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FRANCHISE NETWORK BUSINESS MODEL IN HOSPITALITY SERVICES

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Introduction/background: The study analyses the steps and requirements involved in starting a hotel business based on a franchise business model.
Aim of the paper: The aim of the paper is to show how an entrepreneur can start a business based on the franchise model using the example of establishing a partnership with the Marriott chain.
Materials and methods: Case study on the example of a selected hotel franchise chain.
Results and conclusions: The paper contains a compilation of the activities that need to be carried out when establishing cooperation on the basis of the franchise model.

Keywords: business model, franchising, hotel.

1. Introduction

Franchising has in recent years become one of the more commonly used methods among budding entrepreneurs. This is determined by the fact that the franchisor provides all the necessary information, experience, management methods and techniques as well as broadly understood know-how. Not without significance is also the fact that franchising makes it possible to start a business under an already known brand, which significantly simplifies the process of acquiring customers and promoting one's products.

In Poland today, there are a number of business opportunities available based on a franchise agreement. Among the most popular brands that establish cooperation on a franchising basis are:

- McDonald's.
- Leviathan.
- Żabka.
- Carrefour.

It is also important to emphasise that starting a business based on a franchise agreement is possible for both trade and services. In the case of trade, the offer of franchising includes, inter alia, sporting goods, children's goods, petrol stations and automotive goods, home and garden, food and industrial goods, telecommunication and household appliances as well as cosmetics and jewellery. In terms of services, franchising as a business model can be implemented, among others, in: tourism and hospitality, catering, finance and banking, education, consulting and accounting, healthcare or real estate.

As indicated above, the hotel industry can successfully use the method of franchising, which also seems to be increasingly appreciated in recent years. This assumption is reflected in the emergence of more and more hotel chains, which, in turn, clearly shows the interest in this business model of both entrepreneurs already operating (who want to expand their business), as well as entrepreneurs just starting their business in the hotel industry.

The study analyses the franchise business model using the example of a hotel belonging to the Marriott chain.

2. The essence of franchising

Franchising is essentially a method that determines the possibility of expanding markets for a particular type of business. The method of expanding markets, in this case, consists of developing a network of establishments carrying out a particular business activity on their own account. Participants in the network are given access to techniques, methods, tools and know-how, which contributes to the success of the franchisor. In numerous examples, franchising is used to operate hotel, catering, tourism and other businesses. There is also production franchising, focusing, for example, on the production of well-known beverages, as well as distribution franchising as an example. Distribution franchising involves the creation of a network of outlets that use the same sales techniques and the same sources of supply. This is the basis for department stores, market chains, household appliances outlets as well as grocery outlets.

The activities of franchise networks are mainly based on agreements that are concluded between the franchisor and the franchisee. The provisions of franchise agreements are determined on a case-by-case basis. This is due to the fact that there are various business profiles of entrepreneurs on the market. There are different contractual provisions that are used for agreements creating production networks, others for catering networks and still others for distribution or hotel networks. Some contractual components coincide and are used in all contracts of this type (Koch, Napierała, 2006, pp. 132-133).

All franchise agreements use a definition of the parties to the agreement. The parties to the agreement are the franchisor and the franchisee. The names network organiser and franchise permit beneficiary can also be used here (Kidyba, 2004, p. 725).

A franchise agreement is concluded when the network organiser grants the beneficiary permission to use the chosen business technique. The organiser also grants permission to use information that is related to the franchise agreement and to use symbols and signs that identify the specific network. In addition, the network organiser undertakes at the same time to provide assistance and guidance in connection with the establishment of the network outlet, while the beneficiary undertakes to operate the network outlet on its own account using the organiser's guidance and methods and recommendations, and to pay a fixed fee to the network organiser.

The most essential elements of a franchise agreement are the franchise permit. The franchise permit gives information on how to run the chosen business that has brought market success to the network organiser. The franchise licence usually contains precise information on the business technique. Mostly, such techniques are in the form of franchise packages. The packages are usually collections of recommendations and various business rules.

Another important element of the agreement is the possibility to allow the use of signs and symbols that identify the chosen network. This is an important element of the contract, as it gives the organiser the opportunity to establish itself in a larger territory with its brand and the beneficiary the opportunity to increase profits under the organiser's brand and benefit from its market position.

The franchise agreement is governed by a number of pieces of legislation consisting of:

- Civil Code.
- Industrial Property Law.
- Regulations issued under the Industrial Property Law regarding the use and protection of the trade mark.
- Act on Combating Unfair Competition with regard to the obligation to maintain business secrets, proper designation of companies and goods, not to obstruct market access, etc.
- Copyright and Related Rights Act.

In addition to national legal acts, the franchise agreement is also regulated by international legal acts. The legal act in question is European Commission Regulation No. 330/2010 of 20 April, 2010 on the application of Article 101(3) of the Treaty on the Functioning of the European Union to categories of vertical agreements and concerted practices.

3. Business model as a management tool

A business model is, in essence, a long-term method adopted by an organisation with the overriding objective of increasing resources and improving the efficiency of their use, which in turn leads to presenting customers with an offer that is superior to that of the competition, while of course ensuring the company's profitability. A good business model is, more broadly, an opportunity to gain a competitive advantage. A near-perfect business model, on the other hand, will also represent the ability to maintain the competitive advantage previously achieved (Afuah, Tucci, 2001, pp. 18-20).

The idea of developing and implementing business models originated in the sphere of creating innovations dedicated to the IT sector and was intended to be a less formal solution than strategy as a component of the strategic plan (Koźmiński, 2004, pp. 123-124).

Many definitions of a business model have emerged over the years. One of them states that it is a set of activities that an organisation carries out in order to generate specific benefits for the customer and to ensure a profit for the company. In doing so, it uses a variety of methods and commits the necessary resources (Afuah, 2004, pp. 2-17). According to A. Osterwalder and Y. Pigneur, the business model consists of all kinds of rationale behind the way in which a company creates value and provides and profits from such created value (Osterwalder, Pigneur, 2011, p. 18). The business model, contrary to appearances, is not a plan characterised by distinctiveness. On the contrary, it is a combination of the strategic concept of the enterprise and the technology of its practical implementation, understood de facto as the construction of a value chain, which in turn allows the efficient exploitation and renewal of resources and skills (Obłój, 2002, p. 98). The business model is in part an outline of the strategy to be implemented within the structures, processes and systems of the enterprise (Osterwalder, Pigneur, 2011, p. 20).

By analysing the definitions of a business model presented above, it can be seen that it should answer three basic questions (Obłój, 2002, p. 97):

1. What will the organisation do?
2. What are the core resources and competencies of the organisation?
3. How are these resources and competences configured in terms of day-to-day operations?

In view of the above, building the right business model is difficult and requires those involved to have a broad knowledge of the specifics of the industry, the key factors that create the value perceived by customers and the benefits they value. At the stage of creating a business model, there are a number of questions that need to be answered (Afuah, Tucci, 2001, p. 32):

1. Which target group is the product aimed at?
2. What values (benefits) is the product supposed to offer to customers?
3. What are the strategies for delivering these values?
4. How is this value to be created?
5. How should the product be priced?

The business model, on the one hand, builds sustainable competitive advantage but, on the other hand, is a challenge for companies (Szpitter, 2011, p. 199). An innovative mindset can become a determinant of competitive advantage and develop operational excellence, but is associated with market risks, hostile employee attitudes, and relatively higher operating costs (Szarucki, 2011, p. 194).

4. Franchising on the Polish hotel market

The Accor system is a large international consortium operating in the tourism market (mainly hotels, but also restaurants and travel agencies). Accor was created in 1983 through the merger of Novotel S.I.E.H. and Jacques Borel International. The initiative for its creation came from the representatives of the Novotel hotel chain that had existed in France since 1966: Gerard Peisson and Paul Dubrule. The Accor hotel system has been ranked among the world's top international hotel systems for years.

The Accor system is present on virtually all continents. Figure 1 identifies the countries in which Accor operates today.

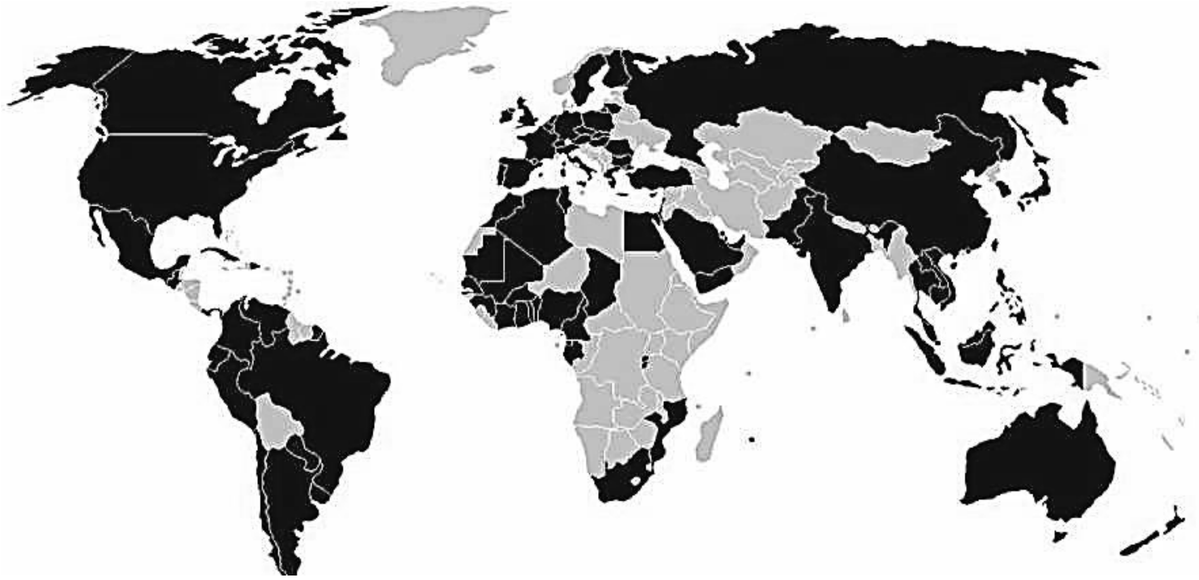

Figure 1. Countries where Accor operates (black).

Source: countries in which Accor operates - Search Google.

Today, hotels in the Accor system can be classified into three basic categories, which define the basic customer segments and consist of:

- Luxury and top class.
- Middle class.
- Economic range.

The table below identifies the most popular brands classified in each category.

Table 1.
Portfolio of brands that make up the Accor system

No.	Category	Identification of the selected brands
1	Luxury and premium class	SOFITEL LUXURY HOTELS
		SOFITEL Legend
		So SOFITEL
		pullman HOTELS AND RESORTS
		M GALLERY
		GRAND MERCURE
2	Middle class	adagio aparthotel
		Mercure HOTELS
		Suite NOVOTEL
		NOVOTEL HOTELS
3	Economic class	adagio aparthotel
		ibis STYLES
		ibis budget
		ibis

Source: Own elaboration based on http://www.accorhotels-group.com/fileadmin/user_upload/ Contenus_Accor/Franchise_Management/Documents_utiles/General_information/MAJ_2014/accor_en_bref_pl.pdf.

5. Franchise business model using the example of a Marriott chain hotel

Starting a hotel business based on the franchise model imposes on the investor (hotel owner) the need to conclude a franchise agreement with the chosen hotel chain. In the present case, we are referring to the Marriott hotel chain.

Within the framework of the said agreement, both the rights and obligations of both parties to the agreement are defined. Above all, the said agreement contains information on the franchise package that the Franchisor makes available to the Franchisee. The aforementioned package in the case under analysis includes, among other things, the following components:

- Provision of advertising and promotional campaigns to the Franchisee.
- Complaint handling.
- Defining standards and requirements for employee dress code.
- Principles of staff training.
- The hotel's decor and facilities.
- The right to use the company and its trademark (licensing).

Within the framework of the said agreement, the franchisor's obligations are also defined in detail, consisting of:

- Helping to run the business mainly through:
  - Promotion and national publicity.
  - Informing the Franchisee of planned promotional and advertising campaigns.
  - Provide training to staff employed by the organisation.
  - Hotel management consultancy.
  - Assisting with decorating and planning the hotel's décor.
- Providing the Franchisee with exclusive rights to operate the hotel in the area indicated in the agreement.

The franchisee undertakes to:

- Be self-employed for a period of 3 years, including:
  - Payment of remuneration for the franchise package received.
  - Payment of monthly and quarterly fees as set out in the body of the agreement.
- Use of the Franchisor's trademark.
- Not to transfer to third parties of the rights to all or part of a particular franchise package.
- Not to transfer to third parties the know-how provided by the Franchisor.
- To use the know-how obtained under the content of the contract only under the terms of the agreement.
- Not to carry out activities in competition with the Franchisor, in particular not to acquire shares in companies carrying out similar activities.
- To provide the Franchisor with information on infringements of know-how, its trademarks and other property rights.
- Permit the Franchisee to inspect the facility, inventory and accounts.

It is also important to highlight the fact that operating under the Marriott brand imposes on the operator the need to allow customers to join a loyalty programme, details of which are shown in Table 2.

Table 2.
Marriott hotel chain loyalty programme

BENEFITS	MARRIOTT BONVOY MEMBER 0-9 nights/year	MARRIOTT BONVOY SILVER ELITE 10-24 nights/year	MARRIOTT BONVOY GOLD ELITE 25-49 nights/year	MARRIOTT BONVOY PLATINUM ELITE 50-74 nights/year	MARRIOTT BONVOY TITANIUM ELITE 75-99 nights/year	MARRIOTT BONVOY AMBASSADOR ELITE 100+ nights/year and $20K in annual qualifying spend
Complimentary In-Room Internet Access *Enhanced Internet	●	●	●*	●*	●*	●*
Member Rates	●	●	●	●	●	●
Mobile Check-In/Services	●	●	●	●	●	●
Ultimate Reservation Guarantee		●	●	●	●	●
Points Bonus		10% Bonus	25% Bonus	50% Bonus	75% Bonus	75% Bonus
Late Checkout *Based on availability		●	● 2pm*	● 4pm	● 4pm	● 4pm
Dedicated Elite Support				●	●	

Source: https://www.marriott.com/loyalty/member-benefits.mi.

When offering a franchise under the banner of an external brand, using the Marriott Bonvoy loyalty programme as an example, the entrepreneur must provide all guests belonging to the programme with free internet, special, attractive rates for accommodation services and complimentary rates lower than those available on external, independent booking systems. All guests of the loyalty programme, regardless of status, must also provide Online Check In, consisting of the possibility to check-in the guest via an app on the phone. In this case, when the guest arrives at the property, an allocated room with prepared keycards allowing access to the room and a stay card will already be waiting for them. Only the signature on the registration card is required. All of this simplifies the check-in procedure to a minimum, and streamlines the entire process.

6. Summary and conclusions

The functioning of a company on the market requires that it has adequate financial resources. As a rule, these financial resources can come from various sources of financing, the basic classification of which allows a distinction to be made between internal sources and external sources.

Financing a business from internal sources is nothing more than self-financing in principle, which does not generate additional costs for the company. External sources, on the other hand, involve not only specific costs but also restrictions, which is why they are not available to every company.

One of the sources of business financing is franchising. Its characteristic feature is that it not only makes it possible to obtain additional funds for business development, but it also determines this development. Franchising is a solution that determines the creation of a new business unit operating under a given brand.

The subject of the analysis in this study was a hotel belonging to the Marriott chain. It is clear from the information presented in the study that operating a hotel under the brand of a well-known chain determines a number of both advantages and disadvantages.

Key benefits include:

- Support in the implementation of marketing activities.
- Provision of access to accommodation booking systems already in place.
- Access to people with the necessary knowledge, experience and competence.
- Opportunity to operate under a well-known and respected brand.

As mentioned previously, franchising also entails certain limitations (disadvantages). Among these, particular attention should be paid to the requirements in terms of operating strategy and management methods used. Although proven, not always desired by individual hotel owners.

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