



## ***GHN On My Mind: Ed Fuller***

### **As Hotel Industry Business Model Evolves... Who Wins and Who Loses?**



*Ed Fuller*  
*President*  
*Laguna Strategic Advisors, LLC*  
*President & CEO*  
*Orange County Visitors Association*

When I joined Marriott Corporation in 1972, the company's portfolio consisted of 22 properties—three franchises, one managed property and 18 company-owned hotels. As a business model, Ownership was easily understood. The Marriott corporate culture and values applied. Capital decisions and development were in Bill Marriott's hands. We were growing, so considerable focus was placed on developing our associates. The company had clear objectives and direction.

At the same time, similar experiences were being replicated at Hilton, Sheraton, Western International and the other early giants of the U.S. hospitality industry. Most started with a focus on Ownership; while others, like Holiday Inn, focused on Franchising.

During the 1980s, in a quest for more rapid expansion, many of the Ownership companies began their transition to Management contracts while others moved into Franchising as their preferred growth strategy. By the 1990s, major branded chains had reduced their Ownership portfolio to a minimum and continued to operate with a combination of Franchising (Hilton, Wyndham, Quality Inn and others) and Management contracts. They started to create and acquire brands and aggressively applied the Franchise model in the economy and select service categories.

Today, the Management model is fast giving way to Franchised operations in the United States, Europe and parts of Latin America as all the major branded hotel companies pursue aggressive growth strategies and move into new markets abroad. Franchising has become a proven route to successful expansion and now accounts for turnover of US\$300 billion in Europe, US\$850 billion in the U.S. and US\$130 billion in Australia.

This trend will continue into the remaining global markets when local market conditions are right.



While Franchising allows the brand companies to attract strong local investors and local market insight and know-how, it takes the management of the brand culture, fulfillment of the brand promise, consistency of product and quality control of assets out of their direct control and places them in the hands of a mixture of operators with divided loyalties and priorities.

So, as Franchising becomes the dominant business model in the industry, who will win and who will miss the mark?

Winners will be:

1. Brand companies like Marriott who have a strong culture and are able to integrate their culture into the operating teams by reinforcing the culture at every turn.
2. Brand companies that focus on training for their franchisees and develop specific training programs that encourage brand loyalty and by conducting annual conferences for executive management and senior operators (general managers).
3. Brand companies that maintain strong, clear, effective and motivating communications between themselves and the operating companies, that use the rule of “selling,” not “telling,” and ensure that their message reaches all levels of the operating hotels.
4. Brand companies that differentiate their brands to the point that they are clear to the brands staff, the operators and the consumer.
5. Brand companies that enforce customer and brand standard audits. Underperforming operations reflect poorly on the entire portfolio.
6. Brand companies that focus all their efforts on reaching individuals who serve the customer so that they understand and can deliver on the brand promise.

The transition to Franchising is impacting almost all major brand companies and it will take several years to reach every corner of the world. But, the trend is accelerating faster than expected.

Whether you are a brand associate, brand company executive or operating company manager, the winner will need to excel at all these attributes.



*Ed Fuller is a member of GlobalHotelNetwork.com's  
[Investment Committee.](#)*



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