

FRANCHISING AS A STRATEGY OF ENTERING FOREIGN MARKETS IN THE HOTEL INDUSTRY

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ABSTRACT

Objectives: This paper aims to provide the theoretical basis of a franchise business with particular reference to the hotel industry. In addition, this paper aims to provide a detailed analysis of the world's most prominent franchises in the hotel industry and compare the situation in Croatia to the rest of the world.

Methods: Almost half (47%) of all franchised hotels globally are owned by four large franchise chains: Accor, Marriott International, Hilton and InterContinental Hotels Group. In order to provide the essential theoretical knowledge about the franchise and franchise business, these four hotel franchises are analyzed.

Results: Franchise business presents an excellent opportunity for future hotel owners. However, the analyzed hotel groups do not offer direct or indirect financing forms to help interested entrepreneurs enter into a franchise business.

Conclusion: A franchise business is an attractive entrepreneurial alternative for entrepreneurs who have lack of knowledge and lack of capital. The franchise business in the hotel industry in the Republic of Croatia is present but not to the same extent as in other tourist developed countries. Therefore, it is necessary to design appropriate sources of financing that would facilitate entry into the franchise relationship.

Keywords: franchise business, hotel industry, entrepreneurship

1. INTRODUCTION

In today's changing environment, it is a challenge for all companies to achieve business success and planned financial income in order to stay competitive. One of the possible business models to establish and grow the business is franchising¹. Franchising is the permission to use a company's brand and business model for a certain period under agreed conditions. Franchising can be applied in various industries, and one of them is the hotel industry. By using a franchise in the hotel industry, the owner of a particular hotel is given the right to use the name, reservation system and a set of tools to start a business. The subject of this paper is franchising in the hotel industry. An literature analysis will explore examples of the most prominent franchises in the hotel industry and their presence in the Republic of Croatia.

2. THEORETICAL FRAMEWORK

Over the last few decades, the concept of franchising has expanded internationally. Franchising is one of the strategies for entering a foreign market. In this way, companies can quickly expand into those markets to a lesser extent and at a lower cost. Therefore, the franchise as a strategy of entering foreign markets differs from other strategies. A franchise can be one of several companies strategies to enter a particular foreign market. Some companies regularly use it as a strategy. Namely, multinational franchisors, including hotel chains, are actively looking for opportunities to grow and expand in international markets. Franchising is one of the fastest-growing business strategies globally as it allows the franchisor to grow with minimal capital investment².

2.1. The theoretical definition of the term *franchise*

A franchise is a method of distributing a product or service that involves a franchisor who has a trademark, trade name, or business system and a franchisee who pays an initial fee for the right to do business under the franchisor's name and system³. In the franchise system, the company (franchisor) licenses its trade name (brand) and its operating methods (it is business system) to a person or group operating in a particular territory or location (franchisee), who agrees to conduct its business by the terms of the contract franchise agreement). A hotel franchise is a contract between a hotel chain and a hotel owner by which the hotel chain allows the hotel owner to use thir name and specific services. According to the franchise agreement, the franchisor has no ownership or financial interest in the hotel and is not directly responsible for the franchisee's business.

3. The Franchising in the Hotel Industry

The franchise can be used as a business model in various industries, including the hotel industry. Certain services (brand, reservation system, support, etc.) are provided within the hotel franchise. A franchise agreement is a legal license agreement between a hotel brand and a hotel owner that gives the hotel owner the rights and obligations to operate under the franchisor's brand in exchange for fees⁴. It is helpful that franchisees can brand their hotel with a group of well-known hotels, while the franchise agreement provides them with a particular set of tools to start a new business. The hotel owner will bear all business risks but control the hotel property. The recipient of the hotel franchise gets permission to use the trademark and run the business under that name and the necessary knowledge.

¹ Previšić, J. i Ozretić Došen, Đ. (1999): *Međunarodni marketing*. Zagreb: Masmedia, pp. 416.

² Xiao, Q, O'Neill, J. W. i Wang, H. (2008): International hotel development: A study of potential franchisees in China. *International Journal of Hospitality Management*, 27, pp. 325.

³ Stanković, M. (2016): International franchising in hotel industry. *Facta Universitatis Series Economics and Organization*, 13 (4), pp. 416.

⁴ Fladmoe-Lindquist, K. (1996): International franchising: Capabilities and development. *Journal of Business Venturing*, 11 (5), pp. 419.

3.1. The Hotels Industry

The hotel industry is one of the most critical components of the wider tourist service industry and provides services to clients who need an accommodation or overnight stays. It is closely linked to the travel and hospitality industries, although significant differences exist between them. The provided services can vary drastically from hotel to hotel, and hotel owners find it harder to attract a specific type of customer through their pricing model and marketing strategy or through the range of services they offer. On the other hand, the hotel industry is part of the service business providing accommodation for their guests. The hotel industry applies not only to hotels but also to motels, hostels, boarding houses and inns. However, it does not include long-term or permanent forms of accommodation⁵. Due to the nature of hotel services, the hotel industry is closely connected with the tourism industry. The hotel industry is one of the fastest-growing sectors in the 21st century. Hotel management plays a crucial role in this industry, while technology has significantly improved and facilitated business, especially interaction with guests. In addition, the lifestyle has changed significantly - social attitudes have changed, new technologies have developed, and economic and demographic changes have occurred. All of that dramatically affects the trends in the hotel industry. Hotels are categorized by their size, function, service and price. Service levels can usually be divided into limited service, middle-class service, and full service. Moreover, a star rating system is most commonly used. Five stars mean the hotel is rated as the best, and one star means the hotel has lowest ratings according to its services. Additional services include business, casino, spa, extended stay, bed and breakfast and more. The most famous international hotel brands have reorganized their business models. They are less and less engaged in traditional hospitality, and more and more develop and strengthen brands, sales and marketing, based on franchises because it allows them to increase revenue while reducing investment risk⁶. Namely, for hotel chains, franchising provides space for fast expansion into countries where these hotels are not present and enables easier overcoming of specific legal, technical and cultural difficulties that are usually related to the internationalization of business⁷. Hotel groups such as AccorHotels, IHG, Marriott or Hilton are examples of franchising in the hotel industry. The owners of these hotels are different (wealthy individuals, businesses or institutions), but they all want to maximize their business. Therefore, they cooperate with other hotels and, with the help of franchising, expand their network and generate revenue from fees for services provided. In these cases, a franchisor is a hotel group (for example, AccorHotels), and the franchisee is the hotel owner (for example, an individual). They sign a franchise agreement for a specific hotel brand. In the case of a franchise, the parties may agree on the additional provision of services. Most hotel groups offer a range of additional services to suit specific needs throughout the hotel's life cycle. These optional services cover many areas, such as hotel refurbishment, revenue management, distribution channel exposure, hotel staff learning and development, procurement, etc. Optional services are offered to the franchisee at an additional cost. The franchisor's role is to recommend these optional services when it is most needed in response to a problem the hotel is facing. The franchisee always decides about optional services in the franchisee agreement.

⁵ Lock, S., Hotel industry worldwide- statistics & facts, available at: <https://www.statista.com/topics/1102/hotels/>, (2.7.2021.)

⁶ Alon, I., Ni. L. i Wang, Y. (2012): Examining the determinants of hotel chain expansion through international franchising. *International Journal of Hospitality Management*, 31, pp. 379.

⁷ Kandžija, V. i Ivandić, N. (1996): Ugovori o hotelskom managementu i franšizi. *Tourism and hospitality management*, 2 (1), pp. 150.

3.2. The Hotel Franchising Agreements

A hotel franchise is a contract between a hotel chain and a hotel owner by which the hotel chain allows the hotel owner to use the name and specific services such as business procedures, technical-technological standards and the central reservation system. The franchisor has no ownership or financial interest in the hotel. The franchisor is not directly responsible for the hotels business results. The franchisee is required to pay a franchise fee, including a trademark, based on the percentage of hotel turnover. Mandatory fees refer to service fees that typically cover marketing and sales, distribution and loyalty, Information Technology and hotel quality control, and brand compliance audit fees⁸. In addition, the franchisor must provide specific brand standards and provide mandatory services. The essential elements of a hotel franchise agreement are the fees and obligations of the franchise owner and recipient.

3.2.1. The entry fees

The fees paid by the hotel franchisee to the franchisor mainly include⁹:

- association fee (one-time fixed fee)
- royalties (fees determined according to the amount of realized income)
- marketing fees (also determined by the amount of income, and used for marketing)
- reservation fees (fees paid for the operation of the reservation system) and
- fees for training hotel employees (if such a service is provided)

Therefore, the franchisees pay the provider various franchise fees, some of which are one-off and some multiple, i.e. they are paid during the entire period of the contracted franchise.

3.2.2. Rights and obligations of franchisor and franchisee in the hotel industry

Franchising can be an excellent opportunity to improve hotel service and achieve better business results and higher revenues. The franchisee receives the following:

- the right to use the name of the protected hotel brand and to operate under that name,
- business know-how,
- tested systems and procedures,
- quality standards,
- centralized reservation, marketing and distribution system,
- business support,
- training of employees to maintain a certain quality,
- lower risk of business failure,
- certain independence in business,
- increase in sales and revenue,
- reduction of operating costs and
- more favourable lending conditions.

The prominent advantages of the franchise business in the hotel industry are numerous and provide an opportunity to make it easier for the franchisee to start a business.

The franchisee must complete the following:

- comply with the provisions of the franchise agreement,
- use the name of the franchisor,
- participate in the joint reservation, marketing and distribution system and
- give the franchisor access to the business books.

⁸ Grzelak, K. i Matejun, M. (2013): Franchising as a Concept of Entrepreneurship Development in the SME Sector. U: Matejun, M. i Walecka, A., ur., *Modern Entrepreneurship in Business Practice: Selected Issues*. Lodz: Lodz University of Technology Press, pp. 47.

⁹ Hotelska franšiza, available at: <https://www.petric-kajic.hr/hotelske-fransize/>, (15. 6. 2021.)

From the stated above, it is clear that the franchisee must meet certain conditions to operate in this form of business.

The franchisor receives:

- fees guaranteed by the franchise agreement,
- an increase in the revenue of his brand due to the increased number of hotels operating
- reduced fixed operating costs due to the increased number of hotels.

A franchise agreement is usually concluded for one to two decades. Franchisors usually have the right to control the business results of the franchisee by inspecting his business books. In addition, they reserve the right to terminate the contract in case of business failure, bankruptcy, non-payment of contractual fees, violation of the law, etc. On the other hand, franchisees generally have no right to terminate the contract without paying damages.

3.3. The Hotel Franchisee Concept

American companies predominate among the world's most famous hotel franchise companies, except one Australian and several European ones (Great Britain and France). Although most franchise companies are from the United States, the representation and implementation of the franchise in Europe is rising. Most Europe hotel franchises are located in Germany, Great Britain, France, Italy, Spain, Romania, Russia, and Poland. The largest hotel groups often have several brands, each of which targets a specific market segment and indicates a recognizable type, category and purpose of the facility. As a result, existing hotel businesses can strengthen their business and increase their earnings, while the newly created business franchisee is given a less risky form of starting a business. Hotel chains typically insist on training hotel staff to effectively embrace the various systems, procedures, programs, and policies developed by the franchisor. The nature of such training should be specified in detail in the franchise agreement. The franchise fee is usually determined based on the principles explained above.

3.2.1. The characteristics of the franchisee contract in the hotel industry

As part of the franchising in the hotel industry, franchisors provide various services to franchisees¹⁰. Therefore, franchisees have certain advantages over franchises. Some of them are as follows¹¹:

1. assistance in building hotels - for example, selecting hotel locations and market analysis, preparing hotel construction plans, building assistance, etc.
2. assistance in market promotion of hotels - hotel chains that sell franchises provide professional promotional campaigns that include the logo, signs, trademark of the selected hotel. This allows you to reduce advertising costs and quickly apply in different media.
3. coordination between hotels in the chain - each hotel in the chain functions as a marketing office that generates demand for other hotels in the chain.
4. centralized reservation system is one of the most important benefits of joining a hotel chain. Most hotel chains offer a reservation system that makes up the central reservation office with a toll-free number. Well-trained staff in the central office records all reservations. It provides information about the hotel in the chain that is the most acceptable destination for the user, information on available accommodation in the selected hotel on a given date and accommodation prices. Also, the central reservation system allows booking and providing guarantees for the reservation, meeting special requirements and collecting information about users.
5. proven business methods - franchisors provide customers with (training programs and manuals) proven systems and procedures necessary for efficient business by the requirements of the franchise.

¹⁰ Kandžija, V. i Ivandić, N., loc. cit., pp. 153-154.

¹¹ Petrić, Hotelske franšize, available at: <https://www.petric-kajic.hr/hotelske-fransize/>, (14. 6. 2021.).

6. hotel monitoring and evaluation - hotel chains usually monitor hotels two to four times a year to control quality standards and further train management with techniques used to maintain the required level of quality.

In addition to the advantages, there are certain disadvantages for franchisees and franchisors in the franchise business. Therefore, the advantages and disadvantages for franchisees and franchisors are analyzed below.

3.2.2. Advantages and disadvantages of a franchise contract for the franchisee

Franchising as a business relationship provides several benefits to hotel owners as franchisees. Some of them are the possibility of cheap and fast growth, increased revenue, visibility, etc. The benefits that the franchise agreement provides are:

- instant recognition (strong portfolio of brands),
- shortening the period required to "get into" business,
- attracting certain market segments,
- a specific set of tools,
- availability of proven business methods and
- the possibility of using advice and training programs.

The franchise allows hotels to start a business with a recognizable name very quickly, making it easier for them to break into the market. However, the franchise also has certain disadvantages for the users of this business model.

The disadvantages for the franchisee are the following:

- costs related to the wrong choice of franchise
- Lack of guarantees of success
- short period of contracting the right to use the franchise
- inability to franchise other users in the same market
- mandatory acceptance of various hotel chain standards
- Lack of control over the quality and image of the hotel chain.

If a hotel uses a franchise model in its business, it does not necessarily mean that it will succeed and be competitive. The franchisor does not guarantee and is not liable in the event of a business failure of a particular hotel as the franchisee. Therefore, hotel management should be well acquainted with the advantages and disadvantages of franchising and, based on these advantages and disadvantages, with business analysis to choose the best option for the hotel at a given time.

3.2.2.1. Advantages and disadvantages of franchising contract for the franchisor

The franchise also has specific benefits for franchisors. The benefit for the franchisor is an alternative to building a chain of stores/hotels to distribute their products. Although it avoids investing, the franchisor's success depends mainly on the franchisee's success. In addition, the benefits are as follows:

- the possibility of cheap and fast growth
- the profitable source of income
- an increase of recognizability.

It is in the interest of hotel chains to expand their business by providing franchises because it allows them to quickly and cheaply enter those markets in which they have not operated before and increase their visibility and sources of income. However, as for franchisees, franchising also has certain disadvantages for hotel chains that provide franchises. Disadvantages for franchisors, first of all, are related to the risk when choosing a franchisee. The first type of risk is the possibility that the franchisee cheats the creditor's trust, violates the business contract, reveals business secrets to competition, etc.

The second type of risk relates to the positive results of the franchisee and his decision to terminate the franchise agreement and continue to operate independently, thus becoming a direct competitor to the franchisor. The shortcomings of the franchise relationship for hotel chains are also manifested in the inability to control the business, the quality of services and the pricing policy of the franchisee's hotel. Accordingly, it is evident that franchising as a business model, in addition to numerous advantages, has certain disadvantages, but in the end, the advantages are multiple. This is confirmed by the fact that the franchise business model is successfully applied in hotels worldwide.

3.4. Franchise Hospitality in the Republic of Croatia

Although it is seasonal tourism, the hotel industry plays an important role in Croatian tourism and the economy (hotel facilities are generally not used outside the summer season). The Republic of Croatia has a franchise way of doing business in the hotel industry, but it is not fully accepted by other tourist developed countries in the world. One of the reasons for the lower representation of international hotel brands is administrative procedures. That is why investors were waiting for a more favourable moment for a significant step forward on the Croatian market. The advantage of franchise hotel companies entering the Croatian tourism market is primarily reflected in the fact that entering the market through franchising would open international hotel chains to guests with significantly higher purchasing power, which would result in increased revenues from the tourism sector. In addition, large global hotel chains orient their business to business through franchise agreements, so the franchise way of doing business in the hotel industry can be a way to expand the hotel network in the Republic of Croatia. However, whether franchising will be sustainable is a business decision of every hotel owner, and it should be based on comprehensive business analysis. Although the data do not refer only to the hotel sector but to the overall economy, it should be said that there are about 200 franchise brands in the Republic of Croatia, with 17,000 employees working in franchises. However, franchises create significantly more jobs in European Union countries compared to the Croatian market. Thus, in France, the franchise industry employs about 700,000 people, in Germany 450,000, and Poland 300,000. The value of the entire franchise industry in Europe is 350 billion euros and includes three million employees¹². The above data shows that franchising is a way of doing business that gives the franchisor and recipient good business results. For existing businesses as franchisees, the franchise provides an opportunity to strengthen business and increase earnings, while for new businesses, the franchise provides a less risky form of investing and starting a business. Although the franchise is a business model that can be used in various economic activities, the Croatian market is a significant franchise in the hotel and catering industry related to tourism, with a total share in GDP of about 20%. Systems operating through franchises have been shown to overcome economic crises faster. Although hotel franchises are less present, the potential for franchise business development in Croatian hotels is exceptionally high.

4. THE EXAMPLES OF WORLD'S SUCCESSFUL HOTEL FRANCHISE

The annual list of the 100 most successful franchise systems in the world shows that the best franchise system is the American fast-food chain McDonald's. In fourth place is the global hotel franchise chain Marriott International. It is followed by the global hotel franchise InterContinental Hotels and Resorts in twelfth place and Choice Hotels in fourteenth place. Hilton Hotels & Resorts is in eighteenth place, and Wyndham Hotels and Resorts is in twenty-third. Almost half (47%) of all franchised hotels are owned by four large franchise chains:

¹² Rast hotelskih franšiza i u Europi (2019), available at: <https://franchising.hr/clanak/1439/rast-hotelskih-fransiza-u-europi/>, (15. 6. 2021.)

1. Accor's franchise network with 256 hotels and 35,073 rooms,
2. Marriott International with 208 hotels and 33,395 rooms,
3. Hilton with 172 hotels and 26,466 rooms and
4. InterContinental Hotels Group (IHG) with 147 hotels with 24,483 rooms.

In the next chapter we will analyze and compare the franchise network of four prominent franchise hotels.

4.1. Accor

The Accor franchise network has 256 hotels with 35,073 rooms in 110 countries¹³. Through a franchise agreement, the hotel chain offers owners access to the brand - giving them the right to use the brand name and distribution, sales, marketing, and loyalty services. Franchised hotels also enjoy other services, especially access to the Group's central purchasing agency and the Accor Academy, where their teams are trained. Accor is a global hotel operator and franchisor. The benefit of the Accor franchise for the recipients of that franchise is that it encourages hotel sales, increases the average room price, and generates additional revenue. Accor hotels offer superior market dynamics and inter-hotel reservations (reservation between-group hotels). Local experts provide help with hotel integration with the brand to franchise marketing, year after year. The global growth of this hotel network provides owners with the following benefits:

- world-class brands and a platform for distribution and loyalty,
- proven business processes and large market,
- local operational expertise and support and
- current financial returns.

Accor offers the most extensive portfolio of brands in the hotel industry, consisting of internationally recognized luxury and premium brands and popular mid and economy brands. In addition to the renowned hotel brands, Accor also manages residential facilities that serve catering facilities and branded private residences.

4.2. Marriott International

Marriott International operates 208 franchised hotels with a total of 33,395 rooms¹⁴. This hotel group is an international leader in accommodation with more than 4,100 properties in 79 countries. In the more than 85 years since its inception, Marriott has established a culture of innovation. The ultimate goal is to team up with franchise owners and recipients to invest resources wisely, maximize profitability, and increase brand preferences. For example, the Marriott International Hotel Group logo is shown in Figure 11. Marriott hotels are full-service hotels suitable for business and leisure travellers. The hotel offers a variety of food and beverage options, including one or more restaurants and lounges, room service and banquet services. Franchisors cater to the diverse needs of customers and include luxury and premium full-service hotels, lifestyle hotels, extended stay hotels and selected service hotels. The company's brands include Bulgari, Westin, Sheraton, The Ritz-Carlton, Le Méridien, etc. The brand portfolio of the Marriott International hotel group is shown in Figure 12. The franchisor requires that the staff at the franchisee's hotel complete the necessary training within a specified time. All training must be completed to the satisfaction of the service provider, and the verification of the successful completion of the training must be presented at the service provider's request.

¹³ Accor, available at: <https://group.accor.com/en/hotel-development/Choose-your-contract/Franchise>, (21. 6. 2021.)

¹⁴ Marriott International, available at: <https://www.franchisedirect.com/travelfranchises/marriott-international-franchise-08393/ufoc/>, (21. 6. 2021.)

Online training is independent training that participants can access at any time online. Marketing training is conducted in different places throughout the country, depending on participants' needs and availability. Course schedules are announced in advance, allowing enough time to complete the training on time. The franchisor may provide other training to the franchisees free of charge and not as part of the opening team if the franchisor deems it necessary. During the years in which the franchisor holds an educational conference of general managers, the presence of the hotel's general manager is also mandatory. The franchisor also has several leadership training programs in various locations throughout the year and are available to franchisees of their choice. The franchise agreement will allow franchisees to manage one hotel of a certain size at a specific location selected by the franchisee and approved by the franchisor. The franchisor requires the franchisees to manage the hotel or hire a management company to which the franchisor has agreed. If the franchisee is an entity and not an individual, the franchisor generally requires the entity's principals to sign a guarantee for the franchisee's obligations. Franchisees must offer all goods and services specified by the franchisor. Furthermore, franchisees may offer only those goods and services that the franchisor requires or expressly permits. The initial period of the franchise is 20 years (the deadline usually ends on the 20th anniversary of the opening date). After that, the franchise agreement cannot be renewed. The franchisor generally does not offer direct or indirect financing to franchised Marriott hotels. In addition, it does not guarantee any financing, loans or other obligations.

4.3. Hilton

Hilton operates 172 franchise hotels with 26,466 rooms¹⁵. The franchisor licenses the Hilton system. The system consists of several elements, including know-how, and under the licensed brand includes labels, access to the reservation service, advertising, promotion and other marketing programs and materials, training programs and materials, franchisor program to review hotels and consult franchisees, standards, specifications and policies for the construction, furnishing, operation, appearance and service of the hotel and other elements referred to in the franchise agreement, in the manual or other communications to the franchisees. Hilton Franchise Holding LLC is a franchisor. The ultimate corporate parent is Hilton Worldwide Holdings Inc. The company owns, manages, or franchises many luxury hotel and resort brands, such as Hilton Hotels & Resorts, Hilton Garden Inn, Signia Hilton, Motto, Conrad Hotels and Resorts, Canopy, etc. The Hilton Group logo is shown in Figure 13. The franchisor offers the necessary training courses to those related to the orientation system and the certification process. Employees designated to attend the training must complete the required training. In addition, if a replacement is hired for any of the categories of staff who must attend the training program, the replacement should complete the appropriate training program. There are over ten training programs, not including new owner orientation and additional workshops. Virtual and online courses are considered equivalent to classroom training. Courses can be provided by the franchisor or designated independent suppliers. The franchisor requires the participation of the CEO and Sales Director in an annual brand or regional conference. The franchisor grants franchisees a non-exclusive license to use the system for the duration of the franchise agreement to operate the franchise hotel at a specific location. There are no provisions in the standard franchise agreement to assign franchisees a protected area or territory. However, the franchisor may agree to impose certain territorial restrictions on the franchisees (restricted area provision) for the area surrounding the franchised hotel and covering the directly competitive hotel market, which may be agreed by the parties (limited area). Franchisees must ensure qualified and experienced management for the operation of the hotel.

¹⁵ Hilton hotels resorts franchise, available at: <https://www.franchisedirect.com/travelfranchises/hilton-hotels-resorts-franchise-08360/ufoc/>, (20. 6. 2021.)

After reviewing the financial data submitted with the application and the proposed ownership of the hotel and real estate, the franchisor determines the terms of the guarantee. Any required guarantor, which may include the spouse of the hotel owner or the franchisee, must sign a guarantee by which the guarantor assumes and agrees to perform certain franchisee obligations under the franchise agreement. In general, franchisees must comply with the franchisor's requirements regarding the types and levels of services, benefits and products that must or may be used, promoted or offered at or in connection with the hotel. In addition, franchisees must operate the hotel 24 hours a day every day, except the franchisor may allow it based on particular circumstances. The length of the initial franchise period is usually 23 years after the opening date. The conversion period is usually ten to 20 years from the opening date. For a change of ownership, the duration of the franchise is generally the remaining time under the existing franchise agreement. Franchisees are not entitled to renew or renew, but if the franchisor agrees to re-license, a new contract may be required to be signed with significantly different terms and conditions than the original franchise agreement. The franchisor may, at its discretion, offer incentives for new hotels. An incentive is a monetary contribution that helps develop or convert a hotel. It should be emphasized that the incentive is not a loan but a contingent liability. Apart from the development incentive program described, the franchisor does not offer direct or indirect funding to franchisees. However, in unique or rare circumstances, the franchisor may offer other types of financing, such as a loan or guarantee to receive, lease or other obligations of the franchisee.

4.4. Inter Continental

InterContinental Hotels Group (IHG) has 147 franchise hotels with 24,483 rooms¹⁶. Franchisees want to do business for themselves, but not on their own. Franchise users can label their hotel as one of the well-known and popular brands and benefit from a loyalty program and a robust reservation system. IHG then provides a comprehensive set of revenue management and marketing programs to drive business and new demand. The growth of the franchise fee was driven by three levers - room growth, revenue per available room (RevPAR) and royalties. A franchise agreement is usually a standard agreement with certain variations worldwide. The sample contract usually has a royalty of 5 to 6% of the revenue from the rooms. However, this may vary by brand and country. Holiday Hospitality Franchising IHG is a franchisor. Offers and approves franchises under the terms of the license agreement. The license provides for the establishment and operation of the InterContinental Hotel or the InterContinental Resort. InterContinental hotels are usually located in major markets, important secondary cities and resorts. The InterContinental Hotels Group logo is shown in Figure 14. InterContinental Hotels and InterContinental Resorts facilities are fully equipped for luxury business, conference and recreational travellers. Other brands under the umbrella of InterContinental include Avid Hotels Atwell Suites, Holiday Inn Hotels and Resorts, Crowne Plaza Hotels and Resorts, etc. The franchisor does not assist in hiring but will train certain hotel employees at the franchisee's hotel, based in Atlanta in the U.S. state of Georgia or at various other central city locations. Franchisees must pay all their employees' travel expenses, and the franchisor may charge franchisees a fee for attending training workshops. Each CEO should complete the initial certification program within 180 days of takeover and be eligible for the franchisor. Managers, sales directors, homemakers and other staff must satisfactorily complete the training at the franchisor's office or another location designated within the timeframe required by applicable brand standards. The CEO must attend the brand management training for new hotels to be held before the hotel opens. The general manager and hotel staff should also attend essential programs before opening.

¹⁶ IHG, available at: <https://www.ihgplc.com/about-us/how-our-business-works> , (21. 6. 2021.)

During the agreement term, the franchisor will provide the necessary and optional training programs at various locations, including headquarters, within the timeframe required by applicable brand standards. The CEO should attend the brand management training for new hotels to be held before the hotel opens. In addition, the general manager and all hotel staff are required to attend critical programs prior to training owned by the franchisee. Employees of the franchisor will provide a personal advisory and educational visit to the hotel each year. The franchisor does not usually give franchises for exclusive areas. The license will be for a specific location only and the licensing of one hotel. It applies to the location specified in the license and no other location. Franchisees may face competition from other franchisors, hotels owned by the franchisor or its affiliates, or other distribution channels or competing brands controlled by the franchisor or its affiliates. In particular, when the franchisor's discretion requires special considerations, IHG may approve exclusive or protected areas in which another InterContinental hotel will not have a permit. However, in such cases, the license will still be only for a particular place and for licensing only one hotel. Whether the franchisees are individuals, corporations, partnerships or other entities, the franchisor requires them to retain and exercise direct management control over the hotel business at all times, unless otherwise approved by the franchisor. However, the franchisor does not require the franchisees to participate in the direct business of the hotel personally. The franchisor may include in the license terms requiring the franchisee to hire a qualified and experienced management company or CEO, food and beverage director or sales director with at least two years of experience in a hotel operating under any IHG brand or in a hotel in a similar segment of the brand as the hotel. Franchisees must provide the hotel services described in the license and ensure that no part of the hotel or system is used to facilitate or promote competitive business. There are no restrictions for customers to whom franchisees may sell guest rooms or other hotel-related goods or services. The initial term of the franchise is 20 years from the date of opening the hotel in the new development system, ten years from the date of opening the hotel in the conversion system and ten years from the date of the start of a change of ownership or re-licensing. The license does not provide for renewal or extension. If the franchisor agrees to re-license, the franchisee may be required to sign a new contract with significantly different terms and conditions than the original contract. In this case, the franchisor does not offer any formal program for direct or indirect financing. Therefore, the franchisee is solely responsible for obtaining adequate funding for all costs related to the hotel's development, opening, and operation.

4.5. A comparison of the analyzed hotel franchises

Hotel franchises come in a wide range, from affordable motels to luxury, high-end hotels. Some hotels efficiently manage guest rooms, while others offer conference rooms, full-service dining areas, and bar areas. In addition, some hotels are tailored for business travellers, while others are focused on tourists and families. Table 1 shows comparisons of three hotel chains - Hilton, IHG and Sheraton.

Table 1. Comparisons of three hotel chains - Hilton, IHG and Sheraton

Hotel	Franchisee Entry fee (\$)	Entry Investments (\$)
Hampton by Hilton	75 000	13 645.000 - 20 604 000
Inter Continental Hotels Group IHG	50 000 - 75 000	7 530 521 - 98 487 600
Sheraton	85 000 - 112 000	883 500 - 75 576 000

Source: Lauckner, S. (2021): The Ultimate Guide to Hotel Franchises, available at: <https://www.nerdwallet.com/article/small-business/hotel-franchise>, (12. 8. 2021).

Data from Table 1, show that the InterContinental Hotels Group or IHG has the most favourable initial fee for the franchise of 50,000 US dollars and the most expensive Sheraton, up to 85,000 US dollars. The number of franchised properties in Europe in 2019. is shown in Figure 15.

Table 2. A comparison of the four analyzed hotel franchises

Hotel	The hotel and number of rooms	The number of Countries
Accor	256 hotels with 35 073 rooms	110
Marriott International	208 hotels with 33 395 rooms	79
Hilton	172 hotels with 26 466 rooms	122
Continental Hotels Group (IHG)	147 hotels with 24 483 rooms	100

Source: The research made by the authors

According to the data shown in Table 2, the Accor hotel group leads with the number of hotels (more than 250), but according to the number of countries in which it operates, the leading is Hilton hotel chain, which 172 hotels in 122 countries. All four hotel chains operate with an enviable number of hotels and hotel rooms and are present in many countries around the world. It is evident that these hotel groups generally have a similar business concept. All hotel groups, as franchisors, require from the hotels to meet certain standard for thier services. Although hotel groups offer franchises for a several-year period, or even for two decades, they do not envisage its renewal after that. Nevertheless, it is possible to sign new contracts under changed conditions compared to the original franchise agreements.

5. CONCLUSION

Since the Republic of Croatia is a tourist country, the number of hotels and the need for providing the best possible service to the guests is groving. Hotels in the Republic of Croatia could take the opportunity to start the business under some of the analyzed hotel groups. However, the biggest problem for many hotels that see franchising as an opportunity to improve their business is the lack of capital to meet the franchisor's requirements. Namely, the all four analyzed hotel groups do not offer any direct or indirect financing forms.

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