

Introduction to the Hospitality Industry

European Institute of Innovation, Entrepreneurship and Technology
Lessingstraße 79, 13158 Berlin, Germany

Mahmoud Abdou | Berlin



**Lessingstraße 79,
13158 Berlin, Germany**
Phone: +49 30 233618555
Fax: +49 30 233618556
Email: info@eiiet.com

Discover the world of eiIET

Index

1. Hospitality Industry Philosophy
2. Service and Total Quality Management
3. Hotel Development and Ownership



1- Hospitality Industry Philosophy

Shift in management style:

- From planning & directing to counseling, empowering, and supporting associates.
- Encourages participative management, associate empowerment, and higher productivity.

Guest-focused philosophy:

- Example: Ritz-Carlton empowers staff to spend up to \$2,000 to resolve guest issues.

1- Hospitality Industry Philosophy

Corporate values:

- Ethics, fairness, equality, innovation, creativity.
- Focus on guest-related services over traditional production.

Corporate culture impact:

- Strong philosophy creates aligned employees and satisfied guests.

1- Hospitality Industry Philosophy

Service in Hospitality

- Service = “the act or means of serving” (providing goods, assistance).
- **The age of service:**
 - Guest expectations are higher; “loyalty is bought with service.”
- **Teamwork is essential:**
 - back-of-house supports front-of-house → guest satisfaction.
- **Types of Guests**
 - External guests: pay for services; their satisfaction measures success.
 - Internal guests: employees benefiting from others’ work inside the organization.

1- Hospitality Industry Philosophy

Service in Hospitality



Keys to Service Success:

- Focus on the guest.
- Understand the role of guest-contact employees.
- Embed service culture into training & education.
- Balance high-touch and high-tech service.
- Embrace change to constantly improve guest experience.

Guest Loyalty & Profitability

- Retaining guests is cheaper and more profitable than acquiring new ones.

1- Hospitality Industry Philosophy

Moments of Truth



- Described as every guest interaction that can create a lasting impression.
- Key to service excellence and organizational success.

In hospitality:

- Hospitality organizations have thousands of moments of truth daily.
- Service quality depends on consistent excellence in every interaction.
- Coaching employees on handling these moments improves guest satisfaction and loyalty.

2- Service and Total Quality Management

What is TQM in Hospitality?



- Participatory process that empowers all employees to improve guest service.
- Focus on guests to exceed expectations.
- Treat guests as you would like to be treated.

- **Benefits of TQM:**

- Increased guest and employee satisfaction.
- Cost reductions.
- Improved profitability.

2- Service and Total Quality Management

What is TQM in
Hospitality?

- Employee Empowerment:

- Speak up, take responsibility, make decisions, act as professionals.

- Managers support by:

- Taking risks.
- Delegating authority.
- Fostering learning environments.
- Sharing information and encouraging self-expression.
- Involving employees in vision creation.
- Being thorough and patient.

3- Hotel Development and Ownership

Key Drivers of Hotel Growth:

- Franchising and management contracts are primary forces
- Enabled rapid expansion of the global hotel industry
- Transformed hotel business models within decades



3- Hotel Development and Ownership

1- Franchising in Hospitality:



- Definition:

- Business model allowing expansion using external investment
- Franchisor grants rights to franchisee for a fee

- Rights Provided by Franchisor:

- Brand name and trademark
- Operating systems and procedures
- Reservation systems
- Marketing expertise
- Purchasing advantages

3- Hotel Development and Ownership

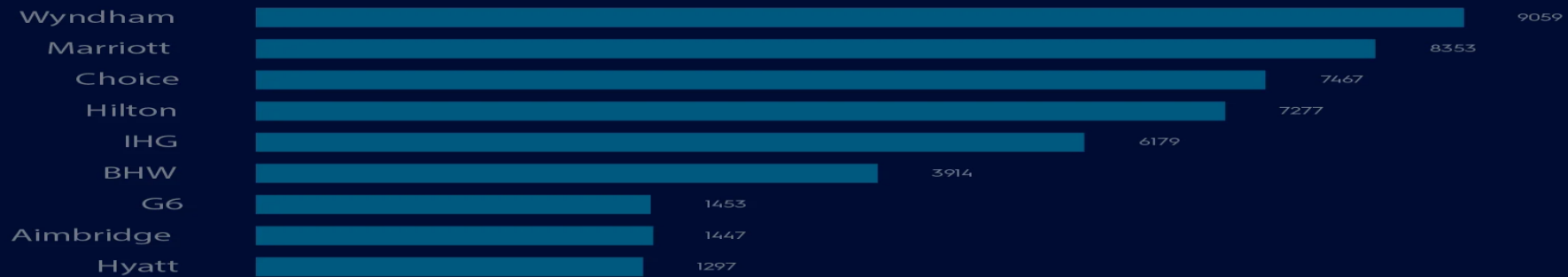
Franchising in Hospitality:

Franchisee Responsibilities:

- Operate according to franchisor standards
- Follow established guidelines and systems
- Pay fees/royalties

Leading Hotel Companies Worldwide

BY AMOUNT OF PROPERTIES (2023)



SOURCE : STATISTA

3- Hotel Development and Ownership

Benefits of Franchising:

For Franchisor:

- Rapid expansion with lower financial risk
- Increased brand presence

For Franchisee:

- Access to established brand and expertise
- Reduced business risk
- Marketing and operational support

Franchise Models:

- Individual unit franchising
- Territorial franchising

3- Hotel Development and Ownership

Historical Development of Hotel Franchising:

- 1907: Ritz Development Company franchised Ritz-Carlton in New York
- 1954: Howard Johnson expanded hotel franchising
- 1952: Kemmons Wilson founded Holiday Inn concept
- Holiday Inn later became part of InterContinental Hotels Group

3- Hotel Development and Ownership

The Holiday Inn Case Study:



Holiday Inn Innovation:

- Family-oriented hotel concept
- Two double beds per room
- Children stay free with parents
- Focus on affordability and comfort
- Expansion during economic growth (1950s–1960s)

3- Hotel Development and Ownership

The Holiday Inn Case Study:

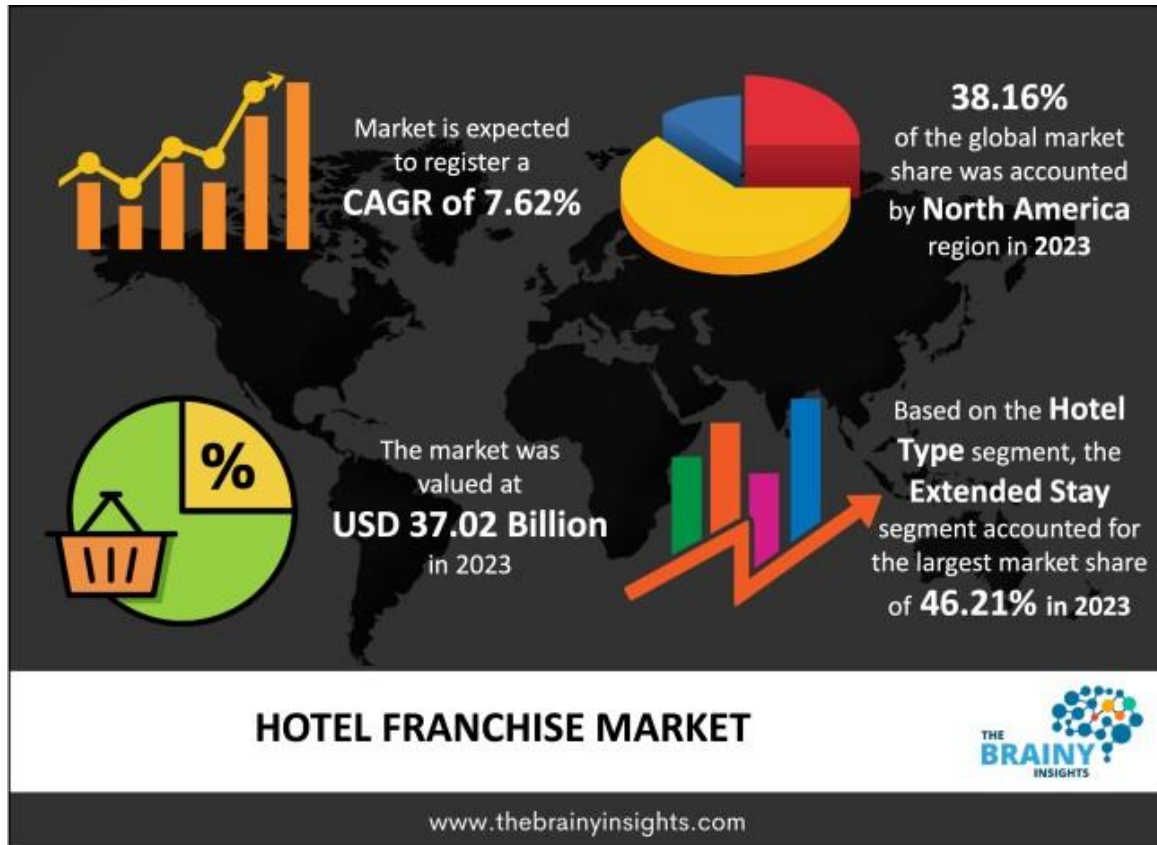


Factors Behind Holiday Inn Success:

- Early entry into mid-price market segment
- Strategic locations:
 - Near highways and suburbs
 - Away from expensive city centers
- Strong value proposition:
 - Comfortable stays at reasonable prices
 - Limited luxury features to control costs

3- Hotel Development and Ownership

Expansion of Hotel Franchising:



- 1960s: Major brands like Hilton and Sheraton adopted franchising
- 1960s–1980s: Franchising became the primary growth strategy
- Enabled rapid expansion of hotels and motels globally

3- Hotel Development and Ownership

Challenges of Franchising:



- Quality Control Issues:

- Difficult to standardize service across all properties
- Hard to define all service contingencies in contracts

- Financial Risk:

- Franchisee failure impacts brand reputation

- Improved Agreements

- More detailed standards today:

- Exterior maintenance
- Guest service quality

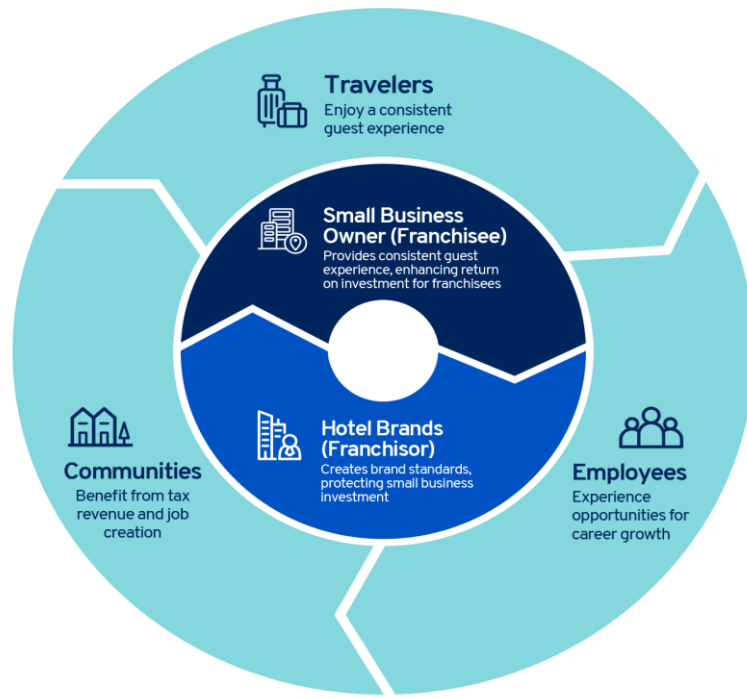
- Typical Franchise Fee:

- Around 3–4% of room revenue

3- Hotel Development and Ownership

Benefits to Franchisee:

Hotel Franchising Cycle of Benefits



- Access to ready-made plans and specifications
- National and international advertising
- Centralized Reservation System (CRS)
- Bulk purchasing discounts:
 - ❖ Furniture, fixtures, equipment
- Brand directory listing
- Lower credit card processing fees

3- Hotel Development and Ownership

Drawbacks to Franchisee:



- High initial and ongoing fees
- Limited contribution of CRS:
 - ❖ Generates only 17–26% of bookings
- Must strictly follow franchisor rules
- Required to maintain brand standards at all times

3- Hotel Development and Ownership

Benefits and Drawbacks to Franchisor:



- Increased market share and brand recognition
- Revenue from up-front and ongoing fees

- Drawbacks to Franchisor:

- Careful selection of franchisees required
- Difficulty maintaining consistent standards across locations

3- Hotel Development and Ownership

Continued Growth of Franchising

- Franchising remains a popular expansion strategy worldwide
- Widely used in:
 - North America
 - International hotel markets
- Some properties lose franchise rights:
 - Due to failure to maintain brand standards

3- Hotel Development and Ownership

Case Study: Wyndham Worldwide – A Global Franchising Leader



- This case examines one of the world's largest hotel franchising companies
- Focus on:
 - Asset-light business model
 - Global brand expansion through franchising
 - Use of technology and economies of scale

3- Hotel Development and Ownership

Case Study: Wyndham Worldwide – A Global Franchising Leader

Case Background:

- Portfolio of 30+ hotel and vacation brands
- Includes:
 - Wyndham Hotels & Resorts
 - Days Inn
 - Ramada
 - Super 8
- Operates thousands of properties across more than 60 countries

3- Hotel Development and Ownership

**Case Study: Wyndham
Worldwide – A Global
Franchising Leader**

Business Model Focus:

- Primarily a franchisor, not an owner/operator
- Licenses independent hotel owners to use its brands
- Provides:
 - Marketing and branding
 - Reservation and technology systems
 - Service standards and training
- Franchisees retain local control of operations

3- Hotel Development and Ownership

**Case Study: Wyndham
Worldwide – A Global
Franchising Leader**

Strategic Advantages:

- Low operational risk and reduced capital investment
- Strong global brand recognition
- Economies of scale in:
 - Marketing
 - Purchasing
 - Technology
- Revenue based on fees rather than hotel profits

3- Hotel Development and Ownership

2- Referral Associations in Hospitality



- Alternative to franchising with similar benefits at lower cost
- Independent hotels collaborate under a shared system
- Maintain ownership and operational independence

Membership Structure:

- Hotels pay an initial joining fee
- Less strict standards compared to franchising
- Greater flexibility for individual properties

3- Hotel Development and Ownership

Key Features of Referral Associations:

- Shared Central Reservation System (CRS)
- Common:
 - Brand image
 - Logo or advertising slogan
- Guest referral network among member hotels
- Additional support:
 - Group purchasing discounts
 - Management training programs
 - Continuing education opportunities

3- Hotel Development and Ownership

Advantages and Disadvantages:



- Advantages:

- Lower cost than franchising
- Access to marketing and reservation systems
- Retention of hotel individuality
- Networking and knowledge sharing

- Limitations:

- Less consistency in:

- Service quality
- Facilities and appearance
- Weaker brand standardization compared to franchises

3- Hotel Development and Ownership

Case Example: Preferred Hotels & Resorts

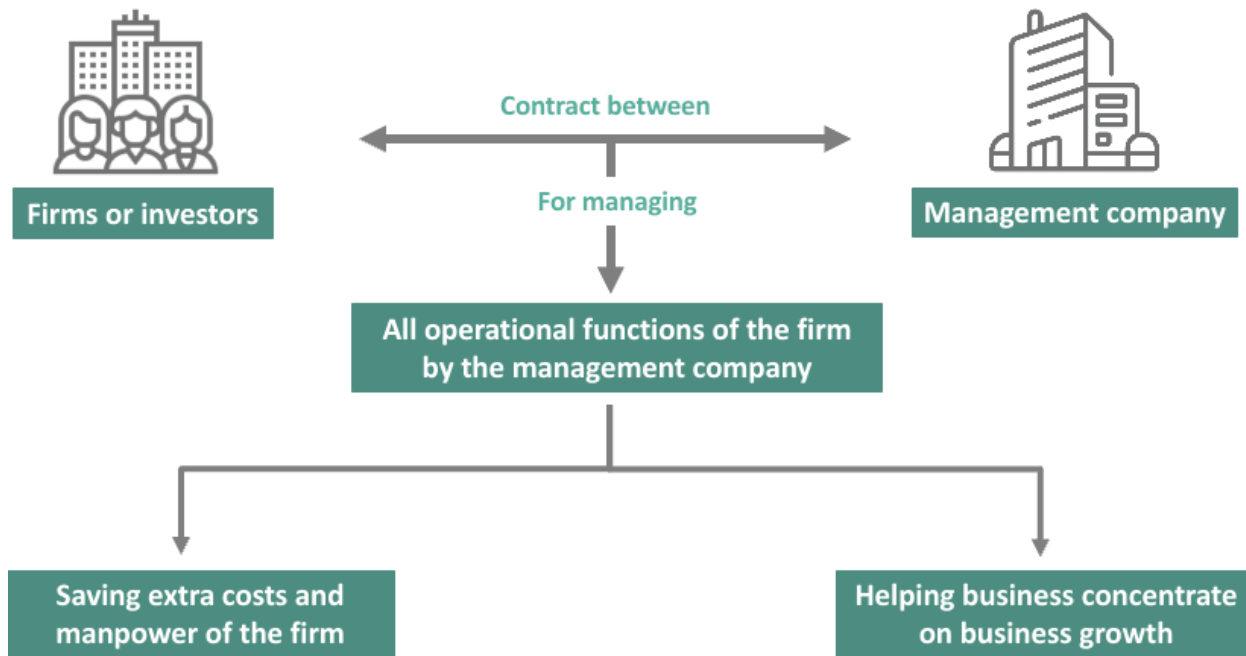


- Global consortium of independent luxury hotels
- Competes with large hotel chains
- Focus on:
 - Individuality and uniqueness
 - High service standards
 - Luxury experience
- Provides:
 - Marketing support
 - Central reservation system

3- Hotel Development and Ownership

3- Management Contracts

Management Contract Meaning



- Major driver of rapid hotel industry expansion since the 1970s
- Popular among hotel corporations due to:
- Little or no upfront financing required
- No equity investment needed

3- Hotel Development and Ownership

3- Management Contracts

Key Structure

- Partnership between:

- Hotel management companies
- Property developers and owners

Owners typically:

- Lack operational expertise
- Prefer not to directly operate hotels

3- Hotel Development and Ownership

3- Management Contracts

- Role of Management Companies:

- Provide professional hotel operations
- Offer marketing and sales expertise
- Strengthen distribution through Central Reservation Systems (CRS)
- Support revenue generation and brand positioning

3- Hotel Development and Ownership

Management Contract Terms:

- Typical contract duration:
 - 5 years, 10 years, or 20 years
- **Management Fees:**
 - Hotel company receives a management fee for operating the property
 - Fee structure usually based on:
 - Percentage of gross revenue
 - And/or net operating profit

3- Hotel Development and Ownership

Management Contract Terms:

- Fee Levels:

- Common range: 2% – 4.5% of gross revenues

- Trend:

- Lower base fees (around 2%) are more common today
- Increased emphasis on incentive-based fees linked to profitability

- Variable Fee Structures

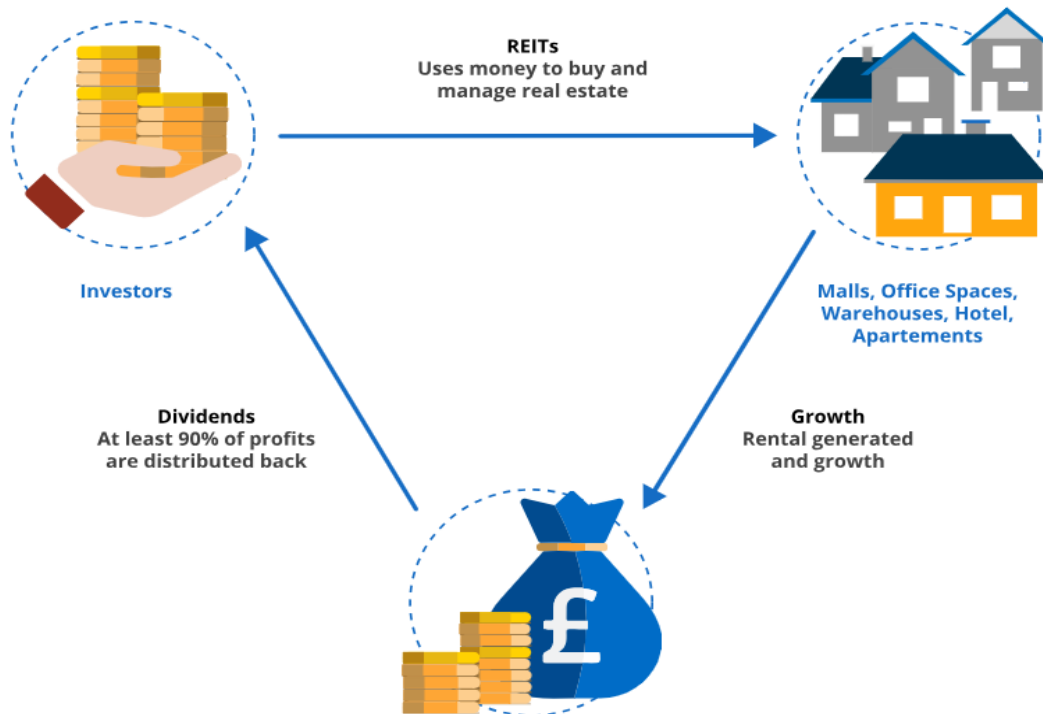
- Some contracts include escalating fees over time, for example:

- Year 1: 2%
- Year 2: 2.5%
- Year 3 and onward: 3.5%

3- Hotel Development and Ownership

4- Real Estate Investment Trusts (REITs):

Real Estate Investment Trusts (REITs)

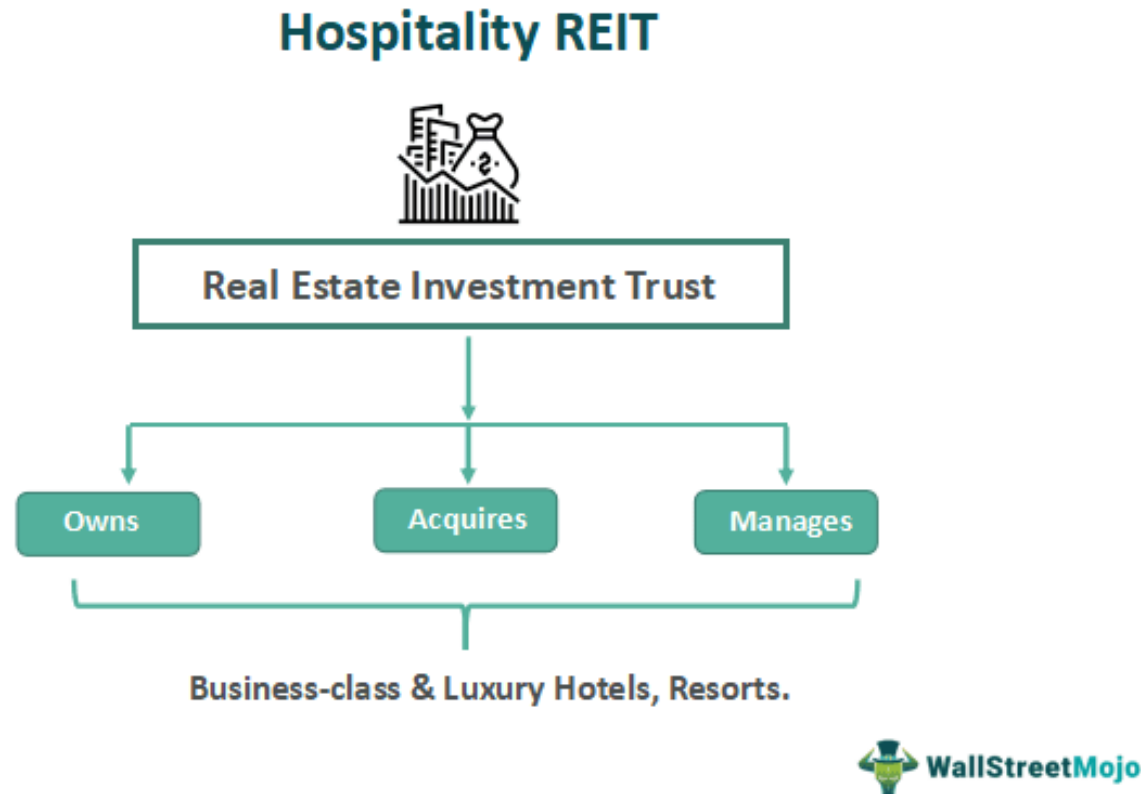


What is a REIT?

- A Real Estate Investment Trust (REIT) is a company that:
- Owns and often operates income-producing real estate
- Allows investors to buy shares in property portfolios (like stocks)

3- Hotel Development and Ownership

Real Estate Investment Trusts (REITs):



Role in Hospitality:

- REITs may invest in:

- Hotels
 - Office buildings
 - Shopping malls
 - Apartments
 - Healthcare properties (e.g., nursing homes)
- In hotels, REITs often own the hotel property but do not operate it

3- Hotel Development and Ownership

Real Estate Investment Trusts (REITs):

In the hotel industry:

- REITs are major hotel property owners
- They usually:
 - Own the real estate
 - Lease or contract management companies to run hotels (e.g., Marriott, Hilton)

Thank you



**European Institute of Innovation,
Entrepreneurship and Technology**

Lessingstraße 79,

13158 Berlin, Germany

Phone: +49 176 55524449

Discover the world of eiIET