

155 TRG Transcript

Mike Stohler

What if you could be doing something smarter with your money that creates income. Now, if you're wanting to get ahead financially, and enjoy greater freedom of choice, if you want a comfortable retirement, and you know you'll have more choices, if you can do more with your money. Now, if you've wondered who else is creating ways to make their money work for them, and you want actionable ideas, with honest pros and cons, and no fluff.

Welcome to the Richard geek podcast, where you here helping people find creative ways to build wealth and financial freedom. I'm Mike Stohler, and in this podcast, you'll hear from others who are already doing these things, and learn how you can too.

Everybody welcome back to another episode of The Richer geek. It's been a while since I've talked to hotels, so I thought I would bring the lovely Nichole on to ask me some questions about changing franchises. That's been a very popular conversation piece on why you would switch it what are the headaches? And what does it take to do it in some of the questions that influenced me to choose a different franchise? Nichole, how are you doing?

Nichole Stohler

Doing? Well, great to be back on looking forward to sharing with everyone the journey that you took last year?

Mike Stohler

Yeah, it was, it was kind of an interesting journey. You just never know what you know, until you don't know it. And then you learn from it. So one of the things that I'll kick off and what was my motivation? So you know, I bought a hotel. And it was a franchise that is on the smaller side, it doesn't have a lot of hotels, it does have a lot of rewards members, and things like that in the United States. So after COVID, after it was all that whole transition in trying to get back to Operation status of what it was pre COVID. I just, I was looking. I was like, You know what, I'm just not gaining as far as you know, within my comp set. And so you get the team together and see why is this. So I looked at number one, this hotel is the round kind of a business park it's in in an office place right off of Highway, I looked at my competitors like well, this competitor has 100 million rewards members, this competitor has at 200 million rewards members. And they just have eight 9000 Hotels throughout the United States. And so if if you are a rewards member where you're going to stay you're going to stay where you get points and a franchise that gives you points and

you could stay basically anywhere in the world with one of their hotels, I was not getting that with my current hotel so that is probably the biggest reason I went from around 20 million rewards members at the old Haute franchise to over 100 million potential customers in how many people had and the rewards benefits. So was my my main reason it was just trying to grab more of my cup set that my share of the market

Nichole Stohler

and before we go into that transit transition process, maybe you can share a little bit about you know, when you're first buying a hotel, you're buying it as whatever that franchise is, and a little bit about the agreements and that type of process when you're first buying one

Mike Stohler

Yeah, so when you buy a franchise so it's like any other franchise just like buying, you know, McDonald's or any other type of place that has a franchise agreement in place. So I first bought this and you have an agreement in place that could be a you know, 510 or even 20 year agreement. So when you do look at switching well they're gonna want their money back, you know, they're gonna say it's, the fees are based it's a percentage of, of gross revenue, what they think they're going to lose over the life of the franchise, based on how many years that franchise has been in place at that, that specific location. So, first thing you do is you never go out about these things on your own. There are actually attorneys that specialize in breaking franchise content. racks. And there are some that that's only specialized in hotels. And what they do is the know these people in the different franchise worlds their attorneys, and because they've dealt with them in other contracts, negotiations, so you hire them to, and you talk to them to say what can be negotiate? This is why I'm doing it. Is this franchise being bought by another franchises? Are there other different circumstances that may give you some negotiating power? So that's that's kind of the the thing that you have to look at. And when I make a decision on going to a different one, what are they going to require me to do, you know, the new franchise, so that was also a big, negotiated piece? What other franchise wanted me bad enough to maybe give me something in return?

Nichole Stohler

That's good. I still have one question from the very beginning for someone who's buying their very first franchise hotel. It's just I every time you bought a hotel, you go through the franchise paperwork at that point in time for whatever the brand is, could you? Could you

be buying a hotel? That's one particular brand and at that very moment, change? Or do you always start and stay with the brand?

Mike Stohler

Yeah, that's a great question. Someone's gonna have to pay that break fee. Now, that's an it could be a negotiation between the buyer and the seller, say, Look, you know, I'm buying this locate that I'm buying this hotel, basically, because of the like the location, not because I'm in love with the franchise. Matter of fact, I don't want this franchise, but I love where this is there. I've said this in the past the drivers that bring people into this area love, but the franchise, I don't want. So you can immediately go in and say, number one, how many years are left on that contract. And as a buyer, you also, you also have to be approved by that new franchise, you can't just go in and take over. So we're just not going to let you take over a Marriott or Hilton, if you don't have a lot of experience. And then it could be a discussion. So look, you know, will the break fee is \$100,000. Seller, I'll buy this hotel for this price. If we split that franchise break fee, or you could say, Look, I'll buy it for your what you're asking, but you pay. I mean, it's the normal negotiations. But here's the thing is, unless it's at the end of the contract, you know, there are some hotels, you can buy that that'll say it's unencumbered by the franchise agreement, that means that it's it's coming due. Or it could be that the seller is losing that franchise, and that's why they're selling, they haven't kept the PIP up, they haven't done something that satisfies that particular franchise, so they're losing that franchise. And you can also you can look at those and say, Okay, I can go in here, buy this, and now I can keep it this franchise, if I'm willing to pay X amount of dollars to do whatever they wanted the seller to do. Or I can negotiate and say, hey, I want I'm changing the franchise. So there are some ways that you can look when you buy, where you're not encumbered by it. But in most cases, there's most of the cases, there's some payment that's going to be you know, a break fee that can be negotiated.

Nichole Stohler

So you just spoke about in the very beginning, you were looking around at your comps that the other hotels in the same area that are often compared in terms of their revenue and how what their occupancy is and you saw there was an opportunity to improve based on the brand. Tell us a little bit about the process you went through to actually go through making that change.

Mike Stohler

Well, number one is at the very beginning, knowing that because I was in a business area, I was losing the Monday through Thursday, business, the business traveler, because all these business people they want the big legacy hotels because there's 9000 in the United States, they have the best rewards programs. I was losing that type of business. So at the very beginning, a lot of is relationship building, I just always am around the different franchise region regional reps, you know, they take you to lunch, they're always saying hey, if you're going to do other hotels, they it's the same type of sales process right? They take you to lunch and in You talk to him. But then, at the very beginning, when I was first looking at making the switch by contacted those people, and they took me out to lunch, and I get their expectations, I have them come visit the hotel. And then how much do you think I need to do? You know, it's, I've done all this type of work and in enhancements to the SoTell, what more are you going to make me do to switch it to switch the franchise, and a lot of the different franchises, some will say, Oh, you know, what, we have a very strict brand process and what it looks like, you have to change everything, for it to look like our Gen five or Gen six, look. Others will say you know what, your furniture is fine, all your case, goods are fine, and you know, the only couple of years old, you just have to change up the logo stuff. And so in this very specific stuff, maybe the some things that look old, mattresses are really a kind of a big thing, you know, they have their brand, what they what they like to have, and pillows and linens and linens and comforters and all that sort of stuff are just kind of standard. So that was the kind of the big thing is like, Okay, I'm going to, I'm going to contact this person, this person, and this person that works for these different, and you immediately have like maybe three different franchises that you kind of look at, and the limited service type of hotel group that does very, very strong, but they're also owner friendly. And then you sit there and you go out, they visit the place, and then it's kind of a negotiation process, hey, this franchise is willing to help me with my break fee, and give me this amount, and they'll help you this way, and they'll help you with the PIP and some of them, and then you kind of play the game, you know, now that's just playing the game, who wants me more in that location, and then it's, it's that it's like, okay, this, this company, this franchise is gonna give me a couple of \$100,000, they're not going to require a lot in the PIP, it's not going to cost me all that much to do the whole switch over. So we start kind of negotiating with with that type of a thing. And then you go in, and here's, you know, the big dates you, you contact your current franchise to say, Hey, I'm breaking the, you do it through that attorney, that you're going to break the franchise, and then boom, this whole multi month process starts of several several months process of negotiating between both brands.

Nichole Stohler

There were things that you were doing in conjunction, you were working on, moving toward the new standard and that type of thing with the one brand while you were still kind of closing out your relationship with the other brands talk about that process, and there was overlap areas.

Mike Stohler

So it becomes kind of funny, you know, because it's like give to competitors, and you have like one hotel, and you're kind of switching over. And there's some very hard deadlines, you know, because you're switching to a competitor of when you can and cannot say good morning, welcome to blah, blah brand. And what some of the hard part is, if you have different back end systems, the PMs system, you have different ways of going about the reservation systems, you know, because they're not all the same. So you have now you're running on two different platforms. You're still booking through the old you know, up until this date, but now I'm starting to you can't go live with the new one until that date, but you get you have to start loading stuff and you have to start getting the marketing and in the coding and all that sort of stuff so now I have I have one that's live and one that's getting ready to go live but in that others training and front desk people you know getting confused and but so there's just this kind of like this buildup of now I'm working on two different hotels in Canada at the same time making sure that on this specific date when this franchise turns me off, that I don't lose any revenue and I've already started maybe two weeks of pre booking on the new ones so that I don't lose any revenue. Well here's the other thing is well what if you have an extended stay? This is booked one week with the old one and while I have the new hotel but that same booking is still there. Now it's like okay, now I have to calculate these these per nights and what do I owe the old franchise because it was actually booked under the old franchise, but they're staying at the hotel under the new franchise. So there's just all the stuff that you just don't realize. And that's why you have to have a team. But, you know, I wouldn't have thought that it's like, okay, it's my revenue that goes to this, but they really make sure, in the old franchise, we'll go and inspect, make sure there's no signage, no cards, no nothing that has their name on it. So there's just a lot of back end stuff that you don't realize that when you add a lot of anxiety, when you turn that switch off, on one hand back on and the other one, you hope you hope it actually works smoothly. And, you know, it took a couple of weeks of, you know, what's going on, and where's the bookings? And, and, you know, you have to tell the third party's slick look, you know, and all the third party, website and all the pictures and all of a sudden is, you know, it was this now it's this and the all the pictures have to be changed, all the wording has to be changed. The phone numbers, all the backlinks, the reservation, calling numbers, it's just all the stuff now needs to go from one business to another business. So it was it was it was fun.

Nichole Stohler

It was intense for a while. And I think it's why we haven't really given an update on the overall hotel, because that's been a transition period, and a lot of different things. And it was good that you have a team that's helping you, but it's still pretty involved. So you went through that that was pretty an in depth process. As you came out of that, can you share what have been the positive impacts of making that change?

Mike Stohler

Yeah, it's all been positive, you know, number one, it's really go from a small hotel franchise to one of the largest in the world. Just their the money that they have that they've spent on the back end stuff with reservations, marketing, sales, corporate clients, you know, that's kind of the biggest thing that I've looked as now, because I have this huge franchise that backs me, I'm getting a lot more of them Monday through Thursday. I am now in the top of my comp set, which means that I now have 100 I'm getting 100% of my market share within my comp set within my competitors. When something goes down, it's just they're always there. It's just it's dealing, it's going from like the small mom and pop kind of thing to this global. More of a global franchise and it's just amazing how easy it is how much you know how easy it is to get things done, from marketing to sales to the coding, and the back end stuff. So it's been it's been really positive. But the biggest thing is, is when you're a lot bigger and you have rewards members that you know over 100 million of them you get more direct bookings. So you have rewards people and how you get points. If you're a Marriott or Wyndham or Hilton Hyatt you booked direct so therefore, you know then your points and you build up your points through your rewards card. Well, if you have a small franchise, most of your bookings are third party you know booking.com Travelocity Expedia so I'm not only discounting my rooms but you're also paying commissions on top of that so one of the biggest things is more direct bookings which is saving me money in commissions.

Nichole Stohler

Great for someone who's listening and one maybe never thought about the differences and franchises as it relates to the hotel or is considering switching what are the key lessons learned that you would share?

Mike Stohler

Boy, you can always negotiate stuff, you know, it's good if you're thinking about switching.

Yet a contract attorney you have to go through them because these franchises know what they're doing. They've been done for a long time you need someone that with a lot of experience to help you with that process that negotiation.

Secondly, do your due diligence don't think it's like oh, you know, this brand is sexy and you know, I want to do this. I want to get that because they could be make Do a lot of things in order to change. So keep in your pocket, you know, two or three different franchises, play them against each other a little bit. See what, see how bad they want you, it's like, Look, if you, if x franchise wants me, what do you want to give me, you know, because they're, they're now looking at maybe 20 years of this opportunity that they didn't have before. So they're willing to help you out with the transitional prices, the costs. So, if then negotiates you know, at first, the franchise, the new franchise, one, we do three pages worth of things to switch out and I negotiated down to about three quarters of the page. And I kept saying, like, well, how bad do you want me? It's like, why am I switching this out? If there's no revenue? It's, I'm not doing it. And, you know, they go back and forth and say, okay, yeah, we agree, we'll take that off the plate, you don't have to change the roofline of your building, you know, things like that. It's like, I'm not doing that. Because too much money, and it doesn't give me any revenue. And no one's going to notice if my roof line looks this way, or that way. And I'm not going to spend 80,000, I'll be doing it. And so they eventually agree. So there are negotiations, please don't just, it's like buying a car, it's like you don't have to pay that price that they're giving you you can negotiate things down. So that's those are kind of the biggest things is open yourself up to several. And then look at which franchises are best within your comp set. What what is there, what other hotels does that franchise maybe have in the area in which ones do better with your type of location,

Nichole Stohler

great. Anything else that you would share about that, that overall process.

Mike Stohler

Don't get frustrated, it's a long process, get a team. And just make sure you're all your i's are dotted and your T's crossed. Don't get frustrated with some hiccups along the way,

because there's going to be a lot of them. And just think of the positive side, you know, once you get through this pain, the next couple of years, because here's the thing, you immediately turn on the new franchise, it's going to take a while for the world to realize that you're there.

Just pop up and see, you know, immediately in the cloud, it's like, oh, there's this hotel in this location, it takes a while for them to realize you're there. So don't get too frustrated that oh my god, my bookings are down, I'm not doing too well. So because you're new to that market as a new hotel. So don't get frustrated, you know, the world will realize that you're there if you have a larger franchise because they'll do the the marketing and sales effort for you and help you out.

Nichole Stohler

Awesome. I know in a couple of future episodes, you'll be sharing what you've been doing since then. So this was a 2022 transition that you're talking about and you've been active this year. And so the preview for everyone listening, there's more to come. And I will also share a quick update that I started a blog so you can also check that out at [Nick's guide.com](https://www.nicholestohler.com) and anything else you want to share before we wrap up.

Mike Stohler

I don't ever wanna have a happy holiday and be blessed.

Thanks for tuning in to the richer geek podcast, where we're helping others find creative ways to build wealth, and financial freedom. For today's show notes, including all the links and resources from our show, and more information about our guests, visit us at [www. V Richard kake.com/podcast](https://www.vrichardkake.com/podcast). And don't forget to jump over to Apple podcasts, Google Play Stitcher, or wherever you get your podcasts and hit the subscribe button. Share with others who could benefit from listening and leave a rating and review to get the podcast in front of your eyes. I appreciate you and thanks for listening