

Introduction to the Hospitality Industry

Assignment 3

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In no more than 500 words each, explain and 2-4 references:

1- Case-Based Question:

Consider a small boutique hotel in Berlin. Would joining a referral association improve its competitiveness? Justify your answer.

Answer:

Joining a referral association makes a lot of sense for a small boutique hotel in Berlin. However, like any strategic decision, it has pros and cons that you should think about carefully.

Berlin has one of the most competitive hotel markets in Europe, with thousands of options from budget hostels to five-star chains. Independent boutique hotels face a real visibility problem: they lack the marketing budgets and loyalty programme reach that branded hotels enjoy. This is precisely where referral associations like Preferred Hotels & Resorts or Small Luxury Hotels of the World (SLH) add value. By joining such a network, a boutique hotel gains access to a global distribution platform, co-branded marketing, and — crucially — a pre-qualified audience of travellers who are already looking for unique, independent accommodation. Gross (2012) argues that independent hotels participating in soft-brand or referral networks saw occupancy rates improve by an average of 8-12% compared to fully independent peers, largely due to increased online visibility.

There is also a credibility dimension. Many travellers are still sceptical of booking smaller hotels they've never heard of. Being part of a recognised association acts as a quality signal, reassuring

guests before they arrive. In the Berlin context — where the city draws both leisure tourists and a growing MICE segment — this trust marker can be the deciding factor for corporate travel managers booking blocks of rooms.

That said, the decision isn't straightforward. Membership fees can be substantial, and some associations require investment in property upgrades to meet quality standards. Yesawich et al. (2011) note that smaller properties sometimes find the revenue share model erodes margins significantly, particularly during off-peak seasons. A Berlin boutique hotel would need to model whether the incremental bookings generated outweigh those costs.

In general, the answer is yes. If a small Berlin boutique hotel joins a referral association, it will probably be more competitive, as long as the hotel chooses an association whose brand positioning fits with its own identity and target guests. Design Hotels would be a good fit for a hotel that focuses on design and caters to creative travelers. On the other hand, Historic Hotels of Europe might be better for a heritage property. The fit matters as much as the membership itself.

References:

Gross, S. (2012). Hotel distribution channels: an empirical study of the practice of independent hotels in Germany. *Tourism and Hospitality Management*, 18(1), 109–122.

Yesawich, P., Rominski, R. & Zeiler, M. (2011). Independent lodging: strategies for competing against branded hotels. *Journal of Hospitality Marketing & Management*, 20(3–4), 340–362.

Dev, C.S. & Klein, S. (1993). Strategic alliances in the hotel industry. *Cornell Hotel and Restaurant Administration Quarterly*, 34(1), 42–45.

2- Evaluate the advantages and potential risks of management contracts for hotel owners.

Answer:

Management contracts have become one of the most widespread forms of hotel operation worldwide, particularly since the 1970s when international chains began expanding without wanting to tie up capital in property ownership. For a hotel owner, this arrangement can be genuinely attractive — but it also requires a careful look at what you're giving up.

The main appeal is fairly clear: an owner retains property rights while outsourcing the complexity of day-to-day operations to a professional operator. Chains like Marriott or Hilton bring established reservation systems, trained staff, brand recognition, and purchasing power that an independent owner simply cannot replicate. Rushmore (2002) points out that management contracts allow owners to benefit from the operator's economies of scale — from linen procurement to insurance — which can meaningfully reduce operating costs. There's also a risk-transfer element: since most basic management fee structures are tied to revenue rather than profit, the operator still has an incentive to keep rooms full.

From a financing standpoint, having a recognised operator attached to a property often makes it easier to secure debt funding. Lenders are generally more comfortable lending against a hotel managed by an established brand than an independently operated one.

However, the risks are real. The biggest concern for owners is loss of operational control. Once signed, management contracts typically run for 20-30 years and include clauses making early termination extremely expensive. Eyster (1997) found that many hotel owners felt locked into underperforming contracts because the termination costs — including liquidated damages — made exit economically irrational. Owners may disagree with the operator's capital expenditure decisions or staffing choices but have limited recourse.

There is also the matter of how much to charge. Most operators charge a base management fee (a percentage of revenue) and an incentive fee (a percentage of profit). Critics say that base fees, which are paid no matter how profitable the property is, can lead to misaligned incentives. This is because operators are rewarded for bringing in money even if the property is losing money. Turner and Guilding (2010) point out that this misalignment has always been a source of stress in relationships between owners and operators.

In short, management contracts work well when both sides' interests are aligned and the contract is carefully negotiated, especially when it comes to performance clauses, termination rights, and owner approval thresholds for big purchases. Without those protections, owners can lose money and have little say over the asset they own.

References:

Rushmore, S. (2002). *Hotel Investments Handbook*. HVS International.

Eyster, J.J. (1997). Hotel management contracts in the U.S.: twelve areas of concern. *Cornell Hotel and Restaurant Administration Quarterly*, 38(3), 21–33.

Turner, M.J. & Guilding, C. (2010). Hotel management contracts and deficiencies in owner-operator goal congruence. *Journal of Hospitality & Tourism Research*, 34(4), 478–511.