

## Newly Franchised Settle Inn Brand Moves Into National Spotlight

BY CHRISTOPHER OSTROWSKI

### HOTEL BUSINESS®

ABERDEEN, SD— The fledgling Settle Inn brand has existed in relative anonymity for 14 years now within the hotel industry with its home here, and several medieval-themed properties strewn about the Midwest under single entity ownership. But that's all about to change, as the freshly capital-infused brand, with its Uniform Franchise Offering Circular in hand, is now entering the franchising arena with its own unique take on the economy/midscale limited-service hotel business and how to out-perform it.

Leading the brand in this sudden national expansion is the CEO of Settle Inn, LLC, Brendan Watters, who purchased the company approximately a year ago from the founder of Settle Inn and Settle Inn & Suites, Dave Graf. A former vp, corporate development for Le Méridien Hotels and Resorts, Watters is now attempting to differentiate Settle Inn from the ambiguous mass that's found between the midscale and upper-economy segments through not only distinctive customer service measures but uncommon franchise agreement stipulations.

#### A “Franchise Friendly” Culture

“We wanted to create the most franchise friendly lodging contract for limited-service properties in the business. We wanted to change the face of franchising and the way it occurs,” Watters explained. “We wanted a simple, small franchise agreement, which we got down to 30 pages. We then met with the American Association of Franchisees and Dealers and our contract was rated by them to be 99.3% compliant with their standards. As a result, there is no one else anywhere that is as franchise friendly as us. That underlines

the culture we're trying to create here.”

That culture is actually rooted in a competitive brand, Super 8, which also began in Aberdeen, SD as well. Settle Inn founder Graf once worked for Super 8 and then branched out on his own in 1992. Today, following the sale of Settle Inn, Graf holds an ownership stake in the brand and sits on the company's board of directors. Meanwhile, Watters has also hired several other Super 8 veterans and experts for Settle Inn, including Terry Kline; the new senior vp of franchise sales and development; Jon Hoffman, vp of franchise services; and Curt Waterman, senior vp of development, who once specialized in the development of Super 8 motels, among other brands. Furthermore, Watters noted that when he acquired Settle Inn, one of the founders of Super 8, Ron Rivett, sat and talked with him about how to make Settle Inn better than its competitors for both customers and franchisees.

“He told me to make everything simple and to make franchising a relationship once again.” Watters said. “So we're going back to what franchising really means. We're going to charge a lower franchise fee and focus on what the franchisee really wants.”

Toward that end, Watters explained that under a Settle Inn franchise agreement, the franchisee can terminate a contract for any reason as long as it gives 12 months notice. Also, a franchisee can opt out of its franchise agreement within 60 days if its occupancy rate drops below 50%. In both of these opt-out clauses — which kick in after the initial first two years of the franchise agreement— there are no liquidated damages that the owner is required to pay.

The unique franchise features continue on. For example, Watters said that if a Settle Inn hotel produces an occupancy rate of below 50% in any given month, the corresponding owner's royalty fee drops 50 basis points.

“We're basically saying that the only way a franchisor should be successful is if its based on the fact that its franchisees are

successful,” Watters said, adding that if any Settle Inn beats the brand benchmark for guest service and satisfaction scores in a given month, the property’s owner will get a discount on its royalty fee. “If guests are being treated right, the franchisee will get a discount, which will incentivize those properties to do better and better. We’d rather have lower royalty fees on high room revenues than the opposite.”

Settle Inn’s initial franchise fee will be \$25,000, which includes the property management system and ongoing upgrades to the PMS. The initial royalty fee is 3% for the first year and 3.5% thereafter. There is also a 2.25% marketing and reservation fee, said Watters, who added that the average Settle Inn ADR and occupancy rate will be about \$62 and 61%, respectively.

“We spent a lot of time working on franchise fees and it all comes back to what we believe,” Watters further noted. “We believe that if you provide the bear essentials and most needed things for franchisees, you don’t have to have a magic back office. And we can’t really justify an 8% fee, but I believe if the franchisees make more money, the percentage of total royalty fees will be better for us and the franchisees will want to sign up with us again and build a new Settle Inn. We can only start this brand by keeping the fees low. But if the franchisee is successful, we will be too. If not, shame on us and we’ll feel the pain along with them.”

Based on the fact that franchisees will benefit financially through superior guest service, Settle Inn as a brand will be concentrating heavily on the service side of the hospitality business. Its goal is to provide what Watters termed as “legendary service.” Franchisees will also be tasked with providing the three Settle Inn “R’s” for guests: “rest, refresh and replenish.”

If these intangible service goals are met, Settle Inn is hoping to be able to guarantee customer satisfaction before a guest arrives at a property and eventually establish an industry leading reservation conversion rate in the 70% to 80% range. “We want to make sure our guests are looked after the moment they contact the property,” Watters said. “And we shall promise to provide a good clean

product with the three R's, excellent service as well as good curb appeal.”

Regarding the look of Settle Inns, the castle-like exterior façade that was prominently found among the original seven properties will not be a requirement for future franchisees. The use of medieval props will also be reduced going forward. However, enhanced and refined theme rooms will still be found at Settle Inn hotels. Regarding amenities, Watters said that the brand will focus on only those that make sense for franchisees, including curved shower rods and powerful showerheads.

Average Settle Inn room counts will be in the 70- to 100-unit range, according to Watters, who pointed out that Settle Inn prototypes now exist for two- and three-story properties. A four-story prototype is also in development.

Both ground-up construction projects and conversions will fuel the growth of the Settle Inn brand. Some of those built will be owned by Settle Inn itself, which, in addition to the original seven Settle Inns, also owns five Best Westerns and Super 8s that could be converted into Settle Inns through certain improvements, Watters said.

The average cost per key to develop a new Settle Inn (without land) is about \$45,000, according to Watters. But he added that costs could range from \$40,000 to \$60,000 per key, depending on the location. Currently, Settle Inns are located in Altoona, IA; Bellevue, NE; Council Bluffs, IA; Grand Forks, ND; Kaukauna, WI; Lincoln, NE; and Overland Park, KS. However, Watters maintained that Settle Inns can appear anywhere in the U.S.

The first franchised Settle Inn could appear within the next couple of months, according to Watters, who explained that final discussions are taking place with one owner that would build a new Settle Inn and convert another property into one. Three other potential owners are also discussing franchise possibilities.

“I would love to get to 20 hotels signed and ready to go by the end of this year,” Watters pointed out. “That would mean that we’re making good steady progress. But we only just launched the brand

and we're heading off into its next stage. We're okay from a capital point of view and we don't really have any firm target for what we must do. But the first 12 months will be pretty important for us."