality Valuation Services (HVS) founder, smartly remarks: «Most hotel employees understand that growing competence in the modern market requires essential franchising support... moreover, franchising mitigates risks of extended payback period of capital investments» [11]. Indeed, the practice of franchising in Ukrainian hotel business of Ukraine convincingly proved its high commercial efficiency. The interest in franchising among the hotel operators and individual owners is growing every year, since the franchise agreement significantly reduces business risks, contributes to the company's image, attracts a wide range of clients, and contributes in the growth of sales volumes on the domestic and international markets. The development of franchising is one of the most effective forms of support in the international hotel business in Ukraine. Research of organizational, economic, legal and financial-commercial specifics of its functioning in the hotel and restaurant sector is the ground for further scientific research in this area.

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Ткаченко Т., Сідлецька І., Гладкий О. Франчайзинг у міжнародному готельному бізнесі.

Постановка проблеми. Франчайзинг як форма бізнесу, що розвивається швидкими темпами, набуває особливого значення та популярності в готельному бізнесі на теренах України. Франчайзинг в системі міжнародних готельних мереж є тією поєднуючою ланкою, що створює специфічні умови та уніфіковані параметри ділової активності готелів більшості країн світу.

Аналіз останніх досліджень і публікацій. Вивченню проблемних питань розвитку франчайзингу в системі міжнародного готельного бізнесу присвячено праці багатьох учених. Особливості організації франчайзингу в середовищі міжнародного готельного бізнесу розкриваються в роботах Т. Ткаченко, М. Босовської, М. Бойко, Н. Ведмідь. Проблеми формування бізнес-концепції франчайзингу розглядали у своїх працях С. В. Мельниченко, Л. С. Трофименко, О. О. Гац, Г. Б. Тимошенко, В. П. Мунін, Х. Й. Роглев та ін. Питання глобалізації франчайзингової системи на ринку готельних послуг підіймаються в роботах В. В. Миненкової, А. В. Мамонової. Однак, роль франчайзингу у формуванні системи міжнародного готельного бізнесу ще детально не розглядалась.

Метою даного дослідження є аналіз системи франчайзингу як найбільш розповсюдженої форми міжнародного готельного бізнесу.

Матеріали та методи. Матеріали статті розроблено на основі використання загальнонаукових методів діалектики, порівняльного аналізу, дедуктивного синтезу, логічного моделювання, класифікації і типізації, системно-структурного аналізу, наукового прогнозування.

Результати дослідження. Розкрито особливості використання франчайзингу в міжнародному готельному бізнесі. Висвітлено основні чинники формування додаткових переваг бізнесу від входження до готельної мережі на основі франчайзингу. Окреслено механізми взаємодії основних сторін франчайзингових відносин. Наголошено на ролі готельного оператора при укладанні франчайзингового договору. Розкрито механізми розподілу фінансових та організаційних ресурсів при

укладанні франчайзингового договору в готельному бізнесі. Проаналізовано особливості здійснення франчайзингових платежів для готелів різних категорій. Визначено особливості формування середньогалузевих розмірів франчайзингових платежів для ключових готельних мереж світу. Систематизовано переваги та недоліки, а також основні обов'язки франчайзера і франчайзі. Виділено п'ять критеріїв успішності готельного бізнесу, що функціонує під мережесвим ім'ям. Розкрито особливості використання манчайзингу як симбіозу менеджменту і класичного франчайзингу в готельному бізнесі. Виділено первинну стадію манчайзингу, при якому управління готельним підприємством здійснює управляюча компанія, а також вторинну стадію, на якій починає діяти класичний договір франчайзингу. Окреслено перспективи розвитку франчайзингових відносин у готельному бізнесі в найближчій перспективі. Наведено унікальний досвід регулювання франчайзингових відносин в готельному бізнесі України на прикладі провідного національного готельного оператора – Premier Hotel and Resorts. Проаналізовано приклади запровадження цим оператором спеціалізованої програми «Компас», призначеної для подальшого розвитку мережі бюджетних готелів в рамках єдиних стандартів організації, що об'єднує підприємства за франчайзинговими договорами.

Висновки. Практика застосування франчайзингу в готельному бізнесі України переконливо довела його високу комерційну ефективність. Інтерес до франчайзингу серед готельних операторів та окремих власників зростає з кожним роком, оскільки ведення бізнесу на основі договору франшизи суттєво зменшує підприємницькі ризики, сприяє зростанню іміджу компанії, залученню широкого кола клієнтів, зростанню обсягів продаж на внутрішньому та міжнародному ринках. Розвиток франчайзингу – одна з найбільш ефективних форм ведення міжнародного готельного бізнесу в Україні. Вивчення організаційних, економіко-правових та фінансово-комерційних особливостей його застосування в готельно-ресторанній сфері є основою для подальших наукових пошуків у цьому напрямі.

Ключові слова: франчайзинг, манчайзинг, міжнародний готельний бізнес, франчайзингові платежі, переваги і недоліки франчайзингу.