

Negotiation with hotel chains



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**Prestigious Hotel Chains:  
a basic requirement for a high level visibility  
=>  
....“How to negotiate with the major groups”...**

**The real question should be :**

**How to get the right deal with  
the right people for the right  
destination !**

## Expectations of the hotel chains

•Increasing competition between Destinations (London, Paris, Dubai, Doha, Singapore, Pekin...) result in a need for a always clearer vision of the segments potentially targeted by a destination:

- Leisure groups/ tour operators
- Cultural tourism / individuals + tours
- MICE / Business tourism
- Corporate
- Seasonal or all year round
- religious “Tourism”

## **Selling points of a destination: Hotels only (alone) do not make the destination!**

- 1. Hotels Group look for and need CONSISTENT INFRASTRUCTURES**
  - **Accessibility of the destination (Air links, Airports, Road & Rail networks)**
  - **Conference & Exhibition facilities**
  - **Foreign friendly legislation**
  - **Education (Staff hiring) or /& adapted migration policy**
  - **Environmental friendly destinations (become important)**

### ***RISK:***

***The combination or the absence of these destination selling points will/can result in “leveraged” or in “low potential” destinations from an hotelier point of view and will/can influence your potential of choice and negotiation.***

### ***MUST:***

***Evaluate your destination first and make a clear assessment of your position on a scale going from Low potential to highly desirable destination.***

## IDENTIFICATION OF THE POSITIONING OF THE HOTEL CHAINS

### 1. Brand value / Positioning, Distribution channels, Network...

**Question: Are they in line with the positioning of the destination?  
(See the assessment of your destination...)**

### 2. ensure your shortlist the right hotel chains for the destination.

#### **Tips:**

- **Avoid wasting time with a luxury operator on a low cost tour operator destination.**
- **Is the hotel chain well positioned on main inbound countries for the destination?**
- **Is its image in line with the marketing of your destination, helping to make it a “branded” destination?**

# THE ELEMENTS OF THE NEGOTIATION 1

## A- THE HOTELIER IS SHARING THE FINANCIAL RISK

- Participation in the investment
- Built, Operate & Transfer (BOT)
- Lease – fixed or variable-
- Minimum guaranteed profit

### Nota Bene:

Most of the international operators have adopted a asset light business model based on Franchise and management. They will consider a financial risk in few cases only (tap into a strategic market, get an iconic property...

In case of minimum guaranteed profit or participation the hotel chain is more demanding on the management contract conditions (remuneration of the risk).

## ELEMENTS OF THE NEGOTIATION 2

### B. HOTEL CHAIN'S REMUNERATION ACCORDING TO OPERATING PERFORMANCE

**Subordinated fee :**

**Owner's priority (on GOP or objective of return for the investor)**

**Non performance termination clause (GOP mostly or RevPar market benchmarks)**

**Incentive fees (on GOP) versus basic management fees (on revenue)**

**Tips: Sharing upside and downside of the business;  
focus on the management ratios.**

## OTHER COMPONENTS OF THE NEGOTIATION

### BRAND EXCLUSIVITY:

- Sensitive & rare, has to be justified by the market and the positioning.
- More in line in the 5 star segments than in the mid-scale & budget.
- Expect higher fees and more stringent conditions on the contract

### TERM:

- Operators seek for long term contracts in order to secure their market share.
- Term is often in relation to other aspects:
  - Segments (upscale, upper upscale 15-30 years, midscale & budget 10-15 years)
  - Operator bears part of the financial risk
  - Non performance termination clause or not
  - Brand exclusivity or not.
  - Term can possibly influence the level of fees (lower fee for longer term)

## SOME SPECIFIC TOPICS

**RIGHT TO SELL THE PROPERTY WITH THE MGT. CONTRACT  
(versus right of first refusal for the operator)**

**CONTRIBUTION TO THE SYSTEMS (central reservation, sales & marketing...) Be precise and avoid general or vague provisions.**

**Technical Assistance:**

**The less expensive is not always the best deal, the service can vary from handover of tech specs only to extensive assistance from the design to the completion by the hotel chain technical team.**

**Tips Technical Assistance:**

**You Can save money if properly done, and if the hotel operator involved at the early stage of the process**

## AND FINALLY.....

**YOUR APPROACH OF THE NEGOTIATION WITH THE HOTEL CHAIN MUST CORRESPOND TO YOUR STRATEGY:**

**1.MARKETING STRATEGY OF THE LOCATION (For short listing the right hotel chains)**

**2.REAL ESTATE STRATEGY OR HOTEL REVENUE ORIENTED**

**3.YOUR FINANCING STRATEGY**

**These should determine which partner you will select and which aspects of the negotiation you will focus on.**

**GOOD LUCK !**