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SMALL BIZ

By Kerry Miller

Keep Franchising or Go Indie?

One family-run hotel went independent after flying the Best Western flag while another upgraded its chain status. Here's a look at both decisions

The Golden Arrow isn't your typical highway off-ramp Best Western. The 37-room motel that Stefanie and Winfred Holderied bought in 1974 in the Adirondack vacation town of Lake Placid is now a 150-room full-service resort hotel run by their children, Jennifer and Heidi. And while the Best Western flag was a good fit in 1979 just before the Winter Olympics came to town, the Golden Arrow has expanded so dramatically over the years that the Holderieds found they had simply outgrown the midrange brand (see BusinessWeek.com, 6/7/06, "[Bettering Best Western](#)").

The family considered switching to a more upscale franchise, but they decided instead that the time was right to take the Golden Arrow independent when the hotel's contract with Best Western expires in November.

Going independent is an uncommon move for most franchisees. According to Best Western, fewer than 2% of the brand's 2,400 hotels in North America end their annual contracts with the chain each year. Nationwide, about 70% of U.S. hotels belong to a chain, but independence is something that many franchise owners dream about when they're writing checks for those costly franchise fees.

Consultant Max Starkov, president of New York-based Hospitality eBusiness Strategies, says the Internet has emboldened many hotel owners to go independent because it's diminished the value of the chains' central reservations systems. In the past, hoteliers had two viable ways to get their inventory onto the global distribution systems (GDS) used to transmit travel information to travel agencies and online travel sites: join a major chain like Marriott or Hilton, or remain independent but go through a hotel representation organization like Leading Hotels of the World.

BOUTIQUE APPEAL. For the past six or seven years, however, independent hoteliers have been able to sidestep expensive franchise or membership fees and buy GDS connectivity directly through outside vendors like SynXis and Pegasus for a set-up fee of about \$300 to \$600, plus a per-reservation charge of about \$5 to \$12.

Over the past three years, Starkov has seen about 20 clients drop their chain affiliations after seeing significant increases in the number of reservations booked directly through their Web sites. He says that's largely because direct distribution is far more profitable than other reservation channels. Travel agents will typically take about a 10% cut in commission fees, and travel sites like Expedia take even more—about 25%. A telephone reservation can cost between \$8 and \$15, depending on how efficient the call center is. Yet an online reservation booked directly through the hotel's Web site costs only about \$3.

While cheaper Internet distribution has diminished the relative value of owning a franchise, it's not the only factor in a hotel owner's cost-benefit analysis. Brand equity is the reason it makes sense for most hotels to belong to a major chain, says Starkov. "But with the economy booming, you also have a lot of sophisticated travelers who are looking for a memorable hotel experience" he adds. While an independent hotel will lose out on a certain segment of customers who book based on brand name alone—for example, frequent travelers who like acquiring loyalty points for future travel—they also attract those who dislike the "cookie cutter" feel of a chain.

CHAIN GAINS. A major reason the Holderieds were willing to take the risk of going independent is because a large proportion of their clientele seemed to be coming from the latter group. "We've found that people are willing to pay a little bit more money to get something special," whether it's a lakefront view or a room with a fireplace, says Jennifer Holderied, the hotel's director of marketing. "In the future, our growth is going to be in the suite market and in the specialty rooms."

Overall, about 90% of the Golden Arrow's business is leisure travelers, and many of those return to vacation in Lake Placid year after year. (As a result, the Holderieds felt they weren't getting much value from the Best Western's marketing efforts, which mostly targeted business travelers.) Access to Best Western's central booking was also less important for the Golden Arrow because about 25% of the hotel's clientele are repeat visitors, and friend referrals account for another 15% to 17%.

But the Golden Arrow isn't the only family-run hotel in town to change flags recently. The Holiday Inn Lake Placid was built by two ski instructors, Sergei and Caroline Lussi, in 1969, and is now run by their children, Cristina, Arthur, and Katrina. Although Arthur lobbied hard for independence, the Lussis ultimately decided to stay with the InterContinental Hotels Group ([IHG](#)) instead, upgrading to the Crowne Plaza brand in 2005.

Unlike the Golden Arrow, which attracts a majority of leisure travelers, a growing segment of the Lussis' business has been groups, meetings, conferences, and sports teams; currently, they make up about 50% of the total. Cristina Lussi, the hotel's director of sales and marketing, says the Crowne Plaza name—which InterContinental has positioned as "the place to meet" in its marketing campaigns—has already proven much more effective in attracting more corporate clients. Going independent would have been a disadvantage, Lussi says, because the large travel agencies that book corporate meetings and conferences like to work with chains.

"A LITTLE HELP." Lussi estimates that the family spent between \$10 million and \$12 million on changeover from Holiday Inn to Crowne Plaza. Although her brother balked at InterContinental's hefty franchise fees, Cristina Lussi considers it money well spent. When it comes to things like training, "I don't need to start reinventing the wheel," she says.

And with 245 rooms, 30,000 square feet of meeting space, four restaurants, and three golf courses, the support provided by InterContinental, from the centralized reservations system to large-scale marketing campaigns, has been crucial to keeping occupancy rates up while keeping her hands free to deal with the day-to-day running of the property. "We're not a quaint little country inn," she says. "We're a huge operation, and we need a little help."

And while going independent is a decision that suit her family's needs, Lussi says the added cachet of independence is well suited for a resort hotel like the Golden Arrow. "I think the Holderieds are going to do pretty well," she says.

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